



Back to Disabled Nortel workers suffer again

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Former Nortel Networks Corp. workers on disability leave face a new hurdle in their struggle for a piece of the proceeds from the bankrupt telecom gear maker's liquidation sale.

That's because the Nortel estate may be further depleted after its European affiliates last week filed court documents in Toronto saying they are entitled to \$9.8 billion on the strength of "inter-company agreements."

The European claims are against Canadian parent Nortel Networks Corp., based in Toronto, Nortel Networks Inc., the main U.S. company; and other U.S. and Canadian subsidiaries.

Judges in the U.S. and Canada are expected to decide late this year whether the claims are legitimate — and how to divide funds raised through auctions since Nortel filed for bankruptcy protection in 2009.

Nortel, meanwhile, has generated proceeds from the auction of its assets and business units that are significantly above market expectations.

Its final major asset, a parcel of patent and patent-pending properties that was expected to command about \$600 million, is now seen fetching as much as \$1.5 billion. Overall, asset sale proceeds could top \$4.4 billion.

Until the inter-family dispute is resolved, however, U.S. and Canadian bondholders and other creditors won't be paid anything, said Thomas Kreller, a lawyer representing bondholders in both countries. In addition to claims by retirees and others, creditors of the company's main U.S. unit say they are owed more than \$16 billion.

But Nortel's most vulnerable are at the back of the line, said Diane Urquhart, an independent financial analyst fighting for the group of about 400 former Nortel employees who were on disability leave when the company sought creditor protection.

She believes the European claims on Nortel in North America are excessive and will not be allowed in full. But she said they add to demands on the estate that may cut into any modest increase in payouts to the disabled generated by the strong interest in Nortel's intellectual property and other assets.

She said higher-than-expected proceeds from the patents sale could raise the Nortel Canadian disabled employees' settlement by about \$6 million, based on a lift in the Canada Estate cash settlement.

Nortel's Canadian disabled employees' claims are estimated at \$152 million, of which \$75 million would cover lost-income insurance until age 65, death or recovery.

The Nortel Health and Welfare Trust court-ordered distribution provides funding of \$28 million or about 27 per cent of the disability insurance for income. The combined HWT and Companies' Creditors Arrangement Act settlements are expected to come close to 42 per cent of the disability insurance for income the disabled group had expected. That means the expected income of the disabled would increase by about 3 per cent due to the higher-than-expected asset sale proceeds, Urquhart said.

Among those on disability benefits from Nortel are people with cancer, mental illness and multiple sclerosis. Urquhart said on average, the group's benefits will drop to \$16,000 a year from \$40,000 because of the Nortel collapse.