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 8 William H. Gross

9 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
 10 FOR THE COUNTY OF ORANGE

12 WILLIAM H. GROSS, an individual,  
 13 Plaintiff,

14 v.

15 PACIFIC INVESTMENT MANAGEMENT  
 COMPANY LLC, a Delaware limited liability  
 16 company, ALLIANZ ASSET MANAGEMENT  
 OF AMERICA L.P., a Delaware limited  
 17 partnership, and DOES 1-100, inclusive,  
 18 Defendants.

Case No.  
*Unlimited Jurisdiction*

**COMPLAINT FOR:**

- 19 **(1) CONSTRUCTIVE TERMINATION**
- 20 **(2) BREACH OF CONTRACT**
- 21 **(3) BREACH OF COVENANT OF GOOD FAITH AND FAIR DEALING**

**JURY TRIAL DEMANDED**

**INTRODUCTION**

1  
2 1. Driven by a lust for power, greed, and a desire to improve their own financial  
3 position and reputation at the expense of investors and decency, a cabal of Pacific Investment  
4 Management Company LLC (“PIMCO”) managing directors plotted to drive founder Bill Gross out  
5 of PIMCO in order to take, without compensation, Gross’s percentage ownership in the profitability  
6 of PIMCO. Their improper, dishonest, and unethical behavior must now be exposed.

7 2. Plaintiff Bill Gross founded defendant PIMCO over 40 years ago and has been  
8 intimately connected with its investment activities since that time. As a founder and senior  
9 executive, as well as a world-renowned investor, Mr. Gross received substantial income as PIMCO  
10 grew and established itself as one of the leading fixed income security investment firms in the  
11 world.

12 3. Mr. Gross’s ongoing success at PIMCO proved to be his undoing. In the minds of  
13 certain younger executives at PIMCO, Mr. Gross’s ongoing presence at the company checked their  
14 own financial and career ambitions. Under PIMCO’s profit-sharing plan Mr. Gross was entitled to  
15 receive 20% of the entire profit sharing bonus pool each year. By forcing him out of PIMCO, the  
16 younger executives would split Mr. Gross’s share of the bonus pool amongst themselves.

17 4. In addition to receiving compensation consistent with his skill and reputation, Mr.  
18 Gross was also well-known as an advocate for PIMCO’s investors. He championed reasonable fees  
19 for PIMCO’s services and was vocally skeptical inside the firm of a select group of the younger  
20 executives’ desire to transform PIMCO into a high-risk, high-fee asset-management company that  
21 invested in riskier equities and leveraged real estate investments, as opposed to the stable bonds that  
22 built the firm’s reputation.

23 5. As long as Mr. Gross remained at the company he founded, these younger executives  
24 were unable to transform PIMCO, increasing client risk and their own compensation. As a  
25 consequence, Mr. Gross became the target of a power struggle within PIMCO—a struggle that  
26 eventually led to his wrongful and illegal ouster from the company he founded and a struggle where  
27 PIMCO wrongly and illegally denied Mr. Gross hundreds of millions of dollars in earned  
28 compensation.

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**THE PARTIES**

6. Plaintiff William H. Gross is a world-renowned investment manager focusing on bonds and other fixed income securities. Over his nearly 50 years in the industry, Mr. Gross has developed a towering reputation that has, among other things, led to him being called the “Bond King” by the financial media. At all relevant times, Mr. Gross was a resident of Orange County, California.

7. Defendant PIMCO is a Delaware limited liability company with a principal place of business at 650 Newport Center Drive, Newport Beach, California.

8. Defendant Allianz Asset Management of America L.P. is a Delaware limited partnership with a principal place of business at 680 Newport Center Drive, Newport Beach, California.

9. Defendants Does 1 through 100, inclusive, are sued herein under fictitious names. Their true names and capacities are unknown to Plaintiff. When their true names and capacities are ascertained, Plaintiff will amend this complaint by inserting their true names and capacities herein. Plaintiff is informed and believes, and on that basis alleges, that each of the fictitiously named defendants is the agent, servant, employee, representative, partner, and joint-venturer of their co-defendants, and in doing the things herein alleged was acting within the course and scope of such agency, employment, representation, partnership, and joint venture with the knowledge, permission and consent of their co-defendants, and so ratified all of their acts and conduct. Therefore, each Doe Defendant is responsible in some manner for the occurrences herein alleged, and Plaintiff’s damages as herein alleged were proximately caused by said defendants.

10. At all relevant times, each Defendant was the agent of the other Defendants and was at all times acting within the purpose and scope of such agency. Moreover, in committing the acts and omissions asserted herein, Defendants, and each of them, were acting in concert together, in the course and scope of their respective relationship with each other, whether as employees, agents, representatives, independent contractors, providers, service providers, as agents or representatives of each other, respectively, or as joint venturers, co-conspirators or otherwise.

**FACTUAL BACKGROUND AND GENERAL ALLEGATIONS**

**A. Mr. Gross Founds PIMCO**

11. Mr. Gross graduated with a degree in psychology from Duke University in 1966.

12. After graduation and a colorful period in which, among other activities, Mr. Gross was a professional blackjack player, Mr. Gross was commissioned as an Ensign in the United States Navy and, from 1966 to 1969, served in Vietnam aboard a destroyer. Following his return from Asia, he enrolled in the Anderson School of Management at UCLA and earned an MBA degree in 1971.

13. Subsequent to earning his MBA, Mr. Gross took his first position in the financial industry when he was hired as an assistant vice president for fixed income securities at Pacific Mutual Life Insurance Company. Along with two of his colleagues at Pacific Mutual, James Muzzy and William Podlich, Mr. Gross founded a new investment management division at the company in 1971. Over time, this division would grow into PIMCO.

14. Mr. Gross continued to develop his skills while at Pacific Mutual and PIMCO. In 1976, he received his Certified Financial Analyst credentials, along with garnering more and more recognition both within the investment management community and in the broader business world.

15. Under Mr. Gross’s leadership, PIMCO introduced a revolution in the investment world: actively managed bond portfolios. Prior to Mr. Gross’s efforts at PIMCO, bond portfolios were staid investment products, typically purchased at issue and held until maturity. Mr. Gross and his colleagues, however, saw the opportunity to increase returns for investors through careful selection, buying, selling and trading of bonds. In fact, Mr. Gross was instrumental in developing new models for the creation of a financial index for bond markets, and was even a named inventor on a United States patent based on that work.

16. Over the next decades, Mr. Gross became one of the foremost authorities on the bond markets and a world-famous investment manager.

17. Mr. Gross’s investment success is based in large part upon his personal philosophy regarding investments. Mr. Gross focuses on developing a “secular” (*i.e.*, long-term) outlook for the market and then structuring his investment portfolio accordingly. Mr. Gross believes that doing so

1 allows an investor to focus on long term market trends and avoid getting caught up in emotional  
2 responses to irrational occurrences in the market. One example of this philosophy in action was Mr.  
3 Gross and PIMCO coining and popularizing the phrase “the new normal” to describe a period of  
4 time where there was little to no economic growth in the world economy.

5 18. This investment strategy, and Mr. Gross’s skill at implementing it, led to phenomenal  
6 results for PIMCO, Mr. Gross, and, most importantly, the clients who entrusted Mr. Gross with the  
7 management of their money. From the 1980s through the 2000s, Mr. Gross achieved returns at or  
8 near double digits, which are typically only seen in the far riskier equities markets. Under his  
9 guidance, PIMCO grew dramatically and went public on the New York Stock Exchange in 1994.

10 19. In 1996, Mr. Gross was the first portfolio manager inducted into the Fixed-Income  
11 Analyst Society Hall of Fame for his major contributions to the advancement of bond and portfolio  
12 analysis. Mr. Gross was also named Morningstar Fixed Income Manager of the Year three separate  
13 times, in 1998, 2000 and 2007. This stunning performance in both bull and bear markets led Mr.  
14 Gross to being named Morningstar Fund Manager of the Decade 2000-2009.

15 20. When Mr. Gross and his colleagues founded PIMCO, it had \$12 million in assets.  
16 By 2013, at the peak of PIMCO’s size and largely due to Mr. Gross’s reputation and track record, he  
17 and PIMCO were managing nearly \$2 trillion in assets, and his flagship Total Return Fund was the  
18 world’s largest mutual fund, with nearly \$300 billion in assets.

19 **B. Mr. Gross and PIMCO’s Succession Plan Efforts Fail Due to El-Erian**

20 21. By 2007, Mr. Gross had been part of PIMCO for 35 years and had begun to consider  
21 succession plans, as he was in his sixties. Bill Thompson, then-Chief Executive Officer of PIMCO,  
22 was of a similar age, and also looking to plan for an orderly transition from PIMCO. The pair began  
23 to seek a successor, whom they believed that they had found in a former PIMCO employee,  
24 Mohamed El-Erian.

25 22. From 1999 to 2006, El-Erian had been PIMCO’s head of Emerging Markets. He had  
26 come to PIMCO with an impressive resume that boasted a decade and a half at the International  
27 Monetary Fund and a stint at Citigroup in London. In 2006, El-Erian had left PIMCO on good  
28 terms in order to become the President and Chief Executive Officer of Harvard Management

1 Company, a wholly-owned subsidiary of Harvard University responsible for managing Harvard's  
2 \$30 billion endowment.

3 23. El-Erian received his first substantive exposure to a host of high-risk derivative asset  
4 classes while at Harvard. Through the use of these high-risk assets, El-Erian was able to witness a  
5 23% return on investment in his only full year at Harvard—growth that came during what would  
6 soon be recognized as the market “bubble” of the mid-2000s. From this experience, El-Erian  
7 became convinced of the attractiveness of such high-risk investments, especially since he had not  
8 yet been exposed to their downside during the “Great Recession” of 2007 that was soon to follow.

9 24. After reportedly clashing with Harvard president Larry Summers, El-Erian began  
10 exploring his return to PIMCO in the middle of 2007. Over the course of several months'  
11 negotiation, a deal was made between El-Erian, Mr. Gross, and Bill Thompson, PIMCO's then-  
12 Chief Executive Officer, whereby El-Erian would return to PIMCO as co-Chief Executive Officer  
13 and co-Chief Investment Officer, with the intention of ultimately succeeding one or both of these  
14 individuals.

15 25. Mr. Gross was pleased that a succession plan was in place and, for a time, worked in  
16 alignment with El-Erian. Cracks soon began to appear in this alliance, however, as El-Erian sought  
17 to force PIMCO out of its core focus on bonds and related fixed income securities and instead  
18 become a general-purpose investment management firm offering stocks, commodities, real estate,  
19 and hedge fund-like products to investors. As time passed, Mr. Gross characterized El-Erian's plan  
20 as similar to the extensive and varied menu at a Cheesecake Factory restaurant, while his own  
21 favored approach was “bonds and burgers”—a simple, laser focus on a specific type of securities  
22 that had been successful since PIMCO's founding and provided stable returns for investors. In fact,  
23 in the three years preceding his departure, Mr. Gross's flagship Total Return Fund produced returns  
24 that were almost double those of the benchmark Barclays US Aggregate Bond Index.

25 26. This was not a mere philosophical difference between the two men. Mr. Gross was  
26 concerned that PIMCO's expansion into new investment fields posed a particular liability to the  
27 company and its investors should another significant event, such as the collapse of Lehman  
28 Brothers, occur. This was of particular concern because many of the new investment areas favored

1 by El-Erian, such as the mortgages and leveraged real estate investments being led by a younger  
2 PIMCO managing director named Dan Ivascyn were under the control of portfolio managers who  
3 were, to varying degrees, independent from the PIMCO Investment Committee.

4 27. Nevertheless, in light of the ultimate plan to transition responsibilities to El-Erian as  
5 a successor, Mr. Gross made an offer to step back from his role on the PIMCO Investment  
6 Committee relating to most of PIMCO's investment offerings and instead to focus solely upon its  
7 fixed income security portfolio—the very “bonds and burgers” approach that he formed and  
8 favored. As part of this offer, Mr. Gross suggested that he could step down from heading a portion  
9 of PIMCO's Investment Committee in favor of El-Erian.

10 28. Far from resolving the divergence between Mr. Gross and El-Erian's view of  
11 PIMCO's direction, unexpectedly—at least to Mr. Gross—this proposal prompted El-Erian to take a  
12 step that was far more drastic and damaging to both PIMCO and its investor clients. El-Erian, even  
13 though he was co-Chief Investment Officer and Chief Executive Officer of PIMCO, was angry and  
14 apprehensive at the idea that he would have to bear sole responsibility (and blame) for the high-risk,  
15 high-fee investments he had expanded PIMCO into while Mr. Gross would focus his own efforts on  
16 PIMCO's historical bond business.

17 29. As a result, El-Erian abruptly announced his resignation from the posts of co-Chief  
18 Investment Officer and co-Chief Executive Officer of PIMCO and voiced his intent to leave the  
19 company entirely, which he did shortly thereafter.

20 **C. Mr. Gross and PIMCO Investigate Damaging Press Leaks**

21 30. Following El-Erian's abrupt resignation, PIMCO worked to contain the internal  
22 fallout and allow the company the time to handle client notifications as well as, if possible, to select  
23 a replacement Chief Executive Officer.

24 31. PIMCO wished to have El-Erian remain affiliated with the company in a nominal  
25 capacity until the end of March 2014. Doing so, PIMCO hoped, would give it the time it needed to  
26 prepare investors for the news, and otherwise limit the damage to its business and public reputation  
27 that El-Erian's departure would cause.

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1           32.     Although PIMCO could conceal El-Erian's resignation from investors and the press,  
2 it could not conceal this information from its own managing directors. It therefore announced El-  
3 Erian's resignation during a January 20, 2014 meeting of managing directors. It strongly warned  
4 that no leak of this information to the media could be allowed.

5           33.     Unknown to PIMCO or Mr. Gross, less than two hours after the meeting adjourned,  
6 PIMCO managing director Andrew Balls, who was present for the announcement regarding El-  
7 Erian, placed a call to a reporter at the *Financial Times*, the newspaper for which Balls had  
8 previously worked. Two days later, the *Financial Times* broke the story, laying the fault for El-  
9 Erian's abrupt resignation at Mr. Gross's feet and portraying El-Erian's exit as the result of Mr.  
10 Gross's personal conduct at PIMCO when in fact the reason for El-Erian's departure was Mr.  
11 Gross's suggestion that he could step down from heading a portion of PIMCO's Investment  
12 Committee after expressing his disagreement with El-Erian's favoring new investment areas such as  
13 the mortgages and leveraged real estate investments and his support for these areas remaining  
14 independent from the PIMCO Investment Committee and his anger and apprehension over the idea  
15 that he would have to bear sole responsibility (and blame) for the high-fee investments he had  
16 promoted at PIMCO.

17           34.     Both the initial *Financial Times* article and numerous follow-up media pieces heaped  
18 praise on El-Erian and cast criticism on Mr. Gross. Glossed over—or even left entirely  
19 unmentioned—was any comment on El-Erian's abrupt departure from a company that he had been  
20 hired to eventually lead, or of El-Erian's abysmal performance on managing his PIMCO fund. Also  
21 left out was the comparative fact that In fact, in the three years preceding his departure, Mr. Gross's  
22 flagship Total Return Fund produced stellar returns—returns that were almost double those of the  
23 benchmark Barclays US Aggregate Bond Index.

24           35.     These stories were fueled by additional leaks and unattributed commentary from both  
25 Balls and El-Erian himself. Balls undertook these clandestine actions despite knowing that the  
26 public airing of the clash between El-Erian and Mr. Gross, especially in a light so negative to the  
27 individual remaining at PIMCO, would be extraordinarily harmful to both Mr. Gross's personal  
28 reputation and his ability to perform his duties as PIMCO's Chief Investment Officer.

1           36.     On February 24, the *Wall Street Journal* ran an article entitled “Inside the Showdown  
2 Atop PIMCO, the World’s Biggest Bond Firm.” As the article quoted directly from arguments that  
3 had occurred between Mr. Gross and El-Erian, it became clear to Mr. Gross and others at PIMCO  
4 that the source of the leaks was a member of a very select group privy to much of the dispute  
5 between Mr. Gross and El-Erian and who intended to selectively disclose information presenting El-  
6 Erian in a positive light and Mr. Gross in a negative light that was damaging to Mr. Gross and  
7 PIMCO itself. In other words, the individual who decided to leak information to the press to harm  
8 Mr. Gross and PIMCO was highly placed at PIMCO, and privy to some of its highest-level, most  
9 sensitive discussions—discussions that were now appearing in the press in heavily altered forms  
10 designed to harm Mr. Gross.

11           37.     In order to uncover the source of these ongoing leaks, Doug Hodge, PIMCO’s new  
12 Chief Executive Officer, and Jay Jacobs, PIMCO’s President, began an investigation. After a week  
13 spent checking the phone records of PIMCO land lines and cell phones turned up nothing, PIMCO’s  
14 investigators then checked the records for a second, little-used cell phone issued to Balls. They  
15 demonstrated that this phone had been used to make made numerous calls to the *Financial Times* in  
16 January, as well as to the *Wall Street Journal* in the days before the February 24 article.

17           38.     Mr. Gross, along with Hodge, Jacobs and PIMCO’s general counsel David Flattum,  
18 confronted Balls. Balls initially denied anything other than a friendly conversation with the  
19 reporters. After discussions with his private attorney, however, Balls changed his story and  
20 admitted in a signed statement that he had spoken to both reporters on behalf of El-Erian regarding  
21 “the circumstances of Mr El-Erian’s resignation,” and then reported back to El-Erian the substance  
22 of these calls. Balls further admitted that he did not inform any other individuals at PIMCO either  
23 before or after the calls or otherwise obtain the company’s permission for his statements.

24           39.     Despite this confession, Hodge and Jacobs did not seek to terminate Balls or  
25 otherwise punish him for leaking false information in an effort to harm Mr. Gross and PIMCO.  
26 Instead, they allowed Balls to sign a highly misleading statement admitting only to providing very  
27 general information to the two newspapers, and concealing the fact that Balls’s true conduct was far  
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1 more serious, calculated, and defamatory. They would subsequently use this statement to mislead  
2 others at PIMCO regarding the true extent of Balls's misconduct.

3 40. After Balls's confession, he offered to resign from PIMCO. Mr. Gross urged that the  
4 company accept Balls's resignation but was overruled by Hodge and Jacobs. They argued that Balls  
5 was too important to PIMCO at that moment and that it would be better to wait until later in the year  
6 when his exit would cause less disruption to the company.

7 41. Secretly, however, Hodge and Jacobs began to align against Mr. Gross. In addition  
8 to preparing the signed statement that covered up Balls's true misconduct, the two struck a further  
9 deal with Balls without informing the Executive Committee or the Partners Compensation  
10 Committee. Mr. Gross sat on both committees. In exchange for Balls's silence regarding the leaks  
11 and the trio's efforts to cover up their source and extent, PIMCO would agree that Balls would not  
12 be terminated. In effect, Hodge and Jacobs chose to side with the person who had undermined Mr.  
13 Gross and PIMCO in public.

14 42. Nor would this be the last time. Shortly thereafter, Mr. Gross urged the Executive  
15 Committee to either immediately fully terminate El-Erian or, failing that, at least deny him a portion  
16 of his \$50 million bonus for the first quarter of 2014. This would be a consequence of the damaging  
17 leaks committed on El-Erian's behalf and, Mr. Gross suspected, with El-Erian's involvement. The  
18 Executive Committee denied both requests and reacted with hostility toward Mr. Gross's  
19 unwillingness to aid PIMCO's concealment of the leak investigation and information regarding the  
20 circumstances of El-Erian's departure. At one point, Hodge pulled Mr. Gross aside into a separate  
21 room and warned him darkly "I could fire you, you know."

22 **D. PIMCO Executives Begin to Plot to Oust Mr. Gross**

23 43. The turmoil surrounding El-Erian's departure provided fertile cover for individuals  
24 seeking to oust Mr. Gross from PIMCO for their own personal financial benefit and egos.

25 44. Foremost among these individuals was Ivascyn, who ran the "alternative assets"  
26 investments for PIMCO. The funds managed by Ivascyn focused on highly leveraged investments  
27 such as mortgages, commercial real estate and private equity funds.  
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1           45. Unusually for PIMCO, Ivascyn was not part of the Investment Committee but rather  
2 operated his own funds and investment pools as a personal fiefdom largely disconnected from the  
3 broader company.

4           46. The investment offerings under Ivascyn carried hefty, hedge-fund like fees, typically  
5 charging investors not only as much as 20% of all investment returns, but also skimming off as  
6 much as 2% of all assets under management each year, regardless of performance. This was far in  
7 excess of PIMCO's typical fee of 50 basis points (*i.e.*, just one-half a percent).

8           47. These steep fees, coupled with the recovery of the markets after the Great Recession  
9 of 2007, resulted in Ivascyn being responsible for the generation of hundreds of millions of dollars  
10 in fees each year for PIMCO and were a significant contribution to the company's bottom line.  
11 Ivascyn used that financial performance to secure a seat on the PIMCO Partners Compensation  
12 Committee.

13           48. Despite the enormous sums PIMCO reaped from Ivascyn's high-fee investment  
14 vehicles, the structure of the \$1.3 billion PIMCO bonus pool did not specifically allocate profit to  
15 the various business units such as Ivascyn's. As a consequence, Ivascyn saw his share of the profits  
16 pooled with other business units' profits.

17           49. Much to Ivascyn's chagrin, this also meant that his annual bonus was drawn from the  
18 same pool as senior executives, like Mr. Gross, who had guaranteed compensation arrangements  
19 with PIMCO. As a result, Ivascyn believed that PIMCO was paying Mr. Gross tens of millions of  
20 dollars that should have instead gone to Ivascyn.

21           50. Consequently, shortly after gaining his seat, Ivascyn began publicly lobbying the  
22 Partners Compensation Committee for a far larger share of the bonus pool. Ivascyn also began to  
23 urge that, contrary to PIMCO's decades-old structure, compensation should be allocated on the basis  
24 of each investment area's relative profit. Conveniently, that move would result in far larger sums  
25 being paid to Ivascyn himself.

26           51. Simultaneously, Ivascyn began a campaign to be named the next PIMCO Chief  
27 Investment Officer, a move that Mr. Gross opposed due to Ivascyn's lack of experience outside his  
28 specific investment field. Ivascyn's response was to warn Mr. Gross and others that he "wasn't a

1 long term player” and that if he did not immediately receive what he believed was his due he would  
2 not remain at PIMCO.

3 52. As these complaints and pressures kept mounting, Ivascyn hatched a plan to oust Mr.  
4 Gross from PIMCO. Doing so would remove an executive philosophically opposed to Ivascyn’s  
5 high-risk, high-fee investment model, create an opening for a new Chief Investment Officer, and,  
6 most importantly to Ivascyn, free up a significant portion of the bonus pool to be allocated by the  
7 Partners Compensation Committee on which he sat.

8 53. Ivascyn found an ally in the similarly money-driven Brent Harris, who was in charge  
9 of PIMCO’s mutual fund complex, the Total Return Fund fees, and new investment products.  
10 Harris was particularly proud of his efforts to raise the annual fees on various funds, such as the  
11 Total Return Fund, through creatively labeling such fees “administrative costs.”

12 54. Harris’ focus on raising fees paid by investors, and the profit that generated, led to  
13 conflict with Mr. Gross, who accurately recognized that actively managed funds such as the Total  
14 Return Fund were beginning to face fee pressure from less expensive, passively managed funds.  
15 Although Mr. Gross believed that active management of funds had the potential to deliver value to  
16 investors relative to passive index trackers despite the added costs of management, he nevertheless  
17 recognized the competitive pressure passive management presented. Harris, however, took Mr.  
18 Gross’s suggestion that he begin considering reducing fees as tantamount to a direct, personal attack  
19 on Harris’ ongoing financial benefit from PIMCO and prompted Harris to become one of the most  
20 vocal supporters for ousting Mr. Gross.

21 55. Ivascyn and Harris would recruit other ambitious PIMCO executives who stood to  
22 gain from an upheaval, such as PIMCO’s director of new products Wendy Cupps and Jacobs  
23 himself.

24 **E. Mr. Gross is Forced from PIMCO**

25 56. Sensing that Mr. Gross’s relationship with PIMCO was at a tipping point and eager  
26 to exploit the opportunity for their own financial gain, Ivascyn and his co-conspirators, including  
27 Jacobs, Cupps, and others, informed PIMCO that if Mr. Gross were not driven from the company,  
28 they would resign.

1           57.     Forced into a corner by the threat of resignations and more importantly to Mr. Gross  
2 the potential damage that these resignations or the public threat thereof could cause to PIMCO and  
3 its investors, Mr. Gross began to negotiate a deal in which he would resign from the post of Chief  
4 Investment Officer. Mr. Gross would be responsible for the fixed income securities and leave the  
5 management of the other investment vehicles to his successors as Chief Investment Officer—  
6 Ivascyn and Mihir Worah.

7           58.     Ivascyn and the other conspirators had been able to spring their trap. The Executive  
8 Committee, composed of those who stood to benefit the most, both financially and in power within  
9 PIMCO, hatched their plan to oust PIMCO's founder and leading fixed income investor for over  
10 four decades. They still, however, had to get Allianz, the owner of PIMCO, on board with this illicit  
11 plan.

12           59.     Over the next few days, the Executive Committee continued discussions with Mr.  
13 Gross in order to lead him to believe that a workable arrangement was still possible.

14           60.     Michael Diekmann, the Chief Executive Officer of Allianz, was personally coming to  
15 California ostensibly to resolve the dispute with Mr. Gross. In advance of his arrival, Mr. Gross,  
16 Jocquim Faber, the former head of Allianz Global Investors and PIMCO's ultimate parent company,  
17 and Bill Thompson, the former PIMCO Chief Executive Officer, met and outlined a plan that was,  
18 for all intents and purposes, an outline for the transition of Mr. Gross's career at PIMCO.

19           61.     Under the plan, Mr. Gross agreed that he would resign as Chief Investment Officer,  
20 as Chairman of the Investment Committee, and as a member of both the Executive Committee and  
21 the Partners Compensation Committee. To prevent the firm he founded from going into total chaos  
22 and a downspin, hurting its investors in the process, Mr. Gross also agreed to have his annual bonus  
23 cut by half or more in order to placate the PIMCO managing directors who were seeking to ensure  
24 that they received a larger share of the company's profits for themselves.

25           62.     Mr. Gross even agreed he would cease all management of the PIMCO Total Return  
26 Bond Fund that he had built and would instead be handed control of a portfolio that was less than  
27 10% in size of his then-current assets under management.  
28

1           63.     And he agreed to what he considered further humiliation: Mr. Gross would be barred  
2 from the PIMCO offices, and left to handle the remaining portfolio from another office separate and  
3 away from PIMCO's.

4           64.     This plan stripped Mr. Gross of power, position, and compensation. Nevertheless,  
5 Mr. Gross believed it would be better for PIMCO and its investors than the alternative of a  
6 protracted fight among PIMCO's leadership. Additionally, it allowed him to return to bond  
7 investing, free of the battles with people like Ivascyn, Harris and El-Erian who sought to transform  
8 PIMCO into a high-risk, high-fee full service investment firm.

9           65.     After e-mail and telephone discussions, Faber called Diekmann and informed him of  
10 the outcome of the discussion and Mr. Gross's agreement to the proposal. Diekmann arrived in  
11 California that evening.

12           66.     The next morning, on or about September 18, 2014, Diekmann met Mr. Gross for  
13 breakfast. Over coffee, Diekmann formally offered Mr. Gross the same plan that had been "worked  
14 out" in the prior day's meeting. Diekmann called this plan a "sidecar" in order to emphasize that  
15 while Mr. Gross would be operating more independently, he would still be closely linked to PIMCO  
16 and "headed in the same direction." Mr. Gross accepted Diekmann's offer.

17           67.     Following breakfast, the two men agreed to meet again at noon. Diekmann left to  
18 meet with Hodge and Jacobs to ensure that PIMCO—wholly owned by Allianz and thus subject to  
19 Diekmann's control as Allianz's Chief Executive Officer—agreed to the plan.

20           68.     Notwithstanding Diekmann's agreement, Hodge, Jacobs and the other PIMCO  
21 executives somehow overruled the Chief Executive Officer of Allianz and forced Diekmann to  
22 renege on his agreement with Mr. Gross.

23           69.     Thus, at noon on September 25, 2014, Mr. Gross entered what would be his last  
24 meeting at PIMCO. Diekmann, after being strong-armed by his subordinates, immediately yielded  
25 the floor to Hodge.

26           70.     Hodge proceeded to outline an entirely different role for Mr. Gross than the one that  
27 Diekmann had agreed to just hours before and that Mr. Gross had previously negotiated and agreed  
28 to with Faber and Thompson.



1 million. He was also informed that he could expect \$80 million as his third quarter bonus payment  
2 scheduled for September 30, 2014 with the remainder to be paid at the fourth quarter.

3 78. Mr. Gross was forced out of PIMCO on September 25, 2014—mere days before the  
4 third quarter ended on September 30. On September 29, 2014, Mr. Gross’s attorney wrote to  
5 Flattum seeking assurances that PIMCO would at least pay the bonus that Mr. Gross had earned for  
6 the third quarter. Nearly a month later, on October 20, 2014, PIMCO’s lawyers responded, denying  
7 that Mr. Gross was entitled to any money, despite the fact that the third quarter had essentially  
8 ended. PIMCO’s usual custom and practice was to pay departing employees an appropriate share  
9 for partially completed quarters.

10 79. PIMCO has persisted in its refusal to pay Mr. Gross any portion of his third quarter  
11 bonus, in breach of the Plan.

12 **PIMCO Guarantees Mr. Gross’s Employment for Five Years**

13 80. In the midst of the efforts by Ivascyn and others to oust Mr. Gross for their own  
14 personal gain, others at PIMCO recognized his tremendous value to both the company and its  
15 investors.

16 81. At PIMCO, all managing directors are considered to be part of the company’s  
17 “management board.” The “management board” of PIMCO is responsible for, among other tasks,  
18 electing PIMCO executives to seats on committees such as the Executive Committee and the  
19 Investment Committee, as well as to offices such as Chief Investment Officer. Individuals elected  
20 to such posts serve a term of years before having to stand for reelection.

21 82. This term of office creates what in effect is a guarantee of employment at PIMCO,  
22 ratified by the PIMCO managing directors who comprise the company’s “management board.”  
23 After election to such an office, holders of that position can expect that they would only be  
24 terminated from PIMCO for good cause.

25 83. Not even powerful founders of PIMCO such as Mr. Gross were exempt from the  
26 election process. In fact, Mr. Gross himself was overwhelmingly reelected to his position as Chief  
27 Investment Officer in 2014. Mr. Gross’s election carried a term of five years.

28





1 respect to each of the first three quarters of a calendar year (but only to the extent any such quarter is  
 2 a Covered Quarter), a Profit Sharing payment. . .”

3 101. “Covered Quarter” is a defined term in the contract, and “means each calendar  
 4 quarter (or portion thereof) as to which the Plan is in effect.”

5 102. As a result, under the terms of the contract, Mr. Gross was entitled to receive a profit-  
 6 sharing payment with respect to the portion of the calendar quarter preceding his termination of  
 7 employment with PIMCO, as well as a “true up” of the previous quarters so that the total  
 8 compensation Mr. Gross was to receive for 2014 was 20% of the bonus pool multiplied by the  
 9 percentage of the year that he worked.

10 103. By refusing to pay any portion of these funds to Mr. Gross, and as a result of their  
 11 conduct as set forth in this Complaint, Defendants breached the terms and conditions of this  
 12 contract.

13 104. As a direct and proximate result of Defendants’ breach, Plaintiff has been damaged in  
 14 an amount to be determined at trial, but in no event less than \$200 million.

**THIRD CAUSE OF ACTION**

**(Breach of Covenant of Good Faith and Fair Dealing)**

17 105. Plaintiff realleges and incorporates by reference each and every allegation contained  
 18 in the paragraphs above as though fully set forth herein.

19 106. Plaintiff participated in, and accepted benefits from, Defendants under the Amended  
 20 and Restated Pacific Investment Management Company Non-Qualified Profit Sharing Plan, as  
 21 amended and restated as of January 1, 2012, with the understanding and expectation that Defendants  
 22 would act in good faith and deal fairly, pursuant to the terms of the agreement.

23 107. Defendants breached the implied covenant of good faith and fair dealing arising from  
 24 the contract by terminating Plaintiff days before a substantial payment would have been due to him  
 25 under the agreement and for the sole purpose of evading that payment.

26 108. Defendants further breached the implied covenant of good faith and fair dealing  
 27 arising from the contract by refusing to honor the clear terms contained therein that include within a  
 28

1 "Covered Quarter" portions of a calendar quarter, and instead misconstruing the contract to be  
2 limited only to full calendar quarters.

3 109. Defendants further breached the implied covenant of good faith and fair dealing  
4 arising from the contract by refusing to "true up" the prior quarters and failing to pay Mr. Gross his  
5 portion of the bonus pool for the time he worked for PIMCO.

6 110. As a direct and proximate result of Defendants' breach, Mr. Gross has been damaged  
7 in an amount to be determined at trial, but in no event less than \$200 million.

8  
9 WHEREFORE, Plaintiff prays for judgment against Defendants as follows:

10 **ON ALL CAUSES OF ACTION**

- 11 1. For damages to be proven at time of trial;
- 12 2. For pre- and post-judgment interest thereon at the maximum legally permissible rate;
- 13 3. For costs of suit, including reasonable attorneys' fees;
- 14 4. For such other further relief as this Court deems just and proper.

15  
16 DATED: October 8, 2015

Respectfully submitted,

17 GLASER WEIL FINK HOWARD  
18 AVCHEN & SHAPIRO LLP

19 By:   
 20 PATRICIA L. GLASER  
 21 G. JILL BASINGER  
 22 RORY S. MILLER  
 23 Attorneys for Plaintiff William H. Gross  
 24  
 25  
 26  
 27  
 28

# Exhibit 1

**AMENDED AND RESTATED**  
**PACIFIC INVESTMENT MANAGEMENT COMPANY**  
**NON-QUALIFIED PROFIT SHARING PLAN**

**ESTABLISHED MAY 5, 2000**

**AMENDED AND RESTATED AS OF JANUARY 1, 2012**

**AMENDED AND RESTATED  
PACIFIC INVESTMENT MANAGEMENT COMPANY  
NON-QUALIFIED PROFIT SHARING PLAN**

**BACKGROUND**

This Amended and Restated Pacific Investment Management Company Non-Qualified Profit Sharing Plan is entered into on the date indicated on the signature page hereto, with effect as of January 1, 2012, and amends and restates the profit sharing plan for the Company established by Pacific Investment Management Company LLC, a Delaware limited liability company (the "Company"), and Allianz Asset Management of America L.P. (formerly known as Allianz Global Investors of America and PIMCO Advisors L.P.) as Managing Member of the Company, as a profit-sharing plan for the Company effective as of May 5, 2000 (as amended on May 8, 2008) (the "Plan"). The Plan shall continue in effect until terminated. The Plan, as hereby amended and restated, incorporates provisions that are intended to reflect certain adjustments in the Company's operations resulting from bilateral negotiations between the Managing Member and the Company's Management Board, as well as associated conforming changes (including removing provisions that have become obsolete or redundant). The parties acknowledge that, except for the impact resulting from such operational adjustments, the Plan, as hereby amended and restated, is not intended to modify the relative positions of the parties as to the compensation payable pursuant to the Plan.

**ARTICLE I.  
INTRODUCTION**

1.1 *Purpose.* The purpose of the Plan is to promote the growth and general prosperity of the Company by permitting the Company, the Company Subsidiaries and PDG to attract and retain the best available personnel for positions of substantial responsibility and to provide certain key personnel with an additional incentive to contribute to the success of the Company, the Company Subsidiaries and PDG. The Plan will achieve these objectives by enabling such key personnel to share in the profits of the Company on the terms and conditions set forth herein.

1.2 *Eligibility.* All Managing Directors of the Company shall participate in the Plan. In addition, as provided in Section 3.1, the Compensation Committee of the Management Board may select one or more other employees of or consultants to the Company, any Company Subsidiary or PDG to participate in the Plan.

## ARTICLE II. DEFINITIONS

The following definitions shall be applicable to the terms set forth below as used in the Plan:

“*AAM AG*” shall mean Allianz Asset Management AG, a German stock corporation.

“*Affiliate*” of a Person shall mean any Person directly or indirectly controlling, controlled by or under common control with such Person. As used in this definition of Affiliate, the term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“*Aggregate Profit Participation*” for any period and with respect to any entity or business shall mean the aggregate Profit Participation of all employees of such entity or business for such period.

“*Applicable Percentage*” shall mean 100% for the first quarter of a calendar year, 90% for the second quarter and 90% for the third quarter or such other lower percentages as shall be determined by the Compensation Committee from time to time.

“*Capital Transaction Gain or Loss*” shall mean the net taxable gain or loss derived by the Company, a Company Subsidiary or PDG by reason of any extraordinary transaction, such as a sale or other disposition of all or any portion of the assets of the Company, which is not within the ordinary course of the Company’s business activities.

“*Class M Options*” shall mean any options granted under the Pacific Investment Management Company Class M Unit Equity Participation Plan.

“*Company Agreement*” shall mean that certain Limited Liability Company Agreement of Pacific Investment Management Company LLC effective as of May 5, 2000, as the same may be amended, supplemented, or restated from time to time.

“*Compensation*” for any period with respect to any employee of the Company, any Company Subsidiaries or of PDG shall mean all compensation, including salary, bonuses, payments under profit-sharing plans, commissions and other forms of incentive compensation, for services rendered by such employee to the Company, the Company Subsidiaries or PDG during such period, whenever paid, including deferred compensation but excluding compensation attributable to (i) any employee benefits, including any reasonable relocation allowances or reimbursement of relocation expenses, (ii) any Profit Sharing, (iii) the

exercise of options on Equity Securities of the Company, Affiliates of the Company, Company Subsidiaries or PDG, the granting or vesting of options, the granting or vesting of, or the receipt of distributions on, restricted or deferred Equity Securities of the Company, Affiliates of the Company, Company Subsidiaries or PDG, or the receipt of payments in respect of appreciation rights on Equity Securities of the Company, Affiliates of the Company, Company Subsidiaries or PDG, (iv) any distribution of benefits under a deferred compensation plan or (v) any payments under the Allianz Asset Management Long Term Cash Bonus Plan.

“*Covered Quarter*” means each calendar quarter (or portion thereof) as to which the Plan is in effect.

“*Delegation*” shall mean that certain Written Consent of the Managing Member of Pacific Investment Management Company LLC dated May 5, 2000, as revised effective January 1, 2012.

“*Equity Security*” shall mean a share of capital stock, a partnership or limited liability company interest, or other equity interest, or any security convertible or exchangeable, with or without consideration, into any such security or interest, or carrying any warrant, option or right to subscribe to or purchase any such security or interest or any such convertible or exchangeable security, or any such warrant, option or right.

“*GAAP*” shall mean U.S. Generally Accepted Accounting Principles, except that the provisions of FASB ASC 810, which would require the consolidation of any investment product, investment entity or investment vehicle managed for the benefit of third parties, shall not be applied. This definition shall be applicable to all financial statements issued on or after the January 1, 2012, even if such financial statements are for periods prior to the January 1, 2012.

“*Guaranteed Payment for Capital*” for each of the sixteen calendar quarters from and including the first quarter of 2011 through and including the fourth quarter of 2014 shall mean an amount equal to (i) \$17.95 million plus (ii) the Guaranteed Payment for Capital Carryover Amount for such quarter, if any.

“*Guaranteed Payment for Capital Carryover Amount*” for any quarter shall mean the positive amount, if any, by which (i) the Guaranteed Payment for Capital for the immediately preceding quarter exceeds (ii) the amount actually distributed pursuant to Section 7.1(a) of the Company Agreement in the immediately preceding quarter.

“*Insurance Business*” shall mean the business of PDG

related to management of insurance assets of Allianz SE and its affiliates.

*“Management Board”* shall mean the management board of the Company as it may from time to time be constituted under the Delegation. Notwithstanding any provision of the Plan to the contrary, the Management Board may delegate its duties hereunder in accordance with the Delegation. In the event of any modification or revocation of the Delegation that would affect the existence and constitution of the Management Board or the power of the Management Board to administer the Plan, (i) all references herein to the “Management Board” shall mean and refer to a group composed exclusively of those persons who were members of the Management Board immediately prior to such modification or revocation and (ii) any delegation by the Management Board to any committee thereof shall be deemed to be revoked.

*“Managing Director”* shall mean a person who, at the time of reference, is employed by the Company in the capacity, and holds the title, of Managing Director.

*“Managing Member”* shall mean Allianz Asset Management of America L.P., a Delaware limited partnership, or any successor managing member of the Company as of the effective date that such Person shall become the managing member of the Company.

*“Operating Profit Available for Distribution”* for any period shall mean the consolidated net income of the Company (determined in accordance with GAAP) for such period; *provided, however,* that Operating Profit Available for Distribution for any period as so determined shall be adjusted in accordance with the following special rules and/or clarifications:

(a) Operating Profit Available for Distribution for such period shall be determined without regard to any (i) income or deductions for such period attributable to the purchase or sale of, or distributions made with respect to, Units or options or the grant, amendment, vesting or exercise of any Units or options or other right to purchase or receive Units or other Equity Securities, whether directly or indirectly, through the Managing Member or its Affiliates or (ii) amortization of goodwill and other intangible assets for such period.

(b) Any Guaranteed Payment for Capital for such period shall be deducted from Operating Profit Available for Distribution for such period.

(c) For the sake of clarity, Operating Profit Available for Distribution is intended to be the same in the Plan and the Company Agreement.

“*Participant*” shall mean at any time any person who is eligible to participate in the Plan at such time pursuant to Section 1.2.

“*Participation Percentage*” shall mean, with respect to each Participant for any period, his or her percentage interest in the aggregate Profit Sharing paid from the Profit Participation Pool for such period, as determined in accordance with the provisions of Section 3.2.

“*PDG Adjusted Net Income*” - For any period, the net income of PDG determined in accordance with GAAP, *provided*, that PDG Adjusted Net Income for any period as so determined shall be adjusted or determined in accordance with the following special rules and/or clarifications:

“*PDG*” – PIMCO Deutschland GmbH, a German limited liability company, or any successor entity.

(a) PDG Adjusted Net Income for such period shall be determined without regard to any amortization of goodwill and other intangible assets.

(b) PDG Adjusted Net Income for such period shall only reflect that portion of PDG's net income which is not otherwise included in Profit Sharing Adjusted OPAD.

(c) PDG Adjusted Net Income shall be calculated excluding taxes in the nature of income taxes assessed against the income of PDG.

(d) PDG Adjusted Net Income shall be calculated in a manner giving effect to and consistent with the Company's global transfer pricing policy.

(e) PDG Adjusted Net Income shall be calculated excluding any transfer of PDG profit to AAM AG or any of its Affiliates.

“*Profit Participation*” for any period with respect to any employee of the Company, any Company Subsidiary or of PDG shall mean the amount (if any) by which the Compensation of such employee for services rendered by such employee to the Company, Company Subsidiary or PDG, as the case may be, during such period exceeds the Profit Participation Threshold for such employee allocable to such period.

“*Profit Participation Pool*” shall mean the Profit Participation Pool to which allocations of Profit Sharing Adjusted OPAD are made in accordance with the provisions of Section 3.3.

“*Profit Participation Threshold*” for any employee for any

period occurring shall mean the number of calendar months in such period multiplied by (i) \$145,833.33 during the three-year period from January 1, 2011 through and including December 31, 2013, or (ii) \$229,166.67 during the three-year period from January 1, 2014 through and including December 31, 2016. The dollar amount specified in subclause (ii) of the immediately preceding sentence shall be adjusted, effective as of January 1, 2017 and again every three years, as of the first day of the applicable calendar year, by a committee comprised of (x) three voting members of the Group Compensation Committee of AAM AG, (y) the Chief Executive Officer of the Company and (z) the Chief Operating Officer of the Managing Member. This committee shall meet as promptly as possible after McLagan survey data for investment managers is available for the last year in the period prior to reset and adjust such dollar amount, as they determine to be appropriate, based on their review and analysis of available compensation data and trends including, but not limited to: applicable McLagan survey data, actual compensation payable over the preceding three year period to persons holding an office with the Company of at least Executive Vice President; changes in the consumer price index in the relevant jurisdictions, and such other information as shall be reasonably pertinent to such determination.

*“Profit Sharing”* shall mean a profit sharing payment determined and paid to a Participant pursuant to the provisions of Article III.

*“Profit Sharing Adjusted OPAD”* for any period shall mean the Operating Profit Available for Distribution for such period, as adjusted in accordance with the following special rules and/or clarifications:

(a) Profit Sharing Adjusted OPAD for such period shall not reflect any (i) Capital Transaction Gain or Loss or (ii) deductions for the items described in clause (iv) of the definition of Compensation.

(b) Profit Sharing Adjusted OPAD for such period shall be increased by Profit Sharing and Aggregate Profit Participation for employees of the Company, the Company Subsidiaries and PDG for such period.

(c) Profit Sharing Adjusted OPAD for such attributable to both the Insurance Business and Third Party Business period shall be increased by an amount equal to the PDG Adjusted Net Income for such period.

(d) (1) To the extent not otherwise deducted from Adjusted Operating Profit Available for Distribution, Adjusted

Operating Profit Available for Distribution for such period shall be decreased by an amount equal to the sum of (i) the Value of all services performed for or on behalf of the Company, a Company Subsidiary or PDG for such period by or at the direction of the Managing Member or one of its Affiliates (other than the Company, a Company Subsidiary or PDG), which services were reasonably required by the Company, the Company Subsidiary or PDG for the operation of their respective businesses (as opposed to services performed generally for or on behalf of the Managing Member and its Affiliates which do not specifically relate to the business requirements of the Company, a Subsidiary or PDG) and (ii) the Value of all services which the Company, a Company Subsidiary or PDG has requested that the Managing Member or its Affiliates perform.

(2) For purposes of this subsection (d), “Value” of the foregoing services shall be determined consistent with an arms-length transaction with an independent contractor.

(3) Except as provided in this subsection (d), Adjusted Operating Profit Available for Distribution shall be determined without regard to any charges for allocable overhead.

(e) Profit Sharing Adjusted OPAD for such period shall reflect (notwithstanding the provisions of clause (a)(ii) of the definition of Operating Profit Available for Distribution), all deductions to net income for such period (determined in accordance with GAAP) attributable to the granting or vesting of any Class M Options or the exercise of any Class M Options; *provided, however*, that if at any time after the date hereof, the applicable accounting principles are changed so as to result in a material increase in the remaining unamortized cost of the Class M Options outstanding at the time such change becomes effective (it being understood that this *proviso* shall not apply to any such increase resulting solely from changes in estimates or external factors such as applicable interest rates, absent a change in the applicable accounting principles), then deductions to net income attributable to the granting or vesting of any Class M Options or the exercise of any Class M Options shall be calculated by applying GAAP in effect immediately prior to such changes in applicable accounting principles for all periods from and after the effective date of such changes.

(f) For the sake of clarity, Profit Sharing Adjusted OPAD is expressly intended to be different from Adjusted Operating Profit Available for Distribution under the Company Agreement.

“*PS Profit Participation*” for any period shall mean the sum of (i) two-thirds of the aggregate Profit Participation of all employees

of the Company and the Company Subsidiaries, plus (ii) two-third of the aggregate Profit Participation of all employees allocated to the Insurance Business, plus (iii) the aggregate Profit Participation of all employees allocated to the Third Party Business. PS Profit Participation shall be estimated by the Company if required for use in a calculation prior to the final determination of such amount. For the sake of clarity, PS Profit Participation is expressly intended to be different from Class B Profit Participation under the Company Agreement.

“*Subsidiary*” of a Person shall mean a subsidiary of such Person within the meaning of Regulation S-X under the Securities Act of 1933, as amended.

“*Super-Majority Board Vote*” shall mean the affirmative two-thirds vote or written consent of the members of the Management Board.

“*Termination of Employment*” with respect to any Participant shall occur when such Participant ceases to be employed by any of the Company, any Company Subsidiary or PDG for any reason; *provided, however*, that a vacation, sick leave or leave of absence taken by a Participant in accordance with the employment rules and policies established by the Company, any Company Subsidiaries or PDG which employ the Participant shall not constitute a Termination of Employment.

“*Third Party Business*” shall mean the business of PDG that is not the Insurance Business.

“*Unit*” shall mean a unit representing a limited liability company interest of a Member of the Company.

In addition to the foregoing, other capitalized terms used in the Plan shall have the meaning assigned thereto in the text of the Plan.

### **ARTICLE III. PROFIT SHARING PAYMENTS**

3.1 *Participants.* Each Managing Director shall be a Participant. In addition, any officer or employee of or consultant to the Company, the Company Subsidiaries or PDG may be selected to be a Participant by the Compensation Committee, and his or her participation in the Plan may be terminated at any time by the Compensation Committee. Upon the Termination of Employment of a Participant, unless otherwise provided in his or her employment agreement, if any, his or her participation in the Plan shall be terminated, except with respect to the Profit Sharing payable (i) with respect to the Covered Quarter preceding his or her Termination of Employment and (ii) with respect to a Termination of Employment due to death or permanent disability, with

respect to the partial Covered Quarter in which such Termination of Employment due to death or permanent disability occurs.

3.2 *Participation Percentages.* Not later than the payment date for each Covered Quarter specified in Section 3.5, the Compensation Committee shall determine the Participation Percentages of the Participants for such Covered Quarter. The Participation Percentages for each Covered Quarter shall total 100%.

3.3 *Profit Participation Pools.* With respect to each Covered Quarter (or portion thereof), a portion of the Profit Sharing Adjusted OPAD for such quarter shall be allocated to the Profit Participation Pool in accordance with the following rules and adjustments:

(a) An amount equal to (i) 30% multiplied by (ii) Profit Sharing Adjusted OPAD Profit for such quarter (or portion thereof) shall be allocated to the Profit Participation Pool.

(b) The amount of Profit Sharing Adjusted OPAD allocated to the Profit Participation Pool for each Covered Quarter shall be reduced by an amount equal to one-fourth of the PS Profit Participation for such calendar year.

(c) For the third and fourth quarters of 2010, the amount of Profit Sharing Adjusted OPAD allocated to the Profit Participation Pool shall be reduced by \$3,125,000 per quarter. For the twelve calendar quarters from and including the first quarter of 2011 through and including the fourth quarter of 2013, the amount of Profit Sharing Adjusted OPAD allocated to the Profit Participation Pool shall be reduced by \$1,562,500 per quarter.

3.4 *Profit Sharing Payments.*

(a) Each Participant shall be entitled to receive from the Profit Participation Pool, with respect to each of the first three quarters of a calendar year (but only to the extent any such quarter is a Covered Quarter), a Profit Sharing payment equal to (i) his or her Participation Percentage for such quarter multiplied by (ii) the Applicable Percentage multiplied by (iii) the portion of the Profit Sharing Adjusted OPAD for such Covered Quarter allocated to the Profit Participation Pool pursuant to Section 3.3.

(b) Each Participant shall be entitled to receive from the Profit Participation Pool, with respect to the last quarter of a calendar year (but only to the extent such quarter is a Covered Quarter), a Profit Sharing payment equal to (i) his or her Participation Percentage for such Covered Quarter multiplied by (ii) the amount of the Profit Participation Pool after payment of Profit Sharing for the first

three quarters of such calendar year plus the allocation of Profit Sharing Adjusted OPAD for such quarter to the Profit Participation Pool pursuant to Section 3.3.

### 3.5 *Payment of Profit Sharing.*

(a) A Participant's Profit Sharing for the four quarters of a calendar year shall be paid on May 15 and August 15 and on or before December 31 of such calendar year but not before December 15 on such year and on or before March 15 of the succeeding calendar year, respectively.

(b) The Company may elect to estimate the amount of the allocation of Profit Sharing Adjusted OPAD for the fourth quarter of a calendar year to the Profit Participation Pool, and pay Profit Sharing for such quarter, based on such estimate, on or before December 31 of such calendar year. In addition, the Company may estimate the amount of the allocation for each quarter of PS Profit Participation to be deducted pursuant to Section 3.3(b) from Profit Sharing Adjusted OPAD, and pay Profit Sharing for each quarter, based on such estimates. If such estimates are made, once such allocations of Profit Sharing Adjusted OPAD and PS Profit Participation have been finally determined, the Company shall pay additional Profit Sharing for the fourth quarter based on the amount by which (x) the quarterly allocations as finally determined exceed (y) the estimated quarterly allocations, or the Participants shall reimburse the Company to the extent their Profit Sharing for the fourth quarter exceeded the Profit Sharing which should have been paid based on such allocations as finally determined.

## ARTICLE IV. MISCELLANEOUS

4.1 *Designation of Beneficiary.* Each Participant shall have the right to designate a beneficiary or beneficiaries to receive, in the event of the Participant's death, any unpaid Profit Sharing to which such Participant is entitled under the terms of the Plan; *provided, however*, that a beneficiary shall be entitled to receive payment of any such Profit Sharing only if and to the extent that such Profit Sharing would have been paid, pursuant to the terms of the Plan, to the deceased Participant had he lived to the applicable payment date. Such designation is to be made in writing and delivered to the Company. A Participant shall have the right to change or revoke any such designation by filing a new written designation or written notice of revocation with the Company in accordance with the notice procedures of Section 4.9, and no notice to any beneficiary nor consent by any beneficiary shall be required to effect any such change or revocation. If a deceased Participant shall have failed to

designate a beneficiary, or if the Company shall be unable to locate a designated beneficiary after reasonable efforts have been made, or if for any reason such designation shall be legally ineffective, or if such beneficiary shall have predeceased the Participant, any payment required to be made under the provisions of the Plan shall be made to the person or persons included in the highest priority category among the following, in order of priority:

- (a) The Participant's surviving spouse;
- (b) The Participant's surviving children, including adopted children, in equal shares;
- (c) The Participant's surviving parents in equal shares; or
- (d) The Participant's estate, *provided*, however, that if the Company cannot locate a qualified representative of the deceased Participant's estate, or if administration of such estate is not otherwise required, the Company in its discretion may make the distribution under this subsection (d) to the deceased Participant's heirs at law, other than those specified in subsections (a)-(c), determined in accordance with the law of the Participant's state of residence in effect as of the date of the Participant's death.

The determination by the Company as to which persons, if any, qualify within the foregoing categories shall be final and conclusive upon all persons.

4.2 *Payments to Incapacitated Participant.* In the event a Participant (or designated beneficiary) is under mental or physical incapacity, at the time of any payment made pursuant to the Plan, or in the event a designated beneficiary is a minor at such time, such payment may be made to the guardian or other legally appointed personal representative having authority over and responsibility for the person or estate of such Participant (or beneficiary), as the case may be, and for purposes of such payment references in the Plan to the Participant shall mean and refer to said guardian or other personal representative. In the absence of any legally appointed personal representative of the person or estate of the Participant (or beneficiary), such payment may be made to any person or institution who has apparent responsibility for the person and/or estate of the Participant (or beneficiary) as determined by the Company. Any payment made in accordance with the provisions of this Section 4.2 to a person or institution other than the Participant (or beneficiary) shall be deemed for all purposes of the Plan as the equivalent of a payment to such Participant (or beneficiary) and the Company shall have no further obligation or responsibility with respect to such payment.

4.3 *Prohibition Against Assignment.* Except as otherwise expressly provided for herein, the rights, interests and benefits under the Plan may not be assigned, transferred, pledged or hypothecated in any way by any Participant or any beneficiary, executor, administrator, heir, distributee or other person claiming under such Participant and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge or hypothecation or other disposition of such rights, interests or benefits contrary to the foregoing provisions or the levy of any attachment or similar process thereupon shall be null and void and without effect. The Company shall have and possess all title to and beneficial interest in any and all funds or reserves maintained or held by the Company on account of its obligation to pay the Profit Sharing and other payments as required under the Plan, whether or not earmarked by the Company as a fund or reserve for such purpose; any such funds or reserve shall be subject to the claims of the creditors of the Company, and the provisions of the Plan are not intended to create, and shall not be interpreted as creating, any right to or beneficiary interest in any such funds or reserve on the part of any Participant.

4.4 *Amendment of the Plan.* The Company may amend the Plan from time to time in such respects as the Company may deem advisable; *provided, however*, that in the case of any Participant who, as of the date of any amendment of the Plan, is entitled to the payment of one or more Profit Sharing payments, such amendment may not, without the written consent of such Participant, reduce or defer the payment of such Profit Sharing; and *further provided*, that any amendment, supplement or restatement of the Plan will be effective only if approved by a Super-Majority Board Vote.

4.5 *Right to Terminate Participant's Employment.* Neither the Company's establishment of the Plan nor the provisions contained in the Plan shall be deemed to give any Participant any right to continued employment with the Company, any Company Subsidiaries or PDG; the Company, each Company Subsidiary and PDG expressly retain and reserve their right to terminate the employment of any Participant at any time (subject only to the terms of any applicable employment agreement and/or the Company Agreement). In the event of any such termination, the terminated Participant's rights under the Plan shall be only those as are expressly provided herein.

4.6 *Effect of Plan Termination.* The Company may terminate the Plan only prospectively as of the beginning of a calendar year; *provided, however*, that any such termination shall be effective only if approved by a Super-Majority Board Vote. In the event the Plan is terminated, all Profit Sharing payable with respect to the calendar year preceding the termination shall continue to be payable in accordance with the applicable provisions of Article III.

4.7 *Third Party Beneficiaries; Specific Performance.* The Managing Member for itself and on behalf of the Company acknowledges and agrees that the Managing Directors are third-party beneficiaries of each and every provision of the Plan and that they would not have adequate remedies at law and would be irreparably harmed if such provisions were not performed in accordance with the specific terms hereof or were otherwise breached, and that, in such case, it would be impossible to measure in money the damages to such parties. It is accordingly agreed that the Managing Directors shall be entitled to injunctive relief or the enforcement of other equitable remedies, without bond or other security, to compel performances and to prevent breaches of the Plan by any party hereto and specifically to enforce such terms and provisions, in addition to any other remedy to which they may be entitled, at law or in equity.

4.8 *Managing Member Contributions.* If in any period, the available cash of the Company, after giving effect to required distributions in respect of the Class B Units, are insufficient to pay in full any amounts payable under the Plan, the Managing Member shall contribute to the Company such amount of cash as is necessary for the Company to make such payment.

4.9 *Notices.* All notices, requests, or other communications (hereinafter collectively referred to as "Notices") required or permitted to be given hereunder or which are given with respect to the Plan shall be in writing (including telecopy) and, unless otherwise expressly provided herein, shall be delivered (a) by hand during normal business hours, (b) by Federal Express, United Parcel Service or other reputable overnight commercial delivery service (collectively "overnight courier"), (c) by registered or certified mail (return receipt requested) or (d) by telecopy, addressed as follows:

To the Company at: Pacific Investment Management  
Company LLC  
840 Newport Center Drive, Suite 360  
Newport Beach, California 92660  
Attn: Chief Executive Officer

To the Participant at: The Participant's most recent address  
appearing at such time in the  
Company's employee records

Any such notice shall be effective for purposes of determining compliance with the time requirements herein (unless otherwise specifically provided herein) (i) at the time of personal delivery, if delivered by hand, (ii) at the time accepted for overnight delivery by the overnight courier, if delivered by overnight courier, (iii) at the time of deposit in the United States mail,

postage fully prepaid, if delivered by registered or certified mail or (iv) at the time of confirmation of receipt, if delivered by telecopy. Any Participant changing his or her address for purposes of notices hereunder shall give written notice of such change to the Company in accordance with this Section 4.9. If the Company shall at any time change its address for purposes of notices hereunder, it shall give written notice thereof to all Participants under the Plan at such time, with such notice to be given in accordance with this Section 4.9.

4.10 *Governing Law and Interpretation.* The Plan and the rights of the parties hereunder shall be interpreted in accordance with the laws of the State of California, and all rights and remedies shall be governed by such laws without regard to principles of conflict of laws. Article and Section headings are for convenient reference only and shall not be deemed to be part of the substance of this instrument or in any way to enlarge or limit the contents of any article or section. Notwithstanding anything else in the Plan to the contrary, when used in the Plan, the term employee shall include any natural person who is a member of the Company who received his or her interest in the Company in respect of his or her services to or for the benefit of the Company and who is providing substantial personal services to the Company or one of its Affiliates.

4.11 *Invalid Provisions.* In the event that any provision of the Plan is found to be invalid or otherwise unenforceable by a court or other tribunal of competent jurisdiction, such invalidity or unenforceability shall not be construed as rendering any other provision contained herein invalid or unenforceable, and all such other provisions shall be given full force and effect to the same extent as though the invalid and unenforceable provision was not contained herein.

4.12 *Entire Agreement.* The Plan expresses the entire agreement of the Company, the Managing Member and the Managing Directors with respect to the subject matter hereof. Notwithstanding the foregoing or any other provision of this Agreement, if a Participant is party to an employment agreement with the Company, the terms of such employment agreement (including any defined terms having different definitions than those set forth in the Plan) shall control and shall supersede any contrary provisions of the Plan.

4.13 *Counterparts.* The Plan may be executed in any number of identical counterparts, each of which shall be deemed a complete original in itself and may be introduced in evidence or used for any other purpose without the production of any other counterparts.

(signature page follows)

IN WITNESS WHEREOF, the Company has caused the Plan to be executed as of December 26/2013 by its duly authorized signatory.

PACIFIC INVESTMENT  
MANAGEMENT COMPANY LLC, a  
Delaware limited liability company

By: Mohamed A. El-Erian  
Mohamed A. El-Erian  
Chief Executive Officer and  
Co-Chief Investment Officer  
Managing Director

By: Douglas M. Hodge  
Douglas M. Hodge  
Chief Operating Officer  
Managing Director

