

# COURTS OFFICE LIBRARY

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION



*W. T. W.*  
20-4-12

CAUSE NO: FSD 1 OF 2012 (PCJ)

The Hon Sir Peter Cresswell  
In Open Court on 12 April 2012

IN THE MATTER OF THE COMPANIES LAW (2011 REVISION)

AND IN THE MATTER OF TRIDENT MICROSYSTEMS (FAR EAST) LTD.

APPEARANCES: Ms. Caroline Moran and Ms. Victoria Lissack of Maples and  
Calder for the Joint Provisional Liquidators.

Mr. Rupert Bell of Walkers for Sigma Designs Inc.

## RULING

On 4 January 2012, Trident Microsystems (Far East) Ltd., a Company incorporated in the Cayman Islands ("the Company" or "TMFE"), and its parent Company Trident Microsystems Inc., incorporated in Delaware ("TMI"), applied to the United States Bankruptcy Court for the District of Delaware (the "Delaware Bankruptcy Court") for relief pursuant to Chapter 11 of Title 11 of the United States code in respect of both the Company and TMI (the "Delaware Bankruptcy Proceedings"). The stated purpose of the Delaware Bankruptcy Proceedings was to seek to stabilise the operations of TMI and the Company, to sanction the sale of certain assets of the Company, TMI and their subsidiaries and to explore restructuring options for the Company and the Trident Group, including further asset sales or a plan of re-organisation, the object of which was to discharge all obligations to the creditors of the Company and TMI. No trustee in bankruptcy has been appointed in the Delaware Bankruptcy Proceedings and instead the Company and TMI are operating their businesses on a day-to-day basis as debtors in possession.

On 4 January 2012, the Company also filed a winding-up petition in this Court and a summons seeking the appointment of joint provisional liquidators ("JPLs"). On 11 January 2012, Mr. Gordon MacRae and Ms. Eleanor Fisher of Zolfo Cooper (Cayman) Ltd were appointed as JPLs to the Company in order to support the Delaware Bankruptcy Proceedings and to facilitate the orderly implementation of any plan of re-organisation. Since 11 January 2012, the Company has continued to operate its business as a debtor in possession subject to the oversight of the JPLs and the ultimate supervision of the

Delaware Bankruptcy Court and this Court.

The Cross-Border Insolvency Protocol

Where a Company is in liquidation CWR Order 21 contains provisions as to international protocols as follows:

**“Application and definitions (O.21, r.1)**

1. (1) In this Order "company in liquidation" means a company which is incorporated under the Law and is the subject of an official liquidation under Part V.
- (2) This Order has no application to foreign companies which are the subject of an official liquidation under Part V.
- (3) This Order applies –
  - (a) when a company in liquidation is the subject of a concurrent bankruptcy proceeding under the law of a foreign country; or
  - (b) when the assets of a company in liquidation located in a foreign country are the subject of a bankruptcy proceeding or receivership under the law of that country.
- (4) In this Order –
  - (a) "foreign officeholder" means a person appointed by a foreign court or other authority to exercise powers similar to those of an official liquidator in respect of a company or to exercise powers similar to those of a receiver in respect of assets of a company;
  - (b) "foreign court or authority" means the foreign court or foreign governmental authority which has appointed and exercises supervisory jurisdiction over a foreign officeholder; and
  - (c) "international protocol" means an agreement made in respect of a company in liquidation between an official liquidator and a foreign officeholder with the approval of the Court and of the foreign court or authority.

**Consideration of international protocols (O.21, r.2)**

2. (1) It shall be the duty of the official liquidator of a company in liquidation to consider whether or not it is appropriate to enter into an international protocol with any foreign officeholder.

- (2) The purpose of an international protocol is to promote the orderly administration of the estate of a company in liquidation and avoid duplication of work and conflict between the official liquidator and the foreign officeholder.
- (3) An international protocol agreed between the official liquidator and a foreign officeholder of a company in liquidation shall take effect and become binding upon them only if and when it is approved by both the Court and the foreign court or authority.

### **Scope of international protocols (O.21, r.3)**

3. (1) An international protocol may define and allocate responsibilities between the official liquidator and foreign officeholder (by reference to geographical location or otherwise) in respect of –
  - (a) the formulation and promotion of restructuring proposals, including a scheme of arrangement pursuant to section 86 of the Law;
  - (b) the preservation of assets located outside the Islands;
  - (c) the realisation of assets located outside the Islands;
  - (d) the pursuit of causes of action against debtors or other persons outside the Islands;
  - (e) procedures for the exchange of information between the official liquidator and foreign officeholder;
  - (f) procedures for reporting to and communicating with the liquidation committee and with creditors and/or contributories;
  - (g) procedures for co-ordinating sanction applications made to the Court and to the foreign court or authority;
  - (h) administrative procedures relating to the adjudication of proofs of debt and consequential appeals or expungement applications;
  - (i) procedures relating to the payment of claims; and
  - (j) procedures relating to the remission of funds between the official liquidator and foreign officeholder.

- (2) An international protocol may establish procedures for the review, approval and payment of –
  - (a) the remuneration of the official liquidator and foreign officeholders;
  - (b) the fees of counsel to the official liquidator and lawyers engaged by the foreign officeholder; and
  - (c) other expenses incurred by the official liquidator and/or foreign officeholder.
- (3) Any provision contained in international protocol which is contrary to the provisions of the Law or purports to exclude the jurisdiction of the Court in respect of the company in liquidation shall be void and of no effect.”

The present case, of course, concerns a provisional liquidation but, in my opinion, similar principles apply.

I refer to the paper written by the Chief Justice extra-judicially entitled "A Cayman Islands Perspective on Trans-Border Insolvencies and Bankruptcies – The Case for Judicial Co-operation". In that paper the Chief Justice said:

*"... the recent global financial crisis and the consequential failure of many trans-national entities have challenged the courts of countries - including the OFCs - to respond with unprecedented urgency and efficacy. The nature of the challenge has come to be described in the "co-operation" and "co-ordination" principles of the UNCITRAL Model Law on Cross-Border Insolvency, Articles 25, 26, 27, 29 and 30. These provisions place obligations on both courts and insolvency representatives in different States to communicate and co-operate to the maximum extent possible, to ensure that a debtor entity's insolvent estate is administered fairly and efficiently, with a view to maximizing benefits to creditors. Those principles are designed to meet the following public policy objectives:*

- (a) The need for greater legal certainty for trade and investment;*
- (b) The need for fair and efficient management of the international insolvency proceedings, in the interests of all creditors and other interested persons, including the debtor;*
- (c) Protection and maximization of the value of the debtor's assets for distribution to creditors, whether by reorganisation or liquidation;*
- (d) The desirability and need for courts and other competent authorities to communicate and co-operate when dealing with insolvency proceedings in multiple states; and*
- (e) The facilitation of the resumption of financially troubled businesses with the aim of protecting investment and preserving employment.*

*This is a far-reaching and daunting mandate but, as a basic position from which to respond, it is reassuring that the commercial necessity for international co-operation between courts in matters of cross-border insolvency, has long been recognised and is repeatedly stressed in the case law ... the seminal Cayman Islands decision [is] Kilderkin v Player [1984 CILR 63]. Judicial international co-operation is a well-established tradition in Cayman Islands jurisprudence and the common law conflict of law rules applicable in this area are carefully applied."*

As to protocols between the Grand Court and courts overseas, I refer to *In the matter of Philadelphia Alternative Asset Fund Limited (in liquidation)* 17 July 2007 where in the ruling of the Chief Justice at page 4 the following passage appears:

*"...There is a Protocol in place which was agreed at the direction of this Court, to govern the working relationships of the [joint official liquidators] and the United States Receiver. The protocol identifies distinct divisions of work, with the United States Receiver being primarily responsible for the litigation in that country."*

In *Lancelot Investors Fund Limited* [2009] CILR 7 at paragraph 70 and following, Quin J stated that the Grand Court embraces the concept of facilitation of co-operation and co-ordination in cross-border insolvency proceedings. (See further the commentary of the Chief Justice on that case in his paper referred to above.)

As to England and Wales, by way of example only I refer to *Re Maxwell Communications Corporation plc (No 2)*; *Barclays Bank plc v Homan and Ors* [1992] BCC 757 at 760 where Hoffman J, as he then was, said:

*"The administrators and examiner, subject to the respective jurisdiction of the courts here and in New York, have carried on the administration of MCC in co-operation with each other. On 31 December 1991, I authorised the administrators to consent to an order of the US Court in New York which would enable the administrators and examiner to enter into an agreement to harmonise their work and eliminate unnecessary duplication and expense. On 15 January 1992 Brozman J made a final supplemental order approving the agreement. By the same order, the administrators were recognised as the corporate governance of MCC, subject to the terms of the order. But the order was expressed not to affect the jurisdictions of this Court and the US Court under their respective laws or to preclude any party in interest from seeking an expansion or reduction of the examiner's powers"*.

See further Glidewell LJ in the Court of Appeal at page 769 under the heading 'Proceedings in the US and England'.

On 25 January, I conducted a joint hearing by telephone conference with the Honourable Christopher S. Sontchi of the Delaware Bankruptcy Court, with the assistance of counsel appearing before that Court and Mr. Colin McKie appearing for the JPLs in this Court.

We arrived at a cross-border insolvency protocol stipulation regarding TMI and the Company. The protocol sets out, by way of background, the parties and the proceedings and contains detailed provisions to protect the interests of all creditors of TMI and the Company and to protect the process by which the Delaware Bankruptcy Proceedings and the Cayman proceedings are administered. The protocol provides a framework for the co-operation between multiple jurisdictions and seeks to eliminate, wherever possible, duplication of effort and to promote judicial economy and co-operation. To this end, on 25 January, I approved the terms of the protocol and the Honourable Christopher S. Sontchi did the same in the Delaware Bankruptcy Court. A copy of the protocol as approved is at Appendix 1 to this ruling.

This Court will continue to work in co-operation and co-ordination with courts in other jurisdictions when appropriate to ensure the fair and efficient management of international insolvency proceedings in the interests of all creditors and other interested persons, including the debtor.

Prior to the approval of the protocol, on the 19 January 2012, I ordered that the JPLs be authorised and have the power to review and supervise the actions taken by the directors of the Company in carrying out bidding and auction procedures for the sale of the set-top box business of the Company and TMI.

On 16 February 2012, Foster J adjourned the hearing of the petition until 3 July 2012.

On 14 March 2012, acting in parallel with the Delaware Bankruptcy Court, I approved the Purchase Agreement dated 18 January 2012, together with the schedules and exhibits thereto, as amended, entered into between the Company, TMI and nine of their subsidiaries of the one part and Entropic Communications Inc. ("Entropic") of the other part, for the sale of the set-top box business of the Company and TMI.

On 26 March 2012, acting in parallel with the Delaware Bankruptcy Court, I ordered that the JPLs be authorised and have the power to review and supervise the actions taken by the directors in carrying out the bidding and auction procedures in accordance with the terms of Exhibit K to the Purchase Agreement between the Company and TMI and five of their subsidiaries of the one part ("Sellers") and Sigma Designs Inc. ("Sigma") of the other part, for the sale of the television business of the Company ("TV Business") in the form approved by the Delaware Bankruptcy Court and as attached at Schedule 1 to the order ("Bid Procedures").

Today, again acting in parallel with the Delaware Bankruptcy Court, having carefully considered all the materials before the Court, I propose to order that the Purchase Agreement dated 21 March 2012 in respect of the TV Business together with the schedules and exhibits thereto, as amended, (in substantially the same form as exhibited to the Fourth Affidavit of Mr. Gordon MacRae) entered into between the Company, TMI and five of their subsidiaries of the one part and Sigma of the other part, be approved.

My reasons for so ordering are as follows.

On 4 April 2012, the hearing to approve the Purchase Agreement for the sale of the TV Business took place before the Delaware Bankruptcy Court. Among others, counsel for the Statutory Committee of Equity Security Holders of TMI, counsel for the Official Committee of Unsecured Creditors of the Company ("US Committee"), counsel for the US Trustee in Bankruptcy, Counsel for NXP Semiconductors Netherlands B.V. and counsel for Sigma attended at this hearing. On that day the Delaware Bankruptcy Court approved the Purchase Agreement.

The US Committee and the Committee of Creditors appointed in these proceedings ("Cayman Committee"), which comprise the same three creditors in each case, have approved and consented to the Purchase Agreement.

By letter dated 5 April, Solomon Harris, counsel for the Cayman Committee, wrote:

*"We confirm that the Cayman Creditors Committee supports the application for the approval of the Asset Purchase Agreement entered into between TMFE (in provisional liquidation), TMI and five other subsidiaries.*

*Each of ARM Ltd., Wipro Technologies and United Microelectronics Corporation authorises Maples and Calder to undertake to the Court on their behalf that they will not vote in favour of any resolution to authorise any official liquidator appointed to the Company to pursue any claims against NXP Semiconductors Netherlands BV pursuant to sections 145 or 146 of the Companies Law (2011 Revision).*

*In these circumstances we do not intend to attend the hearing on 12 April 2012".*

The JPLs primarily rely on the Fourth Affidavit of Mr. Gordon MacRae, sworn on 5 April 2012, in support of this application.

I refer to the following background.

On 21 March 2012, the Sellers and Sigma entered into the Purchase Agreement for the sale of the TV Business. The sale of the TV Business remained subject to a competitive bidding process by way of auction with other potential bidders (clause 7.1(c) of the Purchase Agreement).

On 23 March 2012 the Delaware Bankruptcy Court approved the final form of Bid Procedures. This Court approved them on 26 March 2012.

The Purchase Agreement operated to set a floor for the minimum purchase price ("stalking horse bid") for the TV Business. It also operated to allow the Companies to continue to market the TV Business for sale and solicit offers for the TV Business from other parties.

The Companies, with the assistance of Union Square Advisers LLC (“USA”) and Mr. Andrew Hinkelman of FTI Consulting Inc., have been actively and extensively marketing the TV Business for sale since October 2011. As a result of these efforts, Sigma was selected as the stalking horse purchaser.

Given the extensive marketing efforts from October 2011, the Bid Procedures provided for a period of one further week only to market the TV Business before the bid deadline of 9 a.m. EDT on 30 March 2012. During the course of this week, the directors of the Companies and USA contacted the two interested parties that had previously expressed a material interest in purchasing the TV Business to determine whether either of these entities would submit a bid to compete with Sigma. Neither of these parties expressed any interest in submitting a competing bid.

Accordingly, no further bids were received for the TV Business before the bid deadline of 9 a.m. EDT on 30 March 2012. As a result, the Companies will proceed with the Purchase Agreement with Sigma.

As to the best interests of the Company, the JPLs consider that the Purchase Agreement is in the best interests of the Company's creditors for the following reasons:

1. The Sigma bid was the best offer available to the Sellers after conducting an extensive marketing process directed towards potentially interested third parties;
2. The TV Business is making substantial losses of approximately US\$1.25 million per week and there is no realistic prospect of the TV Business becoming profitable as part of the Trident Group;
3. The Companies and the JPLs are satisfied that a sale on the terms of the Purchase Agreement represents a better deal for the Companies than the restructuring of the TV Business;
4. The Cayman Committee has consented to the Purchase Agreement.

As to the terms of the Purchase Agreement, a detailed overview of the terms of the Purchase Agreement is set out at paragraphs 24 to 57 of Mr. Gordon MacRae's Fourth Affidavit.

As to the relevant legal principles, the JPLs require Court sanction of the Purchase Agreement in the same manner as an official liquidator would require Court sanction to exercise the powers set out at Part 1 of Schedule 3 to the Companies Law (2011 Revision) for the following reasons.

The JPLs can only carry out such functions as are conferred upon them by this Court. The Order of 11 January 2012 appointing the JPLs expressly provided at paragraph 4(g) that any sale of the assets of the Company would be subject to the approval of this Court. The Purchase Agreement is expressed to be subject to the Court's sanction and will become binding ~~that~~ if sanction is given.

Ms. Moran, on behalf of the JPLs, submitted that the Court should apply the same principles that it takes into consideration when determining whether to sanction actions to be taken by an official liquidator under Part 1 of Schedule 3. I accept that submission.

I am informed by Ms. Moran that there are no reported Cayman Islands cases dealing expressly with the principles to be applied when a liquidator seeks Court sanction of the sale of the assets of a company in liquidation. However, *Re Universal and Surety Co. Limited* [1992-1993] CILR 149 sets out the principles to be considered where an official liquidator seeks sanction of a settlement agreement. In my opinion, similar principles should apply to the exercise of any other powers of liquidators for which Court sanction is required including, as in this case, the power to sell the company's assets by private contract.

Further guidance in respect of the liquidators' powers of sale can also be obtained from certain relevant English authorities referred to below.

The relevant legal principles are as follows:

1. The primary duty of a liquidator when selling the assets of a company is to take reasonable care to obtain the best price available in the circumstances. Accordingly the Court must be satisfied that the JPLs have fulfilled this duty, taking into account the nature of the TV Business to be sold, the relevant market, the steps taken to market and to sell the assets and the urgency of the sale.

In this regard the duty is similar to that of a mortgagee in possession exercising a power of sale over the mortgaged assets. In *Paradise Manor Ltd. v Bank of Nova Scotia* [1984-85] CILR 437, the Court of Appeal was asked to consider whether a bank acting as mortgagee with a power of sale had fulfilled its duty to obtain the best price when selling a mortgaged hotel. The Court considered that the bank had fulfilled this duty as a result of the extensive advertising campaign, the efforts made to interest other hotel chains directly in purchasing the asset and the holding of a public action.

2. The Court should give the liquidators' views considerable weight unless there are substantial reasons for not doing so. See *Re Edennote Ltd. (No. 2)* [1997] 2 BCLC 89, approved in *Re Greenhaven Motors Ltd (in Liquidation)* [1999] 1 BCLC 635. *Re Greenhaven* was approved by the Cayman Islands Court of Appeal in *High Risk Opportunities Hub Fund (in liquidation)* 30 April 2004 (unreported).
3. The decision whether to sanction the power of sale is a decision for the Court and the Court must consider the correctness or otherwise of the liquidators' decision, having regard to all the evidence and in particular;

- (a) the financial consequences of the decision for stakeholders;
- (b) the wishes of the creditors; and
- (c) whether the interests of stakeholders are best served by permitting the Company to enter into the particular transaction or by not permitting the Company to enter into the particular transaction.

Applying these principles to the circumstances of the present case, which concerns a provisional liquidation, the Companies, USA and Mr. Hinkelman have been actively and extensively marketing the TV Business for sale since October 2011.

Approximately 22 potential purchasers were identified and USA proceeded to contact and meet with each of these potential purchasers to ascertain their interest in the TV Business. Approximately 30 face-to-face meetings took place.

Of these 22 potential purchasers, 9 expressed an interest in purchasing the TV Business and signed non-disclosure agreements. Of these, two submitted offers for the TV Business. After careful consideration of these offers, it was determined that the Sigma offer was preferable and should be accepted as the stalking horse bid.

The Bid Procedures were approved by this Court on 26 March 2012. Given the extensive marketing efforts that had already been carried out and the high weekly losses of the TV Business, the Bid Procedures allowed for only one further week for the Companies to further market the TV Business before the bid deadline. During the course of that week, the directors of the Companies and USA again contacted the two interested parties that had previously expressed a material interest in purchasing the TV Business to determine whether either of these entities would submit a bid to compete with Sigma. However, no competing bids were received.

The Sigma bid was the best offer received as a result of this extensive marketing process. The JPLs are satisfied that the Sigma bid should be accepted. The TV Business is making substantial losses (it is estimated by Mr. Hinkelman that the TV Business is currently losing approximately US\$1.25 million per week) and there is no realistic prospect that it can be made profitable as part of the Trident Group. Given the significant losses being incurred by the TV Business on a weekly basis, it is essential, in the view of the JPLs, that the Companies carry out the sale as soon as possible to minimise the drain on resources.

The Cayman Committee has, as I have said, consented to the Purchase Agreement being concluded.

For these reasons I make the order to which I have referred.

As to the next steps, if the TV Business is sold, the Company will only have two remaining ancillary businesses - the audio business and the demodulator business. These business units cannot operate as stand alone entities. The Companies will therefore endeavour to sell the assets relating to these businesses to third parties.

In the event the TV Business is sold, the majority of the Company's assets will have been realised within the provisional liquidation.

It is accepted by Ms. Moran, in my view correctly, that it is not normally the function of provisional liquidators to realise substantially all of the assets of the company in provisional liquidation.

However, the Court has a broad discretion in respect of the appointment of provisional liquidators pursuant to section 104(1) of the Companies Law (2011 Revision) and it is generally accepted that the use of the provisional liquidation procedure is a flexible remedy, not restricted to a particular categories of cases. See, for example, *MHMH Limited v Carwood Barker Holdings Limited* [2006] 1 BCLC 279.

Once the sale of the TV Business to Sigma and the sale of the set-top box business to Entropic closes, the Company will still be required to continue its business in the ordinary course for a transitional period in order to assist Sigma and Entropic with the transfer and stabilisation of the respective businesses. It is anticipated that this transitional period will last until the end of July 2012. According to paragraph 64 of Mr. MacRae's Fourth Affidavit, in order to facilitate an orderly transition of the businesses during this period, it may be preferable for the provisional liquidation to continue.

However, there has clearly been a significant change of circumstances since Foster J adjourned the hearing of the winding up petition until 3 July 2012 by his Order dated 16 February 2012. Foster J agreed to adjourn the winding up petition based on the reasons set out in the Fifth Affidavit of Mr. David Teichmann which explained that, at that time, the Company was still contemplating a potential restructuring of the TV Business together with the other business units, after the sale of the set-top box business. Given that the TV Business is now to be sold, a restructuring is no longer possible, and instead, it is proposed that the remaining assets of the Company will be sold.

Accordingly, Ms. Moran accepted, in my view correctly, that it is appropriate to bring forward the hearing of the winding up petition to allow the Company, the JPLs and stakeholders to advance their views as to whether the provisional liquidation should be permitted to continue for the transitional period or whether it is more appropriate to make an immediate winding up order.

Pursuant to paragraph 4 of the Order of Foster J, the JPLs are at liberty to apply to restore the Petition for hearing at an earlier date and must advertise the new date for the adjourned hearing once in Cayman Islands Gazette and once in the Wall Street Journal (International Edition) not later than 14 days prior to the hearing.

The new date for the hearing of the Petition will be fixed through the usual channels, in the light of Ms. Moran's acceptance that it is appropriate to bring the date forward. For completeness, I add that Mr. Rupert Bell has appeared today on behalf of Sigma. I have

made an Order upon the application of Sigma that certain materials identified in the order be sealed and kept confidential and not open to inspection by any party or other person except with the prior leave of the Court.

I rule accordingly.

DATED this 20<sup>th</sup> day of April 2012

*Cresswell J*

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**The Hon. Sir Peter Cresswell  
Judge of the Grand Court**



# APPENDIX 1



MAPLES

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION



CAUSE NO: FSD 1 OF 2012 (PCJ)

In Chambers  
25 January 2012  
Before the Honourable Justice Sir Peter Cresswell

IN THE MATTER OF THE COMPANIES LAW (2011 REVISION)

AND IN THE MATTER OF TRIDENT MICROSYSTEMS (FAR EAST) LTD.

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ORDER

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UPON the application of the joint provisional liquidators ("JPLs") of Trident Microsystems (Far East) Ltd. (the "Company") by their *ex parte* Summons

AND UPON reading the Second Affidavit of Eleanor G Fisher, the Third Affidavit of Gordon I. MacRae and the Second Affidavit of Richard A. Chesley and exhibits thereto

AND UPON hearing Counsel for the JPLs

AND UPON hearing the application jointly with the United States Bankruptcy Court for the District of Delaware ("Delaware Bankruptcy Court")

IT IS ORDERED that:

- 1 The proposed cross-border insolvency protocol ("Protocol") between the JPLs, the Company and Trident Microsystems Inc. ("TMI") for the further operation of the businesses of the Company and TMI and the co-operation and co-ordination of the proceedings herein and the proceedings before the Delaware Bankruptcy Court commenced by the Company and TMI pursuant to Chapter 11 of Title 11 of the United States Code (Case No. 12-10069-CSS) in the Schedule hereto be approved.

- 2 The JPLs and the directors of the Company be authorised to enter into the Protocol.
- 3 The JPLs be at liberty to apply to amend or supplement the terms of the Protocol from time to time.
- 4 The costs of this application be paid out of the assets of the Company as an expense of the liquidation.

Dated the 25th day of January 2012

Filed the 30 day of January 2012.

*Cresswell J*

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The Honourable Mr Justice Cresswell

JUDGE OF THE GRAND COURT



SCHEDULE



**CROSS-BORDER INSOLVENCY PROTOCOL STIPULATION  
REGARDING TRIDENT MICROSYSTEMS, INC.  
AND TRIDENT MICROSYSTEMS (FAR EAST), LTD.**

Subject to the authorization from the Grand Court of the Cayman Islands (the "Cayman Court") and the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), Gordon MacRae and Eleanor Fisher of Zolfo Cooper ("ZC"), as joint provisional liquidators of Trident Microsystems (Far East), Ltd. ("TMFE") enter into this Stipulation Regarding Cross-Border Insolvency Protocol along with Trident Microsystems, Inc. ("TMI") and TMFE, as follows:

**Preliminary Statement**

The purpose of the Stipulation is to ensure the just, efficient and expeditious administration of the pending insolvency proceedings of TMFE in the Cayman Islands (the "Cayman Proceedings") and the chapter 11 proceedings of TMI and TMFE (the "Bankruptcy Proceedings") before the Bankruptcy Court. It is in the interest of all parties, including the joint provisional liquidators of TMFE (the "Cayman Liquidators"), TMI and their respective creditors, and the respective courts, to seek to cooperate in the conduct of the insolvency proceedings and TMFE and TMI's chapter 11 proceedings, with the following objectives:

- Reducing the total costs incurred by the Cayman Liquidators in protecting the interests of creditors by avoiding duplication of efforts;
- Avoiding any potential conflict between the Cayman Proceedings and the Bankruptcy Proceedings;
- Ensuring transparency and accountability in the conduct of the proceedings in the United States and the Cayman Islands; and

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- Providing a framework for protecting the interests of, and maximizing returns to, all creditors including by way of exploring a plan of compromise or arrangement with the creditors of TMFE.

Mindful of these goals, the parties enter into this Stipulation.

## **Background**

### ***The Parties***

TMI was incorporated in California in 1987 and reincorporated in Delaware in 1992. TMI is the direct parent company of TMFE, which, is the direct or indirect parent of subsidiary entities organized under the laws of various foreign countries (the "Foreign Subsidiaries," collectively with TMI and TMFE, the "Group"). TMI's principal executive offices are located in Sunnyvale, California. TMI serves as the corporate head of the Group's entities and provides corporate oversight and administrative services necessary for the operations of the Group.

TMFE has no employees and it holds as its principal assets work in progress, receivables and intellectual property in the form of approximately 1,600 patents; and its interest in the Foreign Subsidiaries. In addition, the TMFE is also responsible for the control and administration of accounts payable for the Group. Through administration services performed at TMFE's Hong Kong subsidiary and TMI, the TMFE is responsible for the control and administration of accounts payable on behalf of the entire Group.

### ***The Proceedings***

(1) On January 4, 2012, TMI and TMFE commenced chapter 11 proceedings in the Bankruptcy Court. TMI and TMFE are continuing to serve as a debtors-in-possession pursuant to section 1107 of the United States Bankruptcy Code (the "Bankruptcy Code"), and to operate their businesses pursuant to section 1108 of the Bankruptcy Code.

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(2) On January 4, 2012, TMFE filed a Winding Up Petition, Cause No. FSD 1 of 2012 PCJ, in the Cayman Court.

***The Stipulation***

(3) It is agreed among the Cayman Liquidators, TMFE, TMI and Andrew Hinkleman of FTI Consulting, TMI's proposed chief restructuring officer (the "CRO"), that a framework of general principles is appropriate to address certain issues that are likely to arise in connection with the cross-border insolvency proceedings of TMI and TMFE including, without limitation, (a) the administration of TMI and TMFE during their respective proceedings, (b) the sale of certain material assets of TMI and TMFE, (c) the payment of certain claims of TMI and TMFE necessary for the continued operation of the Group and (d) the resolution of claims against TMI and TMFE and the payment of creditors.

(4) The purpose of the protocol contemplated by this Stipulation is to protect the interests of all creditors of TMI and TMFE and to protect the process by which the Bankruptcy Proceedings and Cayman Proceedings are administered. The protocol will provide a framework for cooperation between multiple jurisdictions and to eliminate wherever possible duplication of effort and promote judicial economy.

NOW THEREFORE, the Cayman Liquidators, TMFE and TMI hereby stipulate and agree, subject to the approval by the Bankruptcy Court and the Cayman Court the following:

(1) Approval shall be sought from the Bankruptcy Court for the joint administration of the bankruptcy cases of TMI and TMFE solely for procedural purposes.

(2) An Official Committee of Unsecured Creditors (the "Committee") was formed in the Bankruptcy Proceedings on January 17, 2012 and it is contemplated that a Cayman liquidation

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committee will be formed in the Cayman Proceedings (the "Cayman Committee," and collectively with the Committee, the "Creditors Committees"). While it is understood that the Committee and the Cayman Committee shall individually have certain statutory obligations, TMI, TMFE, the CRO and the Cayman Liquidators will work with the legal and professional advisors to the Creditors Committees to establish protocols for the efficient administration of the cross-border restructurings. Nothing contained in this Stipulation shall modify or alter the rights of the Creditors Committees in their respective proceedings.

(3) With respect to the sales of material assets of the Group, TMI and the Cayman Liquidators will seek approval of the procedures for such sales (including but not limited to the marketing of such assets and subsequent auction of such assets) and for authority to sell the material assets first from the Bankruptcy Court and thereafter seek any necessary approvals from the Cayman Court; provided, however, that TMI and TMFE will not consummate any sales of such material assets unless the necessary approvals are received from the Bankruptcy Court and the Cayman Court.

(4) With respect to the ordinary course sale of non-material assets that do not require approval of the Bankruptcy Court, the Cayman Liquidators may require that any sale of such non-material assets be subject to the approval of the Cayman Court. For the avoidance of doubt, the sales referenced in this paragraph shall not include ordinary course product sales or licensing transactions by the Company.

(5) TMI and the Cayman Liquidators shall use their reasonable best efforts to file a status report and/or operating report with the Bankruptcy Court and the Cayman Court, within four weeks of the commencement of the Bankruptcy Proceedings and the Cayman Proceedings setting forth the status of their efforts for the prior month and thereafter file reports at such future intervals as the

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Bankruptcy Court and the Cayman Court may direct. A copy of such reports shall be served on Office of the United States Trustee, the members of the Creditors Committees and their counsel or other advisors. TMI and the Cayman Liquidators shall use their reasonable best efforts to ensure that a representative (including the CRO) shall also be available for weekly conference calls with the Creditors Committees and their advisors, at which time they or their representatives will apprise and inform the Creditors Committees of the status of their efforts, subject to applicable law. Nothing contained in this paragraph shall alter or modify the obligations of TMI and TMFE to file monthly operating reports as required by the Office of the United States Trustee in the Bankruptcy Proceedings.

(6) TMI and TMFE shall be permitted to operate in the ordinary course of their business operations unless otherwise ordered by the Bankruptcy Court or the Cayman Court including in respect of ordinary course product sales between TMFE and TMHK and the licensing of the intellectual property of TMFE to third parties in the ordinary course. To facilitate these operations, the CRO, and/or the officers and directors (or their authorized representatives) of the Company, TMI, TMHK and their subsidiaries, and the Cayman Liquidators shall meet in person or by telephone or videoconference or by whatever means is most appropriate on a weekly basis to address budgeting, cash expenditures, employee matters, ordinary course transactions and all other matters necessary to fully operate the Group's business operations.

(7) The Cayman Liquidators shall receive and be given notice of all proceedings in the Bankruptcy Court in accordance with the practices of the Bankruptcy Court and have the right to appear in all proceedings in the Bankruptcy Court. TMFE shall give notice to the CRO, the Committee, the Office of the United States Trustee and TMI of all proceedings in the Cayman Court and will not object to their attending and seeking to be heard at any hearings before the Cayman Court. For so long as they have an interest in the estate of TMFE, Entropic Communications, Inc. or

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any other successful bidder for the assets of TMFE shall receive and be given notice of all proceedings in the Cayman Court in accordance with the practices of the Cayman Court and TMFE will not object to their attending and seeking to be heard at such hearings before the Cayman Court. For the avoidance of doubt, this will not operate to preclude TMFE from seeking orders that confidential information be sealed where TMFE deems necessary and appropriate.

(8) For the avoidance of doubt the Cayman Liquidators shall be required to act in a manner consistent with the terms of the Cayman Court orders and shall be required to act in a manner consistent with the laws governing the Bankruptcy Proceedings and the Cayman Proceedings. Nothing in this stipulation requires the Cayman Liquidators to take any action that violates any provision of Cayman Islands Law or any order of any Cayman Court or any other applicable law.

(9) All creditors of TMFE shall have the opportunity to file a request for service with the Clerk of the Bankruptcy Court, or to participate in the case or proceedings in the Cayman Proceedings. To the extent required, TMI, TMFE and the Cayman Liquidators shall seek to amend this Stipulation pursuant to paragraph 19 hereof, to provide additional protocols governing the filing, administration and adjudication of claims asserted against TMFE.

(10) Notice and requirements for approval and authorization of any transactions regarding disposition, liquidation or distribution of assets shall be in accordance with applicable law.

(11) TMI and TMFE has sought authority from the Bankruptcy Court and the Cayman Liquidators will seek authority from the Cayman Court to maintain the Group's cash management system and bank accounts as described in Exhibit C to the Motion of the Debtors and Debtors in Possession for Entry of Interim and Final Orders (a) Approving the Continued Use of the Debtors' Cash Management System, (b) Approving Continued Transfers Between Debtors and Non-Debtor

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Subsidiaries, (c) Scheduling a Final Hearing on the Motion, and (d) Granting Related Relief. Thereafter, the TMI and TMFE shall maintain their cash management system and bank accounts in accordance with the Orders of the Bankruptcy Court and the Cayman Court. Any modifications to the cash management system and/or the bank accounts shall be subject to the approval of the Cayman Liquidators and, if required by applicable law, the Bankruptcy Court and the Cayman Court.

(12) TMI and TMFE have obtained authority from the Bankruptcy Court and the Cayman Liquidators will seek authority from the Cayman Court to pay pre-petition debts of certain critical vendors ("Critical Vendors") as set out at Exhibit B to the Motion of the Debtors for an Order Authorizing the Payment of Certain Prepetition Claims of Critical subject to an aggregate cap of \$2 million (USD), and as further modified by the Bankruptcy Court. Subject to such approval, TMFE can take steps to pay the Critical Vendors at its discretion in order to minimize any interruption to the day to day operation of the Group, but subject always to the express consent of the Cayman Liquidators.

(13) The Cayman Court shall have sole jurisdiction and power over the Cayman Liquidators, as to their tenure in office, the conduct of the Cayman Proceedings under Cayman Islands Law, the appointment, role and powers of the Cayman Liquidators and the hearing and determination of matters arising in the Cayman Proceedings under Cayman Islands Law. The Cayman Liquidators shall be compensated for their services in accordance with Cayman principles under Cayman Islands Law.

(14) The Bankruptcy Court shall have sole jurisdiction and power over the conduct of the Bankruptcy Proceedings, the compensation of the professionals rendering services in the Bankruptcy Proceedings, and the hearing and determination of matters arising in the Bankruptcy Proceedings.

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(15) The Bankruptcy Court will be requested to hold monthly omnibus hearings during which the status of the Bankruptcy Proceedings and the Cayman Proceedings will be discussed.

(16) The Bankruptcy Court, and the Cayman Court, may, to the extent permitted by practice and procedure, and with the prior consent of each court, conduct joint hearings or conferences with respect to any matter related to the conduct, administration, determination or disposition of any aspect of the Cayman Proceedings, or Bankruptcy Proceedings where considered by the two Courts to be necessary or advisable and in particular, without limiting the generality of the foregoing, to facilitate or coordinate the proper and efficient conduct of the Bankruptcy Proceedings and Cayman Proceedings. With respect to any such hearings or conferences, unless otherwise ordered, the following may be considered to be appropriate:

- i. A telephone link may be established such that the two Courts may be able to simultaneously hear the matter in the other Court.
- ii. TMFE, TMI and the Cayman Liquidators shall ensure that appropriate materials (including all briefs, memoranda or skeleton arguments) are filed in advance of such hearing consistent with the procedural and evidential rules and requirements of each participating Court, such that each Court has identical or substantially similar materials before it, to enable each Court to properly consider the issues to be determined at the joint hearing.

(17) The Cayman Court and the Bankruptcy Court may, but are not required to, communicate with one another, without advance notice to counsel or counsel being present for any purpose, including, without limitation, to establish guidelines for the orderly making of submissions and rendering of decisions to deal with any other procedural, administrative, or preliminary matters or for the purpose of determining whether consistent rulings can be made by the Cayman Court

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and/or the Bankruptcy Court and the terms upon which such rulings should be made, and to deal with any other procedural or non-substantive matter in relation to such applications.

(18) This Stipulation shall be binding on and inure to the benefit of the parties hereto and their respective successors, assigns, representatives, heirs, executors, administrators, trustees (including any trustees under chapters 7 or 11 of the Bankruptcy Code), and receivers, receiver managers, or custodians appointed under United States law, Cayman Islands Law, as the case may be.

(19) This Stipulation may not be waived, amended, or modified orally or in any other way or manner except by a writing signed by the party to be bound, and such approval and authorization of the Bankruptcy Court or Cayman Court as may be necessary and appropriate in the circumstances. Notice of any proposed amendment or modification of the Stipulation shall be provided by the party proposing such amendment to the Bankruptcy Court, Cayman Court, TMI and TMFE and their counsel of record, the Cayman Liquidators, any representative of the Creditors Committees and the CRO (the "Notice Parties"). This Stipulation may be supplemented from time to time by the parties hereto as circumstances require with any supplementing stipulations as approved by the Bankruptcy Court, and Cayman Court.

(20) Any request for the entry of an order which is contrary to the provisions of this Stipulation must be made on notice by the proponent of the order to the Notice Parties.

(21) Each party represents and warrants to the other that its execution, delivery, and performance of this Stipulation are within the power and authority of such party and have been duly authorized by such party, except that, with respect to the Cayman Liquidators and TMI, Cayman Court and Bankruptcy Court, respectively, approval is required.

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(22) This Stipulation may be signed in any number of counterparts, each of which shall be deemed an original and all of which together shall be deemed to be one and the same Instrument, and may be signed by facsimile signature, which shall be deemed to constitute an original signature.

(23) The Bankruptcy Court and Cayman Court shall retain jurisdiction over the parties for the purpose of enforcing the terms and provisions of this Stipulation or approving any amendments or modifications thereto.

(24) The parties hereto are hereby authorized to take such actions and execute such documents as may be necessary and appropriate to implement and effectuate this Stipulation.

(25) The Stipulation is not intended to otherwise circumvent, alter, or otherwise affect the rights, obligations, or laws of any jurisdiction and accordingly, if a party to the Stipulation is directed by its Court to act (or not to act) with respect to a particular issue whether on his own application or otherwise, that party's obligation to follow its Court's direction should not be impaired or abridged by the Stipulation. To the extent any party's obligation to follow its Court's order conflicts with its obligations under the Stipulation, that party shall be relieved from its obligation under the Stipulation, but such party must notify in writing all other parties of the conflict between its Courts direction or order and the Stipulation. In all other material respects, the affected party will remain bound by the terms of the Stipulation.

(26) This Stipulation shall be deemed effective upon its approval of the Bankruptcy Court and the Cayman Court. This Stipulation shall have no binding or enforceable legal effect until approved by the Bankruptcy Court and the Cayman Court.

IN WITNESS WHEREOF the parties hereto have caused this Stipulation to be executed either individually or by their respective attorneys or representatives hereunto authorized.

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TRIDENT MICROSYSTEMS, INC.

By: \_\_\_\_\_

TRIDENT MICROSYSTEMS (FAR EAST), LTD.

By: \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

JOINT PROVISIONAL LIQUIDATORS

By: \_\_\_\_\_

By: \_\_\_\_\_



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