

The Noble Pursuit

An Investigation into the Noble Spinoff of Paragon Offshore

Contact us at: investors@paragonoffshoreshareholders.com

Foreword

The Prescient Legal Analyst, Richard Goldman

Debtwire legal analyst Richard Goldman, covering the proposed Paragon Offshore restructuring in February 2016, stated the following:

“What happens if the TL lenders are successful in challenging reinstatement or plan feasibility? In either event, Paragon will have to revisit its valuation drawing board and rejigger plan recoveries. When that occurs, noteholders may not receive as lucrative a recovery as currently contemplated. In that event, unsecured creditors may then seek to challenge the Noble settlement to leverage an additional recovery for unsecureds. In that event, the UCC’s would be significantly enhanced. ” [1]

[1] See <http://www.debtwire.com/info/wp-content/uploads/2016/02/PARAGON-WEBINAR-18-FEB-16-PREPARED-REMARKS.pdf>

Topics of Focus

- Why did Noble spin off assets to Paragon Offshore on August 4, 2014?
- Why did Noble spin off so many Petrobras floaters to Paragon Offshore?
- Why did Noble rush the Paragon Offshore spinoff, leaving \$395M tax free cash on the table?
- Why did PwC do an impairment charge of \$929M for Sept 30, 2014 accounting?
- Did Noble overvalue assets transferred to Paragon by \$1.1 Billion?
- Did Noble commit constructive fraudulent transfer?
- Is Noble getting off too lightly with the current Noble Settlement?

Timeline of Key Events

Date	Event
2011 / 2012	Noble fails in attempt to sell lower spec rigs to a prospective buyer. [1]
Oct 18, 2012	Noble CEO states to analysts that Brazil is becoming a "horrible place to work." [2]
Nov 2012	Transocean sells 38 standard spec jackups, associated contracts and 3,500 employees for \$1.05B.
2013	Noble is quieter on analyst calls regarding Brazil's problems, as the spinoff is being contemplated.
Sep 24, 2013	Noble announces intention to spin off standard spec jackups and Brazil floaters through an IPO. [3]
Mar/Apr 2014	Operation Lava Jato is announced, Brazil Federal Police searches through Petrobras HQ.
Apr 30, 2014	Noble abandons IPO, leaving \$395M tax free cash on the table to accelerate the spinoff.
Aug 4, 2014	Noble completes spinoff of rigs to Paragon Offshore.
Feb 14, 2016	Paragon Offshore files for Chapter 11, seventeen months after the spinoff.

4

[1] Todd Strickler's testimony, Court Doc #716 (<http://www.kcclic.net/paragon/document/1610386160912000000000001>), page 5: "Prior to the Spin-off, Noble considered marketing and selling off what are now many of Paragon's assets and made significant progress on one such transaction in late 2011 and early 2012. That potential asset sale fell through in early 2012, however, and the Spin-off process subsequently began."

[2] See <http://seekingalpha.com/article/933281-noble-management-discusses-q3-2012-results-earnings-call-transcript?part=single>

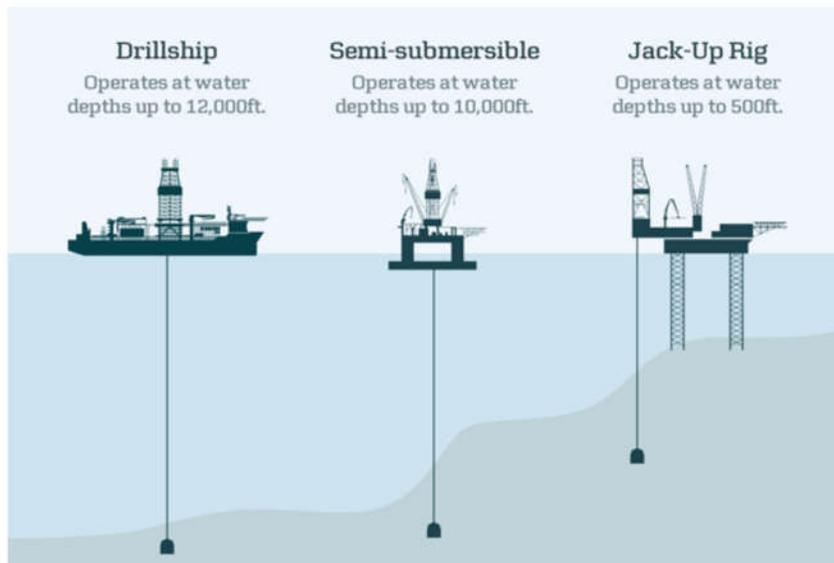
[3] See <https://www.sec.gov/Archives/edgar/data/1458891/000119312513376545/d602257dex991.htm>

Noble announces intention to spin off "standard spec" business through IPO. "In connection with the Separation, Noble-Swiss expects to repay certain outstanding indebtedness with payments received from Newco. Newco is expected to fund such payments to Noble-Swiss with proceeds from borrowings and, if Noble-Swiss proceeds with the initial public offering of Newco shares, its initial public offering."

What Rigs did Noble spin off to Paragon?

- 34 standard specification Jackups.
- 5 second and third generation drillships.
- 3 second generation semi-submersibles.
- 1 FPSO vessel.
- Average age of rigs was 35 years old.
- Spinoff to Paragon was completed on August 4, 2014.

Industry Overview: Offshore Rig Types



- Drillships and Semisubmersibles are called "Floaters"
- Floaters operate in deep water and requires significant subsea expertise.
- Floaters are classified by:
 - Dynamically Positioned or Anchored
 - Generation / age
- Jackups are floated out to the drilling location, have retractable legs that are lowered to the seafloor.

Image courtesy of Maersk

Excellent descriptions of the different types of Offshore Rigs are available at:
<http://www.scmdaleel.com/category/offshore-rigs/88>

Industry Overview: Floaters

Floaters are classified by their Generation, which represents age and capability:

Generation	Drillship Year Built	Semi-submersible Year Built
1st	1961 to 1970	1961 to 1972
2nd	1971 to 1979	1973 to 1979
3rd	1980 to 1985	1980 to 1985
4th	1986 to 1997	1986 to 1997
5th	1998 to 2005	1998 to 2004
6th	2006 onwards	2005 onwards
7th	2010 onwards	2015 onwards

7

Generation definitions are available at: <http://www.drillingformulas.com/definitions-of-various-offshore-drilling-rig-types-and-generations/>

Note: the industry has confusion over labeling 6th and 7th generations:
<https://www.linkedin.com/pulse/20141120152658-190135052-what-defines-the-next-generation-of-drilling-rig>

Industry Overview: Jackups

Jackup Type	Description
Standard Specification	<ul style="list-style-type: none">● Typically mechanically operated drilling equipment with little automation.● Operate at water depths up to 400 feet.● Can do almost the same job as high-spec rigs at a much lower rate.
High Specification	<ul style="list-style-type: none">● Have modern automation systems.● Typically drill at water depths of 350 to 400 feet.
Harsh Environment	<ul style="list-style-type: none">● Mainly used in the North Sea.● Can withstand harsh weather conditions.

Noble spins off Five Drillships to Paragon

Noble Name	Paragon Name	Year Built / Upgraded	Generation	Spec (K Ft) Water / Drill Depth	Location	Day Rate (K\$)	Contract End Date
Noble Duchess	MDS1	1975	2nd	0.1 / 25	India	151	05/2015
Noble Leo Segerius	DPDS2	1981 / 2002 / 2011	3rd	5.6 / 25	Brazil / Petrobras	300	02/2017
Noble Muravlenko	DPDS4 [1]	1982 / 1997	3rd	4.9 / 20	X	X	Cold Stacked since Q4 2012
Noble Phoenix	DPDS1	1979 / 2009	2nd	5 / 20	Brazil / Petrobras	290	05/2015
Noble Roger Eason	DPDS3	1977 / 2005 / 2013	2nd	7.2 / 25.8	Brazil / Petrobras	347	08/2017

9

Drillships operate in deep water and require significant subsea expertise. The average age of spun off drillship was 35 years!

Most drillships spun off to Paragon were on Petrobras contracts and received extreme impairment charges.

[1] The DPDS4 was scrapped soon after spinoff, see <https://www.sec.gov/Archives/edgar/data/1594590/000159459015000038/a2014q4-exhibit991.htm>

Noble spins off One FPSO to Paragon

Noble Name	Paragon Name	Year Built / Upgraded	Spec (K Ft) Water Depth	Location	Day Rate (K\$)	Contract End Date
Noble Seillean	FSPO1	1989 / 2008	6.5	X	X	Cold Stacked since 2011

- FPSO stands for “Floating Production, Storage and Offloading” Vessel.
- Production capacity of 24,000 barrels per day and storage of 300,000 barrels.
- **Last contract was in 2010!** [1]
- Cold stacked since 2011, then spun off to Paragon Offshore in Aug 2014.
- Scrapped by Paragon Offshore in Feb 2015. [2]

10

[1] This FPSO vessel had a troubled contract history. It was acquired by Noble from Frontier Drilling, which had a Petrobras contract which ended on October 31, 2009. (See Noble July 21, 2010 8-K).

From the Noble 2010 10-K Annual Report, this was the last contract work for the FPSO: In June 2010, a subsidiary of Frontier entered into a charter contract with a subsidiary of BP, plc (“BP”) for the FPSO, *Seillean*, with a term of a minimum of 100 days in connection with BP’s oil spill relief efforts in the U.S. Gulf of Mexico. The unit went on hire on July 23, 2010. In October 2010, after the Macondo well was sealed, BP initiated an arbitration proceeding against us claiming the contract was *void ab initio*, or never existed, due to a fundamental breach and demanded that we reimburse the amounts already paid to us under the charter.

The FPSO could not find work after the brief employment in 2010.

[2] <https://www.sec.gov/Archives/edgar/data/1594590/000159459015000038/a2014q4-exhibit991.htm>

Noble spins off Three Semisubmersibles

Noble Name	Paragon Name	Year Built / Upgraded	Generation	Spec (K Ft) Water / Drill Depth	Location	Day Rate (K\$)	Contract End Date
Noble Lorris Bouzigard	MSS3 [1]	1975 / 2003	2nd	4 / 25	GOM	-	Cold Stacked since 2012
Noble Therald Martin	MSS2	1977 / 2004	2nd	4 / 25	Brazil / Petrobras	270	10/2015
Noble Ton Van Langeveld	MSS1	1979 / 2000	2nd	1.5 / 25	North Sea	278	06/2015

Each of these semi-subs were moored/anchored.

[1] The MSS3 was scrapped in Feb 2015, soon after spinoff, see:
<https://www.sec.gov/Archives/edgar/data/1594590/000159459015000038/a2014q4-exhibit991.htm>

Noble spins off 34 Jackup Rigs

- The transferred jackup rigs were standard specification.
- Average age of transferred jackups is around 35 years.
- Jackups tend to have a longer lifespan than floaters.
- Geographic locations were Mexico, Arabian Gulf, North Sea, Africa, India.
- Noble transfers all 10 Pemex standard spec jackups to Paragon.
- *These jackups have received low impairment charges compared to the floaters from the Brazil/Petrobras region.*

12

For details on the transferred jackup rigs, see <http://seekingalpha.com/article/2318685-noble-corp-complete-fleet-analysis-after-paragon-offshore-spin-off-and-commentary> . 9 Pemex rigs were actively working in Mexico, and 1 Pemex rig (Noble Gene Rosser) was inactive. The Pemex contracts allowed cancellation within 30 days at Pemex's discretion.

Yet Noble keeps 4 Standard Spec Jackups...

Noble Name	Year Built / Upgraded	Spec (KFt) Water / Drill Depth	Location	Day Rate (K\$)	Contract End Date
Alan Hay	1980/2005	300/25	Arabian Gulf (UAE)	97	12/2015
David Tinsley	1981/2004/2010	300/25	Arabian Gulf (UAE)	97	12/2015
Gene House	1981/1998	300/25	Arabian Gulf (Aramco)	81	11/2015
Joe Beall	1981/2004	300/25	Arabian Gulf (Aramco)	81	11/2015

- Spinning off the Aramco jackup rigs would have given Paragon access to Saudi Aramco, a valuable customer.
- Noble blocks Paragon Offshore from access to Saudi Aramco by retaining these standard spec jackups.
- Oddly, Noble also retains the UAE jackups, in direct competition to Paragon...

<http://www.offshoreenergytoday.com/saudi-aramco-extends-two-rig-contracts-with-noble-corp/>

Comparison to the Transocean Sale

Transocean Sale - November 2012	Noble Spinoff - August 2014
<ul style="list-style-type: none"> • Industry leader Transocean sells 38 standard specification jackups, associated contracts, and 3,500 employees to Shelf Drilling for \$1.05B [1]. • The average jackup age is 35 years, and many jackups were upgraded. • Transocean's strategy was "to improve long-term competitiveness by effectively repositioning the company as a more focused operator of high-specification drilling equipment." • Transocean divests of all standard spec jackups in its fleet to avoid conflicts of interest/ becoming a competitor to Shelf Drilling. • Shelf Drilling does not need any significant deep water subsea expertise to operate its fleet. 	<ul style="list-style-type: none"> • Noble cannot sell the assets in 2011/2012 [2]. • In 2013/2014, Noble borrows the Transocean sales pitch and calls the spinoff "standard spec", however Noble also slips in deep water floaters mostly related to Petrobras contracts, requiring the spinoff to retain deep water subsea expertise. The industry term "standard spec" applies to jackup rigs, not floaters which are defined by the generation and positioning (dynamic or anchored). [3] • Noble actually retains some comparable standard spec and deep water equipment, and therefore remains a competitor to the spinoff. • Noble places a Noble executive, Julie J. Robertson, on the spinoff's board of directors, even though the spinoff is technically still a competitor due to retention of similar equipment. Julie J. Robertson resigns from the Paragon board with immediate effect a week after Paragon hires restructuring advisers.

14

[1] <http://investor.deepwater.com/phoenix.zhtml?c=113031&p=irol-newsArticle&ID=1763442>

[2] Todd Strickler's testimony, Court Doc #716 (<http://www.kccllc.net/paragon/document/1610386160912000000000001>), page 5: "Prior to the Spin-off, Noble considered marketing and selling off what are now many of Paragon's assets and made significant progress on one such transaction in late 2011 and early 2012. That potential asset sale fell through in early 2012, however, and the Spin-off process subsequently began"

[3] Todd Strickler's testimony, Court Doc #716 (<http://www.kccllc.net/paragon/document/1610386160912000000000001>), page 6, section "Reason for the Spinoff": "In comparison to Paragon's standard specification drilling business, Noble's high specification drilling business requires different expertise and specialists, including, for example, significant sub-sea expertise." However - the deep water floaters requires significant sub-sea expertise as well! And in terms of asset value, Paragon was a deep water company.

Historical Impairment Charges for Spinoff

Total asset value at the time of spinoff: \$2,962M

	2014 Charges	2015 Charges	Total	Percentage of Total Asset Value:
Floaters	1,059M	781.2M	1,840.7M	62.1%
Jackups		289.3M	289.3M	9.8%

- **Most of the floater impairment charges were from Petrobras drillships in Brazil.**
- Jackups had much less impairment, and no spinoff Jackups were from the Brazil region.
- From the impairment charges, floaters comprised most of the asset value at spinoff.
- **In terms of asset value, Paragon was a deepwater floater company.**
- **For investors and creditors, asset value defines the company.**

15

For the quarter ending September 30, 2014, one month after IPO, Paragon takes a \$929 million, or \$10.53 per diluted share, non-cash impairment charge related to Paragon's three drillships in Brazil and its cold-stacked FPSO in the U.S. Gulf of Mexico. "We concluded that the current values of our drillships in Brazil and our FPSO are higher than the current market values for similar units."

Q4 2014 results include a \$130.5 million, or \$1.47 per diluted share, non-cash impairment charge related to Paragon's four cold-stacked units, the Paragon MSS3, Paragon DPDS4, Paragon FPSO1, and Paragon B153 each of which the company has decided to scrap.

[3]

<https://www.sec.gov/Archives/edgar/data/1594590/000159459015000158/a2015q3-exhibit991.htm>

Why the Petrobras floaters in the Spinoff?

- Brazil was becoming a “horrible place to work” per the Noble CEO.
- Backlog was declining each year in Brazil from 2009 to 2013.
- Brazil’s high operating costs were rising every year, affecting profitability. [1]
- Petrobras was replacing contracted drillships with their own drillships.
- The Brazil drillships were 2nd and 3rd gen which had a global oversupply.
- Petrobras was Noble’s worst customer and Noble wanted out of Brazil.
- The spinoff allowed Noble to create a Transfer Sharing Agreement to migrate all Petrobras business to Paragon and completely get out of Brazil [2].
- Noble complained freely to analysts about Brazil’s problems in 2012, but was quiet later in 2013 after contemplating spinning off the Brazil floaters...

16

[1] For a general overview of the conditions in Brazil before spinoff, see:

<http://gcaptain.com/offshore-drilling-profitable-petrobras/>

Diamond Offshore Drilling Inc. Senior Vice President Gary Krenek said on an Oct. 18, 2012 conference call that the Houston-based drilling contractor will save \$40,000 a day in operating costs by moving a rig out of Brazil.

[2] See the Brazil TRANSITION SERVICES AGREEMENT:

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514293927/d769173dex104.htm>

Brazil is becoming “a Horrible Place to Work”

Noble Q3 2012 Earnings Conference Call

David Wilson - Howard Weil Incorporated, Research Division: You guys have a fairly large presence in Brazil and recently it seems, not only for you guys but the industry altogether, is having a more difficult time doing business down there. It seemed like a couple of years ago, everybody was touting their Brazil exposure, but now, it seems to move the other way, kind of further down in the preferences. With your new subsea facility and tracking system, have you noticed a higher number of down days in Brazil due to subsea equipment? Or is it just a matter of all the other bureaucratic and contracting terms making it seem more costly and difficult to do business down there?

David W. Williams (Noble CEO): Dave, **Brazil has been a huge source of frustration for us** over the last year or so, but more so in the third quarter. We had 3 rigs in shipyards trying to get ready to go back to work. We had 2 shipyard strikes. We've had customs on strike at different times. I think they're still on strike Mondays and Fridays. And that strike is spreading to other ports. We've had ANP on strike, the regulatory body that approves rigs moving back and forth within regimes. So that when I talked about the rigs that finished shipyard jobs and couldn't go back to work, the Segerius was finished, tested, road-tested, accepted by the customer and we could not get regulatory approval to move the rig back out the shipyard and go back to work. With what's going on down there, with the -- with what's happened with Chevron and Transocean, it looks like that has been at least remediated in the short term, but I think you're right. **Brazil is becoming a very complex and a very difficult place to work. I think it's going to continue to be there and I think -- I mean, it's going to continue to be difficult. Happily, we're down to 1 rig and a shipyard.** Right now, we've got the Roger Eason in there and then we'll be -- hopefully be out of the shipyard business for a while. We do have projects coming up as we have to maintain the rigs there, but our major projects will be behind us. **So Brazil is becoming a horrible place to work.** It's -- we don't see more subsea downtime or downtime issues in Brazil than any other places. We see more rapid cost inflation and we see a lot of regulatory and labor issues. 17

The entire conference call transcript is available at: <http://seekingalpha.com/article/933281-noble-management-discusses-q3-2012-results-earnings-call-transcript?part=single>

Petrobras aims to replace Contracted Drillships

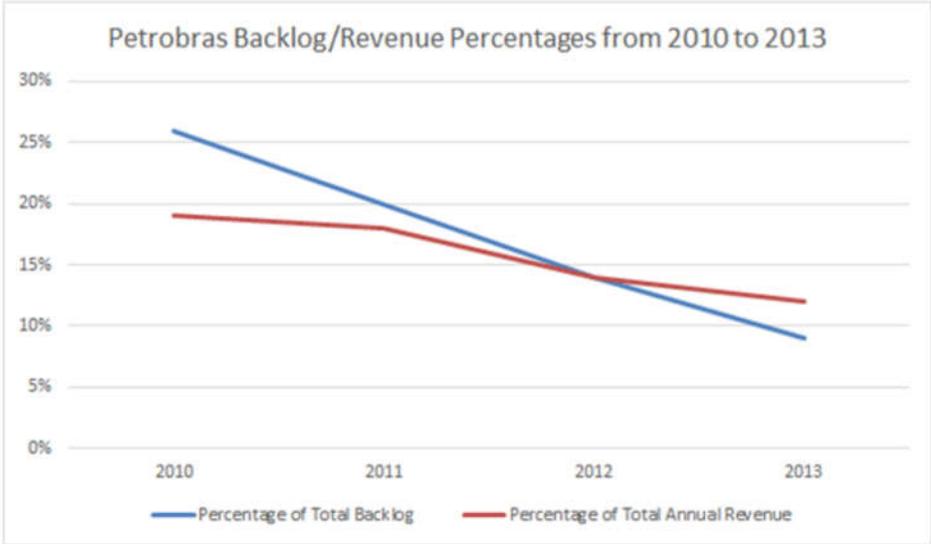
Noble Q4 2011 Report

“As a result of exploration discoveries offshore Brazil, Petroleo Brasileiro S.A. (“Petrobras”), the Brazilian national oil company, announced a plan to construct up to 28 deepwater rigs in Brazil and accepted bids in 2010 to construct these units from a number of shipyards and drilling contractors. A deepwater drilling rig construction industry possessing the scope and experience to efficiently address this volume of work does not currently exist in Brazil and Noble did not participate in these bids primarily because we viewed the capital risk associated with constructing a unit in Brazil as inappropriate. Petrobras awarded the first tranche of seven drillships to a Brazilian shipyard for delivery beginning in 2015. In March 2011, Petrobras cancelled the bids for the remaining 21 newbuild units. In June 2011, Petrobras issued a new tender to build 21 ultra deepwater rigs in Brazil to operate with Petrobras under 10 to 15 year contracts with drilling operations commencing within 48 months after the contract is awarded. Petrobras opened the tenders late October 2011, receiving offers for the 21 rigs from local Brazilian and Norwegian based drillers, which Petrobras is currently reviewing. Petrobras is also reviewing offers received for existing deepwater drilling units. The potential increase in supply from the Petrobras newbuilds could also adversely impact overall industry dayrates and economics.” [1]

18

[1] See page 29 of the Noble Q4 2011 SEC filing:
<https://www.sec.gov/Archives/edgar/data/1169055/000095012311094398/c22221e10vq.htm>

Noble's Declining Backlog & Revenue with Petrobras



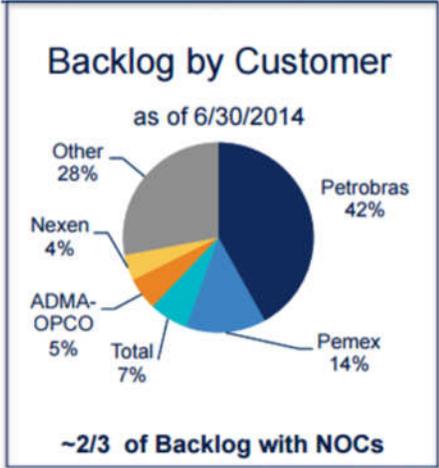
From the Noble 10-K annual reports:

Backlog and Revenue associated with Petrobras:
2010 percentage of total backlog: 26%, percentage of total annual revenue: 19%
2011: 20% and 18%
2012: 14% and 14%
2013: 9% and 12%

Declining Petrobras backlog spun off to Paragon Offshore

Noble unloaded the declining Petrobras backlog to Paragon Offshore.

Petrobras was the largest customer for Paragon Offshore at the time of spinoff, accounting for 42% of backlog for Paragon Offshore. [1]



[1] See http://s2.q4cdn.com/676528692/files/doc_presentations/Barclays-CEO-Energy-Power-Conference-8-28-FINAL.pdf

Additionally Pemex accounted for 14% of backlog, and Pemex contracts allowed for cancellation for any reason with 30 days notice.

2nd/3rd Gen Floaters were in Global Oversupply

Noble CEO David Williams at Analysts dinner on Sept 10, 2013:

“As you look at standard specification floaters, there's a huge, huge pile of second and third generation floaters around the world that are 25, 30, 40, although some approach at 40 years in service and they're in various stages of repair.” [1]

21

[1]

See the <http://seekingalpha.com/article/1683132-nobles-ceo-hosts-analyst-dinner-and-presentation-with-management-conference-transcript?part=single>

Discounted Cash Flow (DCF) Valuation

- Houlihan Lokey was Noble's financial advisor at the time of spinoff. [1]
- DCF valuation on rigs was likely used to create the enterprise value.
- DCF is not suitable when the future cash flows are unpredictable.
- Given the context of Brazil, where the majority of asset value was located, and the rig age, and that drilling capacity was being replaced by Petrobras, the future cash flows of the Brazil rigs was unpredictable.
- Due to a global oversupply of 2nd/3rd generation floaters, the transferred floaters likely would have difficulty finding work after their contracts expired.
- Noble likely did not provide the context of Brazil or the floater global oversupply to Houlihan, Barclays or Lazard when they did their DCF analysis.
- The DCF analysis performed at spinoff needs to be revisited.

22

[1] See page 6 of Todd Strickler's testimony:

<http://www.kccllc.net/paragon/document/16103861609120000000000001>

Was the spinoff asset valuation fair?

Given the large percentage of asset value from the worst region with dim future prospects, was the asset valuation fair?

There are at least 4 indicators that indicate Noble overvalued the spinoff assets.

Four Indicators of Spinoff Overvaluation by Noble

Indicator	Description
IPO Failure	Noble gets an IRS approval for a tax-free IPO of 19.7% of shares, valued at \$395M in tax-free cash for Noble, then abandons the IPO plans on April 30, 2014, perhaps due to the lack of institutional IPO subscribers who may not have believed in Paragon's valuation.
Market Valuation	At spinoff, the market values equity at \$542M less than Noble's valuation, a 46% difference.
Asset Depreciation	Assets were only depreciated 45%, for equipment averaging 35 years old.
PwC Valuation	One month after spinoff, for Sept 30 accounting PwC values 4 drillships at \$929M less than Noble's valuation.

IPO Failure of Spinoff

Key Date	IPO-Related Event Details
September 24, 2013	Noble announces intention to spin off "standard spec" business through IPO, and fund such payments to Noble with proceeds from borrowings and proceeds with the IPO of Newco shares. [1]
December 30, 2013	Noble obtains IRS approval to generate \$395M in tax free cash for Noble by selling 19.7% of PGN shares via IPO. [2]
Feb 11, 2014	Noble board of directors has granted approval to proceed with the IPO, registration statement (S-1) filed, spinoff CEO hired (Randall Stilley). [3]
March 24, 2014	IPO is expected the summer of 2014. [4]
April 30, 2014	Noble abandons IPO, leaves \$395M tax-free cash on the table to accelerate spinoff via a 100% share distribution. Noble CEO says: " <i>In light of financial market conditions, both generally and with respect to the equity markets for offshore drilling companies, we decided to eliminate the initial public offering and accelerate the completion of the separation transaction.</i> " Potentially, there was a lack of institutional IPO subscribers to the spinoff IPO, who may not have believed in Paragon's valuation. [5]

25

[1] See

<https://www.sec.gov/Archives/edgar/data/1458891/000119312513376545/d602257dex991.htm>

[2] The IPO filing at

https://www.sec.gov/Archives/edgar/data/1594590/000119312513481086/d635036ds1.htm#fin635036_16 indicates that 19.7% of shares would be sold. Selling 19.7% of shares of equity that Noble valued at \$2B on the balance sheet = \$2B x 19.7% = \$395M in tax free cash for Noble. See the Amended S/1 (https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm#fin635036_2) filed on March 7, 2014 for the balance sheet equity value of \$2B.

[3] See slide 9 of Noble's Credit Suisse Energy Summit presentation:

<http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTMyNDQxfENoaWxkSUQ9MjE5ODkzfFR5cGU9MQ==&t=1>

[4] See slide 12 of Noble's Howard Weil Energy Conference presentation:

<http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTM3NDUwZmVhbnRkSUQ9MjE5ODkzfFR5cGU9MQ==&t=1>

[5] See

<https://www.sec.gov/Archives/edgar/data/1458891/000119312514169903/d720359dex991.htm>

[htm](#)

Market Equity Valuation at the Time of Spinoff

PGNPQ US Equity		95 Compare	96 Actions	97 Edit
07/21/2014 - 08/04/2014		Last Price	USD	Mov Avgs
1D	3D	1M	6M	YTD
1Y	5Y	Max	Daily	Chart
PGNPQ US Equity				
Date	Open	High	Low	Close
Mo 08/04/2014	10.9156	11.4707	10.5359	10.7111
Fr 08/01/2014	11.2467	11.6849	10.9643	11.4707
Th 07/31/2014	11.013	12.1523	10.9546	11.1006
We 07/30/2014	11.0033	11.3441	10.8864	10.974
Tu 07/29/2014	11.3928	11.5193	11.0714	11.1201
Mo 07/28/2014	11.3635	11.6459	11.0519	11.3928
Fr 07/25/2014	11.3538	11.5096	11.0033	11.2954
Th 07/24/2014	11.6849	11.6849	11.198	11.5388
We 07/23/2014	12.1717	12.1717	11.6362	11.6849
Tu 07/22/2014	12.3178	12.5126	11.7433	12.162
Mo 07/21/2014	17.0404	17.0404	11.5875	12.1717

- Noble valued equity at \$2 Billion on pre-spinoff Balance Sheet. [1]
- With 85M shares outstanding, Noble valued share price at \$23.66 [2]
- On July 21, 2014, PGN shares started trading at \$17.04 cents per share and quickly fell to \$12.17.
- When spinoff was completed on Aug 4, 2014, shares traded at \$10.71. **The market valued total equity at \$907.8M at spinoff [3]**
- **At spinoff, the market valued Paragon's equity at \$1.1 Billion less than Noble's claimed equity value, a 75% difference. [4]**

26

[1] The balance sheet equity value that Noble advertised before spinoff was \$2,005,333,000.

See the Amended S/1 (

https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm#fin635036_2) filed on March 7, 2014.

Paragon equity investors in the August 2014 timeframe made their investing decisions based upon the Amended S/1.

The Q2 2014 balance sheet with reduced equity value of \$1.23B was only available later on August 29, 2014.

[2] The number of shares outstanding at the time of spinoff was 84,753,393, and the balance sheet equity value was \$2,005,333,000. Therefore, Noble's assigned per-share value for the Paragon spinoff was $\$2,005,333,000 / 84,753,393 = \23.66 per share. According to Bloomberg, the PGN shares started trading on July 21, 2014 and opened at \$17.04 per share, and quickly fell to \$12.17 at the end of the day. By the time the spinoff was completed on August 4, 2014, the stock was trading at \$10.71 per share. Clearly, the market did not agree with Noble's valuation of Paragon Offshore.

The number of shares outstanding at spinoff = 84,753,393 was reported on the Paragon 2014 Q2 SEC report:

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514326877/d776671d10q.htm>

[3] The Aug 4, 2014 closing price of \$10.7111 X 84,753,393 shares = \$907.8M for equity

value. This is a difference of \$1,096M (\$2.0B - \$907.8M) in equity value between the market's valuation, and Noble's claimed equity value.

[4]

Regarding strength of overvaluation claims, some courts have expressed a preference for relying on the public market if SpinCo becomes a publicly traded company upon completion of the spin transaction. The public market value of SpinCo will be most relevant for the "reasonably equivalent value" analysis when SpinCo consists entirely of the transferred assets. Said differently, the public market test will serve as a better proxy for "reasonably equivalent value" when SpinCo is an empty shell prior to the spin-off transaction.

From the Latham and Watkins whitepaper on fraudulent spinoffs:

<https://www.lw.com/thoughtLeadership/LW-Backspin-Challenging-Spin-Offs-as-Fraudulent-Transfers>

In the public SpinCo context, the strongest endorsement for the market price approach to valuation is the Third Circuit's decision in *In re VFB v. Campbell Soup*. The court noted that "absent some reason to distrust it, the market price is 'a more reliable measure of the stock's value than the subjective estimates of one or two expert witnesses."

Questionable Asset Depreciation Schedule

Noble Pro Forma Balance Sheet as of December 31, 2013

	Noble Historical	Paragon Offshore	Noble Pro Forma
Property and equipment, at cost	19,198,767	(5,383,130)	13,815,637
Accumulated depreciation	(4,640,677)	2,421,305	(2,219,372)
Property and equipment, net:	14,558,090	(2,961,825)	11,596,265

- Paragon assets had an average age of 35 years, however:
- **Paragon assets were only depreciated by 45%! [1]**
- The lack of asset depreciation helped to inflate Paragon Offshore's asset value.
- PwC was justified to perform \$929M impairment charges for Sept 30 accounting against asset value.

27

[1]

See SEC filing

<https://www.sec.gov/Archives/edgar/data/1458891/000119312514089399/d673519dprem14a.htm> and go to page "B-3" in the "Unaudited pro forma combined balance sheet".

\$2,961,825 is a 45% reduction from the original asset value of \$5,383,130.

The historical impairment charges revealed that floaters comprised of at least 60% of spinoff asset value, and floaters tend to have a maximum lifespan of 30 to 40 years, and are shorter lived than jackup rigs.

On page 59 of the SEC filing, some of the equipment had upgrades: "The Company has actively invested in Paragon Offshore's assets through a disciplined capital expenditure program, spending a total of approximately \$1.8 billion since January 1, 2010 to refurbish, upgrade and extend the lives of these rigs." and likely this \$1.8 billion figure was included in the "Property and equipment, at cost" figure.

However, to try to reverse-engineer the depreciation schedule Noble use, and to be very conservative, exclude the \$1.8 billion upgrade charge from the at cost figure to figure their depreciation schedule: $\$5,383,130 - \$1,800,000 = \$3,583,130$ is the "at cost" figure without upgrade, so the accumulated depreciation of $\$2,421,305 / \$3,583,130 = 67\%$ depreciated, and 35 years (average spun off rig age) divided by 67% equals a 52 year depreciation schedule for the floaters and jackups, which is very unreasonable given the typical average rig retirement age.

Page 63 and 64 of the Amended S/1 filing talks about the depreciation schedule:

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm>

Drilling equipment and facilities are depreciated using the straight-line method over their estimated useful lives as of the date placed in service or date of major refurbishment.

Estimated useful lives of our drilling equipment range from three to thirty years.

This small depreciation number in the pro forma inflated the net property and equipment figure, which helped Paragon transfer more debt to the spinoff.

Given the average life expectancy of floaters and jackups, the relatively depreciation amounts on the SEC pro forma is very questionable.

PwC appears to be justified in writing down the asset values of the 4 drillships by \$929M for Sept 30 accounting.

PwC Valuation of 4 Drillships - Sept 30 Accounting

- PwC gave a \$929M impairment charge for Paragon's three drillships in Brazil and its cold-stacked FPSO in the U.S. Gulf of Mexico [1].
- The FPSO did not have a contract since 2010!
- The three Brazil drillships were 35, 33 and 37 years old in 2014.
- **The impairment charges were for Sept 30 accounting, one month after spinoff.**

Randall D. Stilley, CEO: "We concluded that the current values of our drillships in Brazil and our FPSO are higher than the current market values for similar units."

[1] See

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514406535/d819132dex991.htm>

Market Conditions around PwC's Devaluation

The Q3 (Sept 30) press release for the \$929M impairment charge on 4 drillships was on November 10, 2014 when the oil market decline was not anticipated to be severe:

- Brent crude was around \$80/barrel. [1]
- Barclays forecasted \$93/barrel oil for 2015.
- Goldman Sachs forecasted \$85/barrel oil for 2015.
- All 3 Brazil drillships were still under contracts.

[1] See the following for oil market conditions around October 29, 2014:

<https://www.bloomberg.com/news/articles/2014-10-29/why-oil-prices-went-down-so-fast>

Equity Value Destruction at Spinoff

- Noble advertised balance sheet equity as worth \$2 Billion on the Amended S/1 filed March 7, 2014. [1]
- Paragon Offshore shares started trading on the NYSE on July 21, 2014.
- Noble completed the spinoff of Paragon Offshore on August 4, 2014.
- Paragon equity investors in August used the Amended S/1 balance sheet for valuation information, attracting value investors.
- The Paragon Q2 2014 report was filed later on August 29, 2014, showing balance sheet equity reduced to \$1.23B. [2]
- For the September 30, 2014 accounting, for the month after spinoff, the \$929M impairment charge by PwC helped drop balance sheet equity value down to \$475M [3].

30

[1] See the Amended S/1 (https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm#fin635036_2) filed on March 7, 2014.

Investors in the August 2014 timeframe made their financial decisions based upon the Amended S/1.

The Q2 2014 balance sheet with reduced equity value was only available later on August 29, 2014.

[2] See Paragon Q2 2014 10-Q report:

https://www.sec.gov/Archives/edgar/data/1594590/000119312514326877/d776671d10q.htm#tx776671_7

[3] See Paragon Q3 2014 10-Q report:

https://www.sec.gov/Archives/edgar/data/1594590/000156459014005619/pgn-10q_20140930.htm#N_Balance_Sheets

Did Noble overvalue Paragon assets at spinoff?

- Yes, by at least \$1.1B per the market equity valuation at spinoff.
- In the public SpinCo context, the strongest endorsement for the market price approach to valuation is the Third Circuit's decision in *In re VFB v. Campbell Soup*. The court noted that "absent some reason to distrust it, the market price is 'a more reliable measure of the stock's value than the subjective estimates of one or two expert witnesses' ". [1]
- \$1.1B should be considered the minimum overvaluation due to:
 - The undisclosed magnitude of \$266M Mexico tax liabilities.
 - The truth bias of investors from the purported asset and enterprise value.
 - The enterprise value may have been constructed using DCF without considering the uncertainty of future cash flows from Brazil.
 - The magnitude of problems in Brazil was not well known to many investors, or adequately disclosed by Noble as part of the spinoff.

31

Owner's Equity = Assets - Liabilities. The market mostly likely did not assume that liabilities were greater than advertised given the lack of disclosure, but that asset values were less than advertised.

[1] See Latham & Watkins whitepaper on challenging spinoffs as fraudulent transfers: <https://www.lw.com/thoughtLeadership/LW-Backspin-Challenging-Spin-Offs-as-Fraudulent-Transfers>

The Ignoble Conundrum

- How can you sell assets via a spinoff IPO that could not be previously sold on the open market, and get close to your desired sale price? [1]
- If the spinoff repayment is funded mostly by unsecured debt, how can you convince the unsecured creditors to invest in the spinoff?
- Answer: you have to overvalue your assets.

[1] Todd Strickler's testimony, Court Doc #716 (<http://www.kccllc.net/paragon/document/1610386160912000000000001>), page 5: "Prior to the Spin-off, Noble considered marketing and selling off what are now many of Paragon's assets and made significant progress on one such transaction in late 2011 and early 2012. That potential asset sale fell through in early 2012, however, and the Spin-off process subsequently began"

Debt Structure at Spinoff

Debt Instrument	Amount
2022 Unsecured Notes 6.75%	\$500M
2024 Unsecured Notes 7.25%	\$580M
Senior Term Loan	\$650M
Total:	\$1.73B

Noble was later paid for the spinoff by a \$1.73B intercompany note, which was funded by the above debt issuances by the Spinco.

33

See

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514275181/d761533d8k.htm>
for details on the term loan and unsecured notes.

For the \$800M revolving loan, see Page 11 of

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514326877/d776671d10q.htm>

On June 17, 2014, we entered into a senior secured revolving credit agreement with lenders that provided commitments in the amount of \$800 million (the "Revolving Credit Facility"). Subject to the satisfaction of certain conditions, we may obtain up to \$800 million of letters of credit and up to \$80 million of swingline loans under the Revolving Credit Facility. The Revolving Credit Facility has a term of five years after the funding date. Borrowings under the Revolving Credit Facility bear interest, at our option, at either (i) an adjusted LIBOR, plus a margin ranging between 1.50% to 2.50%, depending on our leverage ratio, or (ii) the Base Rate, which is calculated as the greatest of (1) a fluctuating rate of interest publicly announced by JPMorgan Chase Bank, N.A., as its "prime rate," (2) the U.S. federal funds effective rate plus 0.50% and (3) the one month LIBOR Rate plus 1.00%, plus a margin ranging between 0.50% to 1.50%, depending on our leverage ratio. Issuance of Letters of Credit reduces availability to borrow under the Revolving Credit Facility.

Why Overvalue Assets in a Spinoff?

- The spinoff debt was mostly unsecured notes totaling \$1.08B.
- A equity cushion has to exist before unsecured creditors will invest.
- Overvaluing assets creates a greater apparent equity cushion.
- Therefore, to spin off assets that could not be previously sold on the open market, if a parent company is to be paid by spinoff debt issuances, the parent company has to overvalue assets in the spinoff to be able to get a payment close to their deemed market value for the unsaleable assets. [1]
- Overvaluing assets allows the transfer of more debt from the parent to the spinoff.

34

[1] Todd Strickler's testimony, Court Doc #716 (<http://www.kccllc.net/paragon/document/1610386160912000000000001>) , page 5: "Prior to the Spin-off, Noble considered marketing and selling off what are now many of Paragon's assets and made significant progress on one such transaction in late 2011 and early 2012. That potential asset sale fell through in early 2012, however, and the Spin-off process subsequently began"

Relatively High Amount of Debt Transfer

Noble Pro Forma Balance Sheet as of December 31, 2013

	Noble Historical	Paragon Offshore	Noble Pro Forma	Percentage Transfer
Property and equipment, net:	14,558,090	(2,961,825)	11,596,265	20%
Long-term debt:	5,556,251	(1,561,141)	3,995,110	28%

- Noble transferred 20% of asset value to Paragon.
- However, Noble transferred 28% of long term debt to Paragon.
- Considering the asset overvaluation:
 - The true asset percentage transfer is even lower.
 - The debt transfer relative to asset value is even higher.

35

See SEC filing

<https://www.sec.gov/Archives/edgar/data/1458891/000119312514089399/d673519dprem14a.htm> and go to page "B-3" in the "Unaudited pro forma combined balance sheet" for the long term debt transfer.

Who designed the Spinoff?

- Noble's Chief Financial Officer (CFO), James MacLennan, appears to be the architect of the spinoff.
- James MacLennan was the initial board member and Principle Executive Officer of Paragon Offshore and involved in the Paragon S/1 filing. [1]
- James MacLennan was the signer of the Term Loan agreement. [2]
- The CFO of a parent company (Noble) would have incentive to load up the spinoff company (Paragon Offshore) with as much debt as possible to improve the financial health of the parent company. [3]
- **Between December 31, 2012 and December 31, 2013, spinoff company debt climbed from \$340M to \$1.56B, and then climbed to \$2.27B by June 30, 2014.** [4]

36

[1] See the Paragon Amended S/1 filing: https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm#toc635036_15

James MacLennan was the only board member for several months before the spinoff. Notice that Noble intended to their executives David Williams, Julie J. Robertson, James A. MacLennan and William E. Turcotte as the majority of board members for the spinoff. The parent company retaining control of assets after spinoff is a badge of fraud that was used in the Tronox case.

Also see the original S/1 filing with the IRS:

https://www.sec.gov/Archives/edgar/data/1594590/000119312513481086/d635036ds1.htm#fin635036_2, Page II-3, where James MacLennan signed as "Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and Director" for Paragon Offshore.

[2] See case #16-10386-CSS, Doc #438, Filed 06/07/16, "Objection of the secured term loan agent". On page 191 of 196 of the docket document, or page 143/144, James MacLennan was the signer of the Paragon term loan agreement.

[3] In fact, when the Noble CFO abruptly departed Noble on Feb 29, 2016, two weeks after Paragon entered Chapter 11, the Noble CEO David Williams said: "James has helped Noble position itself so that it can navigate the challenges facing the industry, and we wish him the best of luck in his future endeavors."

[4] See the Amended S/1 balance sheet:

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm>

[m#fin635036_2](#)

By June 30, 2014, the debt climbed to \$2.27B, see:

https://www.sec.gov/Archives/edgar/data/1594590/000119312514326877/d776671d10q.htm#tx776671_7 .

It is uncertain whether Noble intended to spinoff more debt than the \$1.73B in debt at the time of the August spinoff, perhaps Noble could only find \$1.73B from debt investors for the spinoff during the summer of 2014.

Did Noble commit Constructive Fraudulent Transfer?

- Constructive Fraudulent Transfer can be challenged under Section 548 of the Bankruptcy Code if it occurred within 2 years of SpinCo's bankruptcy filing. [1]
- Paragon's Chapter 11 filing occurred 17 months after spinoff from Noble.
- For a spin-off to be adjudicated a constructive fraudulent transfer, the debtor in possession or trustee must prove by a preponderance of the evidence that:
 - SpinCo (Paragon) did not receive "reasonably equivalent value" in exchange for the consideration paid to Parent (Noble)
 - SpinCo was insolvent on the date of the transfer (August 2014)
- Section 101(32)(A) of the Bankruptcy Code defines "insolvent" for entities such as corporations and individuals as the "financial condition such that the sum of such entity's debts is greater than all of such entity's property, at fair valuation." [2]
- The "fair value" of a debtor's assets is the fair market price that could be obtained if the assets were sold in a prudent manner in a reasonable period of time [3].
- The IRS definition of "fair market value" is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts. [4]

37

[1] See Page 2, section "Statute of Limitations" <https://www.lw.com/thoughtLeadership/LW-Backspin-Challenging-Spin-Offs-as-Fraudulent-Transfers>

This L&W article mentions the Noble spinoff of Paragon Offshore on Page 1.

[2] See Section "What constitutes insolvency under the Bankruptcy Code?" <https://business-finance-restructuring.weil.com/valuation/the-statutory-definition-of-insolvent-part-one/>

[3] Above Weil article, section "How does the balance sheet test work?"
Notably, the Bankruptcy Code never defines the qualifiers "fair valuation" or "fair value," leaving it to the bankruptcy courts to determine on a case by case basis the proper methodology or market benchmark by which a debtor should be valued.

Fair Market Value of Transferred Assets

- Paragon paid \$1.73B via debt for 34 standard spec jackups and 9 floaters, 2,500 employees, associated contracts plus the previous tax liabilities.
- The transferred Mexico tax liabilities alone were \$266M for years 2005 to 2010. [1]
- The consideration Paragon paid to Noble was therefore $\$1.73\text{B} + \$266\text{M} = \$1,996\text{M}$.
- For the fair market value comparison, in 2012 Transocean sold 38 standard spec jackup rigs on the open market with average age of 35 years, 3,500 employees and associated contracts for \$1.05B. The estimated comparable market value for each jackup is therefore \$27.63M ($\$1.05\text{B} / 38$).
- The 34 transferred jackups should have a fair market value of \$939M ($\$27.63\text{M} \times 34$).
- **Constructive Fraudulent Transfer can be answered by one of these questions:**
 - Could Paragon have sold the transferred rigs for \$1,996M on the open market immediately after spinoff?
 - Did Paragon receive \$1,057M in value ($\$1,996\text{M} - \939M) for the 9 floaters?
 - **More simply, were the 34 jackups worth more than the 9 floaters, where one-third of the floaters were cold-stacked for years and unemployable?**

38

[1]

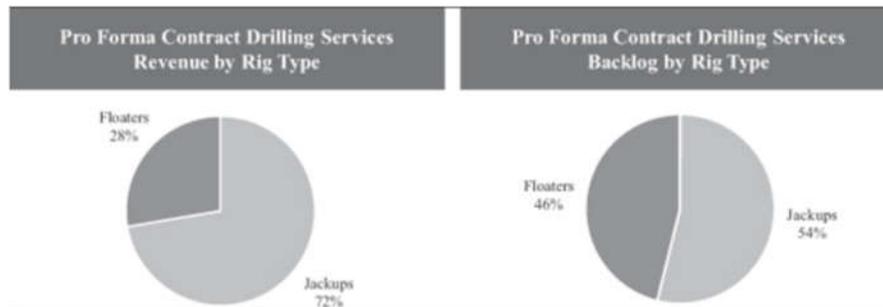
Page 7 of Todd Strickler's testimony:

<http://www.kccllc.net/paragon/document/16103861609120000000000001>

Paragon had estimated potential Mexican tax assessments totaling approximately \$266 million on income and value added taxes for the period between 2005 and 2010, attributable to Paragon pursuant to the TSA.

Were the 34 Jackups worth more than the 9 Floaters?

When considering Revenue and Backlog before spinoff, the jackups were worth more than the floaters: [1]



Therefore, there may be constructive fraudulent transfer when considering comparable market sales:

- Jackup value of \$939M + floater market value of less than \$939M = less than \$1,878M for market value of transferred assets.
- The consideration Paragon paid to Noble was \$1,996M.
- \$1,878M is less than \$1,996M, which indicates constructive fraudulent transfer.

39

[1] See page 4 of the Amended S/1 for the pie chart:

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm>

The revenue and backlog was from the year 2013, before the spinoff.

For the backlog near the time of spinoff, see Page 22 in the Paragon Q2 2014 report:

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514326877/d776671d10q.htm>

Jackups still had a larger backlog than the floaters.

Evidence the 34 Jackups were worth more than the 9 Floaters

- One third of the transferred floaters were cold-stacked for years and unemployable:
 - *The FPSO last worked in 2010 and was cold stacked since 2011.*
 - *The DPDS4 drillship and MSS3 semisub were cold stacked since 2012.*
- The DPDS1/2/3 drillships and MSS2 semisub were working in the declining Brazil region with high operating costs, affecting drilling profitability.
- The MDS1 drillship was low spec and had low dayrates in India.
- The MSS1 semisub was in the decent North Sea location.
- Gen 2 and Gen 3 floaters were in global oversupply, with a good chance of not finding contract work after the current contract was finished.
- Transocean was unable to spin off 8 older floaters in 2014. [1]
- Most of today's asset value is in the jackup rigs, and very little value is in the older floaters.

40

[1] See <http://www.offshore-technology.com/news/newstransocean-to-spin-off-eight-offshore-rigs-to-create-new-company-4259397> for the May 2014 Transocean floater spinoff announcement.

Later in the fall of 2014, the spinoff failed due to lack of interest in the older floaters: <http://seekingalpha.com/article/2668415-will-caledonia-offshore-help-transoceans-stock-price>

Paragon admits future was brighter for Jackups than Floaters

Differences Between Floater and Jackup Markets



See slide 19 of

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514435445/d834172dex991.htm>

The data in the graphs start on August 1, 2013, one year before spinoff, and end around the October 2014 timeframe.

Another Potential Comparable Market Sale

- Paragon testified that Noble tried to sell some spinoff assets in 2011/2012. [1]
- If the sales price was agreed upon with the prospective buyer, but the transaction failed due to other reasons, this transaction information could:
 - **Establish what Noble really thought the rigs were worth.**
 - Help compare the agreed-upon sales price of these rigs to the rig values that Noble and Houlihan Lokey assigned and presented to the Paragon creditors.
 - Help establish what rigs were actually saleable.

[1] Todd Strickler's testimony, Court Doc #716 (<http://www.kcclic.net/paragon/document/1610386160912000000000001>), page 5: "Prior to the Spin-off, Noble considered marketing and selling off what are now many of Paragon's assets and made significant progress on one such transaction in late 2011 and early 2012. That potential asset sale fell through in early 2012, however, and the Spin-off process subsequently began."

Severity of Constructive Fraudulent Transfer

- Committing constructive fraudulent transfer typically incurs severe damage awards.
- All creditors are usually entitled to full recovery.
- Treble damages may be awarded.
- Damage awards are payable by Noble to Paragon Offshore and its creditors.

Other Fraudulent Transfer Considerations

Constructive fraudulent transfer cases can result in valuation fights. Therefore the following needs to be considered:

- The transferred tax liabilities from other regions, including Brazil.
- Other liabilities from previous Noble actions, including penalties for bribery.
- Petrobras is now well known to have been a pay-to-play organization.
- The penalties for Petrobras bribery are severe, including contract cancellations and heavy government fines.
- Noble transferred all liabilities related to previous Brazil activities for the many Petrobras floaters that were transferred to Paragon. [1]

44

[1] For the liabilities transfer from Noble to Paragon, reference the Master Separation Agreement:

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514293927/d769173dex21.htm>

On page 11, "Paragon Liabilities" include "the operation of the Paragon Business, as conducted at any time prior to, on or after the Distribution Date;" where "Paragon Business" includes "construction, shipyard, engineering or similar activities (including, without limitation, activities involving or relating to any repair, survey, inspection, upgrade, or modification of a rig or platform) relating to the Paragon Rigs".

The suspicious timing of the Spinoff Acceleration

The spinoff was accelerated soon after Operation Lava Jato / Car Wash was announced in Brazil.

Date	Event
Feb 11, 2014	Noble CEO presents the "Paragon Offshore Spinoff Update" at Credit Suisse Energy Summit: Spinoff remains on track to complete by end of 2014 . [1]
March 17, 2014	Lava Jato / Operation Car Wash goes public in Brazil. [2]
March 24, 2014	Spinoff update at Weil Conference, IPO should be ready in the summer. [3]
April 11, 2014	Brazil's Federal Police (PF) launches second phase of Lava Jato, makes searches at Petrobras headquarters for corruption intel and they do not need warrants to search. [4]
April 30, 2014	Noble abandons spinoff IPO, leaves \$395M tax-free cash on the table to accelerate the spinoff via a 100% share distribution. [5]

45

[1] See slide 9 of the Credit Suisse Conference Presentation: <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTMyNDQxfENoaWxkSUQ9MjE5ODkzfFR5cGU9MQ==&t=1>

[2] See <http://riotimesonline.com/brazil-news/rio-politics/brazil-arrests-24-in-money-laundering-operation/>

[3] See slide 12 of the Weil Conference Presentation: <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTM3NDEwfENoaWxkSUQ9MjE5ODkzfFR5cGU9MQ==&t=1>

[4] See <https://translate.google.com/translate?hl=en&sl=pt&u=http://www1.folha.uol.com.br/poder/2014/04/1439147-pf-cumpre-21-mandados-de-prisao-na-2-fase-da-operacao-lava-jato.shtml&prev=search>

[5] See <https://www.sec.gov/Archives/edgar/data/1458891/000119312514169903/d720359dex991.htm>

Why accelerate the spinoff if there was Petrobras bribery?

- Most of the spinoff asset value was tied to Petrobras drillships. [1]
- Noble's contracts with Petrobras could be canceled in cases of bribery. [2]
- Petrobras contract cancellations would destroy the spinoff value.
- Petrobras has also canceled contracts due to how favorable the contract was to the contractor [3].
- The DPDS2 and DPDS3 Petrobras contracts were unusual in that Noble was paid \$90K per day while the drillships were in the shipyard getting upgrades. [4]

46

[1] Reference the impairment charges which revealed the underlying asset value for Paragon rigs.

[2] See <https://fd.nl/binaries/32/75/39/lees-smb-board-meeting-pdf.pdf>

Suffice to say if there are FCPA or OECD related breaches here, yes we are in breach under the contracts, two of our Petrobras contracts made reference to FCPA and two of our most recent pilots, Pilots 3 and 4, all of the Chevron and Exxon contracts make specific reference to breaches. We, of course, have to notify clients, it is a terminable offence, and it's up to the clients, of course. And likewise, yes, with Noble as well. So we are technically in breach, if we are making a list of problems, and in breach again by not informing each of our clients.

[3] For the EnSCO DS-5 contract cancellation See Page 21 of

<https://www.sec.gov/Archives/edgar/data/314808/000031480815000186/esv-6302015x10q.htm>

While conducting our most recent compliance review, we became aware of an internal audit report prepared by Petrobras, after media reports surfaced regarding its contents. The audit report alleges irregularities in relation to DS-5 - specifically, that Petrobras overpaid under the DS-5 drilling contract, purportedly because the terms of the DS-5 contract were more favorable to Pride than the terms that Petrobras had negotiated with other offshore drilling contractors during that time. We believe this allegation by Petrobras is inaccurate, as publicly available data show that the DS-5 contract terms were comparable to other contracts signed by Petrobras in late 2007 and early 2008. We have provided this information to Petrobras as relevant to their internal audit report. Petrobras submitted its

internal audit report to Brazilian governmental authorities, who have subsequently requested a copy of the DS-5 drilling contract from Petrobras.

[4]

<http://www.prnewswire.com/news-releases/noble-corporation-adds-40-billion-in-prospective-revenue-backlog-from-five-deepwater-rigs-in-brazil-57331277.html>

David Williams, CEO of Noble: "These upgrades, which are designed to enhance the reliability and operational performance of the rigs, are estimated to cost approximately \$175 million per ship and will take each rig out of service for about 150 days. We are also pleased that Petrobras saw the value in our upgrade plans and decided to support the program by paying \$90,000 per day for up to 150 days for each rig's scheduled shipyard stay."

Where could have Petrobras bribery occurred?

- The DPDS2 and DPDS3 drillships were upgraded in the Keppel BrasFELS shipyard. [1]
- The drillships might only get future Petrobras work if they were upgraded.
- The upgrade contracts were signed around 2009.
- Zwi Skornicki was the Brazil commercial agent for Keppel since the 1990s.
- Zwi Skornicki supplied \$40M to Petrobras directors between 2003 and 2013. [2]
- Whether Noble committed fraud with a commercial agent is still TBD.

47

[1] See http://www.kepcorp.com/en/news_item.aspx?sid=2180

[2] See <https://translate.google.com/translate?hl=en&sl=pt&u=http://veja.abril.com.br/economia/em-presa-asiatica-keppel-fels-diz-que-vai-rever-contrato-com-operador-do-petrolao/&prev=search>

"Keppel Fels, investigated for paying kickbacks in contracts with Petrobras in the new phase of Operation Lava Jato, is reviewing its contract with Zwi Skornicki, the company's commercial representative in Brazil since the 1990s through Eagle of Brazil. According to the document of the awarding agreement of Pedro Barusco, former executive manager of Petrobras and former director of Sete Brasil, Skornicki would have provided almost 40 million dollars to supply Petrobras 'directors' accounts and PT's cashier between 2003 and 2013."

US FCPA versus UK Bribery Act

US Foreign Corrupt Practice Act (FCPA) of 1977	UK Bribery Act of 2010
<ul style="list-style-type: none">• Applies to bribing foreign officials.• Applies only to persons giving or offering a bribe and not to those accepting one.• Most commercial agents related to Petrobras were not foreign officials, and commercial agents are the receivers of bribes.	<ul style="list-style-type: none">• Applies to bribes offered or given to <u>any person</u>.• An offence to request, to agree to receive, or to accept a bribe.• Noble Corporation Plc is a UK company.• Foreign subsidiaries of UK companies are also subject to the UK Bribery Act [1].• Rolls Royce, a UK company, recently had to pay \$809M in fines related to Petrobras bribery [2].

48

See the following link for more details of the differences between the US FCPA versus the UK Bribery Act:

<http://www.acc.com/legalresources/quickcounsel/UKBAFCPA.cfm>

[1] <https://www.paulweiss.com/media/110677/ukbriberyactr10withcover.pdf>

Page 6:

Companies or partnerships registered in the U.K. should take note of the extra-territorial reach of the Bribery Act.

A company or partnership can commit the corporate offense of failure to prevent bribery if an “associated person” bribes another person anywhere in the world to obtain or retain business or a business advantage for that company or partnership.

A foreign subsidiary of a U.K. company or partnership (or any other “associated person” providing services for or on behalf of the company/partnership) can cause the U.K. parent to become liable for a corporate offense when the subsidiary (or other “associated person”) commits an “active” general or FPO offense in the context of performing services for the U.K. parent.

If the foreign subsidiary (or other “associated person”) were acting entirely independently, arguably, it would not cause the U.K. parent to be liable for failure to prevent bribery as it would not then be performing services for the U.K. parent. However, that is a fine distinction that should not be relied upon given: the number of contrary arguments that can be made (e.g., any act that benefits a subsidiary must benefit a parent); the untested status of the

argument; and because the U.K. parent might still be liable for the actions of its subsidiaries in other ways such as false accounting offenses or under the Proceeds of Crime Act 2002.

[2]

<http://plus55.com/brazil-business/news/2017/01/rolls-royce-corruption-brazil-809m-fine>

Keeping Secrets Secret

Waiver of Jury Trial Agreement in the Existing Noble Settlement

Section 9.7. WAIVER OF JURY TRIAL. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

See the Noble Settlement details:

<https://www.sec.gov/Archives/edgar/data/1594590/000159459016000221/noblesettlementagreement.htm>

Keeping Secrets Secret, Continued

James MacLennan (Noble CFO & Spinoff Architect) mentions in Paragon's Amended S/1:

"Certain provisions in our articles of association are intended to have the effect of delaying or preventing a change in control of us or changes in our management. For example, we expect that our articles of association will include provisions that establish an advance notice procedure for shareholder approvals to be brought before an annual meeting of our shareholders, including proposed nominations of persons for election to our board of directors; and provide that vacancies on our board of directors may be filled only by the approval of a majority of directors then in office. **These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management, even if these events would be beneficial for our shareholders.**"

50

[1] See

<https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm>

An English barrister reviewed the Paragon Offshore articles of association and noted the following:

"It should also be noted that Paragon's articles impose a quorum requirement of at least two thirds of the shares entitled to vote (either in person or by proxy) in the context of a resolution to remove a serving member of the board, and that any meeting requisitioned at the request of members shall be dissolved (rather than adjourned) in the event that the required quorum is not achieved. **This is a highly unusual provision.**"

James MacLennan's Adept Departure

James MacLennan was the Noble CFO and the initial board member for Paragon Offshore, long before the other Paragon board members joined. He is likely the main architect of the Paragon Offshore spinoff. As the Noble CFO, he likely designed the Paragon spinoff for the maximum financial benefit of Noble.

Feb 14, 2016	Paragon Offshore files for Chapter 11, seventeen months after the spinoff. [1]
Feb 29, 2016	Noble CFO James MacLennan resigns abruptly. [2] Noble CEO David W. Williams states: "James has helped Noble position itself so that it can navigate the challenges facing the industry, and we wish him the best of luck in his future endeavors." [3]

51

[1] See <https://www.sec.gov/Archives/edgar/data/1594590/000114036116052794/form8k.htm>

[2] See <https://management-change.com/noble-cfo-james-maclennan-resigns-abruptly-the-best-of-luck-2/3428>

[3] See <https://www.offshoreenergytoday.com/noble-cfo-calls-it-quits/>

Badges of Fraud

The following badges of fraud were also considered in the Tronox case: [1]

- The debtor retained possession or control of the property transferred after the transfer. [2]
- The transfer or obligation was disclosed or concealed. [3]
- The transfer was of substantially all the debtor's assets.
- The value of the consideration received by the debtor was reasonably equivalent to the value of the asset transferred or the amount of the obligation incurred. [4]
- The debtor was insolvent or became insolvent shortly after the transfer was made or the obligation was incurred.
- The transfer occurred shortly before or shortly after a substantial debt was incurred.

52

[1] See slide 41 of <http://media.straffordpub.com/products/tronox-v-kerr-mcgee-game-changing-ruling-on-fraudulent-transfer-and-spin-offs-to-shed-legacy-liabilities-2014-02-12/presentation.pdf>

[2] Before the spinoff, Noble intended to have executives David Williams, Julie J. Robertson, James A. MacLennan and William E. Turcotte as the majority of board members for the spinoff, and therefore intended to retain control of the property transferred. See the Paragon Amended S/1 filing: https://www.sec.gov/Archives/edgar/data/1594590/000119312514089393/d635036ds1a.htm#toc635036_15

Later, only Julie J. Robertson stayed on the Paragon board until September 2015. However, Noble ensured that their selected Board of Director members and management stayed in place by putting in highly unusual provisions in the Paragon Offshore Articles of Association designed to prevent shareholders from being able to change their chosen Board of Directors.

[3] The \$266M obligations for the Mexico tax liabilities for 2005 to 2010 was not disclosed to Paragon investors and creditors before the spinoff.

[4] Per the research in this presentation, the consideration paid (around \$2B+ in debt and liabilities) exceeded the market value of the assets (\$1.88B). In other words, immediately after spinoff, Paragon could not have sold the assets on the open market and covered their debt and liabilities obligations.

The Existing Noble Settlement

- Helps with bonding for Mexico tax issues. [1]
- Assumes certain tax obligations with Mexican taxes.
- Releases Noble from Fraudulent Transfer claims.
- Indemnifies both Noble and Paragon Directors. [2]
- May be worthless to Paragon now due to:
 - Mexico not being a focus region anymore per POR3.
 - Recent plans to scrap the associated Pemex drilling rigs.
 - Potential restructuring away of Mexico-related corporate entities.

53

[1] Full details of the current Noble settlement are available at:

<http://www.kccllc.net/paragon/document/161038616091200000000001>

<https://www.sec.gov/Archives/edgar/data/1594590/000159459016000221/noblesettlementagreement.htm>

[2] See the Term Lenders feedback, Case 16-10386-CSS Doc 438 Filed 06/07/16

Point #72:

The Disclosure Statement asserts that “although certain members of the Debtors’ current management were formerly affiliated with Noble, the Debtors’ current management is not affiliated with Noble and does not receive any benefit from the releases provided pursuant to the Noble Settlement Agreement.” Disclosure Statement at 29. This statement is unequivocally false and is clearly misleading and directly contrary to the terms of the Noble Settlement Agreement. The beneficiaries of the Debtors’ release in the Noble Settlement Agreement include former directors and officers of Noble, including individuals who are members of the Debtors’ current management. The Noble Settlement Agreement even broadens that release to encompass actions by Paragon directors during their time at Paragon: “Without limiting the foregoing, the Release shall include any Noble Releasee that acted as a director of Paragon in such Noble Releasee’s capacity as a director of Paragon.” Noble Settlement Agreement § 2.1(a)

(Plan Supplement, Exhibit D - which was redacted).

Point #76:

The Debtors made a misleading and patently false statement about the Debtors’ management team not being benefited by the release in the Noble Settlement Agreement,

even though members of the management team will in fact be beneficiaries of the release. This too raises doubts about the Debtors' good faith in connection with the Plan (as well as the propriety of the Debtors' solicitation of votes).

Richard Goldman, Legal Analyst, continued:

“Back in October 2015, Debtwire’s legal analyst team examined Paragon’s August 2014 USD 1.7bn spinoff from Noble Corp. As part of its analysis, the legal team reviewed the fraudco elements under Bankruptcy Code section 548 and compared Noble’s spinoff of Paragon to Anadarko’s 2006 spinoff of Tronox. Opposite of Paragon, Tronox actually challenged its spinoff after filing for bankruptcy in 2009, which resulted in Judge Gropper of the SDNY issuing a damages award ranging from USD 5.15bn to USD 14.46bn.

Although Paragon or any other party in interest could attempt to argue that the Noble spinoff set Paragon to fail, crippling it with unserviceable debt and subpar assets for the sole benefit of Noble in an effort to evade its creditors, Paragon appears to be taking the path of least resistance and settling. **My problem with the settlement is the consideration.** Given the spinoff saddled Paragon with almost USD 2bn in debt, the contingent tax liability assumption, which at worst would only accrue to, I’m sure Paragon will be prepared to argue that fraudco spinoff litigation is timely, intensive, costly, unpredictable and distens of millions of dollars, coupled with Noble receiving a comprehensive buffet of releases, **just seems light.**”

“But that is where a creditors’ committee typically comes into play - to provide a balance that checks against Paragon’s possibly hasty settlement with Noble.”

54

[1] See pages 4 to 5: <http://www.debtwire.com/info/wp-content/uploads/2016/02/PARAGON-WEBINAR-18-FEB-16-PREPARED-REMARKS.pdf>

Even Noble agrees...

Noble 2016 Annual Report:

On January 18, 2017, Paragon Offshore announced that it had reached an agreement in principle with an ad hoc committee of secured debt holders on a term sheet to support a new bankruptcy plan. The term sheet contemplates that the existing settlement agreement between Noble and Paragon Offshore will be adopted under the new bankruptcy plan. Paragon Offshore also stated that it will seek to obtain court approval of the new bankruptcy plan as soon as possible in the first half of 2017. **Paragon Offshore's unsecured creditors are not parties to the agreement in principle, and have formed an ad hoc committee which we expect to oppose Paragon's new bankruptcy plan, including our settlement agreement.** There can be no assurance that the bankruptcy court will ultimately approve our settlement agreement with Paragon Offshore or Paragon Offshore's bankruptcy plan or that our settlement agreement will continue to be a part of their bankruptcy plan. If for any reason the agreement is not approved by the bankruptcy court or included in their plan or Paragon Offshore fails to exit bankruptcy, **Paragon Offshore or its creditors could become adverse to us in any potential litigation relating to the Spin-off, including any alleged fraudulent conveyance claim in connection with the creation of Paragon Offshore as a stand-alone entity.**

55

In the Noble 2016 10-K annual report, see Page 14 of <https://www.sec.gov/Archives/edgar/data/1458891/000162828017001689/nefy201610-k.htm>

Conclusion

Both shareholders and creditors were defrauded by Noble due to at least a \$1.1 Billion overvaluation of Paragon Offshore equity, and by Noble not disclosing the magnitude of the Spinoff's Mexico tax liabilities of \$266M or the magnitude of Brazil's problems.

Constructive fraudulent transfer may have occurred, entitling creditors to a full recovery.

Equity and creditors need to work together to pursue a better Noble Settlement.

Now is the time for a Noble pursuit.