

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

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In re	:	:	Chapter 11
	:	:	
PARAGON OFFSHORE PLC, et al.,	:	:	Case No. 16-_____ (____)
	:	:	
Debtors.¹	:	:	Joint Administration Requested

**DECLARATION OF JAMES A. MESTERHARM IN SUPPORT OF
THE DEBTORS' CHAPTER 11 PETITIONS AND FIRST DAY RELIEF**

I, James A. Mesterharm, pursuant to section 1746 of title 28 of the United States Code, hereby declare that the following is true to the best of my knowledge, information, and belief:

1. I am a Managing Director of AlixPartners, LLP ("**AlixPartners**") and the Co-Head of AlixPartners' Turnaround & Restructuring Services Group in the Americas. AlixPartners has served as restructuring advisor to Paragon Offshore plc ("**Paragon Parent**") and its debtor affiliates (collectively, the "**Debtors**" or "**Paragon**") since January 2016. I am familiar with Paragon's day-to-day operations, books and records, and business and financial affairs.

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, as applicable, are: Paragon Offshore plc (6017); Paragon Offshore Finance Company (6632); Paragon International Finance Company (8126); Paragon Offshore Holdings US Inc. (1960); Paragon Offshore Drilling LLC (4541); Paragon FDR Holdings Ltd. (4731); Paragon Duchess Ltd.; Paragon Offshore (Luxembourg) S.à r.l. (5897); PGN Offshore Drilling (Malaysia) Sdn. Bhd. (9238); Paragon Offshore (Labuan) Pte. Ltd. (3505); Paragon Holding SCS 2 Ltd. (4108); Paragon Asset Company Ltd. (2832); Paragon Holding SCS 1 Ltd. (4004); Paragon Offshore Leasing (Luxembourg) S.à r.l. (5936); Paragon Drilling Services 7 LLC (7882); Paragon Offshore Leasing (Switzerland) GmbH (0669); Paragon Offshore do Brasil Ltda.; Paragon Asset (ME) Ltd. (8362); Paragon Asset (UK) Ltd.; Paragon Offshore International Ltd. (6103); Paragon Offshore (North Sea) Ltd.; Paragon (Middle East) Limited (0667); Paragon Holding NCS 2 S.à r.l. (5447); Paragon Leonard Jones LLC (8826); Paragon Offshore (Nederland) B.V.; and Paragon Offshore Contracting GmbH (2832). The Debtors' mailing address is 3151 Briarpark Drive, Suite 700, Houston, Texas 77042.



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2. I submit this declaration (the “**Declaration**”) in support of Paragon’s voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the “**Bankruptcy Code**”) and the “first day” motions (the “**First Day Motions**”) filed with this Court on the date hereof (the “**Petition Date**”).

3. Additional information regarding the circumstances leading to the commencement of these chapter 11 cases and information regarding Paragon’s business and capital structure is set forth in the Declaration of Ari Lefkovits in Support of the Debtors’ Chapter 11 Petitions and Related Requests for Relief, which has been filed contemporaneously with this Declaration.

4. Except as otherwise indicated, the facts set forth in this Declaration are based upon my personal knowledge, my review of relevant documents, my discussion with other members of Paragon’s senior management, other professionals, information provided to me by AlixPartners professionals working under my supervision, or my opinion based upon experience, knowledge and information concerning Paragon’s operations. If called upon to testify, I would testify competently to the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of Paragon.

Paragon’s Business

5. Paragon’s drilling fleet is comprised of 34 jackup rigs, 4 drillships, and 2 semisubmersibles. Jackup rigs are mobile, self-elevating drilling platforms equipped with legs that can be lowered to the ocean floor. Each of Paragon’s jackups is cantilevered, meaning that the drilling platform may be extended out from the hull to perform drilling or workover operations over pre-existing platforms or structures. Drillships are self-propelled vessels that maintain their position over a well through the use of a fixed mooring system or a computer-

controlled dynamic positioning system. Semisubmersibles are floating platforms that can be submerged to a predetermined depth so that a portion of the hull is below the water surface during drilling in order to improve stability. Similar to drillships, semisubmersibles maintain their position over a well through the use of a fixed mooring system or a computer-controlled dynamic positioning system.

6. Paragon operates for leading national, international, and independent oil and gas companies in active hydrocarbon producing markets, principally in Mexico, Brazil, the North Sea, the Middle East and India. As such, business is conducted in the United States and foreign jurisdictions and Paragon is subject to governmental laws, regulations, and treaties in the countries in which it operates.

Prepetition Indebtedness

7. The following description is for informational purposes only and is qualified in its entirety by reference to the documents setting forth the specific terms of such obligations and their respective related agreements.

A. Secured Revolving Credit Agreement

8. Debtors Paragon Parent and Paragon International Finance Company, as borrowers, and each of the other Debtors, as guarantors, are parties to that certain Senior Secured Revolving Credit Agreement, dated as of June 17, 2014, with the lenders and issuing banks party thereto from time to time (the “**Secured Revolver Lenders**”), JPMorgan Chase Bank, N.A., as administrative agent (the “**Secured Revolver Agent**”), and certain other parties thereto (as amended, modified, or supplemented from time to time, the “**Secured Revolving Credit Agreement**”). The Secured Revolving Credit Agreement provides for revolving credit commitments, including letter of credit commitments and swingline commitments, in an

aggregate principal amount of \$800 million. The Secured Revolving Credit Agreement matures in July 2019.

9. On September 3, 2015, Paragon Parent borrowed approximately \$332 million under the Secured Revolving Credit Agreement. On December 23, 2015, Paragon Parent borrowed another approximately \$11.5 million under the Secured Revolving Credit Facility.

10. As of the Petition Date, the aggregate principal amount outstanding under the Secured Revolving Credit Agreement is approximately \$708.5 million in unpaid principal, plus any applicable interest, fees, and other expenses, in addition to approximately \$87.4 million of letters of credit.

B. Secured Term Loan

11. Debtor Paragon Offshore Finance Company, as borrower, and Paragon Parent, along with each of the other Debtors, as guarantors, are parties to that certain Senior Secured Term Loan Agreement (as amended, modified, or otherwise supplemented from time to time, the “**Secured Term Loan Agreement**”), dated as of July 18, 2014, with the lenders party thereto (the “**Secured Term Loan Lenders**”), and JPMorgan Chase Bank, N.A., as administrative agent (the “**Secured Term Loan Agent**”). The Secured Term Loan Agreement provides for a term loan in an aggregate principal amount of up to \$645 million (the “**Secured Term Loan**”). The Secured Term Loan Agreement matures in July 2021.

12. As of the Petition Date, the aggregate principal amount outstanding under the Secured Term Loan Agreement is approximately \$642 million in unpaid principal, plus any applicable interest, fees, and other expenses.

C. Guaranty and Collateral Agreement

13. The Debtors' obligations under the Secured Revolving Credit Agreement and the Secured Term Loan Agreement are secured pursuant to that certain Guaranty and Collateral Agreement, dated as of July 18, 2014 (as amended, supplemented, amended and restated or otherwise modified from time to time, the "**Guaranty and Collateral Agreement**").

14. Pursuant to the Guaranty and Collateral Agreement, except as described below, each of the Debtors granted a first-priority lien on substantially all of their property, including equipment, executed mortgages for each of the Collateral Rigs (as defined in the Guaranty and Collateral Agreement), inventory, and receivables generated from use of the collateral (the "**Prepetition Collateral**"), in favor of JPMorgan Chase Bank, N.A. for the Secured Revolver Lenders, the Secured Revolver Agent, the Secured Term Loan Lenders, and the Secured Term Loan Agent.

15. The Prepetition Collateral does not include "**Excluded Assets**" (as defined in the Guaranty and Collateral Agreement), which include, among other things, deposit accounts and securities accounts.

D. 6.75% and 7.25% Senior Notes

16. Paragon Parent is also an issuer under that certain Indenture, dated as of July 18, 2014, with each of the other Debtors as named guarantors therein, and Deutsche Bank Trust Company Americas, as indenture trustee (as amended, modified, or supplemented from time to time, the "**Senior Notes Indenture**"), pursuant to which Paragon Parent issued 6.75% Senior Notes due 2022 in the aggregate principal amount of \$500,000,000 (the "**6.75% Senior Notes**") and 7.25% Senior Notes due 2024 in the aggregate principal amount of \$580,000,000 (the "**7.25% Senior Notes**"). As of the Petition Date, the aggregate amount outstanding under the 6.75% Senior Notes is approximately \$456.5 million, plus any applicable interest, fees, and

other expenses, and the aggregate amount outstanding under the 7.25% Senior Notes is approximately \$527 million, plus any applicable interest, fees, and other expenses.

Noble/Paragon Spin-Off

17. On August 1, 2014, Noble Corporation plc (“**Noble**”) completed a spin-off of Paragon by: (i) transferring to Paragon Parent the assets and liabilities constituting most of Noble’s standard specification drilling business and (ii) making a pro rata distribution to Noble’s shareholders of all of Paragon Parent’s issued and outstanding ordinary shares (the “**Spin-Off**”).

18. In connection with the Spin-Off, Paragon gave Noble promissory notes totaling approximately \$1.7 billion. As part of the Spin-Off, Paragon borrowed \$650 million under the Secured Term Loan and issued approximately \$1.03 billion under the Senior Notes Indenture. Proceeds of these borrowings were transferred to Noble in satisfaction of the promissory notes. The rigs transferred to Paragon through the Spin-Off had an average age of 35 years.

Events Leading to Chapter 11

A. Collapse in Oil Prices

19. Demand for drilling services depends on, among other things, commodity prices, actual or potential changes in these prices, and the level of activity in offshore oil and gas exploration and development and production markets (which may be significantly affected by the prices of these commodities). As a result, the offshore contract drilling industry is a cyclical business, with periods of high demand, short rig supply, and high dayrates when the price of oil is high, followed by periods of lower demand, excess rig supply, and low dayrates when the price of oil is low. Additionally, the offshore drilling business is highly competitive. Contracts are traditionally awarded on a competitive bid basis and, in times of low oil prices, offshore

drilling companies may be forced to idle, stack, or scrap rigs, adversely affecting their revenues and profitability.

20. Because of the amount of debt Paragon incurred in connection with the Spin-Off and the nature of the assets acquired, Paragon could not absorb the ongoing and precipitous decline in oil and gas prices and the corresponding decline in demand for their services. Although Paragon does not face any maturities on material secured debt until 2019, the severity and duration of the market downturn has increased the risk that existing customer contracts, some of which are due to expire in the near term, will not be renewed or will be renewed at materially reduced prices. Paragon is also dealing with the termination of longer-term contracts, such as the Pemex contracts and Petrobras contracts described below.

B. Contract Terminations and Renegotiations

21. In May 2015, one of Paragon Parent's subsidiaries received written notices of termination from Pemex with respect to drilling contracts on three of Paragon Parent's jackups. Under these contracts, Pemex had the right to terminate upon 30 days' notice without making an early termination payment. These rigs are currently stacked. Additionally, Pemex offered Paragon Parent the option of accepting significantly lower dayrates or also facing early termination. By the end of 2015, Pemex had gone from being one of Paragon Parent's biggest customers to employing only a single working rig.

22. In addition to Pemex, another large customer, Petrobras, notified Paragon Parent that it was disputing contract language regarding the lengths of the contracts for Paragon's two dynamically positioned drillships operating in Brazil. This dispute resulted in the early termination of one ship in September 2015, earlier than the contract termination date in March 2017. Based on communications from Petrobras, Paragon expects that the other drillship will be terminated later this year. The contracts at issue constitute \$142 million of Paragon's contract

drilling services backlog. I am informed that Paragon continues to discuss the matter with Petrobras and plans to pursue all legal remedies available under these contracts.

23. Furthermore, as exploration and production companies seek to reduce expenses, they have approached Paragon Parent and other drilling companies to seek reductions in current contract dayrates. Referred to as “blend and extend” discussions, these conversations are sometimes mutually beneficial – for example, if a drilling contractor agrees to lower its contract dayrate in exchange for an exploration and production company’s agreement to add time to the contract term. In other cases, such as those Paragon faced in Mexico, drilling contractors may have no choice but to lower their dayrates or face termination.

C. Tax Disputes

24. As of September 30, 2015, Paragon Parent has received tax audit claims, primarily in Mexico and Brazil, of approximately \$348 million. I am informed that \$79 million of this amount is subject to indemnification by Noble under a certain Tax Sharing Agreement between Paragon Parent and Noble. I am also informed that, as of September 30, 2015, approximately \$374 million of tax audit claims that have been assessed against Noble by Mexican taxing authorities are subject to indemnity by Paragon Parent. Paragon Parent has either contested or intends to contest each of these assessments, and cannot predict or provide assurance as to the ultimate outcome of such assessments and legal actions. Paragon has no surety bonds or letters of credit associated with tax audit claims outstanding as of the Petition Date.

25. In addition to the tax audit claims, in January 2015, a subsidiary of Noble received an unfavorable ruling from the Mexican Supreme Court on a tax depreciation position claimed in periods prior to the Spin-Off. I am informed that, although the ruling does not constitute mandatory jurisprudence in Mexico, and the amount of the final liability is generally

only a fraction of that initially assessed, the ruling creates potential indemnification exposure for Paragon Parent under the Tax Sharing Agreement. Noble is the primary obligor to the Mexican tax authorities.

First Day Motions

26. Below is an overview of the First Day Motions. The First Day Motions seek relief intended to facilitate a smooth transition for the Debtors into these chapter 11 cases and minimize disruptions to the Debtors' business operations. Capitalized terms used but not otherwise defined in this Declaration shall have the meanings ascribed to them in the First Day Motions.

A. Joint Administration Motion

27. Pursuant to the joint administration motion, the Debtors request entry of an order directing consolidation of these chapter 11 cases for procedural purposes only. There are twenty-six Debtors, and I have been informed that there are more than 10,000 creditors and other parties in interest in these chapter 11 cases. I believe that joint administration of these cases will save the Debtors and their estates substantial time and expense because it will remove the need to prepare, replicate, file, and serve duplicative notices, applications, motions, and orders. Further, I believe that joint administration will relieve the Court of entering duplicative orders and maintaining duplicative files and dockets. The United States Trustee for the District of Delaware (the "**U.S. Trustee**") and other parties in interest will similarly benefit from joint administration of these chapter 11 cases, sparing them the time and effort of reviewing duplicative pleadings and papers.

28. I believe that joint administration will not adversely affect creditors' rights because this motion requests only the administrative consolidation of the estates, and does not

seek substantive consolidation. Accordingly, I believe that joint administration of these chapter 11 cases is in the best interests of the Debtors, their estates and all parties in interest, and should be granted in all respects.

B. Cash Management System Motion

29. Pursuant to the cash management system motion, the Debtors request (i) interim and final authority to (a) continue their existing cash management system (with such modifications as may be necessary to reflect the Debtors' corporate reorganization and as necessary to transition from the banking relationship with Wells Fargo); (b) continue using their existing business forms and bank accounts; and (c) continue their intercompany arrangements; and (ii) waiver of the requirements of section 345(b) of the Bankruptcy Code. The Debtors are also requesting that the Court authorize the Banks to continue to charge the Debtors the Bank Fees and to charge back returned items to the Bank Accounts, whether such items are dated before, on, or after the Petition Date.

30. Prior to the Petition Date and in the ordinary course of business, the Debtors employed a cash management system to collect funds generated by their operations and disburse those funds to satisfy obligations required to operate their business (the "**Cash Management System**"). The Cash Management System has several main components, including: (i) cash collection, including the collection of payments made to the Debtors from revenue generated in the ordinary course of business; (ii) cash transfers among the Debtors and certain nondebtor affiliates; and (iii) cash disbursements to fund the Debtors' primary debt obligations and business operations, primarily consisting of payroll and payments to vendors and service providers.

31. Although administration of the Cash Management System is ultimately subject to the control of the management of Paragon Parent, several of Paragon Parent's

subsidiaries maintain control over the administration of their own Bank Account located at various Banks around the world. A list of the Debtors' Bank Accounts, including nondebtor Bank Accounts, is annexed as **Schedule 1** to the Proposed Interim Order and the Proposed Final Order.

32. The Cash Management System utilizes a total of 41 Bank Accounts maintained by Wells Fargo and 52 additional Bank Accounts maintained at 21 different Banks in various countries. This system enables the Debtors to satisfy their operating needs, ensure cash availability and liquidity, pay material debt obligations in the ordinary course — including paying in local currency out of local bank accounts when required under applicable law, and reduce administrative expenses by facilitating the movement of funds. In addition to these benefits, the Cash Management System provides the Debtors with the ability to create, on an expedited basis, status reports on the locations and amounts of funds, thereby allowing management to track and control such funds.

33. To efficiently operate a global business enterprise, the Debtors rely heavily on services provided, and/or goods procured, by several important nondebtor subsidiaries of Paragon Parent, including Paragon Offshore Enterprises Ltd., Paragon Offshore (Asia) Pte. Ltd., Paragon Offshore (Land Support) Limited, Paragon Offshore Management S. de R.L. de C.V., Paragon Offshore Services LLC, and Paragon Offshore (GOM) Inc. (collectively, the **“Nondebtor Service Entities”**). The Nondebtor Service Entities provide necessary services to the Debtors, and are generally reimbursed by the Debtors for such services.

34. The Nondebtor Service Entities, which I am informed are not obligors or guarantors under the Debtors' long-term debt obligations and have not commenced their own chapter 11 cases, provide operational services for the Debtors, including the employment of

approximately half of the workforce utilized by the Debtors and the procurement of goods supplied to the Debtors. The Nondebtor Service Entities send invoices to the Debtors or the amounts are settled through intercompany transactions with the Debtors in order to be reimbursed by the Debtors. The Debtors maintain records of all of their intercompany transactions and can ascertain, trace, and account for their transactions. Discontinuation of any intercompany transactions with these entities could hinder the provision of business-critical employees and/or goods to certain entities. The Debtors seek to pay prepetition amounts owed to, and continue to fund, the Nondebtor Service Entities.

35. Although the Debtors do not have a centralized cash management system, the ability to exercise “central banker” powers from time to time is essential to maintaining necessary liquidity throughout their corporate structure. Generally, funds generated from the Debtors’ customers are deposited in a Bank Account ending in 4670 owned by Debtor Paragon International Finance Company (“**PIFCO**”) with JPMorgan Chase Bank (the “**JPM Account**”). Funds held in the JPM Account are then transferred to a Bank Account at Wells Fargo ending in 4240 owned by PIFCO, which, in turn, are then transferred to numerous Bank Accounts within the Cash Management System to, among other things, pay the Debtors’ material secured and unsecured debt obligations and to support Paragon’s global operations.

36. For international operations, the Debtors hold approximately 39 foreign Bank Accounts supporting their Mexican, Brazilian, Middle Eastern, North Sea, and West African operations. Funds from these Bank Accounts are transferred between and among Debtor and nondebtor Bank Accounts to generally satisfy accounts payable, taxes, employee payroll and other obligations. Excess funds from the company’s operations are typically held in the PIFCO Bank Account ending in 4240.

37. Paragon Parent holds approximately \$332 million in a Goldman Sachs Bank Account ending in 3774 and approximately \$11.5 million in a Bank of America Bank Account ending in 9069. Paragon Parent also has access to approximately \$234 million in a Goldman Sachs Bank Account ending in 3698 and approximately \$50 million in a Bank of America Bank Account ending in 7535, both owned by nondebtor Paragon International Investments Ltd. The funds held in these Bank Accounts are not subject to any lien or third-party security interests and are not commingled with funds held in any other Bank Account.

38. Approved procurement and business related expenses for travel, goods, and services are billed directly to the Debtors on account of a purchasing card (the “**P-Card**”) administered by Wells Fargo (the “**P-Card Program**”). As of the Petition Date, the Debtors’ employees utilize approximately 275 P-Cards. As security for all indebtedness owed by the Debtors to Wells Fargo under the P-Card Program, the Debtors pledged a Certificate of Deposit (including any replacement certificates of deposit, the “**CD**”) in the amount of \$500,000. As of the Petition Date, the Debtors do not believe any prepetition amounts are due to Wells Fargo on account of the P-Card Program. However, the possibility of prepetition amounts owing is possible because, among other things, charges by employees in various locations globally may not have been offset against the pre-funded balance due to processing delays by merchants. To the extent any such amounts are due, the Debtors estimate such obligations should not exceed \$250,000. To avoid any additional disruptions to their P-Card Program, and out of an abundance of caution, the Debtors are requesting authority to satisfy up to \$250,000 of prepetition obligations that may be owing to Wells Fargo on account of the P-Card Program.

39. The Debtors are seeking authority to continue utilizing the P-Card Program postpetition in the ordinary course of business, subject to a transition from Wells Fargo.

I am informed that if the Debtors are not permitted to continue paying expenses incurred on the P-Card, many employees could be forced to personally incur business-related expenses pending reimbursement.

40. On or about December 31, 2015, the Debtors received two letters from Wells Fargo stating that (i) Wells Fargo intended to terminate its deposit and treasury management relationship with Paragon within 30 days; (ii) Wells Fargo intended to terminate the P-Card Program; and (iii) Paragon had thirty days to open new Bank Accounts to deposit funds held in Wells Fargo Bank Accounts or such Bank Accounts would be closed and cashier's checks for any balances would be mailed to the Debtors. The Debtors subsequently engaged in a series of discussions with Wells Fargo about substitute banking arrangements, including the necessary timing to avoid a material disruption to their business operations.

41. As of the Petition Date, the Debtors have been working diligently to transition Wells Fargo Bank Accounts to Bank of America. I am informed that the Debtors intend to implement a cash management system with Bank of America to replace the current system with Wells Fargo. To date, the Debtors have not transitioned any cash management operations from a Wells Fargo Bank Account to a Bank of America Bank Account.

42. Pursuant to the motion, the Debtors seek to establish a transitional program (the "**Transitional Program**") that is intended to minimize the risk of a disruption to their business by the loss of any P-Cards.

43. In exchange for the ability to continue to utilize Wells Fargo Bank Accounts and P-Cards, the Debtors propose to provide the following protections to Wells Fargo:

- The Debtors would be authorized and required to pay outstanding prepetition claims up to \$250,000 under the Proposed Interim Order and any remaining prepetition claims under the Proposed Final Order to Wells Fargo on account of a Wells Fargo

Bank Account fee or service, or the P-Card Program, and the Debtors shall pay postpetition balances on such programs in the ordinary course of business.

- The Debtors would be authorized to continue to use the P-Card subject to the terms and conditions thereof.
- The CD would remain in place on behalf of (and for the benefit of all of) Paragon to provide assurance that Wells Fargo will be paid in full under the P-Card Program in the ordinary course of business. Wells Fargo would also be permitted to offset any balance due on the P-Card Program from an appropriate Debtor Wells Fargo Bank Account against such cash collateral, regardless of which Paragon entity is technically liable for the amounts due on the account.
- The Debtors would be authorized by the Court to take all and further actions necessary or appropriate to implement the Transitional Program in a way that is cost-effective and minimizes risk to the Debtors' business operations.
- In the event that Paragon entities are not able to access a P-Card, the Debtors would be authorized to reimburse any employee (or provide funding to the Nondebtor Service Entities to reimburse any employee) as soon as reasonably practical after the employee incurred an expense on her or his own credit card or out of his or her own pocket due to the lack of access to a P-Card

44. I believe that establishment of the Transitional Program is necessary and appropriate to minimize the risk of business disruption and is a step towards restoring the Debtors to their ordinary-course business operations. The requested provisions of the Transition Program are designed to give the Debtors flexibility to agree to structures that are acceptable to both the Debtors and Wells Fargo.

45. In the ordinary course of their business, the Debtors incur and pay, honor, or allow to be deducted from the appropriate Bank Accounts certain service charges and other fees, costs, and expenses charged by the Banks (collectively, the "**Bank Fees**"). As a result of the Debtors' extensive need to use the Bank Accounts in the ordinary course of their business, the Bank Fees currently average approximately \$75,000 per month to the Debtors' Banks.

46. I believe that the Cash Management System constitutes an ordinary-course and essential business practice providing significant benefits to the Debtors, including, among

other things, the ability to control corporate funds, ensure the maximum availability of funds when and where necessary, and reduce borrowing costs and administrative expenses by facilitating the movement of funds and the development of more timely and accurate account balance information. Any disruption of the Cash Management System could have a severe and adverse impact upon the Debtors' value.

47. I am informed that the Debtors will maintain all records of receipts, disbursements, and transfers within the Cash Management System, including postpetition intercompany transactions and any intercompany balances that existed as of the commencement of these Cases. I am also informed that all transfers and transactions will be properly documented, and accurate intercompany balances will be maintained.

48. The Debtors request that all Banks at which the Bank Accounts are maintained be authorized and directed to continue to administer such accounts as they were maintained prepetition, without interruption, and in the ordinary course of business.

49. The Banks in which Disbursement Accounts exist also should be authorized and directed to pay any and all drafts, wires, and ACH transfers issued on the Bank Accounts for payment of any claims arising on or after the Petition Date, or prior to the Petition Date to the extent such claims were approved by order of the Bankruptcy Court, in each case so long as sufficient funds are in these accounts.

50. In these chapter 11 cases, strict enforcement of the U.S. Trustee's Operating Guidelines, as I understand them, with respect to the Cash Management System would severely disrupt the Debtors' ordinary financial operations by reducing efficiencies, increasing administrative burdens, and creating unnecessary expenses. For example, if the Debtors were required to open new debtor-in-possession accounts and modify the Cash Management System

accordingly, the Debtors would be forced to reconstruct the Cash Management System in its entirety. This simply would not be possible in an enterprise like the Debtors' business that requires multiple Bank Accounts all over the world. The Debtors' finance department, including accounting and bookkeeping employees, would need to focus their efforts on immediately opening new bank accounts and working to establish proper controls for cash to flow properly, thereby diverting them from their daily responsibilities during this critical juncture of the Debtors' chapter 11 cases. Many accounts could not be replaced in time to effectively continue the Debtors' business; even if they could, the opening of new bank accounts would increase operating costs, and the delays that would result from opening new accounts, revising cash management procedures, and instructing customers to redirect payments would negatively impact the Debtors' ability to operate their business while establishing these new arrangements.

51. The Debtors should also be permitted to maintain their business forms. The Debtors issue manual checks from time to time and use a variety of business forms in the ordinary course of their business. Changing this practice would increase the Debtors' expenses and would risk unnecessarily confusing the Debtors' customers, suppliers, and employees. Accordingly, the Debtors believe it is appropriate to continue to use all correspondence and other business forms (including letterhead, purchase orders, invoices, and all other business forms) as such forms were in existence prior to the commencement of these Chapter 11 Cases. Further, in light of the expense and delay attendant in ordering entirely new business forms, the Debtors believe it is appropriate to use their existing correspondence and other business forms without any reference to the Debtors' current status as debtors in possession.

52. The Debtors also request a waiver of the requirements of section 345(b) of the Bankruptcy Code. All or nearly all of the Debtors' Banks holding significant balances are

highly rated, nationally chartered banks subject to supervision by national banking regulators; the Debtors retain the right to close accounts with the Banks and establish new bank accounts as needed; the cost associated with satisfying the requirements of section 345(b) is needlessly burdensome to the Debtors and their estates; and the process of satisfying such requirements would lead to needless inefficiencies in the management of the Debtors' business. Furthermore, the unique international nature of the Debtors' business requires Bank Accounts in multiple jurisdictions. The benefits of an interim waiver would far outweigh any potential harm to the estates from noncompliance with section 345(b). Moreover, a bond secured by the undertaking of a corporate surety would be prohibitively expensive (if such a bond could be obtained at all). Accordingly, the Court should waive the requirements of section 345(b) in these Chapter 11 Cases.

53. Based on the foregoing, I believe that the relief requested in the cash management motion is in the best interests of the Debtors, their estates, and all parties in interests and should be approved.

C. Tax Motion

54. Pursuant to the tax motion, the Debtors request (i) authority to satisfy Taxes (as defined below) due and owing to various local, state, and foreign taxing authorities (collectively, the "**Taxing Authorities**") that arose prior to the Petition Date, including Taxes subsequently determined by audit or otherwise to be owed for periods prior to the Petition Date, and (ii) that the Court authorize applicable banks and financial institutions to receive, honor, process, and pay all checks issued or to be issued and electronic fund transfers requested or to be requested relating to the above.

55. The Debtors are required to pay certain franchise taxes assessed for the privilege of doing business within a particular jurisdiction (the "**Franchise Taxes**"). Franchise

Taxes are typically paid annually to an applicable Taxing Authority. I understand that the Debtors do not owe any Franchise Taxes relating to periods prior to the Petition Date. The Debtors are requesting authority to pay all prepetition Property Taxes under the Proposed Final Order.

56. The Debtors also own certain personal property in Houston, Texas that is subject to local property taxes (the “**Property Taxes**”). The Property Taxes are assessed in estimated amounts at the beginning of the year, and the Debtors remit payments on such estimated amounts to the county Taxing Authority on an annual basis. The Debtors estimate that they will owe approximately \$150,000 in Property Taxes for calendar year 2015. The Debtors request authority to pay these Property Taxes under the Proposed Final Order.

57. In connection with the Debtors’ foreign operations, the Debtors withhold and incur certain income taxes, withholding taxes, customs taxes, value-added taxes, and other business taxes (the “**Foreign Taxes**”), and are obligated to timely collect, withhold, incur, and remit the Foreign Taxes to Taxing Authorities. The Debtors estimate that they will owe approximately \$7.4 million in Foreign Taxes relating to periods prior to the Petition Date. The Debtors seek to pay up to \$3.3 million of Foreign Taxes under the Proposed Interim Order.

58. In addition to Foreign Taxes, certain non-U.S. countries in which the Debtors operate require a tax paying entity to post bonding in the form of a cash deposit, a cash collateralized bond, or a letter of credit (a “**Tax Bond**”) before contesting any tax audit claims or assessments of applicable Foreign Taxes owed by the Debtor (the “**Contested Taxes**”). Contested Taxes are discussed in the Debtors’ Proposed Disclosure Statement for Joint Chapter 11 Plan of Paragon Offshore Plc and its Affiliated Debtors that was filed on the Petition Date.

59. Finally, the Debtors incur in the ordinary course of business, certain regulatory assessments, permitting fees, licensing fees, levies, and other miscellaneous Taxes (collectively, the “**Regulatory Assessments**,” and collectively with the Franchise Taxes, the Property Taxes, and the Foreign Taxes, the “**Taxes**”). The Debtors estimate that they will owe approximately \$50,000 in Regulatory Assessments relating to the periods prior to the Petition Date. The Debtors request authority to pay prepetition Regulatory Assessments under the Proposed Interim Order in an amount not exceeding \$25,000 and the remaining outstanding amounts under the Proposed Final Order.

60. In summary, as of the Petition Date, the Debtors estimate that approximately \$150,000 in Property Taxes, \$7.4 million in Foreign Taxes, and \$50,000 in Regulatory Assessments relating to periods prior to the Petition Date will become due and owing to the Taxing Authorities after the Petition Date. Pursuant to the Proposed Interim Order, the Debtors request authority to pay up to \$3.33 million of Foreign Taxes and Regulatory Assessments. Pursuant to the Proposed Final Order, the Debtors request authority to pay all remaining prepetition amounts.

61. I understand that failure to pay the aforementioned Taxes may cause Taxing Authorities to take precipitous action, including, but not limited to, filing liens, preventing the Debtors from conducting business in the ordinary course of business in the applicable jurisdictions in which they operate, and potentially holding directors and officers of personally liable, all of which would disrupt the Debtors’ day-to-day business operations, potentially impose significant costs of the Debtors’ estates and their creditors, and hinder the Debtors’ efforts to successfully reorganize.

62. Based on the foregoing, I believe that the relief requested in the tax motion is in the best interests of the Debtors, their estates, and all parties in interests and should be approved.

D. Utilities Motion

63. Pursuant to the utilities motion, the Debtors request entry of interim and final orders (i) approving the Debtors' proposed form of adequate assurance of payment for postpetition Utility Services (as hereinafter defined); (ii) establishing procedures for resolving objections by Utility Companies (as hereinafter defined) relating to the adequacy of the proposed adequate assurance; and (iii) prohibiting the Utility Companies from altering, refusing, or discontinuing service to, or discriminating against, the Debtors on the basis of the commencement of these chapter 11 cases or that a debt owed by the Debtors for Utility Services rendered before the Petition Date (as hereinafter defined) was not paid when due.

64. To operate their business and manage their properties, the Debtors obtain telecommunications, waste disposal, water, gas, electricity, and other utility services (collectively, the "**Utility Services**") from a number of utility companies (collectively, the "**Utility Companies**"). A nonexclusive list of Utility Companies that provide Utility Services to the Debtors as of the Petition Date is attached as an exhibit to the Proposed Interim Order and the Proposed Final Order annexed to this motion (the "**Utility Services List**").

65. To the best of my knowledge, there are no defaults or arrearages of any significance for the Debtors' undisputed invoices for prepetition Utility Services, other than payment interruptions that may be caused by the commencement of these chapter 11 cases. Based on their monthly average for the twelve (12) months prior to the Petition Date, the Debtors estimate that their cost of Utility Services for the next thirty (30) days will be approximately \$500,000.

66. I believe that uninterrupted Utility Services are essential to the Debtors' ongoing operations and, therefore, the success of the Debtors' reorganization. I understand that should any Utility Company alter, refuse, or discontinue service, even briefly, the Debtors' business operations could be severely disrupted, which would hinder the Debtors' efforts to successfully reorganize.

67. The Debtors intend to timely pay all postpetition obligations owed to the Utility Companies and I believe that the Debtors have sufficient funds to do so. Nevertheless, to provide adequate assurance to the Utility Companies, the Debtors propose to deposit cash in an amount equal to two (2) weeks' payment for Utility Services, calculated using the historical average for such payments during the past twelve (12) months (an "**Adequate Assurance Deposit**") into a newly created segregated account for the benefit of the Utility Companies (a "**Utility Deposit Account**").

68. The Adequate Assurance Deposit will be placed into the Utility Deposit Account within twenty (20) days after the Petition Date. The Debtors estimate that the total amount of the Adequate Assurance Deposit will be approximately \$250,000. The Adequate Assurance Deposit will be held by the Debtors in the Utility Deposit Account for the benefit of the Utility Companies on the Utility Services List during the pendency of these chapter 11 cases; and a Utility Company will be eligible to receive payment from the Adequate Assurance Deposit in an amount equal to two (2) weeks of its Utility Services.

69. I believe that the relief requested will ensure the continuation of the Debtors' business at this critical juncture as the Debtors transition into chapter 11. I believe that the relief requested also provides the Utility Companies with a fair and orderly procedure for determining requests for additional adequate assurance.

70. Based on the foregoing, I believe that the relief requested in the utilities motion is in the best interests of the Debtors, their estates, and all parties in interests and should be approved.

E. Insurance Motion

71. Pursuant to the insurance motion, the Debtors request entry of interim and final orders authorizing them to continue and/or renew their existing liability, property and other insurance policies and programs (collectively, the “**Insurance Programs**”), and pay any undisputed prepetition obligations, as well as, on an ongoing basis, any postpetition obligations thereunder (the “**Insurance Obligations**”).

72. The Debtors maintain various liability and property-related Insurance Programs from various insurance carriers (“**Insurance Carriers**”). The Debtors also enter into relationships with affiliates and brokers that are necessary for the maintenance of the Insurance Programs at competitive rates.

73. Workers’ Compensation, Liability, Property and Other Insurance Programs and Policies. The Debtors maintain various liability and property-related Insurance Programs concerning, among other things, directors’ and officers’ liability, transportation, travel and commercial automotive claims, commercial property damage, loss of production and destruction of drilling assets, maritime-related damage, umbrella and excess liability claims and various other liabilities. I believe that the continuation of these policies is essential to the ongoing operations of the Debtors’ businesses and required under certain of the Debtors’ prepetition agreements. A list of Insurance Programs and respective Insurance Carriers is annexed as **Exhibit C** to the insurance motion. Certain of the Insurance Programs expire in the next few months, and the Debtors will be required to renew or enter into new Insurance Programs to replace those expiring policies.

74. The Debtors are required to pay premiums under the Insurance Programs (the “**Insurance Premiums**”) based upon a fixed rate established and billed by the applicable Insurance Carrier. The Debtors’ respective premiums due under the various Insurance Programs that are currently in place were paid in advance, either by the Debtors directly or by the Brokers (as defined below) on the Debtors’ behalf. The aggregate annual Insurance Premiums, including all associated fees and taxes, for the current Insurance Programs was approximately \$19.4 million. It is my understanding that no amounts are currently owed under the current Insurance Programs for Insurance Premiums.

75. In addition to the annual premiums, certain of the Insurance Programs impose various deductibles for claims asserted under the policies (the “**Insurance Deductibles**”). The amounts of the applicable Insurance Deductibles are set forth on Exhibit C to the insurance motion. The Debtors submit that no amounts are currently owed for Insurance Deductibles relating to the period prior to the Petition Date.

76. Insurance Brokers. At times, the Debtors employ certain insurance brokers (the “**Brokers**”) to assist them with procuring and negotiating certain of the Insurance Programs and processing claims, remitting payments to the Insurance Carriers on behalf of the Debtors. The Debtors pay the Brokers annual fees of approximately \$740,000. The Debtors believe that, as of the Petition Date, all prepetition Brokers’ fees have been fully paid.

77. I believe that the nature of the Debtors’ businesses and the extent of their operations make it essential for the Debtors to maintain their Insurance Programs on an ongoing and uninterrupted basis. The nonpayment of any premiums, deductibles or related fees under the Insurance Programs could result in the Insurance Carriers attempting to terminate their existing

policies,² declining to renew their insurance policies or refusing to enter into new insurance agreements with the Debtors in the future. I believe that if the Insurance Programs were allowed to lapse without renewal, the Debtors could be exposed to substantial liability for damages resulting to persons and property of the Debtors and others, which exposure could have an extremely negative impact on the Debtors' ability to successfully reorganize. Furthermore, I am informed that the Debtors are required by the U.S. Trustee's guidelines to maintain certain of the Insurance Programs. Accordingly, the Debtors should continue the Insurance Programs as such practices, programs and policies were in effect as of the Petition Date and be authorized to satisfy any Insurance Obligations as they come due.

78. Based upon the foregoing, I believe that the relief requested in the insurance motion is in the best interests of the Debtors, their estates and all parties in interest and should be granted.

F. Employee Wages and Benefits Motion

79. Pursuant to the employee wages and benefits motion, the Debtors request authority to: (a) pay, in their sole discretion, all obligations incurred, directly or indirectly, under or relating to the Debtors' Compensation Obligations and Employee Benefit Plans (each as defined below), all related expenses, and all fees and costs incident to the foregoing, including amounts owed to third-party administrators; (b) maintain and continue to honor and pay, in their sole discretion, all amounts with respect to the Debtors' business practices, programs, and policies for their employees; and (c) pay, in their sole discretion, Temporary Employees for their services. The Debtors further request that the Court direct financial institutions to receive,

² I am informed, however, that any unilateral attempt by an Insurance Carrier to terminate a prepetition policy would violate the automatic stay imposed by section 362(a) of the Bankruptcy Code.

process, honor, and pay all checks presented for payment and to honor all fund transfer requests related to such obligations.

80. Employee Obligations. For purposes of this motion, the term “**Employees**” includes all persons, as of the Petition Date, entitled to compensation, benefits, reimbursement or any other similar payment as a consequence of being employed by the Debtors and the non-Debtor affiliates (the “**Nondebtor Service Entities**”).

81. As of the Petition Date, Paragon and non-Debtor affiliates directly or indirectly owned by Paragon Parent (collectively, the “**Paragon Employer Entities**”) employ 1,750 full time Employees for their U.S. and international operations. Approximately 43% of such Employees are employed by the Nondebtor Service Entities. Nondebtor Service Entity Employees provide essential operational services to the Debtors, and are reimbursed by the Debtors for their costs of doing so. Substantially all of the Nondebtor Service Entities’ Employees provide services exclusively to the Debtors. I am informed that, without continued reimbursement by the Debtors, Nondebtor Service Entities do not have the funds to pay Employees.

82. Payroll Servicers. To facilitate payment of certain of their Employee Obligations, Paragon Employer Entities use in-house and third party payroll service providers (“**Payroll Servicers**”) to make payments to Employees, Taxing Authorities, and certain Employee benefits providers on behalf of the Paragon Employer Entities. The Paragon Employer Entities pay the Payroll Servicers fees of approximately \$23,000 on a monthly basis (the “**Payroll Servicer Fees**”). The Debtors estimate they owe approximately \$36,000 on account of prepetition Payroll Servicer Fees. I believe that the continued payment of these Payroll Servicer Fees will help ensure that there is no material disruption in payment of the

Compensation Obligations (as hereinafter defined) and Tax Obligations as well as the administration of Employee Benefits.

83. Compensation Obligations. The Paragon Employer Entities typically pay obligations relating to Employee wages, salary, and compensation (the “**Base Compensation Obligations**”) on a semi-monthly or monthly basis by advancements to the Payroll Servicers, which then provide direct deposits into the Employees’ private bank accounts. The Debtors estimate that their gross monthly payroll for the Base Compensation Obligations is approximately \$17.7 million. I understand that as of the Petition Date, the Paragon Employer Entities owe approximately \$25,000 in Base Compensation Obligations that are accrued but outstanding and unpaid. However, compensation may be due and owing as of the Petition Date because of, among other things, potential discrepancies between amounts paid and the amounts that certain Employees believe should have been paid, which, upon resolution, may reveal that additional amounts are owed to such Employees.

84. In addition to the regular Base Compensation Obligations, the Paragon Employer Entities offer certain eligible Employees performance-based bonuses (the “**Performance Bonus Obligations**,” and, together with the Base Compensation Obligations, the “**Compensation Obligations**”). These Performance Bonus Obligations include safety bonuses (which are entirely funded by the Paragon Employer Entities’ customers), rig retention and market premium bonuses (each of which have been suspended for 2016)³, bonuses under the Short Term Incentive Plan (“**STIP**”), and certain other long term incentive and retention bonuses.

³ Employees that are considered on leave are not entitled to receive an earned bonus unless and until they return to active employee status. The Debtors estimate that as of the Petition Date, they have accrued approximately \$117,500 in contingent prepetition obligations related to rig retention and/or market premium bonuses earned by 15 non-insider Employees prior to taking leave.

85. The STIP is paid annually to all eligible full-time, shore-based employees and select offshore employees, based upon performance. Such bonus payments are governed by Paragon Parent's policy. Certain eligible Employees earn performance bonuses based on the following criteria: (i) company financial performance, which incorporates metrics such as "EBITDA" and the company's budgeted financial performance; (ii) safety performance, which incorporates an applicable "Total Recordable Injury Rate;" (iii) operational performance, which incorporates metrics such as operational uptime; (iv) strategic performance, which is based on meeting specified team and company goals; and (v) personal performance, which is based on meeting specified individual goals. The Debtors intend to continue the STIP program in the ordinary course. I understand that as of the Petition Date, all prepetition STIP obligations for active Employees have been paid in full.⁴

86. Paragon Employer Entities also provide long-term incentive compensation in the form of cash awards and restricted stock units in Paragon Parent to all eligible Employees pursuant to an Employee Omnibus Incentive Plan (the "**Employee Plan**") and Director Omnibus Plan (the "**Director Plan**"). Payments made under the Employee Plan vest pro rata over three years on each anniversary of the grant date. Payments under the Director Plan generally vest at the next Annual General Meeting of Shareholders. The Debtors estimate that approximately 1.7 million restricted stock units will vest over the remainder of 2016, including approximately 1 million units within thirty days of the Petition Date. In addition, non-insider Employees are scheduled to receive approximately 870,000 units that vest into cash awards within one week of

⁴ However, the Debtors estimate that they have accrued approximately \$45,000 in contingent obligations related to STIP bonuses that were earned by six non-insider Employees that are currently on leave (these contingent obligations, together with the contingent rig retention/market premium bonuses, the "**Contingent Accrued Obligations**"). These Contingent Accrued Obligations will only become due and owing if the Employees return to active status.

the Petition Date. The value of these units upon vesting is dependent on the market price of Paragon Parent's ordinary shares on the date of the vesting, but is estimated to be approximately \$300,000 based on the most recent closing price of Paragon Parent's ordinary shares. The Debtors therefore seek authority to pay the value of these vesting units on account of prepetition obligations, estimated to be approximately \$300,000.

87. In October 2015, Paragon Parent awarded certain significant Employees with Key Employee Retention Plan Agreements ("**KERP Agreements**"). The KERP Agreements provided for a one-time cash payment equal to a specified percentage of an eligible Employees' current annual base salary. It is my understanding that the Debtors do not owe any prepetition amounts on account of a KERP Agreement.

88. Based on the foregoing, the Debtors seek authority to pay approximately \$325,000 on account of Compensation Obligations; consisting of \$25,000 in Base Compensation Obligations; and \$300,000 in Performance Bonus Obligations. Under the Proposed Interim Order, no proposed payments to any individual Employee on account of Compensation Obligations would exceed \$12,475.

89. Payroll Taxes. Paragon Employer Entities based in the United States are required by law to withhold from Employees' salaries and wages certain amounts related to federal, state, and local income taxes, social security taxes, Medicare taxes, and other taxes imposed by law (each, a "**Withholding Tax**") and to remit any such withheld amounts to the appropriate Taxing Authorities. Foreign-based Paragon Employer Entities have similar Withholding Tax obligations under the laws of the various foreign nations in which they operate.

90. Certain foreign Employees' income tax obligations are withheld pursuant to the Debtors' Global Tax Equalization Program ("**GTE Program**"). The GTE Program

ensures eligible Employees working throughout the world maintain a tax neutral position no matter where they are placed. Pursuant to the GTE Program, Paragon Employer Entities withhold the equivalent of an Employee's at home income tax on a per pay basis and remit the withholdings to the appropriate Taxing Authority *via* Home Country Tax Contributions ("**HCTC**") pursuant to the laws of the applicable jurisdictions on a monthly, quarterly, or annual basis, with the majority of the accrual being remitted at year-end. Paragon Employer Entities have accrued approximately \$1.9 million in HCTC obligations since January 1, 2016. The average amount of HCTC obligations remitted to Taxing Authorities on a monthly basis is approximately \$40,000. Accordingly, within two weeks of the Petition Date, approximately \$40,000 in HCTC obligations will be due on account of prepetition accruals.

91. Paragon Employer Entities are also required to make certain additional payments from their own funds in connection with the Withholding Taxes. In the United States, these payments include matching payments on account of social security and Medicare taxes and, subject to certain limitations, additional amounts based upon a percentage of gross payroll for, among other things, state and federal unemployment insurance (collectively, the "**Contribution Taxes**;" together with the Withholding Taxes, the "**Payroll Taxes**"). Paragon Employer Entities remit federal Contribution Taxes each payroll period and state Contribution Taxes at frequencies determined under applicable law. Paragon Employer Entities also have similar obligations under the laws of the foreign nations in which they operate; including statutorily required Contribution Taxes deposited into the *Fundo de Garantia do Tempo e Serviço* for the benefit of Brazilian Employees. I understand that, on account of Payroll Taxes, Paragon Employer Entities withhold and contribute approximately \$6 million per month.

92. As of the Petition Date, all prepetition Payroll Taxes have been paid in full, with the exception of Payroll Taxes accruing on account of the Debtors' Brazilian Employees and accrued HCTC obligations. As of the Petition Date, the Debtors estimate they owe approximately \$1.1 million in accrued and outstanding taxes on account of Brazilian Employees and \$1.9 million in outstanding HCTC obligations, totaling approximately \$3 million in outstanding Payroll Tax obligations at the Petition Date.

93. Garnishments. In the ordinary course of processing payroll checks for Employees, Paragon Employer Entities may be required by law to withhold from certain Employees' wages amounts for garnishments including tax levies, child support, and court-ordered garnishments (collectively, "**Garnishments**"). Amounts withheld on account of Garnishments are remitted to the appropriate state, federal, or non-U.S. authorities. On average, approximately \$55,000 per month is withheld from Employees' salaries and wages on account of Garnishments.

94. Expense Reimbursements. The Paragon Employer Entities' Employees incur various expenses (the "**Expenses**") in connection with their employment duties, such as travel and meal expenses. Because of the irregular nature of requests for reimbursements, I am informed that it is difficult to determine the amount of Expenses outstanding at any given time. The Debtors, however, estimate that the amount of outstanding Expenses, as of the Petition Date, is approximately \$160,000.

95. Employee Benefit Plans. The Paragon Employer Entities have established certain benefit plans and policies for their Employees that provide, among other benefits, medical, dental and vision plans, life insurance, short and long term disability insurance, retirement plans, severance, and paid time off (collectively, the "**Employee Benefits**"). The

Paragon Employer Entities deduct specified amounts from the Employees' wages in connection with certain of the Employee Benefits. Most of the Employee Benefits are administered by third parties.

96. Medical, Vision, Dental and Prescription Drug Benefits. Paragon Employer Entities administer the following health benefits plans through various insurers to eligible Employees and their families, including, among other things: medical, vision, dental, and prescription drug benefits:

<u>Eligible Employees</u>	<u>Type of Benefits</u>	<u>Benefits Provider</u>
Domestic Employees	Medical	UnitedHealthcare
	Dental	
	Vision	UnitedHealthcare Vision
	Prescription Drug	Caremark/RXBenefits
Domestic Offshore Employees	Medical	UnitedHealthcare
	Dental	
	Vision	UnitedHealthcare Vision
	Prescription Drug	Caremark/RXBenefits
Other Foreign National Employees	Medical	AXA PPP HealthCare
	Dental	UnitedHealthcare
Brazil	Medical	Bradesco; International Healthcare
Mexico	Medical	Grupo Nacional Provincial S.A.B.
Middle East	Medical	Abu Dhabi National Insurance Company (Middle East)
Netherlands	Medical	CZ Medical

<u>Eligible Employees</u>	<u>Type of Benefits</u>	<u>Benefits Provider</u>
UK	Medical	AXA PPP HealthCare

97. Several of the main benefits providers listed above (each, a “**Health Benefits Provider**”) are preferred provider organizations under which improved benefits are available when using a doctor, dentist, or other healthcare provider that is within the network of preferred providers. In the ordinary course of business, each Health Benefits Provider premium may vary as the number of Employees enrolled in the Health Benefits Provider plans changes and as the Health Benefits Provider administrators change their prices.

98. I understand that the Paragon Employer Entities’ average monthly cost with regard to medical insurance premiums is approximately \$320,000. As of the Petition Date, the Debtors believe that no payments for the Employees medical insurance premiums are accrued and outstanding.

99. In addition, Paragon Employer Entities pay a percentage of medical, dental, and vision claims (the “**Health Benefit Claims**”) submitted by Employee participants under UnitedHealthcare administered plans. The average monthly cost of Health Benefit Claims is approximately \$440,500. I understand that the Debtors’ calculated monthly lag rate for Health Benefit Claims suggests that approximately 2.15 months’ worth of claims totaling approximately \$947,000 are outstanding on the Petition Date, including those which may have not yet been submitted.

100. Life Insurance, AD&D Insurance, and Long-Term Disability. Paragon Employer Entities administer life insurance (the “**Life Insurance Plans**”), AD&D insurance (the “**AD&D Insurance Plans**”), and long-term disability benefits (the “**Long-Term Disability Plan**”) to eligible Employees. As of the Petition Date, the Debtors estimate they owe

approximately \$66,000 in outstanding liabilities related to Life Insurance, AD&D Insurance Plan and Long-Term Disability Plan costs.

101. 401(k) Plan and International Savings Plans. Paragon Employer Entities participate in a 401(k) plan for the benefit of certain eligible Employees (the “**401(k) Plan**”). The 401(k) Plan is provided and administered by Milliman Benefits with the assistance of Paragon Parent. Certain foreign national Employees that do not qualify for the 401(k) Plan may participate in an International Savings Plan (the “**ISP**”). The ISP is administered by Fidelity.

102. All Employee plan contributions, employer matching contributions, and related administration fees have been fully funded through the most recent payment made on February 9, 2016. Accordingly, I understand that, as of the Petition Date, no prepetition amounts are due on account of the 401(k) Plan or ISP.

103. 401(k) Savings Restoration Plans. Paragon Employer Entities participate in two 401(k) savings restoration plans (the “**Restoration Plans**”). The Restoration Plans are nonqualified, unfunded employee benefit plans. All contributions and payments made pursuant to the Restoration Plans have been frozen for 2016.

104. UK Plans. Certain Employees based in the United Kingdom are eligible to participate in a FriendsLife Flexible Retirement Account and GPP Scottish Widows plan (together, the “**UK Plans**”). All costs associated with the UK Plans, including the UK Matching Contributions and the related administration fees have been fully funded to date. Accordingly, as of the Petition Date, no prepetition amounts are due on account of the UK Plans.

105. European Pension Plans. Certain Paragon Employer Entities participate in pension schemes administered by Nationale Nederlanden, a defined contribution plan and

defined benefit plan (together, the “**European Pension Plans**”). All administrative costs and employer contributions pursuant to the European Pension Plans have been fully funded to date.

106. Other Pension Plans. Certain foreign Paragon Employer Entities offer additional Retirement Benefits including a *Retire, Cesantia y Vejez* plan available for Employees in Mexico, and a pension administered by Bradesco Previdencia for Employees located in Brazil. All costs associated with these pension plans have been fully funded as of the Petition Date.

107. Severance Plan. Paragon Employer Entities are required to provide severance payments to certain Employees pursuant to foreign law and certain Employee collective bargaining agreements. These severance requirements include, among others, statutory severance paid to eligible foreign Employees in the ordinary course, and payment to certain Mexican Employees of up to 90 days base salary as well as payment for certain bonuses and Employee Benefits (collectively, the “**Severance Obligations**”). As of the Petition Date, I understand that the Paragon Employer Entities do not owe any amounts pursuant to Severance Obligations incurred prepetition.

108. Other Employee Benefits. Paragon Employer Entities provide certain eligible Employees with annual flights home (or an allowance to cover such travel), relocation benefits, moving services, or moving stipends in accordance with company policy subject to change from time to time. Paragon Employer Entities also provide rental property, hotel accommodations, or property allowances to certain eligible Employees. Finally, Paragon Employer Entities provide transportation allowances to certain eligible Employees and certain income adjustments. The Debtors estimate that these additional benefits cost approximately \$84,000 per month for the Paragon Employer Entities. The Paragon Employer Entities pay these

expenses as they arise in the ordinary course of business and believe that no amounts are owed on account of these prepetition benefits.

109. In addition, the Paragon Employer Entities use ATPI (Griffin) Travel Services (“**ATPI**”), a global travel provider, to book flights, hotels and car rentals for Employees. ATPI currently holds approximately \$1 million from which such expenses are deducted. Pursuant to the agreement with ATPI, the Debtors are responsible for replenishing the balance weekly to maintain a deposit balance of \$1 million at all times. The deposit is refundable to the Debtors after 60 days upon termination of the agreement. As of the Petition Date, no prepetition amounts relating to the ATPI travel program are outstanding.

110. Temporary Employee Obligations. In the ordinary course of business, and in addition to the Employees, Paragon Employer Entities also rely on the services of approximately 832 individuals as temporary employment agency employees (each, a “**Temporary Employee**”) to conduct their business operations. Paragon Employer Entities contract with external employment agencies to hire Temporary Employees when it is efficient or cost-effective to do so. The Temporary Employees are mostly highly specialized offshore drilling rig workers and are therefore an integral component of the Debtors’ business. The Debtors estimate that, as of the Petition Date, they owe approximately \$372,000 on account of prepetition Temporary Employee obligations (the “**Temporary Employee Obligations**”). I understand that it would be difficult for the Paragon Employer Entities to replace their Temporary Employees. The Debtors, as with their Employees, have spent considerable time and energy searching for Temporary Employees who understand the Debtors’ business practices and policies and who are familiar with the Debtors’ businesses.

111. Below is a summary of Employee Obligations and Temporary Employee Obligations:

Obligations	Relief Requested	Interim Relief Requested
Base Compensation Obligations	\$25,000	\$25,000
Performance Bonus Obligations	\$300,000	\$300,000
Payroll Servicer Fees	\$36,000	\$36,000
Expenses	\$160,000	\$160,000
Payroll Tax	\$3,025,000	\$1,140,000
Health and Welfare Benefits	\$1,000,000	\$1,000,000
Retirement Benefits	None	None
Severance Obligations	None	None
Other Employee Benefits	None	None
Employee Obligations	\$4,546,000	\$2,661,000
Temporary Employee Obligations	\$372,000	\$372,000
Total Relief Requested	\$4,918,000	\$3,033,000

112. I believe that due to the specialized nature of the Debtors' businesses and their small but highly-skilled workforce, Employees of an equivalent level of skill and knowledge would be difficult and costly for the Paragon Employer Entities to find and integrate into their operations in an efficient manner.

113. I also believe that the uninterrupted and continued performance of the Temporary Employees is critical to the Debtors' ability to conduct their operations. I also believe it is necessary to continue payment of the Payroll Servicer Fees and to the administrators of programs related to Employee Benefits. Without the continued services of these

administrators the Debtors will be unable to continue to honor their Employee Obligations in an efficient and cost-effective manner.

114. Based on the foregoing, I believe that the relief requested in the employee motion is in the best interests of the Debtors, their estates, and all parties in interests and should be approved.

G. Payment of General Unsecured Claims in the Ordinary Course Motion

115. Pursuant to the trade claims motion, the Debtors request interim and final authority to pay, in the ordinary course of business, allowed prepetition claims (collectively, the “**Trade Claims**”) of general unsecured creditors that provide goods or services to the Debtors (collectively, the “**Trade Creditors**”), many of which are located in jurisdictions outside the United States (collectively, the “**Foreign Creditors**”).

116. The Debtors are a global provider of offshore drilling rigs, operating for leading national, international, and independent oil and gas companies in active hydrocarbon producing markets, principally in Mexico, Brazil, the North Sea, the Middle East and India. Their primary business is contracting rigs, related equipment and work crews to conduct oil and gas drilling and workover operations for exploration and production customers on a dayrate basis around the world.

117. Trade Creditors provide the Debtors with the goods and services that facilitate business operations, such as parts, equipment, rig-to-shore transportation of personnel and supplies, shipping, warehousing, communications, catering, maintenance and repair services, financial and legal services, human resources, and safety inspections.

118. For the 12 months prior to the Petition Date, the Debtors’ average monthly payment to Trade Creditors was approximately \$71 million, including \$47 million per month in obligations to Foreign Creditors. The Debtors estimate that, as of the Petition Date, they owe a

total of approximately \$41.5 million on account of undisputed Trade Claims. The following table summarizes the types of Trade Claims held by the Trade Creditors and provides the Debtors' estimate of the total amount of each type of Trade Claim outstanding as of the Petition Date, including estimates for the portion of such total coming due before a hearing granting relief on a final basis. For the purpose of the calculation in the table below, it is assumed that a final hearing on the Motion will be held 30 days after the Petition Date.

Category	Description of Services Provided	Estimated Amount Outstanding as of Petition Date	Estimated Amount Due Before Final Hearing
Operational	Includes domestic suppliers, service providers, and other vendors utilized in connection with the operation of the Debtors' business.	\$11.4 million	\$10.1 million
Corporate G&A	Includes domestic providers of support services for corporate and administrative functions such as information technology, human resources, legal, and accounting.	\$2.7 million	\$2.6 million
Foreign Creditors	Includes Trade Creditors located in jurisdictions outside the United States.	\$27.4 million	\$24.9 million
Total:		\$41.5 million	\$37.6 million

119. Under the Proposed Interim Order, the Debtors seek authority, but not direction, to satisfy Trade Claims due and owing to Trade Creditors in an interim amount not to exceed \$37.6 million on an interim basis and \$41.5 million on a final basis. Under the Proposed Final Order, the Debtors will seek authority, but not direction, to satisfy the remaining Trade Claims due and owing to Trade Creditors. I understand that the Trade Claims are less than one-and-a-half percent (1.5%) of the total debt to be restructured in these chapter 11 cases. I am also informed that approximately \$20 million of the Trade Claims relate to goods delivered to the

Debtors in the ordinary course of business within 20 days prior to the Petition Date, and that approximately \$4 million of the Trade Claims are potentially subject to liens.

120. The Debtors are not seeking to pay these amounts immediately or in one lump sum; rather, the Debtors intend to pay these amounts as they become due and payable in the ordinary course of the Debtors' business. As of the Petition Date, the Debtors have access to over \$703.5 million in cash on hand. I believe the Debtors' cash on hand and the cash generated by the Debtors' business will provide ample liquidity for payment of the Trade Claims and continued operation in the ordinary course during the administration of these chapter 11 cases.

121. The Debtors want to maintain positive relationships with the suppliers of the goods and services essential to their business operations throughout the course of these chapter 11 cases. I also understand the Debtors' proposed Joint Chapter 11 Plan of Reorganization that was filed on the Petition Date provides for a 100% recovery for holders of general unsecured claims.

122. I believe that delaying payments to the Trade Creditors, especially Foreign Creditors, could prevent the Debtors from obtaining goods and services that are essential to their continued performance under customer contracts. In a worst case scenario, nonperformance may lead to termination of customer contracts, resulting in substantial damage to the Debtors' business and hindering the Debtors' efforts to successfully reorganize.

123. Based on the foregoing, I believe that the relief requested in the trade claims motion is in the best interests of the Debtors, their estates, and all parties in interests and should be approved.

H. Cash Collateral Motion

124. Pursuant to the cash collateral motion, the Debtors request entry of an interim order (i) authorizing the Debtors to use cash collateral and (ii) granting adequate protection to the Prepetition Secured Parties on the terms and conditions set forth in the proposed interim order. The Debtors also request a final hearing to consider the relief requested in the motion.

125. The proposed Cash Collateral the Debtors seek to use consists of proceeds or products of Prepetition Collateral or cash subject to the Prepetition Secured Parties' rights of setoff, if any. The Debtors require the use of Cash Collateral to maintain their day-to-day operations. The orderly continuation of the Debtors' operations and the preservation of their going concern value is largely dependent upon the Debtors' ability to regularly convert Prepetition Collateral into Cash Collateral and use it to support business operations. Absent authority to use Cash Collateral, even for a limited period of time, the continued operation of the Debtors' business could cause irreparable harm to the Debtors, their respective estates, and their creditors.

126. The Debtors seek authority to use Cash Collateral until such time as the Court holds a final hearing on the motion. During the interim period, the Debtors will fund operations in accordance with the budget (the "**Budget**"), which sets forth all projected cash receipts and cash disbursements on a weekly basis over a 13-week period. I worked with the Debtors and a team from AlixPartners to formulate the Budget, which includes reasonable and foreseeable expenses to be incurred, and the costs of administering the chapter 11 cases during, the applicable period.

127. To protect the Prepetition Secured Parties to the extent of any aggregate diminution in value of the Prepetition Collateral resulting from the use of Cash Collateral, the Debtors propose to provide various forms of adequate protection detailed in the proposed interim order to the motion. The proposed adequate protection includes a first priority lien on, and security interest in “Unencumbered Property,” which includes approximately \$332 million in a Goldman Sachs Bank Account owned by Paragon Parent.

128. I believe that proposed adequate protection provides the Prepetition Secured Parties with sufficient adequate protection to protect them from any diminution in value of their interests in the Prepetition Collateral during the chapter 11 cases. I believe that the relief requested in the cash collateral motion is in the best interests of the Debtors, their estates, and all parties in interests and should be approved.

I. Automatic Stay Enforcement Motion

129. Pursuant to the automatic stay enforcement motion, the Debtors request entry of an order enforcing the protections of sections 362, 365, 525, and 541(c) of the Bankruptcy Code to aid in the administration of their chapter 11 cases and to alleviate any confusion regarding the effects of these chapter 11 cases on the Debtors’ business operations. As previously noted, the Debtors’ business is truly global and involves extensive dealings with foreign creditors and governmental authorities, many of which are unfamiliar with the protections of the automatic stay imposed by section 362 of the Bankruptcy Code, the invalidation of ipso facto clauses under section 365(e)(1) of the Bankruptcy Code, the ipso facto conditions under section 541(c) of the Bankruptcy Code, and the protections against discriminatory treatment contained in section 525 of the Bankruptcy Code.

130. I have been informed that the protections afforded by sections 362, 365, 525, and 541(c) of the Bankruptcy Code are self-executing and global; however, I believe that not all parties affected or potentially affected by the commencement of a chapter 11 case are aware of these statutory provisions or their significance and impact. Consequently, I believe that it is prudent to obtain an order of the Court that confirms and reinforces the relevant provisions of each section so the Debtors may advise such parties of the existence and effect of sections 362, 365, 525, and 541(c) of the Bankruptcy Code.

131. I believe that the requested relief is particularly appropriate in the present cases because the Debtors operate in numerous countries and regions with different legal systems, including Mexico, Brazil, the North Sea, Africa, the Middle East, India, and the United States. In addition, the Debtors are incorporated under the laws of numerous countries, including England, the United States, Switzerland, Luxembourg, Netherlands, Malaysia, Cayman Islands, and Brazil, and the Debtors' key contracts are governed by the laws of still more foreign jurisdictions.

132. Based on the foregoing, I believe that the relief requested in this motion is in the best interests of the Debtors, their estates, and all parties in interests and should be approved.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: February 14, 2016
Glencoe, Illinois

/s/ James A Mesterharm
James A. Mesterharm