

Nortel Bankruptcy Fight Resumes With \$2 Billion Spent on Fees

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- ▶ Seven years after bankruptcy, \$7 billion languishes in escrow
- ▶ Bondholders, retirees wage international fight over cash pile

Nortel Networks Corp., the defunct telephone equipment maker, is back in court for a fresh round of legal arguments in a seven-year-old bankruptcy that has cost creditors about \$2 billion including attorney fees.

Those fees will keep eating away at a \$7.3 billion pile of cash while U.S. bondholders battle 56,000 Nortel U.K. and Canada retirees in appeals courts. The money is locked in escrow until judges in the U.S. and Canada agree on how to dole out the cash -- or until the warring creditors cut a deal.

The bondholders, and other U.S. creditors, were in Wilmington, Delaware, federal court Tuesday to ask the judge to reverse a bankruptcy court ruling on how to divide the cash. That allocation ruling called for a pro-rata distribution based on how much debt Nortel units faced in their respective regions.

The fight comes down to whether Nortel's U.S. units have to share the money they raised by selling thousands of patents and other assets. Sharing with the parent in Canada and units in Europe would have been routine before Nortel filed bankruptcy cases in front of separate judges in the U.S., Canada and Europe in 2009. But bondholders say that once Nortel sought court protection, sharing was off the table.

'Danger'

"The danger here is when you have creditors competing for the same assets across borders," Jeffrey A. Rosenthal, a lawyer for Nortel's U.S. units, told the judge. Every extra dollar allocated "decreases the recovery of U.S. creditors," he said.

Pension administrators for Nortel's U.K. units called the allocation ruling the fairest way distribute the money, saying it's consistent with how the property would have been split before bankruptcy.

The U.S. unit held patents that sold at auction in 2011 for \$4.5 billion to a group that included Microsoft Corp., Apple Inc. and Sony Corp. Bondholders argue that most of the money should therefore go to the U.S.

unit's creditors. The bondholders include funds managed by Aristeia Capital LLC, Citadel Advisors LLC, Elliott Associates LP and Soros Fund Management LLC.

Competing Plans

In 2014, the Canadian parent company, its U.S. unit and U.K. administrators for Nortel's European units all proposed competing plans for dividing the money in a trial that linked courtrooms in Toronto and Wilmington. Last year's allocation ruling was meant to resolve the last major legal dispute in separate bankruptcies filed in 2009 by Nortel's biggest units in the U.S., Canada and France.

The warring creditors met this year in New York in mediation to resolve appeals in the U.S. and Canada. Those appeals have made it impossible for any money to flow, even though Nortel has no business left to conduct.

For now, the cash is being held in trust. It can't be released without approval from courts in Canada and the U.S., as well as the three bankrupt entities in those countries and the U.K.

The bankruptcy is Nortel Networks Inc., 09-bk-10138, U.S. Bankruptcy Court, District of Delaware (Wilmington). The appeal is Nortel Networks Inc. v. Official Committee of Unsecured Creditors, 15-624, U.S. District Court, District of Delaware (Wilmington).

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