

TELECOMMUNICATIONS

BCE debt holders knew risks, court told

BERTRAND MAROTTE

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MONTREAL -- **BCE Inc.** bondholders could not have been so naive as to believe it was impossible the telecommunications giant might negotiate a deal to be taken over, a court was told yesterday.

"As bondholders, it's in our bones to be risk-averse and to assume the worst going forward," Canadian bond market expert Marlene Puffer said in testimony in Quebec Superior Court.

A fundamental part of bondholders' work is to continually monitor the changes taking place at an issuing company as well as in the market, and management's guidance can't simply be taken at face value, said Ms. Puffer, managing director of Twist Financial Corp.

Some BCE and Bell Canada bondholders have challenged in court the company's \$35-billion deal to be taken over by a group led by the Ontario Teachers' Pension Plan.

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They allege that the highly leveraged buyout isn't fair to them because shareholders will receive a significant premium, while the value of their bonds has fallen dramatically. Some of the debt has

gone from trading at investment grade to junk status.

Lawyers for the bondholders argued in court yesterday that Montreal-based BCE's senior management never provided any guidance that they were mulling a change-of-control transaction.

Management, including chief executive officer Michael Sabia, never wavered from the corporate commitment to ensure the company's debt stayed at investment-grade levels, they alleged.

Bondholders must be acutely sensitive to changes in market conditions and the emergence of new events, Ms. Puffer - a witness for the defence - replied.

In the case of BCE, the debt holders knew or should have known that a change-of-control transaction could occur and that this would have an impact on the value of their bonds, Ms. Puffer said.

The bondholders are also fighting for the right to vote on the pending transaction; shareholders have already voted to approve the deal.

They also allege that the deal breaches some aspects of the covenants of the bonds they bought because it represents a "reorganization" of the company.

BCE says the allegations are without merit.

The trial has delayed the closing of the takeover deal, which was initially slated to close in October. BCE now hopes to close it in January.

The trial continues.

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CORRECTION

The sale of BCE Inc. to a private equity group is expected to close some time in the first quarter of 2008. Incorrect information was published yesterday.

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Phillip Crawley, Publisher