

Nortel Networks –Allocation Trial –Summary of June 24th, 2014

On the 21st and last day of the evidentiary portion of the allocation trial, the Courts heard from Dr. Lorraine Eden, the last expert witness of the US Interests.

Dr. Lorraine Eden appeared in Wilmington on behalf of the US Debtors. Dr. Eden provided an expert opinion on whether Nortel's transfer pricing arrangement (the residual profit splitting method (RPSM)) as set forth in the Master Research and Development Agreement (MRDA) would be an appropriate basis for valuing the assets and rights sold or relinquished by the US Debtors and other Nortel debtors. Dr. Eden opines that Nortel's RPSM is inappropriate for bankruptcy allocation for four reasons: (i) transfer pricing is for ongoing businesses; (ii) transfer pricing policies are created to minimize tax burdens; (iii) RPSM does not reflect market-based pricing; and, (iv) Nortel's RPSM was not accepted by the tax authorities. Dr. Eden did not provide a preliminary report but was retained to respond to three expert reports including that of Dr. Timothy Reichert and Philip Green, who were retained by the Canadian Monitor, and Dr. Richard Cooper, who was retained by the EMEA Debtors. Dr. Eden was cross-examined by the EMEA Debtors regarding the contributions of the various parties to the intellectual property and the useful life of technology, and the reflection of these in the RPSM. In addition, Dr. Eden was questioned about the applicability of transfer pricing in the context of a bankruptcy. The UK pension claimants (UKPC) also cross-examined Dr. Eden with respect to the purpose of transfer pricing and the RPSM applied at Nortel. The Canadian Debtor and Monitor cross-examined Dr. Eden regarding the scope of her opinion and her understanding of various principles of transfer pricing, specifically focusing on their application in Nortel's case. Dr. Eden was also cross-examined by the CCC regarding her understanding of how Nortel functioned as a multinational entity and the role of transfer pricing within the matrix and in the context of the bankruptcy. The CCC also questioned Dr. Eden regarding assertions that she made with respect to the rights and interests of parties as provided by the MRDA.

The evidentiary portion of the allocation trial has now concluded. The parties have a conference call with the Courts on Friday to set the deadline for written closing briefs and closing oral arguments.

Nortel Networks – Post-Filing Interest Issue

At the close of the evidentiary portion of the trial today, both Courts ruled that they will be hearing the post-filing interest issue that was raised last week by the Canadian Debtor and Monitor and supported by the CCC, UKPC and Wilmington Trust. The two questions that the Courts will be considering are whether the holders of Crossover Bond Claims are legally entitled in each jurisdiction to claim or receive any amounts under the relevant indentures above and beyond the outstanding principal debt and pre-petition interest; and if it is determined that they are entitled, what additional amounts such holders are entitled to claim and receive. A joint hearing has been set for July 11th subject to confirmation by the parties of their availability to the Courts.

Nortel Networks – Claims Trial

The Canadian Court will hear the claims trial starting July 7th for 15 days and ending on July 25th. The subject matter of the claims trial is the dozen claims of the EMEA Debtors and UKPC seeking restitution or other reparation for alleged breaches of duties they argue were owed by

Nortel Canada to the EMEA Claimants' creditors. In addition, the EMEA Claimants also seek a pension top-up on similar theories of breaches of fiduciary duty. The US court will not be involved in the claims trial as claims against the US Debtor were settled and approved by the US Court in January 2014.