

Courts to Rule on Nortel's \$7.3 Billion Cash Clash

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Judges in the U.S. and Canada Friday sent Nortel Networks Corp.'s (NRTLQ) \$7.3 billion cash fight to trial, rebuffing pleas from European creditors to put the matter to an international panel of arbitrators.

The decision is a victory for hedge funds that invested in Nortel's bonds. The hedge funds wanted a court trial and are clamoring for a fast end to the big bankruptcy case.

Sales of Nortel's businesses after its 2009 bankruptcy filing raised \$7.3 billion. Before the money can be paid out, there must be a decision on how much goes to various national units of the company.

After efforts to mediate failed, Nortel U.S. and Nortel Canada turned to the judges of their countries, asking for help in the form of a joint court trial of the disputes over which of Nortel's national units deserves a share of the cash.

Some \$4 billion in bond debt is attached primarily to Nortel U.S. and Nortel Canada. Friday's joint ruling from Justice Geoffrey Morawetz of the Ontario Superior Court of Justice in Toronto and Judge Kevin Gross of the U.S. Bankruptcy Court in Wilmington, Del., means those two judges will decide how much cash to leave with the Canadian and U.S. arms of Nortel and how much to allocate to Europe to be divided among creditors there.

The underfunded pensions Nortel left behind in the United Kingdom account for a significant portion of the European claims. Friday's ruling is a setback for representatives of European creditors and British pension trustees. They argued unsuccessfully for international arbitration as the best route to a swift, fair decision on Nortel's cash.

Besides defeating the push to arbitration from Nortel's European creditors, the hedge funds that invested in the company's bonds won a couple extra seats in the courtroom for the coming litigation. Bond trustees will be represented in the action, both judges ruled.

An ad hoc group of bondholders has played a crucial role behind the scenes in Nortel's international bankruptcy, but for years its members remained unidentified. A filing last year finally named the members of the bondholder group: CarVal Investors LLC, Centerbridge Partners LP, Golden Tree Asset Management, GS Investment Strategies LLC, Monarch Alternative Capital LP, Soros Fund Management's Quantum Partners LP and Tenor Capital Management.

The decision to go to litigation means more spending of Nortel's cash on lawyers and advisers.

As of Jan. 12, Nortel U.S. had the largest potential war chest, with \$961 million available cash, court records say. Nortel Canada's available cash as of the same date was \$257 million, while Nortel U.K. and Europe had a combined \$761 million in funds available.

That's in addition to the \$7.3 billion in proceeds from the sales of the company's businesses, which is sitting in segregated accounts awaiting the outcome of the cash fight.

(Dow Jones Daily Bankruptcy Review covers news about distressed companies and those under bankruptcy protection. Go to <http://dbr.dowjones.com>)

Write to Peg Brickley at peg.brickley@dowjones.com

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