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Nortel Networks talks aim to end \$7 billion legal fight

BY TOM HALS



A sign is pictured outside Nortel's Carling Campus in Ottawa August 10, 2009.
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Parties seeking a chunk of the \$7 billion raised from the liquidation of former telecommunications giant Nortel Networks started talks on Thursday aimed at ending one of the most complex and costly legal disputes in history.

The money has been sitting in a New York bank account since Nortel Networks global businesses were sold piecemeal after the Ontario-based company filed for bankruptcy exactly seven years ago.

Nortel ranked among the world's most valuable companies during the Internet bubble at the end of the 1990s, but missteps and an accounting scandal left the company bankrupt and unable to turn itself around.

The talks on Thursday in New York include representatives from former Nortel operations in the United States, Canada and Europe, according to two sources who declined to be identified because the mediation was confidential.



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The parties had presented dramatically differing proposals to a judge in Ontario and a U.S. Bankruptcy judge in Delaware during a novel, joint trial in 2014 aimed at dividing the cash. The court rooms were linked by cross-border video.

The judges issued coordinated opinions in May that rejected the proposals from the various Nortel estates and ruled that every creditor would receive roughly 71 cents on the dollar, a position backed by some creditors.

That sparked appeals. If the current talks can reach a settlement to divide the cash, it would end the appeals process. One of the big fears among the parties is that parallel appeals in the United States and Canada could result in conflicting rulings that further complicate the dispute.

"It's a Charles Dickens novel," said Melissa Jacoby, a law professor and resident scholar at the American Bankruptcy Institute.

Suppliers, former employees and government agencies cannot be paid until each particular Nortel unit that owes them money knows how much cash will be available to distribute.

Creditors also include sophisticated investment funds such as George Soros's Quantum Partners and two funds that have been waging a legal war over defaulted Argentine bonds, Elliott Management and Aurelius Capital Management.

The parties have held several previous mediation sessions, without success. A Canadian judge, Warren Winkler, who mediated a 2013 session called it "one of the most complex transnational legal proceedings in history."

The case ranks among the longest for one of its size, and while Nortel has been in bankruptcy General Motors, film pioneer Eastman Kodak and American Airlines have all gone into and come out of Chapter 11.

It has also been among the most expensive legal proceedings.

Through September, the bankruptcy has cost an estimated \$1.6 billion in fees for lawyers, accountants and other professionals working on behalf of former Nortel businesses in North America and Europe, according to Diane Urquhart, a financial analyst who compiles the data from court records.

In all, fees have gobbled up 15 percent of Nortel's global asset value, according to Urquhart.

Those involved say the case might have been resolved if not for Nortel's patent auction in 2011, when Apple Inc, Microsoft Corp and four others paid \$4.5 billion for Nortel's patents, well above the initial bid of \$900 million.

"Sometimes success creates a lot of conflict in these cases," said Rafael Zahralddin, an Elliott Greenleaf attorney who represented U.S. long-term disabled employees in the case.

(Reporting by Tom Hals in Wilmington, Delaware; Editing by Andrew Hay)

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