

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

**IN RE NORTEL NETWORKS CORP.
SECURITIES LITIGATION**

**This Document Relates To:
ALL ACTIONS**

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Civil Action No. 01-CV-1855 (RMB)

Master File No. 05 MD 1659 (LAP)

ECF Filed

**JOINT DECLARATION OF DAVID C. LIGHT,
MANAGING DIRECTOR OF DUFF & PHELPS, LLC, AND
JOSEPH E. MULLIN, ASSISTANT VICE PRESIDENT OF WL ROSS & CO. LLC,
IN SUPPORT OF FINAL APPROVAL OF SETTLEMENT AND AWARDS TO
COUNSEL OF ATTORNEY'S FEES AND REIMBURSEMENT OF EXPENSES**

We, DAVID C. LIGHT, Managing Director for Duff & Phelps, LLC, and JOSEPH E. MULLIN, Assistant Vice President of WL Ross & Co. LLC, declare as follows:

Assignment and Background

1. This is a joint declaration offered by Joseph E. Mullin of WL Ross & Co. LLC ("WL Ross") and David C. Light of Duff & Phelps, LLC ("D&P"). The Court-appointed lead plaintiff in 01-CV-1855 (RMB) ("Nortel I") retained WL Ross, and the Court-appointed lead plaintiffs in 05-MD-1659 (LAP) ("Nortel II") retained D&P to examine certain issues, as outlined below, regarding Nortel Networks Corporation ("Nortel").

2. Mr. Mullin and Mr. Light are offering this joint declaration (the "Declaration") in support of the proposed settlement (the "Settlement") of the above captioned cases. Together,

Nortel I and Nortel II are referred to as the "Litigation." Each of these two cases is described in more detail below (see paragraphs 5 and 6).

3. Mr. Mullin is an Assistant Vice President of WL Ross, and has over ten years of experience working on financial advisory, capital markets, and principal investments. He joined WL Ross in 2001. Mr. Mullin began his career in the corporate finance department of Goldman Sachs. Mr. Mullin's curriculum vitae is attached to this Declaration as Exhibit A. Wilbur L. Ross, Jr., the Chairman and Chief executive Officer of WL Ross, led the engagement team and participated in key meetings.

4. Mr. Light is a Managing Director of D&P, and has over sixteen years of experience working with owners of both publicly and privately held corporations. He joined Valuometrics Advisors, Inc. ("Valuometrics") in 1990, and was responsible for the design and implementation of many of Valuometrics' business and security valuation methods. In 2005, Valuometrics was purchased by D&P. As a Managing Director at D&P, Mr. Light advises owners and prospective owners on the value of their businesses and assists them in structuring financial transactions that meet their personal and corporate objectives. Mr. Light's curriculum vitae is attached to this Declaration as Exhibit B.

5. In Nortel I, Lead Plaintiff, the Ontario Public Service Employees' Union Pension Plan Trust Fund, alleged that investors who purchased Nortel stock, purchased call options on Nortel stock, or wrote (sold) put options on Nortel stock between October 24, 2000 and February 15, 2001 (the "Nortel I Class Period") were damaged because Nortel, John Roth, Clarence Chandran, and Frank Dunn (the "Nortel I Defendants") made materially false and misleading statements and omissions in Nortel's financial reports, in violation of United States generally

accepted accounting principles (“GAAP”), thus artificially inflating Nortel’s stock price during the Nortel I Class Period.

6. In Nortel II, Lead Plaintiffs the Ontario Teachers’ Pension Plan Board, and the Department of the Treasury of the State of New Jersey and its Division on Investment (together, “Nortel II Lead Plaintiffs”) alleged that investors who purchased Nortel stock, purchased call options on Nortel stock, or wrote (sold) put options on Nortel stock between April 24, 2003 and April 27, 2004 (the “Nortel II Class Period”) were damaged because Nortel, Frank Dunn, Douglas C. Beatty, Michael J. Gollogly, John Edward Cleghorn, Robert Ellis Brown, Robert Alexander Ingram, Guylaine Saucier, and Sherwood Hubbard Smith, Jr. (together, the “Nortel II Defendants”) perpetrated a fraud on the investing public by creating hundreds of millions of dollars of improper reserves during 2002 and 2003, keeping them on the books after it became apparent that the reserves were excessive, and then releasing them in 2003 in order to make it appear that Nortel had returned to profitability. These actions are alleged to have violated GAAP and rendered Nortel’s financial statements materially false and misleading for investors, thus artificially inflating Nortel’s stock price during the Nortel II Class period.

7. In October 2003, Nortel announced that it would restate its liabilities, resulting in larger shareholder equity, which it did on December 23, 2003 for fiscal 2002 and the first two quarters of 2003 (the “First Restatement”).

8. On March 15, 2004, Nortel delayed filing its 2003 annual report and admitted that it may have to restate its earlier financial statements. On April 28, 2004, Nortel fired Dunn, Beatty, and Gollogly for cause and delayed the filing of its financial statements.

9. On January 11, 2005, Nortel issued a second restatement of its financial statements covering 2001, 2002 and the first 3 quarters of 2003 (the “Second Restatement”).

10. When global settlement discussions began, Lead Plaintiffs believed that the total damages claims by the plaintiffs in Nortel I and Nortel II far exceeded its ability to pay. (See separate affidavits of the experts retained in Nortel I and Nortel II for a description of the damages in both actions). Accordingly, beginning in April 2005, Lead Plaintiff in Nortel I worked with WL Ross, and Lead Plaintiffs in Nortel II retained D&P, to evaluate Nortel's current and projected financial wherewithal, and to assist in structuring a settlement that would be in the best interest of the classes in Nortel I and Nortel II, respectively.

Work Conducted

11. This Declaration is, in general, organized chronologically to best present the process as it was conducted, and to show how new information was gathered and incorporated into our analyses.

12. The process we followed to assess Nortel's ability to pay represented a continuous back-and-forth flow of questions and/or information requests from us to Nortel (or its financial advisor, Lazard Frères & Co. LLC ("Lazard")) and responses, either written or verbal, from Nortel or its advisors back to us. After we received information and assessed it, we would typically request follow-up or clarifying information.

13. Additionally, as the process continued, we also assessed how Nortel was actually performing compared to some of the information we had received (i.e., budgets and alternative scenarios from Nortel). In this Declaration, we touch on the most important highlights of this process, and then present our conclusions and rationale for those conclusions.

14. To begin our analyses, in April 2005 we submitted an extensive data request to Nortel, through Lazard. We received a partial response to this prior to attending a May 2005 initial meeting in New York. The meeting was attended by Lead Counsel in Nortel I and

Nortel II, representatives of Nortel, Nortel's advisors (Lazard and Nortel's attorneys), and ourselves. As a majority of the data requested had yet to be produced, the meeting's purpose was to gain a common understanding of the procedures to be followed during the negotiations.

15. To efficiently respond to some of our requested data items, Lazard hosted a meeting on June 3, 2005, attended by Nortel, Nortel's attorneys, Lead Counsel in Nortel I and Nortel II, D&P, and WL Ross. At this meeting, Lazard made a presentation covering Nortel's 2005 projections (the "Base Case"), and detailed possible deviations from this projection (both upside and downside), resulting in a "Sensitivity Case." In addition to income statement projections, this presentation also covered the cash impacts of many items we had requested information about.

16. At this June 3, 2005 meeting, Nortel presented its estimate of affordability, which was based on Nortel's projected cash balance at the end of 2005, but reserving funds for working capital needs and several contingencies, such as (i) expected shortfalls from the Base Case, and (ii) the potential shortfall in refinancing of 2006 Debt Maturities.

17. Between June 2005 and November 2005, we conducted several interviews of Nortel management and Lazard, both in person and by phone, to request additional information, clarify facts, get answers to questions about data received or the businesses historical or future performance or plans. These discussions are described in more detail below.

18. During this time period, we independently created our own forecasts of future Nortel performance and cash flows based upon Nortel's Base Case, but also adjusting for (i) Nortel's actual performance as it became known during the period, (ii) Nortel's revenue and margin guidance to the market, (iii) analysts' reports, and (iv) our ongoing discussions with Nortel and Lazard.

19. Between June 2005 and November 2005, we received numerous and detailed responses to our data requests, both through documents and discussions with Nortel and Lazard. Overall, WL Ross and D&P believe we were provided with more than sufficient access both to written materials and to Nortel management and their advisors in order to assess Nortel's ability to pay, and to aid Lead Plaintiffs and Lead Counsel in the settlement negotiations.

20. In July 2005, both WL Ross and D&P each made a presentation of their respective work to their clients regarding each of our independent recommendations as to the amount of cash and either common stock or warrants that the Lead Plaintiffs might ask for as an opening negotiating position, based on our examination of Nortel's then-current financial condition.

21. During this time period (August to November 2005), Nortel reported both its 2nd quarter and 3rd quarter 2005 financial results. It became clear to us that Nortel was falling short of its Base Case, but would outperform the Sensitivity Case.

22. By October 2005, WL Ross and D&P were authorized to begin sharing our analyses with each other, and thereafter created a joint model that forecasted Nortel's ability to pay cash as part of a settlement.

23. On November 22, 2005 in New York, we jointly presented to Nortel, Lazard, Nortel's attorneys, Lead Plaintiffs and Lead Counsel in Nortel I and Nortel II our analyses of Nortel's ability to pay cash and equity. In addition, we suggested the number of shares that Nortel could contribute as part of a settlement. The meeting lasted approximately three hours, and was punctuated by questions from Lazard.

24. Nortel and Lazard prepared a response to our November presentation, and in December 2005, we met in Nortel's attorney's offices in New York. Nortel's presentation was

given by several senior members of management, including Nortel's CFO and Treasurer. Also in attendance were WL Ross, D&P, Lazard, Lead Plaintiffs and Lead Counsel in Nortel I and Nortel II, and Nortel's attorneys.

25. At this December 2005 meeting, Nortel presented additional arguments regarding their level of cash needed to operate the business. Nortel's board had been informed of our settlement position regarding the amount of equity requested, but had not been willing to put forward their own equity offer.

26. Based on Nortel's December 2005 presentation, we prepared additional questions and participated in a conference call with Nortel's Treasurer and Lazard.

27. In January 2006, we revised our analyses and estimate of Nortel's ability to pay based upon Nortel's actual performance to date and the additional information provided. Our revised estimate was significantly lower than the amount estimated for negotiations in our November presentation.

28. On February 1, 2006, Nortel announced that it had entered into binding commitments with lenders for a \$1.3 billion one-year facility (the "2006 Bridge Loan") that would be used to repay the \$1.275 billion debt due on February 15, 2006.

29. On February 6, 2006, we participated in a mediation session conducted in the courtroom of Hon. Robert W. Sweet, United States District Judge. Attending this meeting were much of Nortel's senior management team, including its Chief Executive Officer, Mike Zafirovski. Also attending were Nortel's attorneys and Lazard. In addition to WL Ross and D&P, Lead Plaintiffs and Lead Counsel in Nortel I and Nortel II also attended.

30. At this mediation, in response to Lead Plaintiffs' demand, Nortel's CEO, Mike Zafirovski, made a presentation to Judge Sweet and the assembled participants. Based on the

information exchanged during this session, Judge Sweet reminded the parties that the alternative to a negotiated settlement could well be Nortel's filing for bankruptcy if Plaintiffs prevailed in their case and were awarded full damages because the level of damages alleged were well beyond the company's ability to pay.

31. Judge Sweet then presented his final recommendation to Nortel and Plaintiffs. Lead Plaintiffs and Lead Counsel in Nortel I and Nortel II, WL Ross and D&P, as did Nortel, agreed to the terms of a global settlement (the "Global Settlement") that were publicly announced on February 8, 2006: (i) \$575 million cash; (ii) 14.5% of Nortel common stock, or 628,667,750 shares; (iii) contribution of available proceeds from all relevant insurance policies; (iv) the assignment of 50% of any amounts Nortel may recover from certain former officers; and (v) changes to Nortel's corporate governance to reduce the likelihood of a recurrence of the conduct that led to the Litigation.

32. The factors that we considered important included: (i) the significant amount of cash offered relative to our view of Nortel's ability to pay, and the possible non-collectability of judgments for larger amounts; (ii) the significant amount of stock to be issued to the classes in Nortel I and Nortel II; (iii) the fact that, if the proposed Global Settlement was accepted, the classes would hold a large amount of Nortel stock, and therefore, that it would be in the classes' best interests to ensure that Nortel maintained enough capital so as not to permanently impair the value of the larger part of the Global Settlement value (the stock); (iv) Lead Counsel's belief that the total value of the Global Settlement represented an unusually large recovery as a percent of damages claimed (relative to typical settlements); (v) the fact that, in the absence of a settlement, Nortel could continue to use its cash balance to fund acquisitions or joint ventures, which would leave it with lower cash balances and a diminished ability to pay, and (vi) recognition of the fact

that, were Lead Plaintiffs to refuse the settlement offer in order to pursue their claims in court, there was a significant possibility that Lead Plaintiffs could receive nothing in the event of either a loss at trial, or, even if Lead Plaintiffs won at trial, there would be greater delay and a large award could force Nortel to declare bankruptcy.

33. Our evaluation that the balance between cash and stock in the proposed Global Settlement was fair and reasonable took into consideration the following additional elements: (i) we believe many parties view Nortel's cash balance as a source of strength, and any significant reduction in such balances could lead to a downgrade by the rating agencies, or could cause customer concern regarding Nortel's long-term viability or ability to complete long-term projects when compared with Nortel's competitors; (ii) were Nortel to be viewed as undercapitalized, it could harm the classes in Nortel I and Nortel II as significant shareholders; (iii) Nortel's ability to grow its business will require management to make strategic decisions regarding which businesses to invest in, and which businesses (if any) to divest, and such decisions would likely require cash to implement; (iv) Nortel has \$1.8 billion of debt coming due in 2008, and there is no assurance that the capital markets will allow Nortel to refinance the full amount at that time, which could require cash. Based on these and other considerations, we believe that the terms of the proposed Global Settlement were, and remain, fair and reasonable.

34. Lead Plaintiffs and Nortel continued their negotiations regarding, among other things, what precise changes to corporate governance would be required as part of the Global Settlement, and negotiations continued with Nortel's insurance carriers concerning the amount of their contribution to the Global Settlement.

35. On February 8, 2006, when the proposed Global Settlement was announced, the news reports suggested that the market was surprised by the large size of the settlement, and the

stock immediately experienced a small decline (as we had predicted based upon our own expected dilution analysis). By the end of the day, however, Nortel's stock had recovered most of the price drop (we believe based upon the non-quantifiable positive impact of settling the litigation).

Events Subsequent to the Pre-Settlement Analysis

36. On February 14, 2006, Nortel entered into a \$1.3 billion one-year credit facility (the "2006 Bridge") and used the proceeds to repay \$1.275 billion of debt that matured on February 15, 2006.

37. On March 10, 2006, Nortel announced preliminary 2005 results and an additional restatement of its previous financials (the "Third Restatement") based upon its ongoing financial review. This restatement was expected to lower revenues by \$866 million in total, spread over the time period from before 2002, through the 3rd quarter 2005. Additionally, Nortel announced a delay in filing its 2005 10-K and 1st quarter 2006 10-Q, and postponed the Annual Shareholders' Meeting.

38. The delayed filing of the 2005 results caused an event of default on the \$1.3 billion 2006 Bridge financing and on the \$750 million EDC Support Facility. (Nortel subsequently received waivers of the default).

39. On April 6, 2006, Nortel revised downward its expected historical revenues, based upon the Third Restatement. The new expected total reduction of revenues for periods prior to the 3rd quarter 2005 was \$1.216 billion.

40. On May 3, 2006, Nortel announced the final restated revenues and earnings for the Third Restatement. The new restated revenues and earnings were lower than the earlier April

announcement, lowering total historical revenues by \$1.477 billion from pre-Third Restatement reported results.

41. Nortel's restated financials for the nine months ended September 2005 were significantly below the originally announced figures we had relied upon to estimate Nortel's ability to pay. Specifically, the nine-month revenues through September 2005 were reduced by \$520 million, while previously reported earnings for the same period were reduced by \$164 million. Additionally, when we compare Nortel's actual full-year 2005 results, they were also significantly below the projection used by WL Ross and D&P to estimate Nortel's ability to pay when our November 2005 and January 2006 analyses were prepared.

42. Nortel's dependence on its cash is expressed in its 2005 10-K A: "As of December 31, 2005, [Nortel's] primary source of liquidity was cash and [they] expect this to continue throughout 2006. Based on past performance and current expectations [they] do not expect [their] operations to generate significant cash flow in 2006."

43. In July 2006, Nortel closed a \$2.0 billion high yield debt offering in the market (the "2006 High Yield Notes"). These notes carried a higher rate than the 2006 Debt Maturities.

44. A discussion of how these subsequent events have influenced our opinion on the fairness of the proposed Settlement is set forth below in the next section.

Summary of Nortel's Ability to Pay

45. Based upon the information received in response to our data requests, our conversations with Nortel management and their representatives, and our review of the market's expectations for Nortel and its competitors, we believe that we received more than adequate information on which to base our conclusions.

