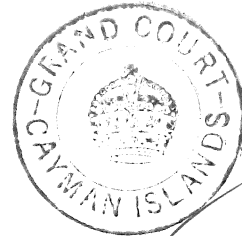


1 IN CHAMBERS
2
3 IN THE GRAND COURT OF THE CAYMAN ISLANDS
4
5 CAUSE 823 OF 1999
6



30-10-00

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7
8 IN THE MATTER OF FRUIT OF THE LOOM LTD.
9 (in provisional liquidation)
10

11
12 Before Hon. Chief Justice Anthony Smellie
13

14 **Appearances:**

15 Mr. Guy Locke of Walkers for the Joint Provisional Liquidators.

16 Mr. Stewart Diamond of Truman Bodden & Co. for Fruit of the Loom Ltd.
17

18
19 **REASONS**

20
21 Fruit of the Loom Ltd ("the Company") is a Cayman Islands company which is the
22 ultimate holding company for all companies within the Fruit of the Loom Group.

23 On 30 December 1999 the Company was placed into provisional liquidation by order of
24 this Court. Two partners of the well-known accounting firm of KPMG Peat Marwick
25 were appointed Joint Provisional Liquidators ("the JPLs").

26 The order appointing the JPLs was made in advance of the hearing of the winding up
27 petition filed by the Company itself against the background of the following
28 circumstances.

29 The Company was incorporated in the Cayman Islands on 23 January 1999 as part of the
30 restructuring of the Fruit of the Loom Group ("The FTL Group"). The FTL Group
31 comprises over 70 companies in the United States, Europe, the Caribbean and Central
32 America. The assets of the Company comprise 100% of the share capital of the entities

1 within the FTL Group including FTL Delaware and FTL Caribe Ltd, the latter being
2 another Cayman Islands company.

3 The Company has pledged all the shares of its wholly owned subsidiaries as collateral
4 security for approximately USD 1.2 billion of secured debt.

5 The Company is now listed and traded on the New York Stock Exchange where its
6 trading has been suspended because of Chapter 11 bankruptcy proceedings which the
7 Company itself has instituted. This will be described below.

8 The FTL Group products are well known throughout the United States and in other
9 countries. The Company itself is described as a vertically integrated international basic
10 apparel company, emphasising branded apparel products for consumers of all age groups.

11 The subsidiary FTL Delaware is one of the world's largest producers of underwear,
12 active-wear for the designer market and causal and jeans-wear. It sells products under
13 several recognisable brand names.

14 On 29 December 1999, the Company and FTL Delaware filed for protection under
15 Chapter 11 of Title 11 of the United States Bankruptcy Code. That filing was made
16 following a decision by the Company that it required the protection of Chapter 11
17 proceedings to allow it to obtain USD 625 million new "Debtor in Possession Financing"
18 ("DIP Financing") to enable the Company to continue its business. This followed a
19 decision by the Board of FTL Delaware that it in turn needed to seek protection under
20 Chapter 11 to obtain DIP Financing. I am advised that the concept of "debtor in
21 possession" implies the debtor company being allowed to remain in possession of its
22 assets pending the Chapter 11 proceedings.

1 The Company through its Board of Directors, has obtained advice that in order to assist
2 the refinancing process, it would be in the Company's best interests to file a petition for
3 winding up in the Cayman Islands (its place of incorporation) and to seek the
4 appointment of provisional liquidators and an injunction restraining any and all
5 proceedings against the Company pursuant to Section 99 of the Cayman Islands
6 Companies Law, (1998 Revision).

7 The parallel objectives of the petition here with those of the Chapter 11 proceedings are
8 readily apparent. I am advised that upon a Chapter 11 filing, section 362 of the United
9 States Bankruptcy Code imposes an automatic stay upon creditors with the result that no
10 action can be commenced or continued against the Company or its assets. This stay
11 provides a period during which the Company, FTL Delaware and the FTL Group can
12 refinance while protecting their ongoing business.

13 Upon the completion of the Chapter 11 Proceedings, the objective is that the FTL Group
14 can emerge with a "fresh start" and continue to operate as going concerns.

15 Thus, the petition here is intended to have the effect of protecting the Company's estate
16 by allowing the Company the benefit of a stay on proceedings against it and assist in
17 achieving the purposes underlying the Chapter 11 proceedings.

18 On 30 December 1999, this Court (per Graham J.) made the orders invited by the
19 Company's petition appointing the JPLs and vesting them with the following powers
20 among others:

21 (a) to oversee the continuation of the business of the Company under the
22 control of the Company's Board of Directors, and under the supervision of
23 this Court and the United States Bankruptcy Court.

1 (b) To oversee and otherwise liaise with the Company's Board of Directors in
2 effecting a refinancing of the Company under the supervision of the United
3 States Court and this Court in connection with the proceedings that have
4 been commenced by the Company for that purpose under Chapter 11 of
5 Title 11 of the Bankruptcy Code.

6 (c) To assist and consult with the Company as a debtor in possession in the
7 Chapter 11 Proceedings regarding the Chapter 11 refinancing.

8 (d) To provide written reports to the Court from time to time and as this Court
9 otherwise requires on the process of the Chapter 11 refinancing.

10 (e) To retain the services of attorneys and other professional advisers as
11 required in Cayman and elsewhere for the purpose of advising and assisting
12 in the execution of the JPLs' powers.

13 (f) If appropriate, to prepare and present to the Court for its approval a draft
14 scheme of arrangement between the Company and its creditors consistent
15 with any plan approved by the United States Court for implementation in
16 the Cayman Islands that gives effect to and/or facilitates a refinancing and
17 to seek appropriate directions from this Court or the United States Court for
18 the approval and implementation of such a scheme.

19 For these and other authorised purposes, the JPLs shall have such access to so much of
20 the Company's information as they may require.

21 Of particular note as a part of the Order of 30 December 1999, the JPLs' express consent
22 was directed for the Company's execution, delivery and performance of the Post-Petition
23 Loan and Security Agreement dated 29 December 1999 between the Company and

1 certain of its subsidiaries on the one hand and certain financial institutions which are its
2 principal creditors, on the other.

3 Against that background injunctive provisions were also made in the Order pursuant to
4 section 99 of the Companies Law, that all suits or proceedings against the Company are
5 restrained until further order of this Court.

6 Also of importance for present purposes, the Order provided that subject to the various
7 powers given to the JPLs, the Company's Board of Directors shall continue to manage
8 the Company's affairs in all respects. This is provided always that if the JPLs in their sole
9 discretion consider at any time that the Company's Board of Directors is not acting in the
10 best interests of the Company and its creditors, the JPLs shall notify the Company's
11 Board of Directors in writing requiring them to cease or desist from such action. If the
12 Board fails, refuses or neglects to comply within 7 days, the JPLs may report to this
13 Court and seek directions appropriate to the circumstances then prevailing.

14 As to the status of the Company's petition itself, the effect of the Order of the 30
15 December 1999 is that its final hearing has been adjourned pending the operation of the
16 Order, with liberty to restore.

17 Thus, a machinery has been put in place to allow the Company and its subsidiaries to
18 obtain financing as debtor in possession of its assets; to continue to operate as going
19 concerns and to continue to achieve these objectives with the interests of creditors
20 properly protected and under the joint supervision of the United States Court in the
21 context of the Chapter 11 proceedings and of this Court in these proceedings.

22 In the event these objectives fail, the petition may be restored for hearing and the
23 Company may be wound up by further order of this Court and under its supervision. The

1 JPLs would be under an obligation to report an eventuality of failure to the Court but that
2 eventuality is what everyone is working to avoid.

3 A petition for its winding up by the Court is allowed to be presented by a company itself
4 under section 96 of the Companies Law. Grounds for the petition may include a
5 company's inability to pay its debts: Section 94.

6 Upon the presentation of such a petition, the jurisdiction of the Court to make the
7 foregoing types of Orders is clear enough from the provisions of the Companies Law.

8 Section 99 provides:

9 "The Court may, at any time after the presentation of a petition for winding up a
10 Company under this law, and before making an order for winding up the
11 Company, upon the application of the Company, or of any creditor or contributor
12 of the Company, restrain further proceedings in any action, suit or proceeding
13 against the Company upon such terms as the Court thinks fit; and the court may
14 also, at any time after the presentation of such petition and before the first
15 appointment of liquidators appoint provisionally an official liquidator of the estate
16 and effects of the company."

17

18 Since the making of the Order on the 30 December 1999, the Company's adjourned
19 petition has been back before this Court for its consideration and supervision of the status
20 of the provisional liquidation on a number of occasions.

21 On each of these occasions, this Court has had before it confidential reports prepared by
22 the JPLs for the Court's consideration. Filed with the Court also have been copies of
23 reports prepared for the creditors of the Company by the JPLs dated 2 June 2000 and 21

1 September 2000. Further orders have been made for the continuation of the Order of 30
2 December 1999 on the basis of the information contained in all those reports.

3 I now have before me an ex parte summons on behalf of the JPLs seeking directions that
4 they may continue to administer the provisional liquidation of the Company substantially
5 in accordance with proposals set out in the Fourth Confidential Report of the JPL's to the
6 Court (dated 25 August 2000) until further order.

7 Mr. Locke appears for the JPLs for the purposes of the ex parte application. Separately,
8 Mr. Diamond appeared before me today in open court upon an application by the
9 Company for the further adjournment of the petition. This application is intended also to
10 allow the provisional liquidation to continue.

11 In order to allow the continuation of the administration of the provisional liquidation in
12 tandem with the Chapter 11 proceedings, I am in effect to be exercising anew the powers
13 first exercised by the Court under Section 99 of the Companies Law when the Order of
14 30 December 1999 was made.

15 This is not the first case in which these powers have been invoked by this Court. Similar
16 orders were made in The Matter of ICO Global Communications (Operations) Limited to
17 allow that Cayman Islands company during provisional liquidation a moratorium on
18 enforcement procedures to be able to refinance and restructure its financial affairs.

19 (See Cause 508 of 1999; Order made on the 27th August 1999).

20 The discretionary power vested in the Court by section 99 of the Companies Law is very
21 wide. As the orders already made herein recognise, the power admits of a discretion
22 which the Court will be prepared to use to appoint provisional liquidators as the basis for
23 the rescue of a company. This is subject to the Court being satisfied that such

1 appointment would be for the benefit of those having the financial interests in the
2 company to be rescued. This Court must be satisfied that the order would be for the
3 general benefit of creditors and subject to creditor' prior interests, the benefit of
4 shareholders.

5 In the absence in jurisdiction given by specific statutory powers in the Courts for the
6 making of administration orders over the affairs of companies, it is apt that the flexible
7 discretionary power given in Section 99 for the appointment of provisional liquidators be
8 used to enable the rescue of a company where it is just to do so in the sense described
9 above.

10 This is the approach taken by the English Courts in respect of Insurance companies in the
11 absence of statutory provisions enabling administration orders over their affairs. (See
12 section 8 (4)(a) of the Insolvency Act 1986).

13 In Re English and American Insurance Co. Ltd [1994] 1 BCLC 649 Harman J.
14 contemplated a petition presented by the company itself for the appointment of
15 provisional liquidators. He reflected upon the English practice in these terms (at p.650
16 letter c):

17 “This is all part of the developing practice of the court of using a petition by the
18 company for its own winding up as the basis for the appointment of provisional
19 liquidators. That practice has been developed to mitigate the difficulties caused by
20 the fact that administration procedures are not available in respect of insurance
21 companies and is a practice which several of the Chancery judges have dealt with
22 and approved of. It seems to me a useful practice and I do not wish in any way to
23 cast any doubt or discredit upon it. It is a good system particularly in cases such

1 as this where there is a hope that in the future there will be a scheme of
2 arrangement under Section 425 of the Companies Act 1985".

3 Section 99 of the local Companies law is in very general terms not confined to
4 any category of cases.

5 As in the case of the broadly similar English provisions contained in Section 238 of the
6 Companies Act 1948, section 99 confers on the Court a wide discretionary power "to be
7 exercised in a proper judicial manner". See Re Highfield Commodities [1985] 1 WLR
8 149 at 159 letters D-E per Megarry V.C.

9 It must be in the nature of the discretion to be exercised that the Court will be concerned
10 to ensure that the protective orders are not abused by a company which is hopelessly
11 insolvent to be allowed to continue to trade.

12 The effect of the fourth Confidential Report of the JPLs, has been to satisfy me that that
13 is not the position of the Company and its subsidiaries here.

14 While the details of the Reports must for obvious reasons remain confidential, the
15 conclusion to be drawn from them is that the financial position of the FTL Group appears
16 to be improving. It is currently the JPLs' view that the creditors' position is being
17 enhanced in the arrangements for refinancing now underway. Liquidation outright is not
18 now indicated to be the advisable route.

19 I am assured as to the appropriate legal test being followed by the JPLs in their approach
20 to the issues whether to advise the continuation of the provisional liquidation in aid of the
21 refinancing and ongoing operation of the Company. It is a three stage test which reflects
22 the principles I have discussed above and which was approved by this Court when the
23 Order was first made on 30 December 1999:

1 "(i) that the JPLs should be satisfied that a refinancing and/or sale of the
2 FTL Group Business as a going concern is likely to be more beneficial to
3 the creditors than a liquidation realisation of the Group's assets;

4 (ii) that there is a real prospect of a refinancing and/or sale as a going
5 concern being effected for the benefit of the general body of the creditors;
6 and

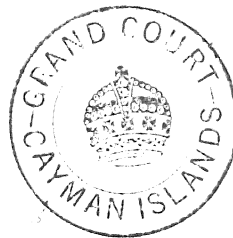
7 (iii) that in the circumstances it is in the best interest of the creditors to try
8 to achieve such a refinancing and/or sale as a going concern."
9

10 Being satisfied that the JPLs' advice and this ex parte application come to this Court with
11 those principles firmly in mind, and having regard also to the ongoing supervision of the
12 United States Bankruptcy Court in the context of the Chapter 11 proceedings there, I
13 granted the orders sought for the continuation of the provisional liquidation substantially
14 in accordance with the proposals set out in the Fourth Confidential Report; until further
15 order.

16 For the same reasons, the petition was also adjourned with liberty to restore.

17
18 

19 Anthony Smellie
20 Chief Justice
21



22 Decisions taken on 26th September 2000
23 Reasons delivered on 30th October 2000.
24

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26