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Nortel Seeks Bankruptcy Protection

By IAN AUSTEN
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OTTAWA — [Nortel Networks](#), the Canadian telecom equipment maker, filed for bankruptcy protection from creditors Wednesday but analysts said its troubles might be too severe for it to recover and survive.

Unlike other companies, notably airlines, that have used bankruptcy protection to renew their businesses, Nortel, which began this decade as one of the world's largest makers of telecommunications equipment, is probably headed for liquidation, several analysts said.

"I don't think it's going to exist," said Mark Sue, an analyst with RBC Capital Markets, a unit of the [Royal Bank of Canada](#).

If Mr. Sue and others are correct, the end of Nortel would be one of largest failures in the telecommunications equipment business. During the 1990s, Nortel designed and built much of the fiber optic equipment that now carries most of the Internet's data.

Along with the company now known as Alcatel Lucent, it computerized the operation of telephone networks during the 1980s. Nortel pioneered the development of equipment and software that brought the world wireless phone networks.

Nortel's demise would also be among the biggest business failures in Canadian history. During the zenith of the technology boom, Nortel's market value accounted for about a third of all equity traded on the Toronto Stock Exchange.

Nortel's shares peaked at 124.50 Canadian dollars in July 2000 in trading on the Toronto Stock Exchange. On Wednesday, Nortel closed at a market price of 12 Canadian cents, or 1.2 cents after adjusting for a stock consolidation. While the current economic slump contributed to Nortel's decision to file for protection in both Delaware and its hometown, Toronto, the company's problems began in 2001, when it was hit by the technology stock price collapse and became mired in an accounting scandal that led to criminal charges against three of its former executives.

Nortel's woes went beyond finances. In the market for Internet-related equipment, [Cisco Systems](#) and others proved to be more innovative and successful.

The bankruptcy filing was unanimously approved by Nortel's board at a meeting in Toronto on Tuesday night. It appears to be an attempt to avoid \$107 million in interest payments that are due on Thursday. While the company has about \$2.4 billion in cash, that is rapidly depleting.

"Nortel must be put on a sound financial footing once and for all," the president and chief executive, Mike S. Zafirovski, said in a statement. "These actions are imperative so that

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Nortel can build on its core strengths and become the highly focused and financially sound leader in the communications industry.”

Without offering details, Mr. Zafirovski, a former senior executive at [Motorola](#), promised yet another revamp of Nortel. Since the beginning of the decade, Nortel has started a series of overhauls that have included 16 rounds of layoffs.

But Paul Holman, the managing director of the debt rating agency DBRS, said that the uncertainty created by the bankruptcy filing creates a new problem for Nortel.

“Customers will be concerned about how long they are going to be around,” he said. Mr. Sue added that Nortel’s competitors will try to exploit that unease by offering Nortel customers enticing deals to switch systems.

It is also unclear if Nortel will be able to sell any of its operating units to raise cash for a corporate revival.

In September, Nortel announced plans to sell a business unit that makes Internet-related and fiber optic equipment. While many analysts viewed it as a strong asset, Nortel has not found a buyer.

Nortel announced a third-quarter loss of \$3.4 billion in November, much of that related to write-downs in the value of several operations.

Nortel’s \$4.5 billion in debt is largely from the result of an acquisition spree by the company during the 1990s.

The government of Canada offered Nortel some support. Export Development Canada, a government-owned bank and insurer, has agreed to provide the company with up to \$30 million in loans for the next 30 days.

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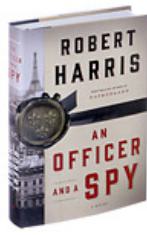


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