

# **NRPC NORTEL WEBCAST**

## **CCAA Update**

**SEPTEMBER 1, 2010**

**KOSKIE  
MINSKY<sub>LLP</sub>**  
BARRISTERS & SOLICITORS





# INTRODUCTIONS: ADVISORS

## MARK ZIGLER, SUSAN PHILPOTT

- Koskie Minsky LLP
- Court-appointed Representative Counsel

## GUS TERTIGAS, DERRICK PHELPS

- RSM Richter
- Business advisors

## RON OLSEN, TOM LEVY

- The Segal Company
- Actuarial advisors

## WILLIAM PEPALL

- Lerner LLP
- Independent Legal Counsel (“ILC”) – Health and Welfare Trust Allocation



# INTRODUCTIONS: NRPC

## DON SPROULE

- Court-Appointed Representative, NRPC Board, Legal Committee, Health Committee, Retiree

## DAVID ARCHIBALD

- Court-Appointed Representative, Legal Committee, Retiree

## MICHAEL CAMPBELL

- Court-Appointed Representative, NRPC Board, Legal Committee, Terminated Employee of Nortel



# HOUSEKEEPING

- Slides on KM Website  
[www.kmlaw.ca/case-central](http://www.kmlaw.ca/case-central)
  - Click on Nortel Networks Corporation
- Questions in English or French
- Webcast presentation to be posted on NRPC Website
- This presentation has been developed for the NRPC constituency



# NRPC ORGANIZATION

- ✓ NRPC non-profit corporation
- ✓ NRPC first AGM (Aug 24, 2010)
- ✓ NRPC new Board
- ✓ NRPC National Committee
- ✓ NRPC subcommittees
- ✓ NRPC membership
- ✓ NRPC official, unofficial linkages
- ✓ Court Reps and the NRPC



# CONSTITUENCY

## ***Are you covered by the Court's Representation Order?***

You are a member of the constituency if you or your survivor receive, received or are entitled to receive one of the following Nortel payments:

- Managerial Pension Plan benefits
- Negotiated Pension Plan benefits
- Excess Pension Plan
- SERP
- Pensioner Health Plan
- Pensioner Life Insurance
- TRA / RAP
- Survivor Income Benefits, Survivor Transition Benefits
- Severance and Termination Pay
- Residual of Commuted Value of RPP



# NRPC STRATEGIC GOALS

- **Federal: Pensioners and Terminateds**
  - Bankruptcy and taxation laws
- **Provincial: Pensioners**
  - Pension laws, regulations and procedures
  - Ontario: PBGF
  - Québec: Bill 1
- **The Courts: Pensioners and Terminateds**
  - Gain favorable treatment for the constituency
  - Block others from trying to gain unfair advantage
- **NRPC**
  - Affordable replacement health and life

***Seek the best possible outcome for the constituency***



# OUTLINE OF PRESENTATION

- A. Update and Overview of CCAA Proceedings
- B. Asset Sales & Allocation
- C. Update on Health and Welfare Trust Allocation
- D. Update on Benefits
- E. Update for Terminated Group
- F. Status of Defined Benefit Pension Plans
- G. The Financial Sponsorship Model
- H. Provincial and Federal Strategies
- I. Update on Compensation Claims Process
- J. Next Steps in CCAA
- K. Questions





## A. UPDATE AND OVERVIEW OF CCAA PROCEEDINGS

- **Since our last webinar:**

- Monitor serves Court materials on August 27 relating to approval of a methodology for the allocation of assets in Nortel's Health and Welfare Trust
  - Motion scheduled for September 29
- Court of Appeal denies leave to appeal on Settlement Agreement
- UK Administrator's Appeal to Court of Appeal is denied
- Company continues with asset sales
- Company continues investigation of IP assets and ways to maximize benefit to Canada
- Allocation of funds process underway
- Canadian claims resolution process
  - Motion to approve on September 16
  - Excludes employee claims which are subject to a later claims process



# UPDATE AND OVERVIEW OF CCAA PROCEEDINGS

- **Upcoming Important Dates**

- September 30: Nortel ceases to administer its Pension Plans
- December 31: Nortel ceases to pay health, dental and life insurance benefits
- December 31: Nortel ceases to pay income benefits (including survivor and LTD income benefits)

- **Upcoming Court Dates**

- September 16: Canadian Claims Resolution Process Motion
- September 29: Health and Welfare Trust Allocation Motion
- Future?
  - Court Approval of Compensation Claims Procedure
  - Motion for Representation Order by certain LTD Beneficiaries
    - Goal: Ensure that any related Court proceedings do not have a negative impact on you and/or cause delays to the HWT allocation motion



## B. RICHTER UPDATE

### ASSET SALE

#### Completed Transactions

- 6 major transactions have been completed to date (CDMA, Enterprise, MEN, GSM, CVAS and LGN).
- Net proceeds, held in court supervised accounts (the “Lock-Box”), total approximately \$3.03 billion and include:
  - CDMA – \$1.01 billion
  - Enterprise - \$899 million
  - MEN - \$627 million
  - CVAS - \$153 million
  - GSM - \$90 million
  - Other – \$28 million
- A further \$223 million is held in various other escrow accounts. These proceeds are there to fund transition costs and purchase price adjustments. We expect that a significant portion of these funds will be transferred to the Lock-Box.
- These proceeds are subject to being allocated amongst the various Nortel estates.



# RICHTER UPDATE

## Asset Sales - Continued

- In addition, net proceeds, related to the LGN transaction, of \$214 million, are held in a single-purpose NNL bank account.
- These proceeds belong exclusively to the Canadian estate.



# RICHTER UPDATE

## Asset Sales

### Other Transactions

- Intellectual property
- Real estate (Carling property)
- Tier 2 sales (smaller operating units)
  - GDNT
  - Passport
  - GSM Asia and CALA
- Minority interest in various ventures
- Venture capital investments



# RICHTER UPDATE

## INTELLECTUAL PROPERTY

- Valuation of patents
  - Currently underway
  - Preliminary assessment is that the portfolio is strong with a high percentage of high-value patents
  - Number of options for maximizing value
  - Options are currently being reviewed
  - Likely going to be a long process
  - May have a material impact on overall realizations



# RICHTER UPDATE

## ALLOCATION

- There are a number of jurisdictions with claims against sales proceeds including Canada, US, EMEA and CALA
- Allocation of proceeds has not been determined
- The various jurisdictions have held a number of discussions in an effort to negotiate the scope and terms of a protocol to resolve disputes. These discussions were unsuccessful.
- In an effort to reengage in discussions the various jurisdictions:
  - Entered into a final Canadian funding and settlement agreement which resolved corporate overhead and transfer pricing issues;
  - Exchanged documents outlining the various heads of claims each jurisdiction may have against other Nortel entities; and
  - Established an electronic data room to facility the exchange of information.



# RICHTER UPDATE

## ALLOCATION - Continued

- The major issue revolves around the ownership of the intellectual property
- Anticipate a significant claim to be made against Canadian estate by UK pension regulator and that there will be significant debate concerning this claim
- The Monitor is aware of our interests and is negotiating, in consultation with our groups, to protect the interests of all Canadian stakeholders





## C. UPDATE ON HEALTH AND WELFARE TRUST

### Step One: Determining Method of Allocation of Assets (Ongoing)

- Parties have studied relevant trust documents and historical funding patterns
- Monitor has prepared a proposal and related court documents
- Pensioner / former employee group has obtained independent legal advice on the issue
  - William Pepall of Lerner LLP
- Disabled employee group has retained separate independent legal counsel on the issue
  - Sack Goldblatt Mitchell LLP
- KM will not represent either group at the HWT allocation motion but continues to represent you on all other issues

### Step Two: Court Directions

- Monitor has submitted its proposal to the Court for direction and/or approval
  - Individuals in receipt of monthly income benefits (SIB and STB) will receive an estimate of the value of their entitlement in early September
- Motion scheduled for September 29, 2010



# UPDATE ON HEALTH AND WELFARE TRUST

## **Step Three: Distribution of Assets**

- Parties are working to achieve a distribution of the HWT assets by December 31, 2010
- Representative Counsel, Monitor and company have made submissions to CRA for an Advance Tax Ruling seeking tax relief on HWT distributions
  - Ruling would not apply to distributions in the Compensation Claims Procedure – a separate ruling must be sought in that regard

## **Step Four: Claim Against Estate for Balance of Entitlement**

- Trust assets are insufficient to cover all promised benefits
- Trust beneficiaries will have a claim against Nortel's estate for the balance of lost benefits and will receive cash distribution in the Compensation Claims Procedure at the same percentage distribution as other unsecured creditors



# UPDATE ON HEALTH AND WELFARE TRUST

## **Independent Legal Counsel**

- William Pepall, Lerner LLP

## **Monitor's Motion for Approval of HWT Allocation Methodology**

- Monitor's materials served on August 27
- Materials include the Monitor's proposed methodology for the allocation of the assets in Nortel's HWT
  - Based on a review of relevant trust documentation and legal theories
  - Subject to Court approval
- Motion has been scheduled for September 29 at 10:00am
  - 361 University Avenue, Toronto, Ontario



# UPDATE ON HEALTH AND WELFARE TRUST

## Update from ILC

- The HWT liabilities have been determined by Mercer to be approximately \$532 million
- The HWT assets are approximately \$80 million
- The Monitor has recommended that the following benefits share *pro rata* in the HWT assets:
  - Pensioner Life;
  - LTD Income;
  - LTD Life;
  - LTD Optional Life Benefit; and
  - SIBs and STBs in pay

This will result in an approximately 34% recovery on the liabilities of the participating beneficiaries



# UPDATE ON HEALTH AND WELFARE TRUST

## Update from ILC

- The Court-appointed representatives are reviewing the recommendation and supporting data with a view to formulating a position
- If the recommendation is not accepted and the HWT distribution is in dispute, costs will be payable out of the HWT corpus and the scope of Lerner's retainer may be altered



## **D. UPDATE ON BENEFITS**

- **Changes to Benefits Effective December 31, 2010**
  - Nortel will cease to pay health, dental & life insurance benefits
  - Nortel will cease to pay income benefits (both survivor\* and long-term disability)

\* Survivor = spouse died while in active Nortel service. This does not refer to the survivor of a pensioner.



# UPDATE ON BENEFITS

## Health & Dental Benefits Going Forward

- Claims incurred after December 31 will not be covered by your existing coverage through Nortel
  - All claims must be submitted by **February 28, 2011**
- The NRPC and Representative Counsel are working with Segal to examine options for ongoing retiree medical coverage after Dec. 31
  - Options being pursued:
    - Locate an insurance provider that will agree to insure your benefits with no medical assessment requirement
    - Possibility of conversion from current group coverage to individual coverage
    - Premium costs and options for benefit coverage not yet known
  - Replacement health plan using a portion of future cash recoveries is no longer an option that is being pursued
    - Why? Major downsides included a requirement of cash up front to fund benefits and mandatory participation by all retirees
- Pensioners should explore personal options after December 31
  - Spouse's benefit plan and/or provincial drug programs?



# UPDATE ON BENEFITS

## Life Insurance Benefits Going Forward

- Nortel's retiree life insurance coverage ends on December 31
- Individuals will have a claim against Nortel for the value of lost life insurance coverage
  - Claim = present value of the coverage and will reflect automatic future changes
  - May receive a pro rata distribution in the Compensation Claims Procedure
  - Will not be wholly compensated for loss
- Pensioners should explore personal options after December 31, 2010





## E. UPDATE FOR TERMINATED GROUP

### Termination Fund Payments

- Individuals who are eligible will receive a lump sum payment up to a maximum of \$3,000
- To qualify for a payment from the Termination Fund you must:
  - have had your employment with Nortel terminated on or before June 30, 2010
  - be owed severance or employment termination pay
  - not have been offered employment with a purchaser of Nortel's assets
  - have not received monies from a Nortel Bonus Plan referenced below:
    - gross cumulative Annual Incentive Plan payments from and after October 1, 2009 of \$3,000 or more; or
    - a Key Employee Incentive Plan or Key Employee Retention Plan payment in 2009; or
    - payment from any Court approved equivalent 2010 plan.
- Severance / termination pay claim against Nortel will be reduced by the amount of the payment from the Termination Fund
- We expect tax-effective payments (retiring allowance roll-over) will be permitted



## E. UPDATE FOR TERMINATED GROUP

### Timing?

- Eligibility letters to be sent out in September 2010
- Payments anticipated to be made in November 2010
- Individuals who have specific questions about their eligibility / ineligibility may contact KM after the eligibility letters have been mailed
  - NRPC representatives are working with the Monitor and KM to finalize eligibility lists



# UPDATE FOR TERMINATED GROUP

- **Canada Revenue Agency (CRA) Pension Tax Issues**
  - Representative Counsel, Monitor, the Company and its actuarial advisors requested CRA relief on two separate issues:
    - Timing of PAR calculations
    - Limit on tax free commuted value transfers
  - **Update on CRA Response?**
    - Government officials are favourably disposed to recommend requested relief
    - Formal recommendation cannot be made until approved by senior officials
    - Formal recommendation would involve a Finance comfort letter which would then allow the plan administrator to proceed with the requested relief
  - **Timing?**
    - Uncertain
    - Administrator cannot move forward until Finance provides comfort letter



# UPDATE FOR TERMINATED GROUP

- **Claims Procedure Issues**

- Method for calculating severance pay claims remains subject to discussion
  - Underlying assumptions and formulas are not yet final
- If you do not have an individual severance agreement with Nortel:
  - Your severance pay claim will be calculated in accordance with the methodology that will be determined through ongoing discussions
- If you have an individual severance agreement with Nortel:
  - Nortel has a record of it and it will be confirmed in the claims package you will receive as the first step in the Compensation Claims Procedure
  - The process for submitting documentation where there has been an error will be outlined in the claims package
  - Please do not submit documentation to KM or the Monitor at this time



# UPDATE FOR TERMINATED GROUP

- **Claims Procedure Issues (continued)**
  - Timing for payment of your severance claim cannot be estimated but it should not be expected in the near future for many reasons, including:
    - Compensation Claims Procedure and method of claim calculations is not final
    - The HWT allocation motion will proceed before Court approval is sought for the Compensation Claims Procedure
    - Once the Compensation Claims Procedure is approved by the Court, claims forms will be sent out to all affected individuals and there will be a specified time period during which you will be able to correct errors
    - Ultimate distribution of Nortel's estate depends on:
      - Finalizing asset sales
      - Allocation of cash from the "lockbox" among various jurisdictions

**NOTE:** It is normal for complex estate distributions in CCAA / BIA proceedings to take years to effect.



## F. STATUS OF DEFINED BENEFIT PENSION PLANS

- **September 30, 2010**
  - Nortel will transfer administration of its pension plans to FSCO on September 30, 2010
    - FSCO will name an administrator
    - Monthly pensions may be reduced shortly thereafter to reflect funded status of Nortel's pension plans
    - *Alternative One:* Conventional Wind-up ("CWU")?
    - *Alternative Two:* Financial Sponsorship Model ("FSM")?
  - We expect that pension payments will continue unchanged for several months after September 30, 2010
    - Wind-up administrator will decide when the reduction will take place
    - For Ontario service, the cutback is often linked to the commencement of PBGF top-ups



# STATUS OF DEFINED BENEFIT PENSION PLANS

- A final “wind-up ratio” will be determined once assets and liabilities are set
- Actuaries and advisors will work to determine issues surrounding each individual’s pension entitlements
  - ***KEY: PROVINCE IN WHICH YOU ACCRUED SERVICE***
  - ***KEY: IF YOU RETIRED FROM EMPLOYMENT IN QUEBEC***
  - Quebec liabilities may be transferred to the Quebec Government to allow Law 1 to apply
    - Some individuals will have the option to either to receive an annuity or to transfer their funds into an RRSP or LIF
    - Some individuals will be given the third option of a Law 1 transfer
  - Ontario’s PBGF will apply to individuals in respect of pension entitlement that accrued while they were employed in Ontario



# STATUS OF DEFINED BENEFIT PENSION PLANS

- **Deferred Pensioners / Terminated Group**
  - Those who are not entitled to an immediate pension will receive an option statement and will have the opportunity to elect between:
    - Lump sum commuted value (to be transferred into a locked-in retirement vehicle)
      - Amounts in excess of Income Tax Act limits must be taken in cash and will be subject to income tax
    - Annuitized pension / annuitized deferred pension.
  - Individuals who do not receive an option statement will have no election to make – they will receive an annuity
  - Under CWU, the administrator will secure group annuity contracts through an RFP process
  - Pension-eligible members may start their pensions during wind-up with Regulator and administrator approval





# STATUS OF DEFINED BENEFIT PENSION PLANS

- **Timeline?**

- Pension plan wind-ups can take years, even when straightforward
- Nortel's pension plan wind-up, when it occurs, will be complicated
  - Individuals worked across Canada and now reside across Canada and internationally. Various provincial pension laws will apply.
  - Many individuals accrued service in multiple provinces / jurisdictions
    - Will impact the application of Québec's Law 1 and Ontario's PBGF



# STATUS OF DEFINED BENEFIT PENSION PLANS

- **Latest estimates of funded status**
  - Wind-Up Ratio: (as at June 30, 2010)
    - Managerial and Negotiated Plan: 64%\*\*
    - Includes non-indexed annuities and indexing
- Wind-up administrator will prepare an official report that will determine the actual funded percentage
  - This report will form the basis for future pension reductions

***\*\* Latest estimates of funded status are prepared by Nortel's actuaries for discussion purposes only. All estimates are unofficial and remain subject to change.***



## G. FINANCIAL SPONSORSHIP MODEL

- **Conventional Windup (CWU) and the Annuity Market**

- The Pension Benefits Act does not mention wind-up-by-annuity
- Current pension regulations do
- In CWU in a plan with indexing, insurance companies may charge significant more than normally, which will drive down the 64% figure

- **Problems with Wind-up-by-Annuity**

- Not an exceptionally competitive market
- At a 20 year market low, not a good time to buy annuities
- Current process is not designed to deal with pension plans of this magnitude
- Designed for mom and pop policy holders
- \$2.5B of Nortel pensions will swamp the \$200-\$500M current Canadian market
- Annuitization of Nortel plans will not happen in a robust and competitive market
- June 2010 64% wind-up value may be even worse, as it assumes a competitive market



# FINANCIAL SPONSORSHIP MODEL

*CWU and Windup-by-Annuity is a systemic failure of the system*

- Current laws and regulations failed Nortel pensioners
  - Allowed to contribute based on December 31, 2006 valuation
    - Ignored market meltdown and significant underfunding of the Nortel's pension plans
- CWU allows for crystallization of the Nortel pension plans' shortfalls
  - Benefit reductions for Nortel pensioners are based on a single date snapshot
  - A pension plan is a long-term undertaking
- Nortel pensions are deferred compensation for past work
  - Lower wages / salaries for Nortel employees as a result of the company's establishment of pension plans
- Nortel pensioners must be permitted to mitigate these losses
  - Government should assist or alternatively, step aside



# FINANCIAL SPONSORSHIP MODEL

- **The Ontario Expert Commission on Pensions Recm 5-2**

- Do not wind up the plan
- Establish an Ontario Pension Agency (our pension orphanage)
- Avoid wind-up-by-annuity

- **Our Goal:**

- Find alternative to the annuity market
- Since Ontario Government is not interested in the Ontario Pension Agency....
- Concept taken to the private sector, the Financial Sponsorship Model

- **The Financial Sponsorship Model:**

- Tenets:
  - ✓ Everyone must do better than under CWU
  - ✓ CWU benefit levels are guaranteed
  - ✓ Opportunity for significant improvement in funding ratio, through profit sharing mechanism
  - ✓ Applicable to all pensions independent of province of service
  - ✓ PBGF payout is protected for Ontario service
  - ✓ Risk is no greater than CWU



# FINANCIAL SPONSORSHIP MODEL

- **Financial Sponsorship Model:**

- Will require regulation or statute changes by Ontario
- We have time before annuities will be purchased

- **We need your support**

- Ontario Members: petition to “not wind-up the plan”
- Ontario Members: 12:00 Sept 15 – Queen’s Park Demonstration
- Ontario Members: stay tuned for political and media campaign
- Quebec Members: support your regional committee

We’re intelligent people  
We demand a say in what happens to our pensions



# H. PROVINCIAL STRATEGIES

- **Recognized negotiator for pensioners**
- **Numerous meetings:**
  - Quebec: NRPC and RRQ and Minister Hamad
  - Ontario: NRPC and Ministry of Finance (MoF) and Minister Duncan
  - Ontario: NRPC and FSCO
  - Other Provinces: Some discussions
- **Ontario demands:**
  - Honour the PBGF for Ontario Service AND
  - Don't windup the plan
  - FSM for all Nortel Pensioners
- **Quebec demands:**
  - Change Bill 1 to accommodate CCAA
  - Change Bill 1 to accommodate the FSM



# FEDERAL STRATEGIES

## Change the CCAA and BIA

- Sept 2009: Petition
- Oct 2009: Parliament Hill
- Numerous FINA hearings
- Media Campaign
- Bill C-501, C-290 and S-214
- Bill C-501 to INDU Committee (this fall, modifications needed)
- Bill S-214 to Senate Finance Committee (this fall)

## • Continued Goal

- Do something to help Nortel pensioners

## • Keep the Heat on

- Our votes in Ontario and Quebec can influence the next election
- Remember the throne speech...
  - *Our Government will also explore ways to better protect workers when their employers go bankrupt*
- Take the campaign down to individual ridings





# I. COMPENSATION CLAIMS PROCEDURE

## ANTICIPATED STEPS:

1. Continue to devise a system for an understandable process
  - Will include all claims of pensioners, former employees and their survivors who have a valid claim against the Canadian estate
  - Individuals will not be required to file their own claims
2. Prepare court materials and obtain Court approval of the process
  - Notice of Court approval hearing will be posted in Monitor's website
  - Notice will be widely publicized once the process is Court approved
  - This Court process will take place after the HWT allocation motion
3. Analyze data and prepare claims
  - Your actuaries of Segal will be involved in a verification process
4. Inform individuals of claims amount
  - Individuals will have the opportunity to review data and correct errors
    - Please do not send data to KM or the Monitor about your unique circumstances at this time. This will all be dealt with during the data verification stage of the claims process
5. Confirmation of claims by the Monitor
6. Distribution of the Canadian estate
  - Could be a year, or years, down the road
  - There may be an interim distribution



# I. NEXT STEPS IN CCAA

1. Company's asset sales and IP valuation will continue
2. Representatives and ILA will examine Monitor's proposal for the Health and Welfare Trust with the goal to achieve a final or at least an interim distribution before December 31, 2010
3. Representatives and Representative Counsel will work with the Monitor and Company to finalize and obtain Court Approval of the Compensation Claims Process
4. Quantification and Assessment of Claims
5. Allocation of assets
  - Discussions are ongoing between Canada, UK, US and other estates
    - Your business and legal advisors are being kept apprised of discussions pertaining to the appropriate resolution mechanism
    - We will ask the Monitor to take a more active position if no resolution is reached
  - Canada only assets
6. Distribution of Nortel's Canadian estate
  - Rate of recovery will vary among jurisdictions



# What Next?

- **NRPC**

- [www.nortelpensioners.ca](http://www.nortelpensioners.ca)

- **Representative Counsel**

- [www.kmlaw.ca/case-central](http://www.kmlaw.ca/case-central) or [nortel@kmlaw.ca](mailto:nortel@kmlaw.ca)

- **The Monitor**

- [www.ey.com/ca/nortel](http://www.ey.com/ca/nortel)



# QUESTIONS?

## English or en Français