

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**
  
:
  
**Debtors.<sup>1</sup>** :
  
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**MOTION OF DEBTORS FOR INTERIM AND FINAL ORDERS AUTHORIZING DEBTORS TO PAY PREPETITION CLAIMS OF GENERAL UNSECURED CREDITORS IN THE ORDINARY COURSE OF BUSINESS PURSUANT TO SECTIONS 105(a), 362(d), 363(b), AND 503(b)(9) 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**”):

**Relief Requested**

1. Pursuant to sections 105(a), 362(d), 363(b), and 503(b)(9) 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 interim and final authority to pay, in the ordinary course of business, allowed prepetition claims (collectively, the

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



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“**Trade Claims**”) of general unsecured creditors that provide goods or services related to the Debtors’ operations (collectively, the “**Trade Creditors**”), many of which are located in jurisdictions outside the United States (collectively, the “**Foreign Creditors**”). The Debtors seek authorization to pay prepetition amounts owed to the Trade Creditors on account of the Trade Claims in an aggregate amount not to exceed \$37.6 million on an interim basis and \$41.5 million on a final basis.

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**,” and together with the Proposed Interim Order, the “**Proposed Orders**”).

### **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. On the Petition Date, the Debtors filed a Joint Chapter 11 Plan of Paragon Offshore Plc and Its Affiliated Debtors (the “**Plan**”) and a Disclosure Statement for Joint Chapter 11 Plan of Paragon Offshore Plc and Its Affiliated Debtors. The Debtors expect that the Plan will be accepted by all classes entitled to vote in excess of the statutory thresholds specified in section 1126(c) of the Bankruptcy Code.

7. 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.

### **The Trade Creditors**

8. The Debtors are a global provider of standard- and high-specification offshore drilling rigs, operating in areas such as Mexico, Brazil, Canada, the North Sea, Africa, the Middle East, and India. The Debtors’ primary business is to contract these rigs, related equipment, and work crews to conduct oil and gas drilling and workover operations for customers in the exploration and production industry.

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

### **The Trade Claims**

10. The Debtors incur numerous fixed, liquidated, and undisputed payment obligations to the Trade Creditors in the ordinary course of business. For the 12 months prior to the Petition Date, the Debtors' average monthly payment to Trade Creditors was approximately \$71 million, including \$47 million per month in obligations to Foreign Creditors.

11. The Debtors estimate that, as of the Petition Date, they owe a total of approximately \$41.5 million on account of undisputed Trade Claims. The following table summarizes the types of Trade Claims held by the Trade Creditors and provides the Debtors' estimate of the total amount of each type of Trade Claim outstanding as of the Petition Date, including estimates for the portion of such total coming due before a hearing for relief on a final basis.<sup>2</sup>

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<sup>2</sup> For the purpose of this calculation, the Debtors assume a final hearing on the Motion will be held 30 days after the Petition Date.

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

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

**Conditions on Authority to Pay Trade Claims in the Ordinary Course**

13. The Debtors request authority to pay the Trade Claims (i) on the condition that, by accepting payment, the Trade Creditor agrees to maintain or reinstate trade terms during the pendency of these chapter 11 cases that are at least as favorable as those existing on or before the Petition Date or (ii) on terms satisfactory to the Debtors in their business judgment (“**Customary Trade Terms**”). The Debtors also propose that if a Trade Creditor, after receiving a payment on account of its Trade Claim, does not maintain or reinstate Customary Trade Terms

during the pendency of these chapter 11 cases, then any payments made on account of the Trade Claim to such Trade Creditor after the Petition Date may, in the Debtors' sole discretion, either be (a) deemed applied to postpetition amounts payable to such Trade Creditor or (b) treated as an unauthorized postpetition transfer recoverable by the Debtors.

### **Treatment of Trade Claims Under the Plan**

14. The goal of these chapter 11 cases is to deleverage the Debtors' balance sheet with minimal interruption of their business operations. Disruption of the Debtors' necessary goods and services could negatively impact the Debtors' performance of drilling services, which would harm their business by damaging market reputation and possibly leading to termination of customer contracts. Accordingly, it is imperative that the Debtors maintain positive relationships with the suppliers of the goods and services essential to their business operations throughout the course of these chapter 11 cases. The Debtors negotiated the terms of the Plan with this goal in mind. Under the Plan, the legal, equitable, and contractual rights of holders of Administrative Expense Claims, Priority Tax Claims, Priority Non-Tax Claims, Other Secured Claims, and General Unsecured Claims (each as defined in the Plan), which includes the Trade Claims, will be unaltered. Accordingly, the relief requested in this Motion furthers the Debtors' overarching restructuring goals without prejudice to the Debtors' stakeholders.

### **Basis for Relief**

#### **A. Payment of Trade Claims Warranted Under 363 of the Bankruptcy Code**

15. Section 363(b) of the Bankruptcy Code provides, in relevant part, that the debtor, "after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." To approve the use of assets outside the ordinary course of business pursuant to section 363(b) of the Bankruptcy Code, courts require only that the debtor "show that a sound business purpose justifies such actions." *In re Montgomery Ward Holding*

*Corp.*, 242 B.R. 147, 153 (D. Del. 1999) (internal citations omitted); see also *In re Phoenix Steel Corp.*, 82 B.R. 334, 335–36 (Bankr. D. Del. 1987); *In re Adelpia Commc'ns Corp.*, Case No. 02-41729, 2003 WL 22316543, at \*31 (Bankr. S.D.N.Y. Mar. 4, 2003); *In re Lionel Corp.*, 722 F.2d 1063, 1071 (2d Cir. 1983). Moreover, “[w]here the debtor articulates a reasonable basis for its business decisions (as distinct from a decision made arbitrarily or capriciously), courts will generally not entertain objections to the debtor’s conduct.” *In re Johns-Manville Corp.*, 60 B.R. 612, 616 (Bankr. S.D.N.Y. 1986) (citation omitted); see also *In re Tower Air, Inc.*, 416 F.3d 229, 238 (3d Cir. 2005) (stating that “[o]vercoming the presumptions of the business judgment rule on the merits is a near-Herculean task”).

16. In addition to being justified under section 363(b)(1) of the Bankruptcy Code, payment of the Trade Claims is warranted under the corollary doctrine of necessity. Section 105(a) of the Bankruptcy Code provides that, “[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).

17. 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 benefits, rather than harms, the Debtors’ other creditors. See, e.g., *Sharon Steel*, 159 B.R. at 737 (approving payments of certain 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 (21) days of a case where doing so is “necessary to avoid immediate and irreparable harm.”

18. It is a sound exercise of the Debtors' business judgment to pay the Trade Claims as they become due in the ordinary course of business because doing so will avoid value-destructive business interruption. The goods and services provided by Trade Creditors are necessary for the continued operation of the Debtors' business. The Debtors anticipate that failure to pay the Trade Claims as they become due may result in the Trade Creditors refusing to provide essential goods and services and/or conditioning the delivery of such goods and services on compliance with onerous and commercially unreasonable terms. A Trade Creditor's nonperformance could materially disrupt the Debtors' own performance of services under customer contracts and jeopardizes the continued viability of the Debtors' business, and these chapter 11 cases, ultimately to the detriment of the Debtors' stakeholders.

19. In addition, because the Trade Creditors are already familiar with the Debtors' assets and business needs based on years of the Debtors' building relationships with such vendors, they are in the best position to provide goods and services on commercially reasonable terms. Also, due to the international and highly-specialized nature of the Debtors' operations, certain Trade Creditors may be the only or preferred source from which the Debtors can procure essential goods and services. Therefore, even if it were possible to obtain replacement goods and services, doing so would likely cause substantial delay and significant costs. Further, the laws of the jurisdictions in which the Debtors operate often require certain goods and services be provided by local vendors, further limiting the Debtors' options for obtaining essential goods and services.

20. Delaying payments to the Trade Creditors could prevent the Debtors from obtaining goods and services that are essential to their continued performance under customer contracts. In a worst case scenario, nonperformance may lead to termination of customer

contracts, resulting in substantial damage to the Debtors' business and injuring the Debtors and their respective estates and creditors. The relief requested in this Motion is necessary immediately, on an interim basis, to avoid irreparable harm to the Debtors, their estates, and their creditors.

21. Authority to pay the Trade Claims as they come due will assist the smooth transition into and out of these chapter 11 cases and will ensure the Debtors' continued operation during the intervening period. Moreover, no party in interest will be prejudiced by the relief requested herein because the Trade Claims are unimpaired under the Plan and will be paid in full upon the effective date of the Plan. Thus, the relief requested herein seeks to alter only the timing, not the amount or priority, of such payments.

22. Accordingly, paying the relatively modest amount of Trade Claims—less than one-and-a-half percent (1.5%) of the total debt to be restructured in these chapter 11 cases—in the ordinary course is prudent when compared to the amount the Debtors' stakeholders stand to lose if the Debtors' business were to be interrupted and, therefore, it is a sound exercise of the Debtors' business judgment.

## **B. Additional Bases for Payment of Certain Trade Claims**

### **i. The Majority of Trade Claims are Owed to Foreign Creditors**

23. As explained above, the Debtors rely on parties located outside the United States for essential goods and services. As a result, an aggregate amount of approximately \$27.4 million, roughly two-thirds of the Trade Claims, are owed to Foreign Creditors that may lack minimum contacts with the United States and, therefore, may not be subject to the jurisdiction of this Court or provisions of the Bankruptcy Code that otherwise protect the Debtors' assets and business operations. Based on the Debtors' experience in the offshore drilling industry and their familiarity with the Foreign Creditors, the Debtors believe there is a significant risk that Foreign

Creditors may consider themselves to be beyond the jurisdiction of this Court, disregard the automatic stay, and engage in conduct that is harmful to the Debtors' business operations unless paid in the ordinary course.<sup>3</sup> Further, such conduct would inevitably lead to litigation in foreign courts, resulting in additional and unnecessary expenses to the detriment of the Debtors, their estates, and their creditors. These harms would be immediate and irreparable. As discussed above, permitting the Debtors to pay the Trade Claims of Foreign Creditors as they become due will only alter the timing, not the amount or priority, of such payments, and will help preserve the value of the Debtors' estates by minimizing disruptions to their business operations. Accordingly, payment of the Trade Claims of Foreign Creditors is a sound exercise of the Debtors' business judgment, is necessary to avoid irreparable harm to the Debtors' estates, is in the best interests of the Debtors and their respective estates and creditors, and is warranted under the circumstances.

24. Courts in this district have recognized that payment of prepetition claims to foreign vendors is appropriate in cases in which debtors sought relief similar to that requested herein. *See, e.g., In re Offshore Grp. Inv. Ltd.*, Case No. 15-12422 (BLS) (Bankr. D. Del. Jan. 1, 2016) (authorizing payment of undisputed claims of foreign creditors in chapter 11 proceedings); *In re Hercules Offshore, Inc.*, Case No. 15-11685 (KJC) (Bankr. D. Del. Sept. 15, 2015) (same); *In re Everywhere Global, Inc.*, Case No. 15-10743 (LSS) (Bankr. D. Del. Apr. 9, 2015) (same); see also *In re The Standard Register Co.*, Case No. 15-10541 (BLS) (Bankr. D. Del. Mar. 13, 2015) (same); *In re Leiner Health Prods. Inc.*, Case No. 08-10446 (KJC) (Bankr. D. Del. Apr. 8,

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<sup>3</sup> Notwithstanding the self-executing and global nature of the automatic stay, not all parties affected or potentially affected by the commencement of these chapter 11 cases are aware of its significance and impact. As a result, in an exercise of prudence, the Debtors are seeking an order enforcing the automatic stay in the Motion of Debtors for Entry of an Order Enforcing the Protections of Sections 362, 365, 525 and 541(c) of the Bankruptcy Code Pursuant to Section 105 of the Bankruptcy Code, filed contemporaneously herewith.

2008) (same); *In re A123 Sys., Inc.*, Case No. 12-12859 (KJC) (Bankr. D. Del. Nov. 8, 2012) (same); *In re Pemco World Air Servs., Inc.*, Case No. 12-10799 (MFW) (Bankr. D. Del. Apr. 3, 2012) (same).

ii. Certain Trade Claims Are Administrative Expenses

25. An estimated \$20 million, roughly 48%, of the Trade Claims are entitled to the statutory priority for goods delivered to the Debtors in the ordinary course of business within 20 days before the Petition Date. Section 503(b)(9) of the Bankruptcy Code provides that such claims are administrative expense claims against the applicable Debtor's estate. *See* 11 U.S.C. § 503(b)(9). The Debtors, therefore, are required to pay such claims in full to confirm a plan of reorganization. *See id.* § 1129(a)(9)(A) (requiring payment in full of claims entitled to administrative expense priority). Instead of paying such Trade Claims on the effective date of the Plan, the Debtors seek authority to pay the Trade Claims during the pendency of these chapter 11 cases as they become due.

26. The Bankruptcy Code requires, and the Plan provides for, payment in full of administrative expense claims on the effective date of the Plan, or as soon as practicable thereafter. Thus, payment of Trade Claims entitled to priority under section 503(b)(9) under the Proposed Orders will effect only a change in the timing of such payments, not the amounts or priority thereof. Finally, authorizing the Debtors to pay Trade Claims pursuant to the terms set forth herein should eliminate the burden on this Court and the Debtors arising from numerous individual motions requesting payment on account of 503(b)(9) claims. Accordingly, payment of the Trade Claims as provided herein, is a sound exercise of the Debtors' business judgment, is necessary to avoid immediate and irreparable harm to the Debtors' estates, is in the best interests of the Debtors' and their respective estates and creditors, and is warranted under the circumstances.

27. Courts in this district have authorized the payment of prepetition claims under section 503(b)(9) of the Bankruptcy Code at the outset of a chapter 11 case. *See, e.g., In re Offshore Grp. Inv. Ltd.*, Case No. 15-12422 (BLS) (Bankr. D. Del. Jan. 1, 2016) (authorizing payment of section 503(b)(9) claims); *In re Hercules Offshore, Inc.*, Case No. 15-11685 (KJC) (Bankr. D. Del. Sept. 15, 2015) (same); *In re Everywhere Global, Inc.*, Case No. 15-10743 (LSS) (Bankr. D. Del. Apr. 9, 2015) (same); *In re Sorenson Commc'ns, Inc.*, Case No. 14-10454 (BLS) (Bankr. D. Del. Mar. 4, 2014) (same); *In re Physiotherapy Holdings, Inc.*, Case No. 13-12965 (KG) (Bankr. D. Del. Dec. 6, 2013) (same); *In re GateHouse Media, Inc.*, Case No. 13-12503 (MFW) (Bankr. D. Del. Sept. 30, 2013) (same).

iii. Certain Trade Claims May Be Secured by Liens

28. Certain Trade Claims are held by Trade Creditors that (i) provide shipping, warehousing, and logistics services and supplies; (ii) repair and maintain the Debtors' equipment and facilities; and/or (iii) lease facilities or equipment to the Debtors. Such Trade Creditors may be entitled to assert liens against certain of the Debtors' assets under various state, federal, international, or maritime laws. These issues are particularly acute in the context of international maritime operations like those of the Debtors. For example, certain Trade Creditors supply the Debtors with goods and services that may qualify as "necessaries," as that term is used in maritime law. *See, e.g.,* 46 U.S.C. § 31301(4) (defining "necessaries" to include repairs, supplies, towage, and the use of a dry dock or marine railway); *Ventura Packers, Inc. v. F/V Jeanine Kathleen*, 305 F.3d 913, 923 (9th Cir. 2002) (noting that "modern admiralty jurisprudence interprets 'necessaries' broadly, as anything that facilitates or enables a vessel to perform its mission or occupation") (citing *Equilease Corp. v. M/V Sampson*, 793 F.2d 598, 603 (5th Cir.1986)). Under maritime law, if a Trade Creditor were owed for the provision of "necessaries," it could potentially assert maritime liens against the Debtors' drilling units and

seek to attach and arrest these assets. *See id.* § 31342 (“[A] person providing necessaries to a vessel . . . has a maritime lien on the vessel” and “may bring a civil action in rem to enforce the lien . . .”). Once a vessel is arrested, it will be held in custody until the order for attachment and arrest is vacated or security is posted from which the maritime claim may be satisfied. *See Fed. R. Civ. Proc. Supp. Adm. Rule E(5)*. The arrest of one the Debtors’ drilling units would cause a substantial disruption in the Debtors’ business operations and cause the Debtors’ estates to incur additional costs and expenses associated with maritime proceedings to release the vessel. Moreover, under section 363(e) of the Bankruptcy Code, Trade Creditors with liens may be entitled to adequate protection of their liens, which may impose additional costs on the Debtors’ estates.

29. Furthermore, under the Plan, Trade Claims supported by liens are “Other Secured Claims” that are unimpaired and will be paid in full on the effective date of the Plan. Accordingly, payment of the Trade Claims as provided herein, is a sound exercise of the Debtors’ business judgment, is necessary to avoid immediate and irreparable harm to the Debtors’ estates, is in the best interests of the Debtors’ and their respective estates and creditors, and is warranted under the circumstances. The Debtors estimate that approximately \$4 million of the Trade Claims are supported by liens.

30. Courts in this district have authorized the payment of claims supported by liens at the outset of a chapter 11 case. *See, e.g., In re Offshore Grp. Inv. Ltd.*, Case No. 15-12422 (BLS) (Bankr. D. Del. Jan. 1, 2016) (authorizing payment of claims supported by liens); *In re Hercules Offshore, Inc.*, Case No. 15-11685 (KJC) (Bankr. D. Del. Sept. 15, 2015) (same); *In re Everywhere Global, Inc.*, Case No. 15-10743 (LSS) (Bankr. D. Del. Apr. 9, 2015) (same); *In re Sorenson Commc’ns, Inc.*, Case No. 14-10454 (BLS) (Bankr. D. Del. Mar. 4, 2014) (same); *In*

*re Physiotherapy Holdings, Inc.*, Case No. 13-2965 (KG) (Bankr. D. Del. Dec. 6, 2013) (same); *In re GateHouse Media, Inc.*, Case No. 13-12503 (MFW) (Bankr. D. Del. Sept. 30, 2013) (same); *In re Neb. Book Co.*, Case No. 11-12005 (PJW) (Bankr. D. Del. July 21, 2011) (same).

**Processing of Checks and Electronic Fund Transfers Should Be Authorized**

31. The Debtors have sufficient funds to pay the Trade Claims in the ordinary course of business using cash maintained by the Debtors and the cash generated through operations. Under the Debtors' existing cash management system, the Debtors have the ability to readily identify checks or wire transfer requests relating to the Trade Claims, as applicable, and believe there is minimal risk that inadvertent payment of unauthorized checks or wire transfer requests will be made. Thus, the Debtors request that the Court direct applicable banks and financial institutions to receive, process, honor, and pay, to the extent of funds on deposit, any and all checks issued or to be issued and electronic fund transfers requested or to be requested by the Debtors relating to the Trade Claims as set forth herein. The Debtors also seek authority, but not direction, to issue new postpetition checks or effect new postpetition electronic fund transfers in replacement of any checks or transfer requests on account of the Trade Claims dishonored or rejected as a result of these chapter 11 cases.

**Bankruptcy Rule 6003 Has Been Satisfied**

32. 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 (21) days after filing of the petition. As described herein and in the Mesterharm Declaration, the relief requested in this Motion is necessary to avoid immediate and irreparable harm to the Debtors and all parties in interest. The payment of the Trade Claims in the ordinary course of

business, including those that are due within the first 21 days, is vital to ensure that the Debtors' operations are not disrupted at a critical juncture in their restructuring. Accordingly, the Debtors have satisfied the requirements of Bankruptcy Rule 6003.

**Request for Bankruptcy Rule 6004 Waivers**

33. 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.

**Reservation of Rights**

34. Nothing contained in this Motion or any actions taken by the Debtors pursuant to relief granted in the Proposed Orders is intended or should be construed as: (i) an admission as to the validity of any particular claim against a Debtor entity; (ii) a waiver of the Debtors' rights to dispute any particular claim on any grounds; (iii) a promise or requirement to pay any particular claim; (iv) an implication or admission that any particular claim is of a type specified or defined in this Motion; (v) a request or authorization to assume any agreement, contract, or lease pursuant to section 365 of the Bankruptcy Code; (vi) a waiver or limitation of the Debtors' rights under the Bankruptcy Code or any other applicable law; or (vii) a concession by the Debtors that any liens (contractual, common law, statutory, or otherwise) satisfied pursuant to this Motion are valid, and the Debtors expressly reserve their rights to contest the extent, validity, or perfection or seek avoidance of all such liens. If the Court grants the relief sought herein, any payment made pursuant to the Court's order is not intended and should not be

construed as an admission as to the validity of any particular claim or a waiver of the Debtors' rights to subsequently dispute such claim.

**Notice**

35. 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).

36. 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 Prior Request**

37. 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		
	:		
<b>In re</b>	:		<b>Chapter 11</b>
	:		
<b>PARAGON OFFSHORE PLC, et al.,</b>	:		<b>Case No. 16-_____ (___)</b>
	:		
<b>Debtors.<sup>1</sup></b>	:		<b>Joint Administration Requested</b>
	X		

**INTERIM ORDER AUTHORIZING DEBTORS TO PAY PREPETITION CLAIMS  
OF GENERAL UNSECURED CREDITORS IN THE ORDINARY COURSE  
OF BUSINESS PURSUANT TO SECTIONS 105(a), 362(d), 363(b), AND 503(b)(9) OF  
THE BANKRUPTCY CODE AND BANKRUPTCY RULES 6003 AND 6004**

Upon the motion, dated February 14, 2016 (the “**Motion**”),<sup>2</sup> of Paragon Offshore plc and its affiliated debtors, as debtors and debtors in possession (collectively, the “**Debtors**”), for interim and final authority to pay the prepetition claims of general unsecured creditors in the ordinary course of business pursuant to sections 105(a), 362(d), 363(b), and 503(b)(9) of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004, 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

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<sup>1</sup> 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.

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

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), 362(d), 363(b), and 503(b)(9) of the Bankruptcy Code, in the reasonable exercise of their business judgment, to pay, in the ordinary course of business, some or all of the prepetition Trade Claims of Trade Creditors; provided that the aggregate of such payments pursuant to this Interim Order shall not exceed \$37.6 million; provided further that any Trade Creditor receiving payment on its Trade Claim must agree to maintain or reinstate trade terms during the pendency of these chapter 11 cases that are at least as favorable as those existing on or before the Petition Date or that are satisfactory to the Debtors in their business judgment (“**Customary Trade Terms**”).

3. If a Trade Creditor, after receiving payment on account of a Trade Claim, ceases to provide Customary Trade Terms or otherwise fails to perform under a contract with a Debtor, the Debtors, in their sole discretion, may without further notice to or action, order, or approval of this Court (i) deem such payment to apply to postpetition amounts payable to such Trade Creditor, if applicable, or (ii) take any and all appropriate steps to cause such Trade Creditor to repay payments made to it on account of its prepetition Trade Claim to the extent that such payments exceed the postpetition amounts then owing to such Trade Creditor.

4. All applicable banks and other financial institutions are authorized to receive, process, honor, and pay any and all checks and transfer requests evidencing amounts paid by the Debtors under this Order, whether presented before or after the Petition Date, in accordance with, and with the protections granted in, any order approving the Debtors' use of their cash management system entered in these chapter 11 cases. 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 prepetition amounts owed in connection with any Trade Claims.

6. Nothing contained in the Motion or this Interim Order is intended or should be construed as a decision by the Debtors to assume or reject any executory contract or unexpired lease, or to effect the assumption or rejection of any executory contract or unexpired lease, pursuant to section 365 of the Bankruptcy Code.

7. Nothing contained in the Motion or this Interim Order is intended or should be construed to create an administrative priority claim on account of any Trade Claim.

8. Nothing contained in the Motion or this Interim Order shall be deemed or construed as an admission as to the validity or priority of any Trade Claim or lien against the Debtors or any other party or as a waiver of such parties' rights to dispute any Trade Claim or lien.

9. 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.

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

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

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

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

14. 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.

15. 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

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UNITED STATES BANKRUPTCY JUDGE

**Exhibit B**

Proposed Final Order

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE**

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

**FINAL ORDER AUTHORIZING DEBTORS TO PAY PREPETITION CLAIMS  
OF GENERAL UNSECURED CREDITORS IN THE ORDINARY COURSE  
OF BUSINESS PURSUANT TO SECTIONS 105(a), 362(d), 363(b), AND 503(b)(9) OF  
THE BANKRUPTCY CODE AND BANKRUPTCY RULES 6003 AND 6004**

Upon the motion, dated February 14, 2016 (the “**Motion**”),<sup>2</sup> of Paragon Offshore plc and its affiliated debtors, as debtors and debtors in possession (collectively, the “**Debtors**”), for interim and final authority to pay the prepetition claims of general unsecured creditors in the ordinary course of business pursuant to sections 105(a), 362(d), 363(b), and 503(b)(9) of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004, 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

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<sup>1</sup> 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.

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

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. \_\_) (the “**Interim Order**”); and the Court having held a final hearing on the Motion on \_\_\_\_\_, 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), 362(d), 363(b), and 503(b)(9) of the Bankruptcy Code, in the reasonable exercise of their business judgment, to pay, in the ordinary course of business, some or all of the prepetition Trade Claims of the Trade Creditors; provided that the aggregate of such payments pursuant to the Interim Order and this Final Order shall not exceed \$41.5 million; and provided further that any Trade Creditor receiving payment on its Trade Claim must agree to maintain or reinstate

trade terms during the pendency of these chapter 11 cases that are at least as favorable as those existing on or before the Petition Date or that are satisfactory to the Debtors in their business judgment (“**Customary Trade Terms**”).

3. If a Trade Creditor, after receiving payment on account of a Trade Claim, ceases to provide Customary Trade Terms or otherwise fails to perform under a contract with a Debtor, the Debtors, in their sole discretion, may without further notice to or action, order, or approval of this Court (i) deem such payment to apply to postpetition amounts payable to such Trade Creditor, if applicable, or (ii) take any and all appropriate steps to cause such Trade Creditor to repay payments made to it on account of its prepetition Trade Claim to the extent that such payments exceed the postpetition amounts then owing to such Trade Creditor.

4. All applicable banks and other financial institutions are authorized to receive, process, honor, and pay any and all checks and transfer requests evidencing amounts paid by the Debtors under this Order, whether presented before or after the Petition Date, in accordance with, and with the protections granted in, any order approving the Debtors’ use of their cash management system entered in these chapter 11 cases.

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 prepetition amounts owed in connection with any Trade Claims.

6. Nothing contained in the Motion or this Final Order is intended or should be construed as a decision by the Debtors to assume or reject any executory contract or unexpired lease, or to effect the assumption or rejection of any executory contract or unexpired lease, pursuant to section 365 of the Bankruptcy Code.

7. Nothing contained in the Motion or this Final Order is intended or should be construed to create an administrative priority claim on account of any Trade Claim.

8. Nothing contained in the Motion or this Final Order shall be deemed or construed as an admission as to the validity or priority of any Trade Claim or lien against the Debtors or any other party or as a waiver of such parties' rights to dispute any Trade Claim or lien.

9. 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.

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

11. 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

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UNITED STATES BANKRUPTCY JUDGE