

January 17, 2013

Roberta A. Deangelis
United States Trustee (Region 3)
833 Chestnut Street, Suite 500
Philadelphia, PA 19107
Phone: 215-597-4411 Fax: 215-597-5795

Dear Ms. Deangelis:

I read Peg Brickley's Dow Jones January 8, 2013 column highlighting your request for more details on why the Nortel US estate is paying \$1.7 Million bonus to the remaining 10 people working.

I am a Canadian independent financial analyst. This week I added up all the professional fees paid from the Nortel US bankruptcy estate between January 14, 2009 to November 30, 2012. The amount is disturbingly high at \$386 Million. There are another \$244 Million of labeled restructuring costs (another name for professional fees) paid from the Nortel Canada Estate between January 14, 2009 and October 13, 2012. The US and Canada estates combined professional fees on the Nortel bankruptcy is now \$630 Million. We appear to be far from the final disbursement of Nortel \$10 Billion of cash to the creditors, despite the five day mediation by Justice Warren Winkler in Toronto this week.

There should be an audit and investigation of the professional fees agreed to by both the Unsecured Creditor Committee administering the Nortel US Chapter 11 proceeding and of the Canada Court Monitor, Ernst & Young, administering the Nortel Canada CCAA proceedings.

The exorbitant amount paid by the Nortel bankruptcy estates to various professionals post bankruptcy is galling in relation to the Nortel Unsecured Creditor Committee's and Ernst and Young's grossly unfair treatment of the US and Canadian long term disabled employees, whose lives are ruined by the loss of their disability income. As noted within both the US and Canadian class actions on behalf of the Nortel's long term disabled employees, there has been substantial wrongdoings committed by Nortel against these most vulnerable people.

I have attached my analysis and two media articles on the issue, one from the Wall Street Journal and the other from Canada's Globe and Mail.

Sincerely

Diane A. Urquhart
Independent Financial Analyst
1486 Marshwood Place, Mississauga,
Ontario, L5J 4J6
Tel: (905) 822-7618
Cell (647) 980-7618
Email: urquhart@rogers.com

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THE WALL STREET JOURNAL.

WSJ.com

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Big Winners in Nortel's Demise? Lawyers

By *Caroline Van Hasselt*

The real winners to emerge from former Canadian technology icon Nortel Networks Corp.'s sorry demise are the lawyers.

They've made more than a half a *billion* dollars—about \$630 million—from the company's bankruptcy over the past four years, according to data from court filings compiled by Diane Urquhart, a Toronto-based independent financial analyst.

That's a quarter of the amount being claimed in bankruptcy mediation talks in Toronto this week by Nortel's roughly 20,000 former employees in Canada, including pensioners and long-term disabled employees. They're seeking 2.51 billion Canadian dollars (\$2.54 billion) from Nortel, of which C\$85 million is for the long-term disabled. The lawyers have already garnered seven times more than the amount sought by the long-term disabled workers.



Associated Press

All of the ex-employees fall into the unsecured creditor camp, well down on a list that boasts the likes of George Soros's Quantum Partners fund.

Creditor claims from, among others, bondholders, suppliers, governments and former employees around the globe total a staggering \$20 billion. But, with just \$9 billion in cash being all that's left of Canada's once-mighty tech giant, Ontario Chief Justice Warren Winkler is attempting this week to broker a compromise. It's sure to disappoint some.

A resolution can't come soon enough for some Nortel's most disadvantaged. Many of the about 360 Canadian long-term disabled former employees who lost their workplace disability plans in the company's collapse are running out of money, according to Greg McAvoy, a former Nortel employee in Calgary, Alberta, who has multiple sclerosis. "It's been really hard on the disabled," he told Canada Real Time. "We've had some people who have attempted suicide."

According to Ms. Urquhart, who has been helping the Nortel disabled workers in their legal fight, Canadian lawyers involved in the bankruptcy proceedings had reaped close to \$250 million through mid-October, while U.S. lawyers had received \$386 million through November.

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As Nortel pensioners struggle, the lawyers are doing just fine

JEFF GRAY - LAW REPORTER

The Globe and Mail

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The four-year court battle spawned by Nortel Networks Corp.'s insolvency has left thousands of its pensioners and former disabled employees with drastically slashed benefits. But the lawyers involved have done just fine.

Nortel has paid out \$630-million in fees to its professional advisers, including lawyers, accountants and investment bankers in the U.S. and Canada since it first filed for protection from its creditors in 2009, according to court filings compiled by Diane Urquhart, a financial consultant working with a group of disabled former employees.

Court

The meter is still running. Just down Toronto's University Avenue from the courthouse where a judge found three former Nortel executives not guilty of fraud this week, more than 100 lawyers and other representatives of Nortel's bondholders, creditors and former employees are haggling over the company's remaining \$9-billion in a mammoth five-day mediation session overseen by Ontario Chief Justice Warren Winkler.

For Greg McAvoy, 59, the "burn rate" is particularly galling. He worked for Nortel in Calgary until his multiple sclerosis forced him to stop.

Mr. McAvoy has seen his long-term disability benefits slashed to just 35 per cent of what he was promised, despite the expensive drugs he needs.

"You've got the \$1,000-an-hour lawyers playing around with this," Mr. McAvoy, 59, said in an interview. "And it's disheartening to say the least."

Mr. McAvoy belongs to a group that has launched a potential class action alleging that the two trust companies that administered Nortel's health fund acted "fraudulently" by leaving it underfunded. The plaintiffs are demanding \$60-million.

Concerns over the amount of money going to lawyers, instead of former Nortel employees, has been raised before, as the bills mounted. Scores of lawyers from an array of major law firms in Canada have worked on the case, in one capacity or another.

And Mr. Justice Geoffrey Morawetz, the Ontario Superior Court judge overseeing the Canadian side of Nortel's liquidation, has warned the lawyers in his courtroom to stop attending, and charging, when the court is considering motions they do not oppose.

A representative for Ernst & Young LLP, the Canadian court-appointed monitor for Nortel's proceedings under the Companies' Creditors Arrangement Act, declined to be interviewed for this story. A spokesman for Nortel could not be reached.

The Nortel bill for advisers in Canada, according to Ms. Urquhart, is \$244-million, compared to \$386-million in the United States.

The Canadian costs alone exceed the approximately \$200-million in fees paid out to legal and other advisers in the complex restructuring of the non-bank asset-backed commercial paper (ABCP) market, which collapsed in 2007. And the Nortel bill dwarfs the restructuring of Hamilton's Stelco in 2006, where lawyers and other professionals cost \$100-million.

Insolvency lawyers say the Nortel case has been not only lengthy but uniquely complicated, involving courts and creditors all over the world. Lawyers acting for creditors – and the aggrieved pensioners – have also claimed millions in fees fighting for their clients in a dispute that has proven almost impossible to resolve, with about \$25-billion in outstanding claims fighting for just \$9-billion. Canadian pensioners and employees alone have claims totalling \$2.5-billion.

Indeed, Chief Justice Winkler warned when he launched his mediation effort last April that a failure to come to a negotiated settlement would mean many more years of Byzantine legal battles, and big legal fees. "This would be a catastrophic outcome for some, and unsatisfactory for most, of those affected by this case."

Bankruptcy watchdog questions Nortel's \$1.7 million bonus proposal

By Peg Brickley, Dow Jones Newswires

Tuesday 08 January 2013

10 executives remain at bankrupt telecoms equipment maker.

Federal bankruptcy watchdogs have lodged a protest against Nortel Networks Corp.'s latest request for bonuses for U.S. executives still on the job years after the company went out of business.

At \$1.7 million, the 2013 bonus plan is much smaller than earlier rounds of extra-pay requests for the defunct telecommunications-equipment maker, which won approval for more than \$150 million of bonuses across the four-year span starting with Nortel's January 2009 Chapter 11 filing.

In spite of the company's years of experience in pushing its bonus plans through bankruptcy court, U.S. Trustee Roberta A. DeAngelis contends the company is still skimping on the details of what, exactly, Nortel will be getting in exchange for extra pay for a group of 10 remaining company leaders.

Nortel "must produce more information to enable the U.S. Trustee, as well as the Court, to determine whether the individual employees' responsibilities and performance goals are virtually risk-free 'lay-ups,'" lawyers for the U.S. trustee wrote in papers filed Friday.

Out of business for years, Nortel is moving toward mediation of a dispute over how to divide \$7.3 billion raised in bankruptcy among creditors around the world. Creditors are hoping for a fast resolution of the dispute over the funds. There is a Chapter 11 plan on file for Nortel in the U.S., but until it is known how much of the money the U.S. arm of the Canadian company will have to hand out, the plan cannot go forward.

Creditors of the U.S. company won't be paid until the plan is in effect.

Trading prices in Nortel's debt remain strong, at above-par prices that reflect an expectation that debt issues purchased at a discount will pay off in full, with interest.

Nortel says the skeleton crew remaining as its bankruptcy enters the final phase have taken on

broader responsibilities and need additional compensation this year. There are still tax, financial and regulatory tasks to complete, the company said in papers filed in December in the U.S. Bankruptcy Court in Wilmington, Del.

Besides the cleanup crew, Nortel has had outside restructuring executive John Ray, serving as principal U.S. officer, on the payroll for the bankruptcy. Mr. Ray billed the company more than \$3 million between December 2009 and October 2012, according to court records.

Nortel's 2013 bonus proposal will be reviewed at a court session Jan. 23. It contains the potential for as much as \$1 million in bonuses, in the aggregate, for seven noninsider employees, and as much as \$774,750, in the aggregate, for three insiders, court papers say.



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