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Nortel Creditors Battle Over When to Hold Trial Over Cash Split

By PEG BRICKLEY

U.S. investors are pushing to go to trial by the fall over how to divide [Nortel Networks](#) Corp.'s \$7.3 billion pile of money, but officials looking out for Canadian and European creditors say the international cash clash could take much longer to sort out.

The question of timing is an important one for investors, who won't be able to cash in on their Nortel debt holdings until court-approved distribution schemes are in place for what's left of the one-time Canadian technology icon.

Prices for Nortel's bonds dropped in recent weeks, after the failure of a third effort to mediate a peaceful end to the long-running fight over who should reap the rewards of bankruptcy auctions of the company's telecommunications businesses and its patent portfolio.

Filings Friday in a Delaware bankruptcy court are evidence of the deep discord blocking a deal, with the affected creditors unable to agree even on what issues must be decided before the cash is split up. U.S. bondholders and the U.S. unit of Nortel are arguing for fast answers on what they say are a few key questions, while officials involved in the insolvency proceedings for Nortel in Canada and Europe are resisting the pressure for speed.

Ernst & Young Inc., in its role as monitor of Nortel Canada's insolvency proceedings, listed 2 1/2 pages of issues that remain to be decided. "Based on the expected number and complexity of outstanding issues...it is submitted that efforts be made to prioritize and synthesize the issues prior to addressing a workable schedule to deal with them," the Canadian Nortel officials wrote.

U.S. bondholders, in contrast, said "too much time has passed in this case," with spending on lawyers and advisers topping \$700 million and the meters still running. After three years in mediation, bondholders say, all the combatants know their positions, and eight days of trial in September ought to be enough time to wrap things up.

Justice Geoffrey Morawetz in Toronto and Judge Kevin Gross in Wilmington, Del., will decide what issues will be addressed, when and how, before the sale proceeds are released from lockboxes. All told, there's about \$10 billion sitting in Nortel's coffers, waiting to be handed out.

Nortel filed for protection from creditors in many countries in 2009, launching not one bankruptcy proceeding but several. The U.S., Canadian, British and other European units of the company presented a united front during the years Nortel was selling its telecommunications businesses and

patents. Then it was time to split up the money, and the rivalries among different national camps of creditors surfaced.

Bondholders dominate the U.S. creditors, while the most visible Canadian and European creditors are retirees and disabled former workers left in reduced circumstances by the company's collapse.

Nortel's U.S. arm is asking for an October trial date for the dispute over the cash. Make that September, urged an ad hoc group of bondholders that has been active behind the scenes since the start of the case, when the debt could be had at steeply discounted prices.

Bondholders are looking for 100 cents on the dollar, plus interest over the four years of the bankruptcy, a reward they contend is justified by Nortel's solvency.

Whether Nortel is, legally, solvent is a central issue in the allocation fight, according to lawyers for pensioner interests at Nortel U.K., which are pressing claims for \$1.3 billion in both the U.S. and Canadian proceedings.

If the company's just debts outweigh its cash, the bondholder claim to interest is subject to challenge.

"A current assessment of the debtor's assets and liabilities," is required before there's a ruling on bondholder interest, according to papers filed by the trustee of Nortel Networks UK Pension Plan and the Board of the Pension Protection Fund.

Nortel U.S. says the validity of the U.K. pension plan remains to be proven in court, as does the validity of other claims by European units of the defunct company.

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