

compliance services statement of work dated May 9, 2016 (the “Tax Compliance SOW”) and the internal audit services statement of work dated May 5, 2016 (the “Internal Audit SOW,” and together with the Master Services Agreement, ACA SOW, Tax Advisory Services SOW, Tax Compliance SOW and Internal Audit SOW, the “Engagement Letters”) attached as **Exhibits A-1-A-6** to the Wood Affidavit (defined below) and incorporated by reference herein; (b) approving the provisions of the Engagement Letters; and (c) granting related relief. In support of this application, the Debtors submit the Affidavit of Mark A. Wood, a Partner of EY LLP, attached hereto as **Exhibit A** (the “Wood Affidavit”) and respectfully represent as follows:

Jurisdiction and Venue

1. The United States Bankruptcy Court for the District of Delaware (the “Court”) has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the *Amended Standing Order of Reference from the United States District Court for the District of Delaware*, dated February 29, 2012. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2), and the Debtors confirm their consent pursuant to Rule 9013-1(f) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Local Rules”) to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution.

2. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

3. The statutory bases for the relief requested herein are sections 327(a), and 328(a) of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”), Rule 2014(a) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), and Local Rules 2014-1 and 2016-2(h).

Relief Requested

4. By this Application, the Debtors request entry of an order, substantially in the form attached hereto as **Exhibit B**, pursuant to sections 327(a) and 328(a) of the Bankruptcy Code, Bankruptcy Rules 2014(a) and 2016 and Local Rule 2014-1(a) authorizing the employment and retention of EY LLP as tax, accounting, and internal audit services providers to the Debtors *nunc pro tunc* to the Petition Date (as defined below), in accordance with the terms and conditions set forth in the Engagement Letters; (b) approving the provisions of the Engagement Letters; and (c) granting such other relief as is just and proper.

Background

5. On June 7, 2016 (the "Petition Date"), the Debtors filed voluntary petitions for relief in this Court under chapter 11 of the Bankruptcy Code. The Debtors continue to operate their business and manage their properties as debtors in possession pursuant to Bankruptcy Code sections 1107(a) and 1108.

6. On June 8, 2016, the Court entered an order [D.I. 59] authorizing the joint administration and procedural consolidation of these chapter 11 cases pursuant to Bankruptcy Rule 1015(b). No request for the appointment of a trustee or examiner has been made in these chapter 11 cases. No official committees have been appointed or designated.

7. On the Petition Date, the Debtors filed the *Joint Prepackaged Chapter 11 Plan of Reorganization of Seventy Seven Finance Inc. and its Affiliated Debtors* (the "Plan") and the related *Solicitation and Disclosure Statement for the Joint Prepackaged Chapter 11 Plan of Reorganization of Seventy Seven Finance Inc. et al.*, dated May 9, 2016 (the "Disclosure Statement").

8. A detailed description of the Debtors' business, capital structure, and the events leading to these chapter 11 cases is fully set forth in the *Declaration of Cary Baetz in Support of*

the First Day Motions (the “First Day Declaration”) [D.I. 22] and is incorporated herein by reference.

EY LLP’s Qualifications

9. The Debtors require the services of seasoned and experienced professionals that are familiar with both (i) the Debtors’ businesses and operations and (ii) the chapter 11 process. EY LLP is a highly respected and experienced professional services provider that performs services such as assurance, tax, transactional and advisory services. EY LLP has indicated a desire and willingness to act in these chapter 11 cases on the terms set forth in the Engagement Letters and described herein.

10. Furthermore, EY LLP has extensive experience in rendering services to companies in chapter 11 cases. EY LLP has been employed as an assurance, accounting, or tax advisor in a number of troubled company situations. *See, e.g., In re Momentive Performance Materials (MPM Silicones, LLC)*, Case No. 14-22503 (Bankr. D. Del. Jun. 26, 2014) (D.I. 544); *In re GSE Envtl., Inc.*, Case No. 14-11126 (Bankr. D. Del. Jun. 10, 2014) (D.I. 334); *In re Exide Techs.*, Case No. 13-11482 (Bankr. D. Del. Dec. 17, 2013) (D.I. 1166); *In re Oncure Holdings, Inc.*, Case No. 13-11540 (Bankr. D Del. Jul. 23, 2014) (D.I. 152); *In re AMR Corp.*, Case No. 11-15463 (Bankr. S.D.N.Y. Jan. 27, 2012) (D.I. 885); *In re Borders Group, Inc.*, Case No. 11-10614 (Bankr. S.D.N.Y. Apr. 7, 2011) (D.I. 559).

11. In the course of performing prepetition services for the Debtors, EY LLP has developed institutional knowledge of the Debtors’ businesses. Accordingly, EY LLP already possesses the necessary background and familiarity with the Debtors’ affairs to assist the Debtors in effectively addressing issues that may arise in the context of providing tax, accounting, and internal audit services in connection with these chapter 11 cases. Accordingly, the Debtors believe that EY LLP is well suited and uniquely qualified to serve as their tax, accounting, and

internal audit services providers in these chapter 11 cases.

12. The Debtors submit that the services to be rendered by EY LLP will not duplicate the services to be provided by other professionals in these chapter 11 cases.

13. Accordingly, the Debtors propose to engage EY LLP as their tax, accounting and internal audit services providers in these chapter 11 cases, and respectfully submit that EY LLP's retention is in the best interest of the Debtors, their estates and other parties-in-interest.

Services to Be Provided

14. Subject to further order of the Court and consistent with the terms of the Engagement Letters, EY LLP's anticipated services in these chapter 11 cases include the following (together, the "Services")¹:

Master Service Engagement Letter:

As set forth in detail in the Master Services Agreement attached hereto as Exhibit A-1, EY LLP will perform certain services as set forth in each specific Statement of Work executed pursuant to the Master Services Agreement.

Restructuring Services SOW:

As set forth in detail in the Restructuring Services SOW attached hereto as Exhibit A-2, EY LLP will provide services to the Debtors in accordance with the terms and conditions that are set forth in the Master Services Agreement (inclusive of the Restructuring Services SOW):

¹ Any descriptions of the terms of the Engagement Letters contained in this Application are provided for purposes of convenience only. To the extent there is any discrepancy between the summary contained in the Application and the terms set forth in the Engagement Letters, the terms of the Engagement Letters shall govern. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Engagement Letters.

Tax Services

Upon request by the Debtors, EY LLP will provide tax services in connection with the Debtors contemplated restructuring, including, potentially, the following Services:

- Advise the Debtors personnel in developing an understanding of the tax issues and options related to the Debtors' potential bankruptcy filing, taking into account the Debtors' specific facts and circumstances, for US federal, state and foreign income tax purposes.
- Advise on the federal, state and local and foreign income tax consequences of proposed and final plans of reorganization, including, if necessary, assisting in the preparation of IRS ruling requests regarding the tax consequences of alternative reorganization structures and tax opinions.
- Understand and advise on the tax implication of potential reorganization and/or restructuring alternatives (the Debtors are evaluating with existing bondholders and other creditors certain changes which may result in a change in the equity, capitalization and/or ownership of the shares of the Debtors and its assets).
- Gather information, review and update the Debtors' Section 382 Calculations and apply the appropriate federal, state and local tax law to (i) historic information regarding pre-filing changes in the ownership of the Debtors' stock to calculate whether any of the shifts in stock ownership may have caused an ownership change that will restrict the use of tax attributes (such as net operating loss, capital loss, credit carry forwards, and built in losses) and the amount of any such limitation and (ii) the final Plan of Reorganization.
- Analyze and assist the Debtors to determine the applicable US federal income tax treatment (including tax return disclosure and presentation) of such items including, but not limited to:
 - Debt modifications;
 - Cancellation of indebtedness income;
 - Availability and limitations upon the use of tax attributes such as net operating losses, tax credits, and tax basis in assets and subsidiary stock, as applicable, as well as alternative scenarios;
 - Potential bad debt and worthless stock deductions; and
 - Attribute reduction alternatives.

- Provide step plan related to entity rationalization and simplification of intercompany accounts.
- To the extent required, assist in the preparation of tax basis balance sheets, earnings and profits calculations and stock basis calculations for the relevant legal entities.
- Review tax creditor matrix (and other documents, as applicable) prepared by the Debtors and its advisors in connection with the restructuring.
- Assistance with any state or local jurisdictional audit arising from the bankruptcy filing.
- Assist with statements and disclosures required for filing the Debtors' federal and state income tax returns for the year of emergence.

Valuation Services

Upon request by the Debtors, EY LLP will provide valuation services in connection with the Debtors' contemplated restructuring, including, potentially, the following Services:

- Interview SSE's senior management concerning the nature of the assets and reporting units and operations;
- Review business plans, future performance estimates or budgets for Seventy Seven Energy Inc. ("SSE") provided by management;
- Give consideration to applicable economic, industry, and competitive environments, including relevant historical and future estimated trends;
- Leverage relevant work-findings and insights of SSE's advisors (both within and outside of EY LLP);
- Analyze the historical financial performance of SSE;
- Discuss with management and SSE's auditors, valuation approaches and methodologies used in EY LLP's analysis;
- Review and comment on SSE management's identification of identifiable intangible assets and potential liabilities, as applicable;
- Provide fair value analysis of SSE's reporting units, including a reconciliation to the reorganization value (or the implied shareholders' equity value) from SSE's plan of reorganization;
- Discuss the assignment of SSE's assets and resulting fair values to the Reporting Units with management;
- Prepare a Weighted Average Cost of Capital ("WACC") for the Company and appropriate discount rates by asset class under the Income Approach;
- Prepare a valuation analysis of the personal property assets such as drilling rigs, pressure pumping equipment, tooling assets, vehicles, and other machinery and equipment. EY LLP would anticipate that the rigs would be valued using a combination of the Income, Market and Cost Approaches. EY LLP would rely on the indirect method of the Cost Approach for other equipment assets and the Market Approach for vehicles and mobile equipment;

- Prepare a valuation analysis of any real property assets owned by the Company, such as land, buildings and improvements, and sand mineral rights, giving consideration to appropriate approaches to value, as applicable;
- Prepare a valuation analysis of any identifiable intangible assets, such as contracts, customer relationships, backlog, trade names, (e.g., contracts), giving consideration to appropriate approaches to value, as applicable;
- Prepare a valuation analysis of inventory, as applicable;
- Hold discussions with management around the potential lifing and amortization/depreciation of the tangible and identifiable intangible assets based on the valuation analysis;
- Perform corroborative procedures, such as estimating the consolidated internal rate of return (“IRR”) implied from the overall reorganization value from the plan of reorganization and prepare a weighted average return on assets (“WARA”) calculation to facilitate analyses that are internally and externally consistent and reasonable;
- Analyze valuation results under the Income Approach in relation to comparable transactions;
- Provide estimates of fair value for equity and/or cost method investments, such as joint ventures, held by the Company giving consideration to appropriate approaches to value, as applicable;
- Provide fair value analysis of debt assumed and discuss financial reporting considerations, as applicable;
- Provide fair value analysis of the modification of management incentive plan(s), as applicable;
- Provide an estimate of value of assets, as required, for any Section 363(b) sales contemplated by management; and
- Prepare a narrative Report (the “Financial Statement Reporting Report”) summarizing the methodologies employed in EY LLP’s analyses, the assumptions on which EY LLP analyses were based, and EY LLP’s recommendations of fair value.

The scope of Services for the valuation of any legal entities for US federal income tax purposes will include the following procedures, as required:

- Interviews with SSE’s management concerning:
 - the nature and operations of the businesses of the legal entities, including historical financial performance
 - existing business plans, future performance estimates, or budgets for the legal entities
 - the assumptions underlying the business plans, estimates, or budgets, as well as the risk factors that could affect planned performance

- Analysis of the industry, as well as the economic and competitive environments in which the legal entities operate;
- Analysis of the performance and market position of the legal entities relative to competitors and/or similar publicly-traded companies;
- Analysis of the earnings and dividend paying capacity of the legal entities;
- Analysis of financial data of similar publicly-traded companies to develop appropriate valuation multiples;
- Valuation analysis and allocation of the business enterprise value to each legal entity, on a stand-alone basis, for the purpose of allocating goodwill (if any) for emergence entity structure / restructuring, considering applicable valuation methodologies including (as applicable):
 - Discounted Cash Flow Method
 - Guideline Company Method
 - Similar Transactions Method
 - Adjusted Net Assets Method
- Allocation of tangible and intangible asset fair market values derived by Reporting Unit to the legal entity level for the purpose of allocating goodwill (if any), tracking realized built in deductions triggered for five years post emergence, and permitting deferred taxes to be analyzed for purchase accounting purposes; and
- Preparation of a narrative Report (the “Tax Reporting Report”) outlining EY LLP’s recommendations of value, the methodologies employed and assumptions utilized in its analysis.
- EY LLP will deliver to the Debtors written valuation reports (the “Valuations”) discussing EY LLP’s methodologies and recommendations and including supporting exhibits. The Valuations will be based on methods and techniques that EY LLP considers appropriate under the circumstances.
- The Valuations will include a Statement of Limiting Conditions (“SLC”), a draft of which is attached hereto as Appendix A. If EY LLP determine that modifications or additions to the SLC will be required, EY LLP will notify the Debtors.

Accounting Services

Upon request by the Debtors, EY LLP will provide accounting services in connection with the Debtors contemplated restructuring, including, potentially, assisting the Debtors with general and technical accounting matters (including tax accounting matters) around the Debtors financial reporting and review and documentation of various accounting matters and policies, as well as provide assistance with the assessment of the accounting impact of emergence from bankruptcy, including income tax accounting, to allow the Debtors to apply fresh start accounting in accordance with ASC 852. Except as specifically described in this SOW, EY LLP will not deliver any written Reports, including memoranda or other analyses, unless EY LLP and the Debtors both otherwise specifically agree.

EY LLP will not conclude on the appropriate accounting treatment based on specific facts, or recommend an accounting policy or treatment. EY LLP's observations are intended to help the Debtors reach EY LLP's conclusions and will not constitute concurrence with or support of the Debtors proposed accounting or reporting. The Services will be provided on a time and materials basis and consist primarily of the following:

- Hold discussions with management and help management understand the accounting and reporting implications of operating while in bankruptcy and considerations upon emergence, including, GAAP and SEC reporting matters, tax accounting matters, and considerations regarding fresh-start reporting.
- Assist the Debtors with their accounting and reporting issues related to the bankruptcy filing by summarizing the applicable guidance and providing a high level interpretation to the Debtors specific fact pattern.
- Assist the Debtors with their preparation of the fresh-start accounting required work steps (including project management support and resource needs) and provide comments on overall project timeline.
- Assist the Debtors with the technical fresh-start accounting and reporting requirements, including the identification of accounts (including income tax accounts) impacted by fresh-start accounting and the fresh start reporting date. This may include providing examples of fresh-start accounting disclosures, publications or examples of the application of fresh-start accounting, or other information that may assist management with the application of fresh-start accounting.
- Based on the valuation studies and appraisals, assist the Debtors with their preparation of the fresh-start accounting adjustments, including system needs and recording of entries to the ledgers and sub-ledgers.
- Assist the Debtors with their determination of the income tax accounting impacts stemming from fresh start accounting and effects of the Plan of Reorganization.
- Assist the Debtors with their process to record the subsequent accounting for the fresh-start accounting adjustments.
- Provide a general interpretation of accounting standards, including general provisions and high-level application to an illustrative fact pattern.
- Assist the Debtors in drafting technical whitepapers based on the Debtors' selection of accounting treatment, including consideration of disclosures.
- EY LLP may engage in discussions with the Debtors' personnel, including officers and employees, and outside consultants, as the Debtors determine. EY LLP may also read documentation, including contracts and memoranda, as specified by the Debtors. Further, EY LLP may identify factors or considerations that are relevant to the Debtors analysis of identified accounting and financial reporting matters.
- EY LLP may assist the Debtors in interpreting the relevant accounting and reporting literature based on the Debtors general circumstances, and provide EY LLP views on what factors, including the Debtors

characteristics and structure, are likely to influence the Debtors choice of accounting policy. EY LLP will not conclude on the appropriate accounting treatment based on specific facts or recommend which accounting policy/treatment the Debtors should select/adopt. Any observations EY LLP provide are designed to assist the Debtors as they reach, document and implement the Debtors' own conclusions and will not be intended to constitute concurrence with, or support of, the Debtors proposed accounting or reporting.

- EY LLP may provide certain observations as to EY LLP's understanding of the views of the Debtors' independent auditor or the staff of the Securities and Exchange Commission ("SEC"). EY LLP may provide such observations without having any prior discussion with the Debtors' independent auditor or the staff of the SEC and accordingly, their actual views on a particular topic or issue may differ.

ACA SOW

As set forth in detail in the ACA SOW attached hereto as Exhibit A-3, EY LLP will provide certain tax compliance Services to the Debtors in accordance with the terms and conditions that are set forth in the Master Services Agreement (inclusive of the ACA SOW):

- IRS informational tax reporting IRC §§ 6055 and 6056 (statutory reporting) for calendar/benefit plan years 2015 and 2016;
- EY LLP will utilize IRC § 4980H full time determination conclusions, as calculated and provided by the Debtors for IRC §§ 6055 and 6056 reporting purposes;
- Provide a Secure File Transfer Protocol ("SFTP") site for the Debtors to upload their data per EY LLP's prescribed data specification document;
- Provide the Debtors Readiness Package of training (including ACA Basics, the Debtors' and EY LLP's roles and responsibilities, data specification definitions, Client Profile instructions, data upload instructions, and "FAQs") to assist the Debtors in completing their data delivery responsibilities outlined below;
- Identify the right populations for whom IRS Forms 1095-C are required (COBRA, pre-65 retirees, etc.);
- Configure the Debtors in EY LLP's "ACA COMPASSSM" system within 30 days of receipt and approval of the Client Profile document;
- Compute appropriate indicator codes on IRS Forms 1095-C per the ACA regulations based upon the data provided by the Debtors;
- EY LLP will provide reasonable the Debtors set up and data readiness and troubleshooting support from an EY LLP customer care center, with reasonable defined as up to 20 hours;
- A technical review, including a review for accuracy and completeness of

IRS Form 1094-C for each Applicable Large Employer “ALE” and a statistically significant sample of Forms 1095-C based on data provided by the Debtors;

- Draft, for Debtors’ review and approval, the IRS Form(s) 1094-C, with supporting IRS Forms 1095-C, for each EIN within the Debtors’ controlled group structure, which were provided to EY LLP via the Debtors Profile document and data transmissions and loaded into COMPASS as defined in the “Client Data Responsibilities” section;
- Electronically transmit Forms 1094-C, with supporting Forms 1095-C to the IRS, upon Debtors’ written approval; and
- Draft electronic Forms 1095-C – EY’s Form 1095-C preparation and review process will involve tax professionals with competency in tax compliance and ACA. EY LLP will prepare and perform EY LLP’s review process within the Firm’s tax return review processes. Electronic forms will be provided to Debtors for its review, approval and filing; and
- Prepare and fulfill approved IRS Forms 1094-C and 1095-C for printing and distribution, electronically to the IRS by March 31st and by hard copy mail or PDF to the Debtors (to individuals that have been identified by the Debtors in the data submission) by January 31st. Undeliverable employee forms will be returned to Debtors for forwarding to employee

Tax Advisory Services SOW

As set forth in detail in the Tax Advisory Services SOW attached hereto as Exhibit A-4, EY LLP will provide certain tax advisory Services to the Debtors in accordance with the terms and conditions that are set forth in the Master Services Agreement (inclusive of the Tax Advisory Services SOW):

Tax Provision Services

- EY LLP will provide Tax Provision Services (“Services”) to the Debtors. EY LLP will perform the following services for review and approval by the Debtors’ management related to the year ending 31 December 2016, including interim reporting.
- Preparation of calculations, including but not limited to book-tax-differences, as requested by the Debtors for use in its preparation of its U.S. GAAP tax provision, book-income tax accruals and related periodic SEC footnote and MD&A disclosures.
- Assisting the Debtors in documenting its Federal, state and/or local items, if any, of benefit/exposure that may be subject to tax authority challenge. All judgment and determination of the need for and amount of any liabilities for tax exposure items will be the sole responsibility of the Debtors, as to which Debtors’ independent auditors should concur.
- Preparation of the tax provision working papers for review by the Debtors.
- Assisting the Debtors in documenting deferred tax assets and liabilities,

including valuation allowance. All judgment and determination of the need for and amount of a valuation allowance will be the sole responsibility of the Debtors, as to which the Debtors' independent auditors should concur.

- Reviewing deferred tax balances and reconciling to identified temporary differences.

Routine On-Call Tax Advisory Services

- EY LLP will provide the Debtors routine tax advice and assistance concerning issues as requested by the when such projects are not covered by a separate SOW and do not involve any Debtors significant tax planning or projects ("on-call tax advisory services").
- Tax Advisory Services SOW is intended to be used for engagements to respond to general tax questions and assignments that are expected, at the beginning of the project, to involve total professional time not to exceed (with respect to the specific project) \$25,000 in professional fees at the hourly rates for the professionals involved. The scope of these services may be agreed to orally or through written communications with the Debtors such as e-mails.
- The projects covered by the Tax Advisory Services SOW includes assistance with tax issues by answering one-off questions, drafting memos describing how specific tax rules work, assisting with general transactional issues, and assisting the Debtors in connection with its dealings with tax authorities (other than serving as a representative).
- Specific tasks that may be involved in connection with the Services include the following: participating in meetings and telephone calls with the Debtors; participating in meetings and telephone calls with taxing authorities and other third parties where EY LLP are not representing the Debtors before the taxing authority; reviewing transaction-related documentation; researching technical issues; and preparing technical memoranda, letters, e-mails, and other written documentation.
- The Tax Advisory Services SOW is not intended to cover services related to significant tax planning or other projects where a mutual understanding of the scope of the engagement should be formally documented.
- Accordingly, in lieu of Tax Advisory Services SOW, separate SOWs generally will be entered into in connection with the following: services related to a transaction that is a reportable transaction, transaction of interest or transaction similarly designated by a tax authority; engagements where EY LLP will render formal opinions or opinions that will be relied upon by third parties; engagements where EY LLP prepare tax returns or entries on tax returns; studies with respect the Debtors' tax attributes (e.g., basis studies or repairs and maintenance studies); loaned or assigned staff engagements; and due diligence engagements.

Multi-State Indirect Tax Services

- Upon request by the Debtors, EY LLP will assist the Debtors with regards to the following types of projects listed below. This list is not meant to be all inclusive but an example of the type of projects requested by the Debtors.
- Assist with Sales Tax Payment and Overpayment reviews and Voluntary Compliance Activities
- Assistance with sales and use taxability questions
- Assist with the Debtors' M&A activities as it relates to multistate indirect transaction tax services
- Assistance with other indirect taxes such as severance/production taxes, oil and gas well services tax, and property taxes

Sales Tax Audit Assistance Services

- Upon request by the Debtors, EY LLP will assist the Debtors with responding to and completing sales tax audits that may be generated by state and local taxing authorities. These activities may include but not be limited to:
- Working with the Debtors to review and respond to sales tax audit notification letters
- Working with the Debtors to gather documentation requested by auditors
- Responding directly to auditor requests for audit documentation
- Reviewing samples generated by auditors to review sales and/or purchase transactions
- Reviewing proposed audit assessment schedules to determine if assessment reductions can be achieved
- Working directly with tax auditors to facilitate the timely completion of sales tax audits
- Reviewing final audit schedules for accuracy
- Working with the Debtors to determine if audit assessment appeals should be filed
- Assisting with filing audit assessment appeals

Texas Sales and Use Tax Review

- EY LLP will provide state and local tax consulting services, with respect to a Texas Sales and Use Tax Review focusing on specific materials used in the oil and gas well servicing operations in Texas for the periods from June 1, 2011 through December 31, 2014. EY LLP will assist the Debtors in identifying, documenting, and attempting to recover sales and use tax overpayments that may have occurred for its purchases for the periods identified above in this paragraph.
- EY LLP will interview appropriate the Debtors accounting, tax and systems personnel as necessary to gain a better understanding of the

Debtors' purchases. EY LLP will also participate in phone interviews with vendors to further obtain a better understanding of the items purchased. Additionally, if necessary, EY LLP will go to the Debtors vendor's locations to obtain additional information/documentation needed to substantiate the refund claim.

- Debtors will provide detailed general ledger data and other necessary financial information regarding the Texas operations. EY LLP will analyze the provided information to perform a review of accounts payable and tax documentation necessary to identify and document selected sales and use tax overpayments.
- An initial scoping review will be performed by EY LLP and EY LLP will discuss anticipated results with the Debtors. The decision to proceed with the refund review will be based on acknowledgement from the Debtors. Upon completion of the review, EY LLP will file a refund claim(s) with the State of Texas for overpayments of sales or use tax. EY LLP will prepare the refund claims with supporting documentation for Debtors' review and filing with the State of Texas. The refund schedules will include comments supporting the sales or use tax exemptions or refunds. Supporting documentation will primarily consist of copies of purchase invoices and other documents supporting payments of sales or use tax.
- If during the review EY LLP identifies overpayments of sales or use tax in jurisdictions other than Texas, EY LLP will bring it to the Debtors' attention and determine if there is a need to expand the scope of this agreement at that time.

Tax Compliance SOW

As set forth in detail in the Tax Compliance SOW attached hereto as Exhibit A-5, EY LLP will provide certain tax compliance Services to the Debtors in accordance with the terms and conditions that are set forth in the Master Services Agreement (inclusive of the Tax Compliance SOW):

- EY LLP will prepare the Federal and state income tax returns for the Debtors for the year ended December 31, 2015 for those jurisdictions listed on Attachment A to the Tax Compliance SOW.
- The specific services EY LLP will provide as part of this engagement include:
 - Assistance with the tracking of income and franchise tax filing requirements by jurisdiction
 - Assistance with determining GAAP vs. Tax differences and preparation of supporting calculations
 - Preparation of consolidated Federal tax return, including proforma federal returns for subsidiaries
 - Assistance with determining state allocation and apportionment factors, as well as the associated filing requirements

- Preparation of consolidated and separate company state tax returns
- Preparation of estimated tax payment computations
- Preparation of extension requests
- At the request of the Debtors, upon execution of a letter substantially in the form of Exhibit 1 attached to the Tax Compliance SOW in respect of each tax year for which access to such workpapers is sought, EY LLP will provide the Debtors with copies of EY LLP's final workpapers, in a format regularly maintained by EY LLP, produced by EY LLP for purposes of preparing computations in connections with the following services under the Tax Compliance SOW:
 - Tax returns listed in Attachment A to the Tax Compliance SOW
 - Estimated tax payments for Federal and state returns listed in Attachment A to the Tax Compliance SOW
 - Extension for Federal and state returns listed in Attachment A to the Tax Compliance SOW
- The Debtors have previously engaged EY LLP to assist with §382 analysis for equity transactions since 1 July 2014 to 31 December 2015, pursuant to the Statement of Work – Section 382 Study. EY LLP will advise as to the appropriate impact to the tax returns for the period covered in the Tax Compliance SOW.

Internal Audit SOW

As set forth in detail in the Internal Audit SOW attached hereto as Exhibit A-6, EY LLP will assist the Debtors' Internal Audit department to assess the Debtors' business risks, develop an internal audit plan to address the Debtors' areas of focus and execute the plan under the Debtors' direction. The internal audit plan will include testing required to support management's assessment of its internal control environment pursuant to the Sarbanes-Oxley Act ("SOX"), EY LLP will provide services to the Debtors in accordance with the terms and conditions that are set forth in the Master Services Agreement (inclusive of the Internal Audit SOW):

Internal Audit

- EY LLP will assist the Debtors with the following as it relates to the internal audit plan:
 - Conduct executive interviews and/or workshops to identify Seventy Seven Energy's current business and process risks and to evaluate the current risk environment.
 - Evaluate the impact and likelihood of identified risks, prioritize them and identify improvement opportunities.

- Develop an internal audit plan with management based on prioritized risks, improvement opportunities and other identified factors.
- For each identified internal audit project EY LLP will perform the following:
 - Develop project objectives and approach
 - Summarize the Debtors key process risks and control design.
 - Evaluate the Debtors control design effectiveness and discuss observations with the Debtors.
 - Develop work programs and scoping documents prior to fieldwork.
 - Conduct approved testing programs, analyze root causes of findings and identify improvement opportunities.
 - Discuss issues and improvement opportunities with process owners.
 - Summarize issues, improvement opportunities and recommended next steps, using leading practices and benchmarking, where possible.
 - When applicable, conduct facilitated sessions to discuss improvement opportunities, and summarize issues, improvement opportunities, recommendations and management action plans in EY LLP's project reports.
- Provide periodic progress updates and meet with the Debtors to review status and results as it relates to the internal audit plan and internal audit plan projects.
- Meet periodically with the Audit Committee, as desired by the Debtors, for approval of the risk assessment and internal audit plan, to provide periodic updates and to review the results of internal audit projects and internal controls testing.
- Periodically meet with the external auditors and other key stakeholders as deemed appropriate.
- EY LLP will prepare the following written Reports:
 - Risk assessment report including internal audit plan
 - Findings and recommendations reports

Sarbanes Oxley

- EY LLP will assist the Debtors with the following as it relates to SOX compliance activities:
 - Update process documentation, as applicable
 - Perform walkthroughs, as applicable
 - Develop test plans for key controls
 - Determine populations
 - Perform sample selections

- Perform business process controls testing, including any remediation testing as necessary
- Perform IT controls testing, including any remediation testing as necessary
- EY LLP will prepare the following written Reports:
 - Process documentation
 - Summary of test results including completed test scripts

15. The Debtors request that EY LLP's retention be made effective *nunc pro tunc* to the Petition Date to allow EY LLP to be compensated for work performed on behalf of the Debtors prior to the approval of this Application. The Debtors believe that no party in interest will be prejudiced by the granting of the *nunc pro tunc* employment, as provided in this Application, because EY LLP has provided and continues to provide valuable services to the Debtors' estates in the interim period.

Professional Compensation

16. Subject to Court approval and in compliance with applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and any other applicable procedures and orders of the Court, the Debtors will compensate EY LLP in accordance with the terms and conditions of the Engagement Letters, which provide, in relevant part, for the following compensation structure:

Restructuring Services SOW

EY LLP intends to charge the Debtors for Services rendered pursuant to the Restructuring Services SOW based on its hourly rates for such Services, which are currently as follows:

<u>Title</u>	<u>Financial Advisory Services</u>	<u>Tax Services (Including National Tax)</u>
Partner/Principal/Executive Director	\$700-\$850	\$595-\$955
Senior Manager	\$600-\$700	\$560-\$875
Manager	\$475-\$575	\$475-\$785

Senior	\$350-\$450	\$295-\$495
Staff	\$200-\$250	\$160-\$280

Note: Financial Advisory Services includes Bankruptcy Administration Services, Valuation Services and Accounting Services.

ACA SOW

EY LLP intends to charge the Debtors for Services rendered pursuant to the ACA SOW pursuant to the fee schedule set forth below:

Annual IRS Reporting Fees and generation of up to 5,000 1095-C forms		\$45,000
\$5.00 per 1095-C generated over the first 5,000 included in the annual fee		
Additional FEINs (over the 5 included in the annual fee) \$750 each	0 FEINs	-
Total estimated fees		\$45,000

Timing of Fees

EY LLP will bill the Debtors for EY LLP's fees, expenses and applicable taxes or other charges, if any, under the ACA SOW on the following basis:

- 50% of estimated fees at the signing of the ACA SOW in Year 1 (which includes 50% of the annual fee and 50% of estimated number of IRS forms 1095-C being produced at \$5.00 per form)
- EY LLP will bill the Debtors annually in April of each year upon delivery of IRS Forms 1094-C. This billing will cover the remainder of prior year fees, prior year true up, and 50% of the estimated fees for the then current calendar year

Tax Advisory Services SOW

EY LLP intends to charge the Debtors for Services rendered pursuant to the Tax Advisory Services SOW based on its hourly rates for such Services, which are currently as follows:

<u>Title</u>	<u>Tax Services</u>	<u>Sales Tax Audit Assistance Services</u>
Partner/Principal/Executive Director	\$595	\$195
Senior Manager	\$560	\$195
Manager	\$475	\$195
Senior	\$295	\$195

Staff	\$160	\$195
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Tax Compliance SOW

EY LLP intends to charge the Debtors for Services rendered pursuant to the Restructuring Services SOW based on its hourly rates for such Services, which are currently as follows:

<u>Title</u>	<u>Rate Per Hour</u>
Partner/Principal/Executive Director	\$595
Senior Manager	\$560
Manager	\$475
Senior	\$295
Staff	\$160

Internal Audit SOW

Based on the co-sourced model (utilizing two SSE senior level internal audit resources) EY LLP's fees for Services pursuant to the Internal Audit SOW in respect of calendar year 2016 will be billed at the hourly rates set forth below, and are estimated to be as follows:

<u>Type of Service</u>	<u>Rate Per Hour</u>	<u>Estimated Fee Amount</u>
Internal Audit	\$175	\$275,000
SOX Compliance	\$135	\$375,000

The estimated fee amounts for Services under the Internal Audit SOW set forth above are inclusive of fees incurred in respect of Services already performed prior to May 5, 2016.

17. EY LLP's hourly rates are revised periodically in the ordinary course of EY LLP's business. EY LLP shall advise the Debtors of our new rates once they are established in advance of a rate change becoming effective during the course of this engagement. In addition to the hourly rates set forth above, the Debtors shall reimburse EY LLP for any direct expenses reasonably incurred in connection with EY LLP's retention in these cases and the performance of the Services set forth in the Engagement Letters. EY LLP's direct expenses shall include, but not be limited to, reasonable and customary out-of-pocket expenses for items such as travel, meals, accommodations and other expenses (including any fees or reasonable expenses of EY

LLP's legal counsel) specifically related to this engagement. Additionally, certain of the Engagement Letters contain language substantially providing that, "[the Debtors] shall also pay any potential value-added taxes (VAT), sales taxes, and other indirect taxes incurred in connection with the delivery of the Services, including any such taxes and related administrative costs that result from billing arrangements specifically requested by [the Debtors]."

18. In addition to compensation for services rendered, the Debtors have agreed to pay, subject to Court approval, direct expenses incurred in connection with EY LLP's retention in these chapter 11 cases and the performance of the Audit Services. EY LLP's direct expenses shall include, but not be limited to, reasonable and customary out-of-pocket expenses for items such as travel, meals, accommodations and other expenses specifically related to this engagement.

19. The Debtors and EY LLP believe that the foregoing compensation arrangement is reasonable under the standard set forth in section 328(a) of the Bankruptcy Code and comparable to compensation generally charged by other firms of similar stature to EY LLP for comparable engagements. Furthermore, the fees and expenses described above are consistent with EY LLP's normal and customary billing practices for services similar to the scope of services outlined in the Engagement Letters.

20. EY LLP intends to apply to this Court for payment of compensation and reimbursement of fees and expenses in accordance with applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and other applicable procedures and orders of this Court and consistent with the proposed compensation set forth in the Engagement Letters and incorporated herein by reference for all services performed and expenses incurred after the Petition Date.

21. The Engagement Letter contain dispute resolution provisions substantially similar to the following:

Any controversy or claim with respect to, in connection with, arising out of, or in any way related to this Agreement or the services provided hereunder (including any such matter involving any parent, subsidiary, affiliate, successor in interest or agent of Client or its subsidiaries or of EY) shall be brought in the Bankruptcy Court or the applicable district court (if such district court withdraws the reference) and the parties to this Agreement, and any and all successors and assigns thereof, consent to the jurisdiction and venue of such court as the sole and exclusive forum (unless such court does not have jurisdiction and venue of such claims or controversies) for the resolution of such claims, causes of action or lawsuits. The parties to this Agreement, and any and all successors and assigns thereof, hereby waive trial by jury, such waiver being informed and freely made. If the Bankruptcy Court, or the district court upon withdrawal of the reference, does not have or retain jurisdiction over the foregoing claims or controversies, the parties to this Agreement and any and all successors and assigns thereof, agree to submit first to nonbinding mediation; and, if mediation is not successful, then to binding arbitration, in accordance with the dispute resolution procedures as set forth in Appendix 1 to this Agreement. Judgment on any arbitration award may be entered in any court having proper jurisdiction. The foregoing is binding upon Client, EY and any all successors and assigns thereof.

22. In addition, the Engagement Letters contain indemnification and limitation of liability language substantially similar to the following:

You (and any others for whom Services are provided) may not recover from us, in contract or tort, under statute or otherwise, any consequential, incidental, indirect, punitive or special damages in connection with claims arising out of this Agreement or otherwise relating to the Services, including any amount for loss of profit, data or goodwill whether or not the likelihood of such loss or damage was contemplated.

You (and any others for whom Services are provided) may not recover from us, in contract or tort, under statute or otherwise, aggregate damages in excess of the fees actually paid for the Services that directly caused the loss in connection with claims arising out of this Agreement or otherwise relating to the Services. This limitation will not apply to losses caused by our fraud or willful misconduct or to the extent prohibited by applicable law or professional regulations.

You shall make any claim relating to the Services or otherwise under this Agreement no later than one year after the qualified person assigned to oversee the Services designated pursuant to Section 6 of this Agreement became aware or ought reasonably to have become aware of the facts giving rise to any alleged

such claim and in any event, no later than two years after the completion of the particular Services. This limitation will not apply to the extent prohibited by applicable law or professional regulations nor to claims arising out of our fraud or willful misconduct.

We assume liability for any noncompliance with this Agreement or other misconduct by any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees (“EY Persons”). You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any other EY Firm or EY Persons. You shall make any claim or bring proceedings only against us. The provisions of tended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them.

To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates and attorneys) and resulting liabilities, losses, damages, costs and expenses (including reasonable and documented external and internal legal costs) arising out of the disclosure of any Report (other than Tax Advice) or a third party’s use of or reliance on any Report (including Tax Advice) disclosed to it by you or at your request.

23. The Debtors and EY LLP believe that the indemnification provisions contained in the Engagement Letters are customary and reasonable for EY LLP and comparable firms providing audit and tax advisory, both in and out of court, and reflect the qualifications and limitations on indemnification provisions that are customary in EY LLP’s retention in chapter 11 cases. The terms and conditions of the indemnification provisions were negotiated by the Debtors and EY LLP at arm’s length and in good faith. The indemnification, contribution, exculpation, reimbursement and other provisions contained in the Engagement Letters, viewed in conjunction with the other terms of EY LLP’s proposed retention, are reasonable and in the best interest of the Debtors, their estates, and creditors in light of the fact that the Debtors require EY LLP’s services to successfully reorganize.

EY LLP’s Disinterestedness

24. Based upon the disclosures set forth in the Wood Affidavit, the Debtors believe that EY LLP: (a) is a “disinterested person” within the meaning of section 101(14) of the

Bankruptcy Code; (b) does not hold or represent an interest adverse to the Debtors' estates; and (c) has no connection to the Debtors, their creditors or related parties.

25. The Debtors are informed that EY LLP will not share any compensation to be paid by the Debtors, in connection with services to be performed after the Petition Date, with any other person, other than other principals and employees of EY LLP, to the extent required by section 504 of the Bankruptcy Code.

Basis for Relief

26. The Debtors seek approval of the Engagement Letters pursuant to sections 327(a) and 328(a) of the Bankruptcy Code. Section 327(a) of the Bankruptcy Code authorizes a debtor to employ professionals that "do not hold or represent an interest adverse to the estate, and that are disinterested persons." 11 U.S.C. § 327(a). Section 1107(b) of the Bankruptcy Code modifies section 101(14) by providing that "a person is not disqualified for employment under section 327 of [the Bankruptcy Code] by a debtor in possession solely because of such person's employment by or representation of the debtor before the commencement of the case. As discussed above and in the Wood Affidavit, EY LLP satisfies the disinterestedness standard in section 327(a) of the Bankruptcy Code.

27. In addition, section 328(a) of the Bankruptcy Code provides, in relevant part, that debtors "with the court's approval, may employ or authorize the employment of a professional person under section 327 . . . on any reasonable terms and conditions of employment, including on a retainer, on an hourly basis, on a fixed or percentage fee basis, or on a contingent fee basis . . ." 11 U.S.C. § 328(a). Accordingly, section 328 permits the compensation of professionals, including auditors, on more flexible terms that reflect the nature of their services and market conditions. As discussed above and in the Wood Affidavit, EY LLP satisfies the disinterestedness standard in section 327(a) of the Bankruptcy Code.

28. The Debtors submit that the terms and conditions of the Engagement Letters are fair, reasonable and market-based under the standards set forth in section 328(a) of the Bankruptcy Code given: (i) the numerous issues that EY LLP may be required to address in the performance of its services; (ii) EY LLP's commitment to the variable level of time and effort necessary to address all such issues as they arise; and (iii) the market prices for EY LLP's services for engagements of this nature.

29. Denial of the relief requested herein will deprive the Debtors of the assistance of uniquely qualified tax, accounting, and internal audit services providers. Moreover, a denial of EY LLP's employment would result in an unjust disadvantage to the Debtors and all parties-in-interest because of EY LLP's understanding of the Debtors' operations, tax, accounting, and auditing issues.

30. Based on the foregoing, the Debtors submit that they have satisfied the requirements of the Bankruptcy Code, Bankruptcy Rules and the Local Rules to support entry of an order authorizing the Debtors to retain and employ EY LLP in these chapter 11 cases on the terms described herein and in the Engagement Letters.

Notice

31. Notice of this Application shall be given to: (a) the Office of the United States Trustee for the District of Delaware; (b) the holders of the 30 largest unsecured claims against the Debtors (on a consolidated basis); (c) counsel for the Consenting OpCo Noteholders; (d) counsel for the Consenting Incremental Term Loan Lenders; (e) counsel for the Consenting Term Loan Lenders; (f) counsel for the Consenting HoldCo Noteholders; (g) counsel for the proposed DIP Lenders; (h) the United States Environmental Protection Agency; (i) the United States Attorney's Office for the District of Delaware; (j) the Internal Revenue Service; (k) the office of the attorneys general for the states in which the Debtors operate; (l) the Securities and

Exchange Commission; and (j) any party that has requested notice pursuant to Bankruptcy Rule 2002. The Debtors submit that, in light of the nature of the relief requested, no other or further notice need be given.

No Previous Request

32. No previous request for the relief sought herein has been made by the Debtors to this or any other court.

WHEREFORE the Debtors respectfully request that the Court grant the relief requested herein and such other and further relief as it deems just and proper.

Dated: June 22, 2016

/s/ David Treadwell

David Treadwell
Senior Vice President, General Counsel and
Secretary of Seventy Seven Energy Inc. and its
Affiliated Debtors