



Nortel Files for Bankruptcy Amid Declining Sales (Update4)

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By Bob Van Voris and Joe Schneider

Jan. 14 (Bloomberg) -- **Nortel Networks Corp.**, North America's biggest maker of telephone equipment, filed for bankruptcy protection in Wilmington, Delaware, amid the global credit crunch and declining sales.

Nortel, based in Toronto, had more than \$1 billion in assets and debt, according to today's Chapter 11 filing of its U.S. subsidiary. The company said that several Canadian affiliates will also seek court protection today.

"The company's normal day-to-day operations are expected to continue without interruption," Nortel said today in an e-mailed statement. "This process will allow Nortel to deal decisively with its cost and debt burden, to effectively restructure its operations and to narrow its strategic focus in an effective and timely manner."

Nortel has **lost** almost \$7 billion since Chief Executive Officer **Mike Zafirovski** took over in 2005, leaving him struggling for the funds to operate the company. Bank of New York Mellon was listed as Nortel's largest unsecured creditor in its role as trustee on more than \$3.8 billion in notes. Export Development Canada is owed \$186.7 million.

"If they're going to go, it's better to go now," said Richard Windsor, a global technology specialist at Nomura International Plc in London. "It would imply the company is unable to stabilize the cash flow situation."

Declining Sales

Sales have declined since Nortel sold its high-speed mobile-phone unit to Alcatel for \$320 million in 2006. The company got rid of the division to focus on a newer wireless technology called WiMax.

As of Sept. 30, Nortel's debt amounted to \$6.3 billion, including adjustments for operating leases, pension deficits and other items. The company has \$1 billion in bonds that come due in 2011. Total liabilities amounted to almost \$12 billion.

Nortel Networks said in its chapter 11 filing that it has more than 25,000 creditors and expects to make a distribution to those creditors that are unsecured. Nortel Networks Capital has more than 100 creditors owed \$100 million to \$500 million, according to court papers. Units of Singapore-based Flextronics International Ltd. are owed more than \$50 million.

Nortel said it was also seeking protection under Canada's Companies' Creditors Arrangement Act. The application is scheduled to be heard later today in the Ontario Superior Court of Justice, the company said.

Nortel Affiliates

Nortel affiliates in Asia, the Caribbean and Latin America, and Nortel's Government Solutions unit aren't involved in today's filings, according to the company.

Nortel is represented by lawyers from Cleary Gottlieb Steen & Hamilton in New York and Morris Nichols Arsht & Tunnell of Wilmington.

The company paid a \$35 million fine in 2007 to settle U.S. Securities and Exchange Commission claims that it defrauded investors by manipulating earnings from 2000 to 2003. The company didn't admit or deny wrongdoing.

Nortel restated earnings going back to 1999 after probes by regulators in 2004 indicated executives incorrectly booked revenue, inflating sales figures by \$3.4 billion.

Zafirovski had sought to revive Nortel's fortunes by cleaning up the **balance sheet** and reducing the workforce by 18 percent since he started. Demand for Nortel's gear, mainly based on older code division multiple access technology, has waned as customers move to faster systems.

'Sound Financial Footing'

"Nortel must be put on a sound financial footing once and for all," Zafirovski said in today's company statement. "These actions are imperative so that Nortel can build on its core strengths."

Money markets in the U.S. seized up following the Sept. 15 failure of the securities firm Lehman Brothers Holdings Inc. Banks stopped lending as they hoarded cash, pushing the country into a deeper recession. That's making it more difficult, and more expensive, for companies like Nortel to find new financing.

The company could sell the CDMA unit to raise money, RBC analyst **Mark Sue** said in a report in November. The challenge is that too many asset sales may conflict with Nortel's debt covenants, said Sue, who cut his **target** on the stock to \$0.

Nortel began as Northern Electric and Manufacturing in 1895, supplying equipment for Canada's start-up telephone system. The company was the first to produce dial equipment in the country, for a brewery in Montreal, and its switches were used in the first Trans-Canada telephone toll system in 1932, according to Nortel's Web site.

U.S. Stock

Nortel's U.S. **stock** reached a split-adjusted high of almost \$900 in 2000 as the dot-com boom fueled demand for telephone equipment. Since then, the company lost out to **Cisco** and Juniper Networks Inc., whose products enabled telephone companies to transmit phone signals over Internet lines.

The plunge in the **shares** prompted a series of lawsuits, with investors accusing Nortel of perpetuating a \$3.2 billion accounting fraud that included improperly boosting sales by accelerating the booking of fiber-optic equipment contracts. Nortel fired CEO **Frank Dunn** and other executives as a result.

The company agreed in February 2006 to pay \$575 million in cash and issue 62.9 million shares to settle the suits, and Nortel's insurers agreed to pay \$243 million. The settlements won approval Dec. 26, 2006, in New York and a month later in Canada.

Last year, Canadian federal police charged Dunn, former Chief Financial Officer **Douglas Beatty** and former Controller **Michael Gollogly** with fraud for misstating results in 2002 and 2003. They also were charged with accounting fraud by the U.S. Securities and Exchange Commission and the Ontario Securities Commission. Dunn is fighting the charges and suing for wrongful dismissal, according to his counsel, McCarthy Tetrault.

The case is Nortel Networks Capital Corp., U.S. Bankruptcy Court for the District of Delaware (Wilmington).

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