

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

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In re : **Chapter 11**

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PARAGON OFFSHORE PLC, et al., : **Case No. 16-_____ (___)**

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: **Joint Administration Requested**

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Debtors.¹ :

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**MOTION OF DEBTORS FOR ENTRY OF INTERIM AND FINAL ORDERS
(I) AUTHORIZING DEBTORS (A) TO PAY PREPETITION WAGES, SALARIES,
EMPLOYEE BENEFITS, AND OTHER COMPENSATION, (B) TO MAINTAIN
EMPLOYEE BENEFIT PROGRAMS AND PAY RELATED ADMINISTRATIVE
OBLIGATIONS, AND (C) TO PAY TEMPORARY EMPLOYEE
OBLIGATIONS, AND (II) DIRECTING FINANCIAL INSTITUTIONS
TO RECEIVE, PROCESS, HONOR, AND PAY ALL CHECKS PRESENTED
FOR PAYMENT AND TO HONOR ALL FUND TRANSFER REQUESTS RELATED
TO SUCH OBLIGATIONS PURSUANT TO SECTIONS 105(a), 363(b),
AND 507 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULES 6003 AND 6004**

Paragon Offshore plc and its affiliated debtors in the above-captioned chapter 11 cases, as debtors and debtors in possession (collectively, the “**Debtors**”), respectfully represent as follows in support of this motion (this “**Motion**”):

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.



Relief Requested

1. Pursuant to sections 105(a), 363(b), and 507 of title 11 of the United States Code (the “**Bankruptcy Code**”) and Rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”), 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 as such were in effect as of the commencement of these chapter 11 cases and as such may be modified or supplemented from time to time in the ordinary course of business; and (c) pay, in their sole discretion, Temporary Employees for their services. The Debtors further request that the Court authorize financial institutions to receive, process, honor, and pay all checks presented for payment and to honor all fund transfer requests related to such obligations.

2. A proposed form of order granting the relief requested herein on an interim basis is annexed hereto as **Exhibit A** (the “**Proposed Interim Order**”) and, pending a final hearing on the relief requested herein, on a final basis as **Exhibit B** (the “**Proposed Final Order**”).

Jurisdiction

3. This Court has jurisdiction to consider 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 is a core proceeding pursuant to 28 U.S.C. § 157(b) and, 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”), the Debtors consent 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 consistent with Article III of the United States Constitution. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

Background

4. On the date hereof (the “**Petition Date**”), each of the Debtors commenced with this Court a voluntary case under chapter 11 of the Bankruptcy Code. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee, examiner, or statutory committee of creditors has been appointed in these chapter 11 cases.

5. Contemporaneously herewith, the Debtors have filed a motion requesting joint administration of these chapter 11 cases pursuant to Bankruptcy Rule 1015(b).

6. Additional information regarding the circumstances leading to the commencement of these chapter 11 cases and information regarding the Debtors’ 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 (the “**Lefkovits Declaration**”), and the Declaration of James A. Mesterharm in Support of the Debtors’ Chapter 11 Petitions and Related Requests for Relief (the “**Mesterharm Declaration**”), both of which have been filed contemporaneously herewith.

Overview of Employment and Compensation

7. In the ordinary course of business, the Debtors rely on the services of employed personnel (each, an “**Employee**”) to conduct the operations of their business and incur obligations to or on account of such Employees (collectively, “**Employee Obligations**”). There are approximately 1,750 Employees in the Debtors’ corporate enterprise: approximately 1,000

Employees are employed by Debtor entities, and approximately 750 Employees are employed by non-Debtor affiliates (the “**Nondebtor Service Entities**,” and, with the Debtors, the “**Paragon Employer Entities**”).

8. The Nondebtor Service Entities are directly or indirectly owned by Paragon Offshore plc (“**Paragon Parent**”). These companies provide essential operational services to the Debtors—most notably, the employment of approximately 43% of the Debtors’ workforce, 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, and without continued reimbursement by the Debtors, the Nondebtor Service Entities do not have the funds to pay these Employees. Further detail on the reimbursement arrangements between the Debtors and the Nondebtor Service Entities is set forth in the Debtors’ cash management motion,² filed concurrently herewith (the “**Cash Management Motion**”). The Cash Management Motion seeks Court authority for all reimbursements to the Nondebtor Service Entities. Such authority is also requested pursuant to this Motion.

9. The vast majority of Employees provide operational services on the Debtors’ offshore jackups and drillships. The remaining Employees provide a variety of management, administrative, and other support services in Houston, Texas and international offices located in Mexico, Brazil, Great Britain, Scotland, Netherlands, Denmark, Cameroon, Nigeria, Malaysia, Singapore, India, Qatar, United Arab Emirates, Tanzania, and South Africa. The Employees’ skills and knowledge of the Debtors’ infrastructure, and operations are essential

² Motion of Debtors for (I) Interim and Final Authority to (A) Continue Existing Cash Management System, (B) Maintain Business Forms and Existing Bank Accounts, and (C) Continue Intercompany Arrangements; (II) Waiver of the Requirements of Section 345(b) of the Bankruptcy Code; and (III) Related Relief.

to the continued operation of the Debtors' business. Without the Employees' continued, uninterrupted services, an effective reorganization of the Debtors will not be possible.

10. All Employees are employed on a full-time basis and paid salaries. Employees perform a wide variety of services for the Debtors, including drilling and other rig operations, mechanical and electrical repairs and maintenance, electronic technical services, accounting, marketing, safety training, engineering, logistics, tax and governmental compliance, and company management and administration.

11. The Debtors estimate that Employees are owed an aggregate of approximately \$4.55 million on account of Employee Obligations incurred prior to the Petition Date. The specific types of Employee Obligations are described in further detail below.

A. Salaries and Wages,

12. In the ordinary course of business, the Debtors incur and pay obligations relating to Employees' salaries and wages, and for certain eligible Employees, overtime, certain service premiums, and allowances (the "**Base Compensation Obligations**") and, for certain eligible Employees, performance bonuses (the "**Performance Bonus Obligations**") and collectively with the Base Compensation Obligations, the "**Compensation Obligations**"). Base Compensation Obligations are paid on a monthly or semi-monthly schedule. Depending on where they work, Employees are paid in United States dollars, British pounds, Brazil reals, Mexican pesos, Euros, Swiss francs, Qatari riyals, Nigerian naira, Malaysian riygits, and United Arab Emirates Dirhams.³

13. All Employees, with the exception of 17 Employees located in the Middle East, have received payment for all Base Compensation Obligations through the Petition Date.

³ For purposes of this Motion, all amounts denominated in currencies other than United States dollars have been stated in their United States dollar equivalents.

As of the Petition Date, the Debtors owe approximately \$25,000 in Base Compensation Obligations to these Employees and seek authority to pay them pursuant to this Motion.

14. The Debtors also pay Performance Bonus Obligations to eligible Employees. These Performance Bonus Obligations include safety bonuses, which are entirely funded by the Debtors' customers, rig retention and market premium bonuses (each of which have been suspended for 2016)⁴, bonuses under the Short Term Incentive Plan (“**STIP**”), and certain other long term incentive and retention bonuses.

15. 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 downtime; (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. As of the Petition Date, all prepetition STIP obligations for active Employees have been paid in full.⁵

⁴ 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.

⁵ 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.

16. Paragon Employer Entities also provide long-term incentive compensation in the form of cash awards and restricted stock units in Paragon Parent to 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 the Petition Date. The value of the units upon vesting is dependent on the market price of Paragon Parent’s ordinary shares on the date of vesting, but is approximately \$300,000 based on the most recent closing price of Paragon Parent’s ordinary shares. The Debtors intend to continue the Employee Plan in the ordinary course of business and seek authority to make such payments pursuant to this Motion.

17. 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 (the “**Commitment Amount**”). The Debtors may claw-back the full amount of the Commitment Amount should the Employee resign or be terminated for cause before the later of (i) the one year anniversary of the date of payment of the Commitment Amount or (ii) a “Transaction Date,” as defined in the KERP Agreements. To the best of the Debtors’ knowledge, they do not owe any prepetition amounts on account of a KERP

Agreement. The Debtors are not seeking authority to make additional KERP related payments pursuant to this Motion.

18. In summary, the Debtors seek authority to pay approximately \$325,000 on account of Compensation Obligations. No proposed payments to be made to any individual Employee on account of Compensation Obligations will exceed \$12,475.

B. Payroll Servicers

19. 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 (as defined below), and certain Employee benefits providers on behalf of the Debtors. Paragon Employer Entities employ the following Payroll Servicers:

Office	Payroll Servicer
US (Corporate)	In-house; ADP, LLC
Brazil	Totvs Project
Europe	Navision MiraclePay SKM Accountants
Mexico	Alcocer Camara Y Asociados SC
Switzerland	Grant Thornton
Middle East	In-house
Nigeria	Remita Payroll

The Debtors pay approximately \$282,000 in annual aggregate fees for Payroll Servicer services (the “**Payroll Servicer Fees**”). As of the Petition Date, the Debtors owe approximately \$36,000 on account of Payroll Servicer Fees and seek authority to pay them pursuant to this Motion.

C. Expenses

20. In addition to the Compensation Obligations, Employees are entitled to the prepayment or reimbursement of certain expenses, such as travel and meal expenses, that they incur in performing their employment duties (“**Expenses**”). Although it is difficult to estimate a gross monthly average cost of Expense reimbursements, the Debtors estimate, based on the last four months of payroll, that Expense reimbursements average approximately \$80,000 per month. Because of the irregular nature of requests for Expense reimbursements, it is very difficult for the Debtors to determine the amount of unpaid Expenses at any given time. Moreover, due to the international nature of the Debtors’ businesses, reimbursement amounts can vary dramatically. Out of an abundance of caution, the Debtors estimate roughly that, as of the Petition Date, Employees are owed approximately \$160,000, or roughly two months unpaid Expenses (including Expenses for which Employees have not yet requested reimbursement). The Debtors seek authority to reimburse outstanding Expenses pursuant to this Motion.

D. Obligations Related to Payroll Taxes

21. 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 taxes imposed by the law (each, a “**Withholding Tax**”) and to remit any such withheld amounts to the appropriate taxing authorities (each, a “**Taxing Authority**”) according to schedules that Taxing Authorities have established. Foreign-based Paragon Employer Entities have similar Withholding Tax obligations under the laws of the various foreign nations in which they operate.

22. 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**") on a monthly, quarterly, or annual basis, pursuant to the laws of the applicable jurisdictions. The majority of HCTC obligations are remitted at year-end, and approximately \$40,000 HCTC obligations are remitted on a monthly basis. As of the Petition Date, Paragon Employer Entities have withheld approximately \$1.9 million on account of prepetition HCTC obligations.

23. 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. The Debtors estimate that, on account of Payroll Taxes, Paragon Employer Entities withhold and contribute approximately \$6 million per month.

24. 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. The Debtors seek authority to satisfy all Payroll Taxes pursuant to this Motion.

E. Garnishments

25. 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. The Debtors seek authority to continue garnishing in accordance with applicable law.

Overview of Employee Benefit Plans

26. In the ordinary course of business, Paragon Employer Entities make various benefit plans available to their Employees. These benefit plans fall within the following categories: (i) paid time off, including sick days, vacation days, short-term disability pay, bereavement leave, jury duty leave, maternity/paternity leave, and military leave (together, the "**Employee Leave Benefits**"); (ii) medical, dental, vision, and prescription drug benefits, life insurance, accidental death and dismemberment ("**AD&D**") insurance, and long-term disability (together, the "**Health and Welfare Benefits**"); (iii) 401(k) plan, pension and international savings benefits (together, the "**Retirement Benefits**"); (iv) severance benefits; and

(v) relocation and certain other benefits (each of (i)–(v), an “**Employee Benefit**”). Although Paragon Employer Entities maintain certain Employee Benefit plans themselves, other Employee Benefit plans, such as the Health and Welfare Benefits, are maintained by third parties. Because of the diversity of the Employees’ nations of employment, nations of residence, compensation arrangements, and services performed, only certain Employees are eligible for and participate in each Employee Benefit plan. The Employee Benefits are described in further detail below.

A. Employee Leave Benefits

27. The Employee Leave Benefits are provided and administered by Paragon Employer Entities. Eligible Employees accrue paid time off and related benefits as generally described below, with some variance by country.

28. Vacation Days. Each eligible Employee receives a certain number of paid vacation days each calendar year based upon his or her position, nation of residence, and nation of employment. Employees may use vacation days at their discretion. Unused vacation days may be carried over from one year to the first quarter of the following year.⁶ In the event an Employee is terminated, that Employee is reimbursed for accrued but unused vacation days at the Employee’s base compensation rate, or as is legally required in the employment jurisdiction. Similarly, an Employee who is terminated and who has used more vacation days than the Employee has accrued is obligated to reimburse the Paragon Employer Entity for such used but unaccrued vacation days at the Employee’s base compensation rate, or as is legally required in the employment jurisdiction.

⁶ The number of unused vacation days/hours that may be carried over varies depending on an Employee’s location. For example, vacation days accrued by Dutch Employees may be carried over for up to five years.

29. Sick Leave. Eligible Employees employed in the U.S. and certain foreign locations are entitled to take up to 40 hours off annually on uncertified paid leave on account of sickness (“**Sick Leave**”). Employees who require more than 40 hours of Sick Leave per case must produce a medical certificate for each day of absence thereafter and are covered by Paragon Employer Entities’ Short-Term Disability plan (as defined below).⁷

30. Short-Term Disability. Paragon Employer Entities also maintain a short-term disability policy for certain eligible Employees. These Employees will continue to be paid their full compensation up to a certain period of time depending on the Employee’s length of employment (“**Short-Term Disability**”). The type and amount of Short-Term Disability offered to Employees varies by geographic region. For U.S. Employees, this type of leave may run concurrently with an Employee’s Family and Medical Leave Act leave, and is intended to compensate Employees absent from work because of a temporary medical disability, which is defined to include extended leave for pregnancy and childbirth. If an Employee participates in any of the Health and Welfare Plans, the Employee’s Short-Term Disability will have no effect on such participation.

31. Maternity and Paternity Leave. Certain Paragon Employer Entities provide twelve weeks of paid maternity leave beginning no later than four weeks after the birth of a child or adoption of a newborn child (unless legally required to provide more based on the jurisdiction of employment). Paragon Employer Entities provide five days of paid paternity leave within thirty days of such birth or adoption (unless legally required to pay more based on the jurisdiction of employment).

⁷ Certain jurisdictions do not require Employees to submit medical certifications and allow for Employees to provide for sick coverage pursuant to foreign law, apart from the Short-Term Disability plan.

32. Compassionate Leave. Paragon Employer Entities provide Employees with reasonable paid bereavement time in the event of a death within the Employee's immediate family. Paid bereavement time is typically up to ten days but may be increased on an unpaid basis with employer approval. Certain Employees are entitled to one flight home per bereavement. Employees are also entitled to one day of paid leave to attend the funeral of anyone who is not an immediate family member; however, Paragon Employer Entities do not provide travel arrangements for such situations.

33. Jury Duty Leave. Employees are entitled to paid leave for jury duty or responses to subpoenas.

34. Military Leave. Finally, Paragon Employer Entities grant leaves of absence as required by law for Employees who serve in military forces. Paragon Employer Entities pay the difference between Employees' regular wages and military wages in accordance with legislative jurisdictions. Additional military leave pay is generally handled on a case-by-case basis.

B. Health and Welfare Plans

35. Paragon Employer Entities sponsor several Health and Welfare Benefits plans to provide benefits to eligible Employees. The Health and Welfare Benefits include: medical, vision, dental, and prescription drug plans; life insurance and AD&D insurance; and long-term disability benefits. The Health and Welfare Benefits are provided by third-party insurers.

36. 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
UK	Medical	AXA PPP HealthCare

37. 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. Under most contracts between Paragon Employer Entities and the Health Benefits Providers, Paragon Employer Entities are required to pay an annual premium in exchange for the benefits provided to Employees who subscribe to the Health Benefits Provider.

Such premiums for Employee Health Benefits Provider coverage are funded by Paragon Employer Entities; but also partly subsidized by Employee contributions withheld from paychecks. 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.

38. Generally, Paragon Parent participates in plans with the Health Benefits Providers on behalf of Paragon Employer Entities, with some foreign Paragon Employer Entities engaging directly with the Health Benefits Providers. To participate in plans with the Health Benefits Providers, Paragon Parent and certain Paragon Employer Entities are required to pay annual premiums of approximately \$4 million in aggregate on behalf of themselves and their directly or indirectly owned subsidiaries, including the Nondebtor Service Entities. Of these total premiums, Paragon Employer Entities pay monthly installments of, on average, approximately \$320,000 to most of the Health Benefits Providers. All premiums to Health Benefit Providers are paid in advance. Because the obligations to their Health Benefit Providers are prepaid, the Debtors estimate that, as of the Petition Date, they do not owe any prepetition amounts on account of Health Benefit Provider premiums.

39. 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. Health Benefit Claims are paid on a weekly basis, but are not always timely submitted by participants. The average monthly amount of Health Benefit Claims is approximately \$440,500.⁸ As of the Petition Date, the Debtors estimate that

⁸ This average amount is based on historical data from the Paragon Employer Entities’ former HealthFirst administered plan that expired December 31, 2015. Submitted claims under the HealthFirst administered plan have been paid in full, but claims may continue to be submitted for reimbursement under a runoff program through March 31, 2016.

approximately \$947,000 of Health Benefit Claims are outstanding based on the Debtors' calculated monthly lag rate, including those which may have not yet been submitted.

40. COBRA. Under the Consolidated Omnibus Budget Reconciliation Act ("**COBRA**"), U.S. workers and their families who are terminated have the right to continue their health benefits from their employer for a limited period of time and under certain circumstances. COBRA benefits are provided to exiting U.S.-based Employees as required by law. The cost is borne by the exiting employee except for an administration charge of approximately \$200 per month, which has historically been remitted by Paragon Parent.

41. 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. In each case, the Paragon Employer Entities fund 100% of the plan's basic coverage costs. Employees of the U.S. Paragon Employer Entities can elect supplemental coverage for the Employee and/or family members under the Life Insurance and AD&D Insurance Plans at their own expense. As of the Petition Date, the Debtors estimate they owe approximately \$66,000 in outstanding liabilities related to Life Insurance, AD&D Insurance, and Long-Term Disability Plan costs.

42. In the ordinary course of business, the Paragon Employer Entities pay for the Health and Welfare Benefits costs in advance and COBRA and Health Benefit Claims in arrears. The estimated average monthly expenditure under all of the Health and Welfare Benefits plans collectively is approximately \$824,000. As of the Petition Date, Paragon Employer Entities will owe approximately \$1 million on account of Health and Welfare Benefits.

C. Retirement Benefits

43. Paragon Employer Entities provide Retirement Benefits to certain eligible Employees as described below.

44. 401(k) 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.

45. Each Employee participant in the 401(k) Plan and ISP may elect to contribute up to 50% of his or her salary to their applicable plan, subject to limitations under applicable law. The Paragon Employer Entities automatically withhold 2% of participant wages as contributions to participating Employees’ plans; further contributions are entirely within the participating Employee’s discretion (such discretionary contribution, a “**Plan Contribution**”). Paragon Employer Entities match up to seventy cents on each dollar contributed for Employees employed for less than five years of continuous service, and a dollar for each dollar contributed, for Employees with more than five years of continuous service for the Employee’s benefit (collectively, “**Plan Matching Contributions**”).⁹

46. The Debtors estimate that Plan Matching Contributions total approximately \$268,000 each month for the Debtors and \$81,500 each month for the Nondebtor Service Entities. The approximate annual cost of the 401(k) Plan and ISP is \$4.4 million, including all Plan Matching Contributions and certain administration fees associated therewith.

⁹ Service with Noble Corporation plc (“**Noble**”), the Debtors’ former parent, counts towards continuous service for purposes of Plan Matching Contributions.

47. To date, all Plan Contributions, Plan Matching Contributions, and related administration fees have been fully funded. Accordingly, the Debtors estimate that, as of the Petition Date, no prepetition amounts are due on account of the 401(k) Plan or ISP.

48. 401(k) Savings Restoration Plans. Paragon Employer Entities participate in two 401(k) savings restoration plans: (i) a Paragon Grandfathered 401(k) Savings Restoration Plan, which applies to compensation deferred by an eligible Employee that was vested under a certain Noble 401(k) Savings Restoration Plan prior to January 1, 2005 (the “**Grandfathered Restoration Plan**”), and (ii) a Paragon 401(k) Savings Restoration Plan, which applies to employer matching contributions and to compensation that was either deferred by an eligible Employee or became vested under a certain Noble 2009 401(k) Savings Restoration Plan on or after January 1, 2005 (the “**Non-Grandfathered Restoration Plan**” and, together with the Grandfathered Restoration Plan, 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. The Debtors do not seek authority to make payments under the Restoration Plans pursuant to this Motion.

49. 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**”). Employee participants in the UK Plans are required to contribute at least 5%, and may contribute up to 7%, of their salary to the plans. Paragon Employer Entities match Employee contributions up to 7% (“**UK Matching Contributions**”). The Debtors estimate that UK Matching Contributions total approximately \$28,000 each month for the Nondebtor Service Entities (no contributions are made on behalf of the Debtor entities), for an annual approximate cost of \$556,000, including certain administrative costs related thereto. All

costs associated with the UK Plans, including the UK Matching Contributions and the related administration fees have been fully funded to date. Accordingly, the Debtors estimate that, as of the Petition Date, no prepetition amounts are due on account of the UK Plans.

50. European Pension Plans. Certain Paragon Employer Entities participate in pension schemes administered by Nationale Nederlanden, a defined contribution plan (the “**DC Plan**”) and defined benefit plan (“**DB Plan**” and, together with the DC Plan, the “**European Pension Plans**”). Participating Employees in the DC Plan are required to contribute at least 5% of their annual salaries to the Pension Plans, and may contribute up to 7%. Nondebtor Service Entities match up to 7% of the participants’ contributions (“**Pension Matching Contributions**”). The approximate annual cost of the DC Plan, including Pension Matching Contributions and related administrative fees is \$325,000. All administrative costs and Pension Matching Contributions have been fully funded to date. As such, the Debtors estimate that, as of the Petition Date, no prepetition amounts are due on account of the DC Plan.

51. Participants in the DB Plan can elect to contribute portions of their salary at their own discretion. In addition, Paragon Employer Entities contribute, on each participating Employee’s behalf, 1% of the participant’s most recent annual salary, capped at \$90,518, multiplied by their years of service, with service at Noble counting towards such calculation. The annual contribution into the DB Plan is approximately \$5.65 million, and is made in a one-time payment at year’s end. As such, there are approximately \$800,000 in accrued prepetition DB Plan obligations as of the Petition Date that will become due and payable at the end of the year.

52. Brazil Pension Plan. Eligible Paragon Employer Entity Employees working in Brazil participate in a pension scheme administered by Bradesco Previdencia.

Pursuant to this plan, Employees can contribute up to 12% of their annual salaries, with the Paragon Employer Entity matching such contributions dollar for dollar up to 6%. The approximate annual cost for this plan, including matching contributions and related administrative fees is \$360,000.

53. Mexico Pension Plan. Eligible Paragon Employer Entity Employees working in Mexico may participate in the *Retire, Cesantia y Vejez* pension scheme. Pursuant to this plan, Employees contribute certain percentages of the annual salary, as required by law. In addition, Paragon Employer Entities contribute 5.15% of each participating Employee's salary to the fund on the Employee's behalf. The approximate annual cost for this pension, including employer contributions and related administrative fees is \$60,000.

54. The Debtors do not seek authority to pay prepetition amounts pursuant to the foregoing Retirement Benefits.

D. Severance Plan

55. 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 Leave Benefits (collectively, the "**Severance Obligations**"). Paragon Employer Entities pay Severance Obligations in the ordinary course of business and do not accrue for such compensation. As of the Petition Date, the Debtors do not owe any amounts pursuant to Severance Obligations incurred prepetition.

E. Expat Benefits, Employee Relocation and Certain Other Benefits

56. 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 in aggregate 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 prepetition benefits.

57. In addition, the Debtors 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.

Temporary Employee Obligations

58. 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**").

The Court Is Authorized to Grant the Relief Requested

59. Under section 507(a)(4)(A) of the Bankruptcy Code, claims of employees against a debtor for "wages, salaries, or commissions, including vacation, severance, and sick leave pay," that are "earned within 180 days before" the date on which a debtor's chapter 11 case is commenced are afforded priority unsecured status up to \$12,475 per individual. Similarly, under section 507(a)(5) of the Bankruptcy Code, employees' claims for contributions to certain employee benefit plans are also afforded priority unsecured status to the extent of \$12,475 per employee covered by such plans, less any amount paid pursuant to section 507(a)(4) of the Bankruptcy Code.

60. Under section 363(b)(1) of the Bankruptcy Code, "[t]he trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." Under section 105(a) of the Bankruptcy Code, "[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." Under section 105(a) and the doctrine of necessity, the bankruptcy court may exercise its broad grant of equitable powers to permit the payment of prepetition obligations when such payment is essential to the continued operation of the debtor's business. *See, e.g., In re Just for Feet, Inc.*, 242 B.R. 821, 824–25 (D. Del. 1999) (holding that section 105(a) of the Bankruptcy Code provides a statutory basis for the payment of prepetition claims under the doctrine of necessity and noting that "[t]he Supreme Court, the Third Circuit and the District of Delaware all recognize the court's power to authorize payment of pre-petition claims when such payment is

necessary for the debtor's survival during chapter 11"); *In re Columbia Gas Sys., Inc.*, 171 B.R. 189, 191–92 (Bankr. D. Del. 1994) (confirming that the doctrine of necessity is the standard in the Third Circuit for enabling a court to authorize the payment of prepetition claims prior to the confirmation of a reorganization plan).

61. Bankruptcy courts regularly rely on their authority under section 105(a) and the doctrine of necessity to grant debtors the discretionary authority to pay certain prepetition claims “where the payment is necessary to permit the effectuation of the rehabilitative purposes of the Bankruptcy Code.” *In re Sharon Steel Corp.*, 159 B.R. 730, 736 (Bankr. W.D. Penn. 1993); *see also In re Lehigh & New England Ry. Co.*, 657 F.2d 570, 581 (3d Cir. 1981) (holding that a court may authorize payment of prepetition claims if such payment is essential to continued operation of the debtor); *In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989) (authorizing the payment of prepetition claims and explaining that the “ability of a Bankruptcy Court to authorize the payment of pre-petition debt when such payment is needed to facilitate the rehabilitation of the debtor is not a novel concept”). The rationale for making payments to prepetition creditors under the doctrine of necessity is consistent with the paramount goal of chapter 11: “the continued operation and rehabilitation of the debtor” *Ionosphere Clubs*, 98 B.R. at 176. To that end, approval of such payments often benefits, rather than harms, the Debtors’ other creditors. *See, e.g., Sharon Steel*, 159 B.R. at 737 (approving payments of prepetition wages under the doctrine of necessity where doing so would maximize the value of the Debtors’ assets and noting that payments made pursuant to the doctrine of necessity “must not only be in the best interest of the debtor but also in the best interest of its other creditors”). Moreover, Bankruptcy Rule 6003 itself implies that the payment of prepetition

obligations may be permissible within the first twenty-one days of a case where doing so is “necessary to avoid immediate and irreparable harm.”

Payment of Employee Obligations and Temporary Employee Obligations Is Essential to the Debtors’ Successful Reorganization

62. The Employees and Temporary Employees (collectively, the “**Paragon Employees**”) are the most important part of the Debtors’ business. Any delay in paying or failure to pay Employee Obligations or Temporary Employee Obligations could irreparably impair the morale of the Debtors’ workforce at the time when their dedication, confidence, retention, and cooperation are most crucial. It could also inflict a significant financial hardship on their families. The Debtors cannot risk such a substantial disruption to their business operations, and it is inequitable to put Paragon Employees at risk of such hardship.

63. Payment of these obligations in the ordinary course of business would enable the Debtors to focus on completing a successful reorganization, which would benefit all parties in interest. Without this relief, otherwise-loyal Employees and Temporary Employees may seek other work opportunities, thereby putting at risk the Debtors’ continued operation as a reorganized enterprise. Payment of these obligations will enable the Debtors to continue to operate their business in an economic and efficient manner without disruption. The total amount sought to be paid by this Motion is modest compared to the magnitude of the Debtors’ overall business.

64. Reimbursement of Expenses is necessary because any other treatment of Employees would be highly inequitable. Employees who have incurred Expenses should not be forced personally to bear the cost of the Expenses, especially because the Employees incurred the Expenses for the Debtors’ benefit, in the course of their employment by the Debtors, and with the understanding that they would be reimbursed for doing so.

65. Payment of Payroll Taxes would not prejudice other creditors because Payroll Taxes generally give rise to priority claims under section 507(a)(8) of the Bankruptcy Code. In any event, Payroll Taxes that the Debtors withhold are held in trust for the Taxing Authorities. The withheld funds are not property of the Debtors' estates under section 541 of the Bankruptcy Code. *See Begier v. IRS*, 496 U.S. 53, 66–67 (1990) (concluding that withholding taxes are property held by a debtor in trust for another and are therefore not property of the debtor's estate).

66. Payment of administrative fees to the administrators of the Employee Benefit Plans is also necessary. Without the continued service of these administrators, the Debtors will be unable to continue to honor their obligations to Employees under the Employee Benefit Plans in an efficient and cost-effective manner. The Debtors do not seek to alter any of the Employee Benefit Plans. This Motion requests only permission for the Debtors, in their discretion, to (i) make payments consistent with existing policies to the extent that such payments could otherwise be inconsistent with the provisions of the Bankruptcy Code and (ii) continue to honor practices, programs, and policies with respect to Employees as such were in effect before the Petition Date.

67. In these chapter 11 cases, prepetition Employee Obligations constitute priority claims under sections 507(a)(4) and (a)(5) of the Bankruptcy Code. As of the Petition Date, the Debtors do not owe any single Employee or Temporary Employee an amount in excess of \$12,475 or an amount that falls outside of the statutory priorities granted in sections 507(a)(4) and (a)(5). As priority claims, the Employee Obligations must be paid in full before the Debtors may make distributions on account of their general unsecured obligations.

68. To the extent that any Employee or Temporary Employee is in fact owed any amount that either exceeds the statutory threshold or otherwise is not covered by sections 507(a)(4) or (a)(5), the payment of such amount is both necessary and appropriate to administer the Debtors' estates and may be authorized under section 363(b) of the Bankruptcy Code and section 105(a) of the Bankruptcy Code pursuant to the doctrine of necessity. The Debtors cannot operate their business without their Employees and Temporary Employees. Failure to pay any amounts owed for work they have already performed would have be strongly detrimental to the morale of the Debtors' workforce and could cause a crisis of confidence among them. The Debtors cannot be put at risk of such avoidable instability in their business—particularly where the Plan provides that all such claims will be paid in full. Accordingly, the Court should authorize the Debtors to pay all amounts currently owed to their Employees and Temporary Employees.

69. Courts in this district have frequently approved payment of prepetition claims for compensation, benefits, and expense reimbursements similar to those described herein. *See, e.g. In re Magnum Hunter Res. Corp.*, Case No. 15-12533 (KG) (Bankr. D. Del. Jan. 11, 2016) (Docket No. 262); *In re Swift Energy Co.*, Case No. 15-12670 (MFW) (Bankr. D. Del. Jan. 5, 2016) (Docket No. 58); *In re Offshore Grp. Inv. Ltd.*, Case No. 15-12422 (BLS) (Bankr. D. Del. Jan. 1, 2016) (Docket No. 157); *In re Endeavour Operating Corp.*, Ch. 11 Case No. 14-12308 (KJC) (Bankr. D. Del. Nov. 7, 2014) (Docket No. 161). For the reasons set forth above, similar relief is warranted in these chapter 11 cases.

**Applicable Banks Should Be Authorized
to Honor and Pay Checks Issued and Make Other Transfers to
Pay Employee Obligations and Payroll Servicer Fees**

70. As part of their cash management system, the Debtors and Nondebtor Service Entities maintain disbursement accounts (collectively, the “**Disbursement Accounts**”) at

various banks and other financial institutions (collectively, the “**Banks**”). In the ordinary course of business, Paragon Employer Entities draw upon funds in Disbursement Accounts to satisfy Employee Obligations, Temporary Employee Obligations, and Payroll Servicer Fees. The Debtors request that the Court authorize the Banks and any other applicable financial institutions to receive, process, honor, and pay all checks and electronic funds transfers (“**EFTs**”) used to pay the Employee Obligations, Temporary Employee Obligations, and Payroll Servicer Fees, whether requested or presented prior to, on, or after the Petition Date. The Debtors also seek authority to issue new postpetition checks and effect new postpetition EFTs on account of the Employee Obligations, Temporary Employee Obligations, and Payroll Servicer Fees to replace any prepetition checks or EFTs that may be dishonored or rejected as a result of the commencement of these chapter 11 cases. The Debtors have sufficient liquidity to pay such amounts as they come due in the ordinary course of the Debtors’ business.

Bankruptcy Rule 6003 Has Been Satisfied

71. Bankruptcy Rule 6003 provides that, to the extent relief is necessary to avoid immediate and irreparable harm, a bankruptcy court may issue an order granting “a motion to use, sell, lease, or otherwise incur an obligation regarding property of the estate, including a motion to pay all or part of a claim that arose before the filing of the petition” before twenty-one days after filing of the petition. Here, the payment of prepetition Employee Obligations and Temporary Employee Obligations is necessary to avoid immediate and irreparable harm because the Debtors rely on their Employees and Temporary Employees to operate their business. Nonpayment or late payment of Employees or Temporary Employees would have adverse effects on the Debtors’ workforce and may inflict a significant hardship on such Employees and Temporary Employees, many of whose families depend on their income from the Debtors. Accordingly, the Debtors have satisfied the requirements of Bankruptcy Rule 6003.

Request for Bankruptcy Rule 6004 Waivers

72. The Debtors request a waiver of the notice requirements under Bankruptcy Rule 6004(a) and any stay of the order granting the relief requested herein pursuant to Bankruptcy Rule 6004(h). As explained above and in the Mesterharm Declaration, the relief requested herein is necessary to avoid immediate and irreparable harm to the Debtors. Accordingly, ample cause exists to justify the waiver of the notice requirements under Bankruptcy Rule 6004(a) and the fourteen-day stay imposed by Bankruptcy Rule 6004(h), to the extent such stay applies.

Notice

73. No trustee, examiner, or statutory committee of creditors has been appointed in these chapter 11 cases. Notice of this Motion has been provided to (i) the Office of the United States Trustee for the District of Delaware; (ii) the Debtors' thirty (30) largest unsecured creditors on a consolidated basis; (iii) Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, NY 10017 (Attn: Sandeep Qusba, Esq., Kathrine A. McLendon, Esq., and Morris J. Massel, Esq.), counsel to JPMorgan Chase Bank, N.A. (a) as administrative agent under the Senior Secured Revolving Credit Agreement, dated as of June 17, 2014 (the "**Revolver Agent**"), and (b) as collateral agent under the Guaranty and Collateral Agreement, dated as of July 18, 2014 (the "**Collateral Agent**"); (iv) Landis Rath & Cobb LLP, 919 Market Street, Wilmington, DE 19801 (Attn: Adam G. Landis, Esq. and Kerri Mumford, Esq.), co-counsel to the Revolver Agent and the Collateral Agent; (v) Kaye Scholer LLP, 250 West 55th Street, New York, NY 10019 (Attn: Mark F. Liscio, Esq. and Scott D. Talmadge, Esq.), counsel to (a) Cortland Capital Market Services LLC, as administrative agent (the "**Term Loan Agent**"), and (b) the ad hoc committee of lenders (the "**Ad Hoc Term Lenders**"), under the Senior Secured Term Loan Agreement, dated as of July 18, 2014; (vi) Potter Anderson & Coroon LLP,

1313 N. Market Street, 6th Floor, Wilmington, DE 19801 (Attn: Jeremy W. Ryan, Esq.), co-counsel to the Term Loan Agent and the Ad Hoc Term Lenders; (vii) Morgan, Lewis, & Bockius LLP, 101 Park Avenue, New York, NY 10178 (Attn: James O. Moore, Esq., Glenn E. Siegel, Esq., and Joshua Dorchak, Esq.), counsel to Deutsche Bank Trust Company Americas as trustee under the Senior Notes Indenture, dated as of July 18, 2014, for the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (viii) Paul, Weiss, Rifkind, Wharton, & Garrison LLP, 1285 Avenue of the Americas, New York, NY 10019 (Attn: Andrew N. Rosenberg, Esq. and Elizabeth R. McColm, Esq.), counsel to certain holders of the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (ix) Young Conaway Stargatt & Taylor, LLP, Rodney Square, 1000 North King Street, Wilmington, DE 19801 (Attn: Pauline K. Morgan, Esq.), co-counsel to certain holders of the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (x) the Securities and Exchange Commission; (xi) the Internal Revenue Service; (xii) the United States Attorney's Office for the District of Delaware; and (xiii) any other party entitled to notice pursuant to Local Rule 9013-1(m).

74. Notice of this Motion and any order entered hereon will be served on all parties required by Local Rule 9013-1(m). Based on the urgency of the circumstances surrounding this Motion and the nature of the relief requested herein, the Debtors respectfully submit that no further notice is required.

No Previous Request

75. 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 entry of the Proposed Interim Order and Proposed Final Order granting the relief requested herein and such other and further relief as the Court may deem just and appropriate.

Dated: February 14, 2016
Wilmington, Delaware

/s/ Mark D. Collins

RICHARDS, LAYTON & FINGER, P.A.

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Proposed Attorneys for the Debtors
and Debtors in Possession

Exhibit A

Proposed Interim Order

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

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

INTERIM ORDER (I) AUTHORIZING DEBTORS (A) TO PAY PREPETITION WAGES, SALARIES, EMPLOYEE BENEFITS, AND OTHER COMPENSATION, (B) TO MAINTAIN EMPLOYEE BENEFIT PROGRAMS AND PAY RELATED ADMINISTRATIVE OBLIGATIONS, AND (C) TO PAY TEMPORARY EMPLOYEE OBLIGATIONS, AND (II) DIRECTING FINANCIAL INSTITUTIONS TO RECEIVE, PROCESS, HONOR, AND PAY ALL CHECKS PRESENTED FOR PAYMENT AND TO HONOR ALL FUND TRANSFER REQUESTS RELATED TO SUCH OBLIGATIONS PURSUANT TO SECTIONS 105(a), 363(b), AND 507 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULES 6003 AND 6004

Upon the motion, dated February 14, 2016 (the “**Motion**”),² of Paragon Offshore plc and its affiliated debtors, as debtors and debtors in possession (collectively, the “**Debtors**”), for (I) 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, all

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.

² All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

related expenses, and all fees and costs incidental 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 as such were in effect as of the commencement of these chapter 11 cases and as such may be modified or supplemented from time to time in the ordinary course of business; and (c) pay, in their sole discretion, Temporary Employee Obligations; and (II) authorization of financial institutions to receive, process, honor, and pay all checks presented for payment and to honor all fund transfer requests related to such obligations, each as more fully set forth in the Motion; and upon consideration of the Lefkovits Declaration; and upon consideration of the Mesterharm Declaration ;and the Court having jurisdiction to consider the Motion and the relief requested therein 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; and consideration of the Motion and the requested relief being a core proceeding pursuant to 28 U.S.C. § 157(b); and venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion having been provided to the parties listed therein, and it appearing that no other or further notice need be provided; and the Court having reviewed the Motion; and the Court having held a hearing on the Motion on February __, 2016; and the Court having determined that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and it appearing that the relief requested in the Motion is in the best interests of the Debtors and their respective estates and creditors; and upon all of the proceedings had before the Court and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY ORDERED THAT:

1. The Motion is granted on an interim basis as set forth herein.
2. The Debtors are authorized, but not directed, pursuant to sections 105(a), 363(b), and 507 of the Bankruptcy Code, 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; 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 as such were in effect as of the commencement of these chapter 11 cases and as such may be modified or supplemented from time to time in the ordinary course of business; and (c) pay, in their sole discretion, Temporary Employee Obligations, in each case, up to a maximum aggregate cap of \$3,033,000 relating to obligations incurred prepetition for all amounts due under this Interim Order.
3. Notwithstanding any other provision of this Interim Order, pending entry of a final order, nothing in this Interim Order shall authorize the Debtors to make any payment to or on behalf of any Employee on account of wages and other compensation obligations in excess of the statutory caps set forth in section 507(a)(4) and (5) of the Bankruptcy Code.
4. All Banks and other financial institutions are authorized, but not directed, to receive, process, honor, and pay all checks presented for payment by the Debtors and to honor all fund transfer requests related to such obligations. The Banks shall not be liable to any party on account of: (a) following the Debtors' representations, instructions, or presentations as to any order of the Court (without any duty of further inquiry); (b) the honoring of any prepetition checks, drafts, wires or ACH Payments in a good faith belief or upon a representation by the

Debtors that the Court has authorized such prepetition check, draft, wire or ACH Payments; or
(c) an innocent mistake made despite implementation of reasonable handling procedures.

5. The Debtors are further authorized to issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests that are dishonored as a consequence of these chapter 11 cases with respect to any prepetition amounts that are authorized to be paid pursuant to this Interim Order.

6. Nothing in this Interim Order is authorizing any payment subject to Section 503(c) of the Bankruptcy Code.

7. Nothing in this Interim Order shall authorize the Debtors to cash out unpaid vacation/leave time upon termination of an employee, unless applicable law requires such payment.

8. Notwithstanding anything in this Interim Order to the contrary, the Debtors' authority to use or transfer cash hereunder shall be subject to the same limitations and restrictions as are provided for with respect to the use or transfer of cash in the cash collateral order (as applicable, the "**Cash Collateral Order**"). To the extent there is any conflict between this Interim Order and any Cash Collateral Order, the terms of the Cash Collateral Order shall control.

9. The requirements of Bankruptcy Rule 6003(b) have been satisfied.

10. The requirements of Bankruptcy Rule 6004(a) are waived.

11. Notwithstanding the provisions of Bankruptcy Rule 6004(h), this Interim Order shall be immediately effective and enforceable upon its entry.

12. The Debtors are authorized to take all steps necessary or appropriate to carry out this Interim Order.

13. This Court shall retain jurisdiction to hear and determine all matters arising from or related to the implementation, interpretation, or enforcement of this Interim Order.

14. A final hearing to consider the relief requested in the Motion shall be held on _____, ____ at _____ (Eastern Time) and any objections or responses to the Motion shall be filed and served so as to be actually received on or prior to _____, ____ at 4:00 p.m. (Eastern Time).

Dated: _____, 2016
Wilmington, Delaware

UNITED STATES BANKRUPTCY JUDGE

Exhibit B

Proposed Final Order

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

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

FINAL ORDER (I) AUTHORIZING DEBTORS (A) TO PAY PREPETITION WAGES, SALARIES, EMPLOYEE BENEFITS, AND OTHER COMPENSATION, (B) TO MAINTAIN EMPLOYEE BENEFIT PROGRAMS AND PAY RELATED ADMINISTRATIVE OBLIGATIONS, AND (C) TO PAY TEMPORARY EMPLOYEE OBLIGATIONS, AND (II) DIRECTING FINANCIAL INSTITUTIONS TO RECEIVE, PROCESS, HONOR, AND PAY ALL CHECKS PRESENTED FOR PAYMENT AND TO HONOR ALL FUND TRANSFER REQUESTS RELATED TO SUCH OBLIGATIONS PURSUANT TO SECTIONS 105(a), 363(b), AND 507 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULES 6003 AND 6004

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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.

² All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

related expenses, and all fees and costs incidental 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 as such were in effect as of the commencement of these chapter 11 cases and as such may be modified or supplemented from time to time in the ordinary course of business; and (c) pay, in their sole discretion, Temporary Employee Obligations; and (II) authorization of financial institutions to receive, process, honor, and pay all checks presented for payment and to honor all fund transfer requests related to such obligations, each as more fully set forth in the Motion; and upon consideration of the Lefkovits Declaration; and upon consideration of the Mesterharm Declaration; and the Court having jurisdiction to consider the Motion and the relief requested therein 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; and consideration of the Motion and the requested relief being a core proceeding pursuant to 28 U.S.C. § 157(b); and venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion having been provided to the parties listed therein, and it appearing that no other or further notice need be provided; and the Court having reviewed the Motion; and the Court having held a hearing on the Motion on February __, 2016; and the Court having granted interim relief on the Motion on February __, 2016 (Docket No. __); and the Court having held a final hearing on the Motion on February __, 2016; and all objections to the Motion having been withdrawn, resolved or overruled; and the Court having determined that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and it appearing that the relief requested in the Motion is in the best interests of the

Debtors and their respective estates and creditors; and upon all of the proceedings had before the Court and after due deliberation and sufficient cause appearing therefor,

IT IS HEREBY ORDERED THAT:

1. The Motion is granted.
2. The Debtors are authorized, but not directed, pursuant to sections 105(a), 363(b), and 507 of the Bankruptcy Code, 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; 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 as such were in effect as of the commencement of these chapter 11 cases and as such may be modified or supplemented from time to time in the ordinary course of business; and (c) pay, in their sole discretion, Temporary Employee Obligations.
3. All Banks and other financial institutions are authorized, but not directed, to receive, process, honor, and pay all checks presented for payment by the Debtors and to honor all fund transfer requests related to such obligations. The Banks shall not be liable to any party on account of: (a) following the Debtors' representations, instructions, or presentations as to any order of the Court (without any duty of further inquiry); (b) the honoring of any prepetition checks, drafts, wires or ACH Payments in a good faith belief or upon a representation by the Debtors that the Court has authorized such prepetition check, draft, wire or ACH Payments; or (c) an innocent mistake made despite implementation of reasonable handling procedures.

4. The Debtors are further authorized to issue postpetition checks, or to effect postpetition fund transfer requests, in replacement of any checks or fund transfer requests that are dishonored as a consequence of these chapter 11 cases with respect to any prepetition amounts that are authorized to be paid pursuant to this Final Order.

5. Nothing in this Final Order shall authorize the Debtors to make any payment in violation of section 503(c) of the Bankruptcy Code.

6. Notwithstanding anything in this Final Order to the contrary, the Debtors' authority to use or transfer cash hereunder shall be subject to the same limitations and restrictions as are provided for with respect to the use or transfer of cash in the cash collateral order (as applicable, the "**Cash Collateral Order**"). To the extent there is any conflict between this Final Order and any Cash Collateral Order, the terms of the Cash Collateral Order shall control.

7. Notwithstanding the provisions of Bankruptcy Rule 6004(h), this Final Order shall be immediately effective and enforceable upon its entry.

8. The Debtors are authorized to take all steps necessary or appropriate to carry out this Final Order.

9. This Court shall retain jurisdiction to hear and determine all matters arising from or related to the implementation, interpretation, or enforcement of this Final Order.

Dated: _____, 2016
Wilmington, Delaware

UNITED STATES BANKRUPTCY JUDGE