

Nortel Networks – Allocation Trial – Summary of June 5th, 2014

On day 13 of the allocation trial, Coleman Bazelon was cross-examined by the US Interests and Philip Green, the Canadian Monitors witness provided testimony in Wilmington.

Coleman Bazelon's cross-examination continued with the US interests cross-examining Dr. Bazelon. Dr. Bazelon provided an expert report opining on, from an economic perspective, the best way to allocate the sales proceeds from the residual patents and the line of business sales. Dr. Bazelon concluded that the pro rata allocation method was the most appropriate in this case after considering the economics underlying Nortel business model and other factors such as the nature of the sale of lines of business and residual patents. Dr. Bazelon was cross-examined by the UCC regarding the implementation of the pro rata model. The Ad Hoc Bondholder group cross-examined Dr. Bazelon regarding the global nature of Nortel's research and development.

Philip Green was the first expert witness to testify on behalf of the Canadian interests. Mr. Green examined the types of assets and valued each of the debtor's property interests based on what would be the appropriate methodology for each different type of asset. Mr. Green opined that the entirety of the residual patents sales proceeds should be allocated to the owners of the residual patents, the Canadian Debtors (less a workforce allocation), since the other entities only had license rights to using NN Technology to sell products and generate operating profits in their respective territories and these patents were not used in any of Nortel's operating businesses. Mr. Green opined, however, that with respect to intellectual property in the business sales, the US and EMEA participants surrendered their license rights under the Master Research and Development Agreement and as a result he deducts the values of these license rights from the residual proceeds and allocated the values of these rights surrendered to the US Estate and the EMEA Estate with the remaining going to the Canadian Estate. With respect to tangible assets, Mr. Green opined that the each Nortel entity should be entitled to the book value of the tangible assets it owned and further with respect to the workforce transferred, the cost to the debtor to replace those employees. Based on the assets (tangible assets, IP rights and customer relationships, in-place workforce, wholly-owned businesses and residual intellectual property) Mr. Green opines that the sales proceeds should be allocated with Canada receiving 82.7%; the US Debtor receiving 14.1% and the EMEA Debtors to receive 3.2%. Mr. Green was cross examined by the US Debtors regarding the assumptions made in his initial expert report as well as his opinion of the rights provided under the MRDA. The EMEA Debtors also cross examined Mr. Green regarding the rights provided under the MRDA to parties and how this translates to allocation.

The cross-examination of Mr. Green will continue tomorrow. Thomas Britven, an expert witness of the CCC is also expected to appear tomorrow in Wilmington.