

DryShips Inc.
Form 20-F
April 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report: Not applicable

Commission file number 001-33922

DRYSHIPS INC.

(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

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Republic of the Marshall Islands

(Jurisdiction of incorporation or organization)

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Greece

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of class

Name of exchange on which registered

Common stock, \$0.01 par value

The Nasdaq Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2009, there were 280,326,721 shares of the registrant's common stock, \$0.01 par value, outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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FORWARD-LOOKING STATEMENTS

DryShips Inc., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection therewith. This document and any other written or oral statements made by the Company or on its behalf may include forward-looking statements, which reflect its current views with respect to future events and financial performance. This document includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as forward-looking statements. We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material. When used in this document, the words anticipate, estimate, project, forecast, plan, potential, may, should, and expect reflect forward-looking statements.

Please note in this annual report, we, us, our, and the Company, all refer to DryShips Inc. and its subsidiaries.

All statements in this document that are not statements of historical fact are forward-looking statements. Forward-looking statements include, but are not limited to, such matters as:

future operating or financial results;

statements about planned, pending or recent acquisitions, business strategy and expected capital spending or operating expenses, including drydocking and insurance costs;

our ability to enter into new contracts for our drilling rigs and drillships and future utilization rates and contract rates for drilling rigs and drillships;

future capital expenditures and investments in the construction, acquisition and refurbishment of drilling rigs and drillships (including the amount and nature thereof and the timing of completion thereof);

statements about drybulk shipping market trends, including charter rates and factors affecting supply and demand;

our ability to obtain additional financing;

expectations regarding the availability of vessel acquisitions; and

anticipated developments with respect to pending litigation.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although DryShips Inc. believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, DryShips Inc. cannot assure you that it will achieve or accomplish these expectations, beliefs or projections described in the forward-looking statements contained in this annual report.

Important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including changes in charter rates and drybulk vessel, drilling rig and drillship values, failure of a seller to deliver one or more drilling rigs, drillships or drybulk vessels, failure of a buyer to accept delivery of a drilling rig, drillship, or vessel, inability to procure acquisition financing, default by one or more charterers of our ships, changes in demand for drybulk commodities or oil, changes in demand that may affect attitudes of time charterers, scheduled and unscheduled drydocking, changes in

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DryShips Inc. s voyage and operating expenses, including bunker prices, dry-docking and insurance costs, changes in governmental rules and regulations, potential liability from pending or future litigation, domestic and international political conditions, potential disruption of shipping routes due to accidents, international hostilities and political events or acts by terrorists.

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Table of Contents**PART I.****Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information**A. Selected Financial Data**

The following table sets forth the selected consolidated financial data and other operating data for DryShips Inc. as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009. The following information should be read in conjunction with Item 5 Operating and Financial Review and Prospects and the consolidated financial statements and related notes included herein. The following selected consolidated financial data of DryShips Inc. is derived from our audited consolidated financial statements and the notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP).

3. A (i) STATEMENT OF OPERATIONS

(In thousands of Dollars except per share and share data)	Year Ended December 31,				
	2005	2006	2007	2008	2009
STATEMENT OF OPERATIONS					
Revenues	228,913	248,431	582,561	1,080,702	819,834
Loss on forward freight agreements		22,473			
Voyage expenses	9,592	15,965	31,647	53,172	28,779
Vessels and drilling rigs operating expenses	39,875	54,164	63,225	165,891	201,887
Depreciation and amortization	40,231	58,011	76,511	157,979	196,309
Gain on sale of assets, net		(8,845)	(137,694)	(223,022)	(2,045)
Gain on contract cancellation				(9,098)	(15,270)
Contract termination fees and forfeiture of vessels deposits				160,000	259,459
Vessel impairment charge					1,578
Goodwill impairment charge				700,457	
General and administrative expenses - cash ⁽¹⁾	9,148	12,540	17,072	57,856	52,753
General and administrative expenses - non-cash				31,502	38,070
Operating income/(loss)	130,067	94,123	531,800	(14,035)	58,314
Interest and finance costs	(20,668)	(42,392)	(51,231)	(113,194)	(97,599)
Interest income	749	1,691	5,073	13,085	10,414
Gain/(loss) on interest rate swaps	270	676	(3,981)	(207,936)	23,160
Other, net	(175)	214	(3,037)	(12,640)	(6,692)
Income/(loss) before income taxes and equity in loss of investee	110,243	54,312	478,624	(334,720)	(12,403)
Income taxes				(2,844)	(12,797)
Equity in loss of investee			(299)	(6,893)	

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Net Income/(loss)	110,243	54,312	478,325	(344,457)	(25,200)
Less: Net income attribute to non controlling interests				(16,825)	(7,178)
Net income/(Loss) attributable to Dryships Inc.	110,243	54,312	478,325	(361,282)	(32,378)
Earnings/(loss) per common share attributable to Dryships Inc. common stockholders, basic and diluted	\$ 3.81	\$ 1.68	\$ 13.40	\$ (8.11)	(0.19)
Weighted average number of common shares, basic and diluted	28,957,397	32,348,194	35,700,182	44,598,585	209,331,737
Dividends declared per share	\$ 0.40	\$ 0.80	\$ 0.80	\$ 0.80	

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3.A.(ii) BALANCE SHEET AND OTHER FINANCIAL DATA

(In thousands of Dollars except per share and share data and fleet data)	As of and for the Year Ended December 31,				
	2005	2006	2007	2008	2009
Current assets	18,777	25,875	153,035	720,427	1,180,650
Total assets	906,778	1,161,973	2,344,432	4,842,680	5,799,088
Current liabilities, including current portion of long-term debt	135,745	129,344	239,304	2,525,048	1,896,023
Total long-term debt, including current portion	525,353	658,742	1,243,778	3,158,870	2,684,684
Common stock	304	355	367	706	2,803
Number of shares outstanding	30,350,000	35,490,097	36,681,097	70,600,000	280,326,271
Stockholders' equity	352,720	444,692	1,021,729	1,291,572	2,804,635
OTHER FINANCIAL DATA					
Net cash provided by operating activities	163,806	99,082	407,899	540,129	286,217
Net cash used in investing activities	(847,649)	(287,512)	(955,749)	(2,110,852)	(162,043)
Net cash provided by financing activities	680,656	185,783	656,381	1,762,769	265,881
EBITDA ⁽²⁾	170,393	153,024	600,994	(100,350)	263,913
DRYBULK FLEET DATA:					
Average number of vessels ⁽³⁾	21.6	29.76	33.67	38.56	38.12
Total voyage days for drybulk carrier fleet ⁽⁴⁾	7,710	10,606	12,130	13,896	13,660
Total calendar days for drybulk carrier fleet ⁽⁵⁾	7,866	10,859	12,288	14,114	13,914
Drybulk carrier fleet utilization ⁽⁶⁾	98.00%	97.70%	98.71%	98.46%	98.17%
(In Dollars)					
AVERAGE DAILY RESULTS					
Time charter equivalent ⁽⁷⁾	28,446	21,918	45,417	58,155	30,425
Vessel operating expenses ⁽⁸⁾	5,069	4,988	5,145	5,644	5,434
DRILLING RIG FLEET DATA:					
Average number of drilling rigs ⁽³⁾				2.0	2.0
Total voyage days for drilling rig fleet ⁽⁴⁾				410	695
Total calendar days for drilling rig fleet ⁽⁵⁾				462	730
Drilling rig fleet utilization ⁽⁶⁾				88.66%	95.25%
(In Dollars)					
AVERAGE DAILY RESULTS					
Rig operating expenses ⁽⁸⁾				181,821	192,988

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- (1) Cash compensation to members of our senior management and directors amounted to \$1.4 million, \$1.4 million, \$1.5 million, \$9.7 million and \$5.3 million for the years ended December 31, 2005, 2006, 2007, 2008 and 2009, respectively.
- (2) EBITDA represents net income before interest, taxes, depreciation and amortization. EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined by United States generally accepted accounting principles, or US GAAP, and our calculation of EBITDA may not be comparable to that reported by other companies. EBITDA is included herein because it is a basis upon which the Company measures its operations and efficiency. EBITDA is also used by our lenders as a measure of our compliance with certain loan covenants and because the Company believes that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

<i>(Dollars in thousands)</i>	For the				
	Year Ended December 31,				
	2005	2006	2007	2008	2009
Net income/(loss)	110,243	54,312	478,325	(361,282)	(32,378)
Add: Net interest expense	19,919	40,701	46,158	100,109	87,185
Add: Depreciation and amortization	40,231	58,011	76,511	157,979	196,309
Add: Income taxes				2,844	12,797
EBITDA	170,393	153,024	600,994	(100,350)	263,913

- (3) Average number of vessels is the number of vessels that constituted the respective fleet for the relevant period, as measured by the sum of the number of days each vessel in that fleet was a part of the fleet during the period divided by the number of calendar days in that period.
- (4) Total voyage days for the respective fleet are the total days the vessels in that fleet were in the Company's possession for the relevant period net of off-hire days associated with major repairs, drydockings or special or intermediate surveys.
- (5) Calendar days are the total days the vessels in that fleet were in the Company's possession for the relevant period including off-hire days associated with major repairs, drydockings or special or intermediate surveys.
- (6) Fleet utilization is the percentage of time that the vessels in that fleet were available for revenue-generating voyage days, and is determined by dividing voyage days by fleet calendar days for the relevant period.
- (7) Time charter equivalent, or TCE, is a measure of the average daily revenue performance of a vessel on a per voyage basis. The Company's method of calculating TCE is determined by dividing voyage revenues (net of voyage expenses) by voyage days for the relevant time period. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by the charterer under a time charter contract, as well as commissions. TCE revenues, a non-GAAP measure, provides additional meaningful information in conjunction with revenues from our vessels, the most directly comparable GAAP measure, because it assists Company's management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance. TCE is also a standard shipping industry performance measure used primarily to compare period-to-period changes in a shipping company's performance despite changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed between the periods. The following table reflects the calculation of our TCE rates for the periods presented.

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Drybulk Carrier Segment (In thousands of Dollars, except for TCE rates, which are expressed in Dollars and voyage days)	Year Ended December 31,				
	2005	2006	2007	2008	2009
Voyage revenues	228,913	248,431	582,561	861,296	444,385
Voyage expenses	(9,592)	(15,965)	(31,647)	(53,172)	(28,779)
Time charter equivalent revenues	219,321	232,466	550,914	808,124	415,606
Total voyage days for drybulk fleet	7,710	10,606	12,130	13,896	13,660
Time charter equivalent (TCE) rate	28,446	21,918	45,417	58,155	30,425

Drilling Rig Carrier Segment (In thousands of Dollars)	Year Ended December 31,	
	2008	2009
Revenue from drilling contracts	219,406	375,449
Drilling rig operating expenses	(86,180)	(126,282)
	133,226	249,167
Total employment days for drilling rigs.	410	695

- (8) Daily vessel/rig operating expenses, which includes crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, is calculated by dividing vessel/rig operating expenses by drybulk carrier/drilling rig fleet calendar days for the relevant time period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk factors

Some of the following risks relate principally to the industries in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our common stock. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results, cash flows or our ability to pay dividends, if any, in the future, or the trading price of our common stock.

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International Drybulk Shipping Industry Specific Risk Factors

While the drybulk carrier charter market has recently strengthened, it remains significantly below the high in 2008, which has adversely affected our revenues, earnings and profitability and our ability to comply with our loan covenants.

The Baltic Drybulk Index, or BDI, declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94%. The BDI fell over 70% during the month of October alone. Over the comparable period of May through December 2008, the high and low of the Baltic Panamax Index and the Baltic Capesize Index represent a decline of 96% and 99%, respectively. During 2009 the BDI increased from a low of 772 and reached a high of 4,661 in November of 2009. In 2010, the BDI decreased from a high of 3,235 in January 2010 to 2,911 in March 2010, reaching its high of 3,299 in January 2010. On April 1, 2010, the BDI was 2,991. The decline and volatility in charter rates is due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which had resulted in a significant decline in cargo shipments. In 2009 Chinese iron ore imports increased by 41% compared to 2008 and coal imports rose by 210% in the same period. The decline and volatility in charter rates in the drybulk market also affects the value of our drybulk vessels, which follows the trends of drybulk charter rates, and earnings on our charters, and similarly, affects our cash flows, liquidity and compliance with the covenants contained in our loan agreements.

As of April 6, 2010, we employ no vessels in the spot market. We employ 35 of the 37 vessels in our drybulk carrier fleet on time charters and the remaining two vessels on bareboat charters at fixed rates as of April 6, 2010. If the low charter rates in the drybulk market continue for any significant period in 2010, this would have an adverse effect on our vessel values and our ability to comply with the financial covenants in our loan agreements. In such a situation, unless our lenders are willing to provide waivers of covenant compliance or modifications to our covenants, our lenders could accelerate our debt and we could face the loss of our vessels.

Charter hire rates for drybulk carriers have decreased, which have continued to adversely affect our earnings.

The drybulk shipping industry is cyclical with attendant volatility in charter hire rates and profitability. For example, the degree of charter hire rate volatility among different types of drybulk carriers has varied widely. After reaching historical highs in mid-2008, charter hire rates for Panamax and Capesize drybulk carriers reached near historical lows levels in December 2008, began improving in January and February 2009 and after a volatile year, the BDI rose to over 4,000 in November 2009, the high for the year, although still below the historical highs of recent years. In 2010, the BDI decreased from a high of 3,235 in January 2010 to 2,911 in March 2010, reaching its high of 3,299 in January 2010. On April 1, 2010, the BDI was 2,991. We may not be able to successfully charter our vessels in the future or renew existing charters at rates sufficient to allow us to meet our obligations. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

If charter rates in the drybulk market decline and remain at low levels for any significant period in 2010, this could have an adverse effect on our vessel values and our ability to comply with the financial covenants in our loan agreements.

Factors that influence demand for vessel capacity include:

supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products;

changes in the exploration or production of energy resources, commodities, semi-finished and finished consumer and industrial products;

the location of regional and global exploration, production and manufacturing facilities

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the location of consuming regions for energy resources, commodities, semi-finished and finished consumer and industrial products;

the globalization of production and manufacturing;

global and regional economic and political conditions, including armed conflicts, terrorist activities, embargoes and strikes;

developments in international trade;

changes in seaborne and other transportation patterns, including the distance cargo is transported by sea;

environmental and other regulatory developments;

currency exchange rates; and

weather.

The factors that influence the supply of vessel capacity include:

the number of newbuilding deliveries;

port and canal congestion;

the scrapping rate of older vessels;

vessel casualties; and

the number of vessels that are out of service.

We anticipate that the future demand for our drybulk carriers will be dependent upon continued economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the global drybulk carrier fleet and the sources and supply of drybulk cargoes to be transported by sea. The capacity of the global drybulk carrier fleet seems likely to increase and economic growth may not continue. Adverse economic, political, social or other developments could have a material adverse effect on our business and operating results.

An over-supply of drybulk carrier capacity may lead to reductions in charter hire rates and profitability.

The market supply of drybulk carriers has been increasing, and the number of drybulk carriers on order is near historic highs. These newbuildings were delivered in significant numbers starting at the beginning of 2006 and continued through 2009. As of March 2010, newbuilding orders had been placed for an aggregate of more than 61.1% of the existing global drybulk fleet, with deliveries expected during the next 3 years. An over-supply of drybulk carrier capacity may result in a further reduction of charter hire rates. If such a reduction occurs, upon

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the expiration or termination of our vessels' current charters we may only be able to re-charter our vessels at reduced or unprofitable rates or we may not be able to charter these vessels at all.

The market values of our vessels may decrease, which could limit the amount of funds that we can borrow or trigger certain financial covenants under our current or future credit facilities and or we may incur a loss if we sell vessels following a decline in their market value.

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The fair market values of our vessels are related to prevailing freight charter rates. While the fair market value of vessels and the freight charter market have a very close relationship as the charter market moves from trough to peak, the time lag between the effect of charter rates on market values of ships can vary.

The fair market value of our vessels may increase and decrease depending on a number of factors including:

prevailing level of charter rates;

general economic and market conditions affecting the shipping industry;

types and sizes of vessels;

supply and demand for vessels;

other modes of transportation;

cost of newbuildings;

governmental and other regulations; and

technological advances.

In addition, as vessels grow older, they generally decline in value. If the fair market value of our vessels declines, we may not be in compliance with certain provisions of our credit facilities, and our lenders could accelerate our indebtedness or require us to pay down our indebtedness to a level where we are again in compliance with our loan covenants. If our indebtedness is accelerated, we may not be able to refinance our debt or obtain additional financing. In addition, if we sell one or more of our vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our consolidated financial statements, the sale may be less than the vessel's carrying value on our consolidated financial statements, resulting in a loss and a reduction in earnings. Furthermore, if vessel values fall significantly we may have to record an impairment adjustment in our financial statements which could adversely affect our financial results.

An economic slowdown in the Asia Pacific region could exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations.

We anticipate a significant number of the port calls made by our vessels will continue to involve the loading or discharging of drybulk commodities in ports in the Asia Pacific region. As a result, any negative changes in economic conditions in any Asia Pacific country, particularly in China, may exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects. In recent years, China has been one of the world's fastest growing economies in terms of gross domestic product, which has had a significant impact on shipping demand. For the year ended December 31, 2009, the growth of China's gross domestic product from the prior year ended December 31, 2008 was approximately 8.7%, compared with a growth rate of 10.6% over the same two-year period ended December 31, 2008. It is possible that China and other countries in the Asia Pacific region will continue to experience slower economic growth in the near future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our business, financial condition and results of operations, as well as our future prospects, will likely be adversely affected by a further economic downturn in any of these countries.

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Changes in the economic and political environment in China and policies adopted by the government to regulate its economy may have a material adverse effect on our business, financial condition and results of operations.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five-year state plans are adopted by the Chinese government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a market economy and enterprise reform. Limited price reforms were undertaken with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform, the level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could adversely affect our business, operating results and financial condition.

Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a further material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our common stock to further decline.

The United States and other parts of the world have exhibited weak economic conditions and have been in a recession. For example, the credit markets in the United States have experienced significant contraction, de-leveraging and reduced liquidity, and the United States federal government and state governments have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The U.S. Securities and Exchange Commission, or the SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

Recently, a number of financial institutions have experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. The uncertainty surrounding the future of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide. As of December 31, 2009, we had total long term debt outstanding of \$2.9 billion.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. Major market disruptions and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition or cash flows, have caused the price of our common stock on the Nasdaq Global Select Market to decline and could cause the price of our common stock to decline further.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Throughout 2008 and 2009, the frequency of piracy incidents increased significantly, particularly in the Gulf of Aden. For example, in November 2008, the MV *Sirius Star*, a tanker vessel not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth \$100 million. In February 2009, the vessel MV *Saldanha*, which is owned by our subsidiary, Team-Up Owning Company Limited, was seized by pirates while transporting coal through the Gulf of

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Aden. If these piracy attacks result in regions (in which our vessels are deployed) being characterized by insurers as war risk zones, as the Gulf of Aden temporarily was in May 2008, or Joint War Committee (JWC) war and strikes listed areas, premiums payable for such insurance coverage could increase significantly and such insurance coverage may be more difficult to obtain. Crew costs, including those due to employing onboard security guards, could increase in such circumstances. In addition, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not on-hire for a certain number of days and it is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and cash flows.

World events could affect our results of operations and financial condition.

Terrorist attacks such as those in New York on September 11, 2001 and in London on July 7, 2005 and in Mumbai in 2008 and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks in the United States or elsewhere, continues to cause uncertainty in the world's financial markets and may affect our business, operating results and financial condition. The continuing conflicts in Afghanistan and Iraq may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Any of these occurrences could have a material adverse impact on our operating results, revenues and costs.

Terrorist attacks on vessels, such as the October 2002 attack on the VLCC Limburg, a vessel not related to us, may in the future also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and may impact the economic recession in the United States and other countries. Any of these occurrences could have a material adverse impact on our revenues and costs.

Our revenues are subject to seasonal fluctuations, which could affect our operating results and our ability to pay dividends, if any, in the future.

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter-to-quarter volatility in our operating results, which could affect our ability to pay dividends, if any, in the future from quarter to quarter. The drybulk carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues have historically been weaker during the fiscal quarters ended June 30 and September 30, and, conversely, our revenues have historically been stronger in fiscal quarters ended December 31 and March 31. This seasonality may adversely affect our operating results and our ability to pay dividends, if any, in the future.

Rising fuel prices may adversely affect our profits.

While we do not bear the cost of fuel or bunkers, under our time and bareboat charters, fuel is a significant, if not the largest, expense in our shipping operations when vessels are under spot charter. Changes in the price of fuel may adversely affect our profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries, or OPEC, and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

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We are subject to international safety regulations and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in our vessels being denied access to, or detained in, certain ports.

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations. We are required by various governmental and quasi governmental agencies to obtain certain permits, licenses, certificates, and financial assurances with respect to our operations.

In addition, vessel classification societies also impose significant safety and other requirements on our vessels. In complying with current and future environmental requirements, vessel-owners and operators may also incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance.

The operation of our vessels is also affected by the requirements set forth in the United Nations International Maritime Organization's, or IMO's, International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive Safety Management System that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. Each of the vessels that has been delivered to us is ISM Code-certified and we expect that any vessels that we acquire in the future will be ISM Code-certified when delivered to us. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. If we are subject to increased liability for non-compliance or if our insurance coverage is adversely impacted as a result of non-compliance, it may negatively affect our ability to pay dividends, if any, in the future. If any of our vessels are denied access to, or are detained in, certain ports, this may decrease our revenues.

We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, the International Convention on Civil Liability for Oil Pollution Damage of 1969, the International Convention for the Prevention of Pollution from Ships of 1975, the International Convention for the Prevention of Marine Pollution of 1973, the International Convention for the Safety of Life at Sea of 1974, the International Convention on Load Lines of 1966, the U.S. Oil Pollution Act of 1990, or OPA, the U.S. Clean Air Act, U.S. Clean Water Act and the U.S. Marine Transportation Security Act of 2002. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions, the management of ballast waters, maintenance and inspection, elimination of tin-based paint, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally

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strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have arranged insurance to cover certain environmental risks, such insurance may not be sufficient to cover all such risks. As a result, claims against us could result in a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to pay dividends, if any, in the future.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

International shipping is subject to various security and customs inspections and related procedures in countries of origin, destination and trans-shipment points. Inspection procedures may result in the seizure of the contents of our vessels, delays in the loading, offloading or delivery of our vessels and the levying of customs duties, fines or other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, financial condition and results of operations.

Maritime claimants could arrest one or more of our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a claimant may seek to obtain security for its claim by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of money to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could attempt to assert sister ship liability against a vessel in our fleet for claims relating to another of our vessels.

Governments could requisition our vessels during a period of war or emergency, resulting in a loss of earnings.

A government could requisition one or more of our vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes her owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would be entitled to compensation in the event of a requisition of one or more of our vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of our vessels may negatively impact our revenues and reduce the amount of dividends, if any, in the future.

In the highly competitive international shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources and as a result, we may be unable to employ our vessels profitably.

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than we do. Competition for the transportation of drybulk cargo by sea is intense and depends on price, location, size, age, condition and the acceptability of the vessel and its operators to the charterers. Due in part to the highly fragmented market, competitors with greater resources could enter the drybulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates and higher quality vessels than we are able to offer. If we are unable to successfully compete with other drybulk shipping companies, this would have an adverse impact on our results of operations.

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Risks associated with operating ocean-going vessels could affect our business and reputation, which could adversely affect our revenues and stock price.

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

marine disaster;

environmental accidents;

cargo and property losses or damage;

business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions; and

piracy.

The involvement of our vessels in an environmental disaster may harm our reputation as a safe and reliable vessel owner and operator. Any of these circumstances or events could increase our costs or lower our revenues.

The shipping industry has inherent operational risks that may not be adequately covered by our insurance.

We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We may not be adequately insured against all risks or our insurers may not pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

The operation of drybulk carriers has certain unique operational risks.

The operation of certain ship types, such as drybulk carriers, has certain unique risks. With a drybulk carrier, the cargo itself and its interaction with the ship can be a risk factor. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold), and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach to the sea. Hull breaches in drybulk carriers may lead to the flooding of the vessels holds. If a drybulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads, leading to the loss of a vessel. If we are unable to adequately maintain our vessels we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition, results of operations and our ability to pay dividends, if any, in the future. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

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Offshore Drilling Industry Specific Risk Factors

Our business in the offshore drilling sector depends on the level of activity in the offshore oil and gas industry, which is significantly affected by, among other things, volatile oil and gas prices and may be materially and adversely affected by a decline in the offshore oil and gas industry.

The offshore contract drilling industry is cyclical and volatile. Our business in the offshore drilling sector depends on the level of activity in oil and gas exploration, development and production in offshore areas worldwide. The availability of quality drilling prospects, exploration success, relative production costs, the stage of reservoir development and political and regulatory environments affect customers' drilling campaigns. Oil and gas prices and market expectations of potential changes in these prices also significantly affect this level of activity and demand for drilling units.

Oil and gas prices are extremely volatile and are affected by numerous factors beyond our control, including the following:

worldwide production and demand for oil and gas;

the cost of exploring for, developing, producing and delivering oil and gas;

expectations regarding future energy prices;

advances in exploration, development and production technology;

the ability of OPEC to set and maintain levels and pricing;

the level of production in non-OPEC countries;

government regulations;

local and international political, economic and weather conditions;

domestic and foreign tax policies;

development and exploitation of alternative fuels;

the policies of various governments regarding exploration and development of their oil and gas reserves; and

the worldwide military and political environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East or other geographic areas or further acts of terrorism in the United States, or elsewhere.

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Declines in oil and gas prices for an extended period of time, or market expectations of potential decreases in these prices, could negatively affect our business in the offshore drilling sector. Sustained periods of low oil prices typically result in reduced exploration and drilling because oil and gas companies' capital expenditure budgets are subject to their cash flow and are therefore sensitive to changes in energy prices. These changes in commodity prices can have a dramatic effect on rig demand, and periods of low demand can cause excess rig supply and intensify the competition in the industry which often results in drilling units, particularly lower specification drilling units, being idle for long periods of time. We cannot predict the future level of demand for our services or future conditions of the oil and gas industry. Any decrease in exploration, development or production expenditures by oil and gas companies could reduce our revenues and materially harm our business and results of operations.

In addition to oil and gas prices, the offshore drilling industry is influenced by additional factors, including:

the availability of competing offshore drilling vessels;

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the level of costs for associated offshore oilfield and construction services;

oil and gas transportation costs;

the discovery of new oil and gas reserves; and

the cost of non-conventional hydrocarbons, such as the exploitation of oil sands.

The offshore drilling industry is highly competitive and there is intense price competition, and as a result, we may be unable to compete successfully with other providers of contract drilling services that have greater resources than we have.

The offshore contract drilling industry is highly competitive with numerous industry participants, none of which has a dominant market share, and characterized by high capital and maintenance requirements. Drilling contracts are traditionally awarded on a competitive bid basis. Intense price competition is often the primary factor in determining which qualified contractor is awarded the drilling contract, although rig availability, location, and the quality and technical capability of service and equipment are key factors which are considered. Some of our competitors in the drilling industry are larger than we are and have more diverse fleets, or fleets with generally higher specifications, and greater financial and other resources than us. In addition, because of the relatively small size of our offshore drilling segment, we may be unable to take advantage of economies of scale to the same extent as some of our larger competitors. Given the high capital requirements that are inherent in the offshore drilling industry, we may also be unable to invest in new technologies or expand our fleet in the future as may be necessary for us to succeed in this industry, while our larger competitors with superior financial resources may be able to respond more rapidly to changing market demands and compete more efficiently on price for drillship and drilling rig employment. In addition, mergers among oil and natural gas exploration and production companies have reduced the number of available customers, resulting in increased competition for projects. We may not be able to maintain our competitive position, and we believe that competition for contracts will continue to be intense in the foreseeable future. Our inability to compete successfully may reduce our revenues and profitability.

An over-supply of drilling units may lead to a reduction in day-rates and therefore may materially impact our profitability in our offshore drilling segment.

During the recent period of high utilization and high day-rates, industry participants have increased the supply of drilling units by ordering the construction of new drilling units. Historically, this has resulted in an over-supply of drilling units and has caused a subsequent decline in utilization and day-rates when the drilling units enter the market, sometimes for extended periods of time until the units have been absorbed into the active fleet. According to industry sources, the worldwide fleet of ultra-deepwater drilling units as of March 20, 2010 consisted of 57 units, comprised of 33 semi-submersible rigs and 24 drillships. An additional 26 semi-submersible rigs and 35 drillships are under construction or on order as of March 10, 2010, which would bring the total fleet to 118 drilling units by the end of 2012. A relatively large number of the drilling units currently under construction have been contracted for future work, which may intensify price competition as scheduled delivery dates occur. The entry into service of these new, upgraded or reactivated drilling units will increase supply and has already led to a reduction in day-rates as drilling units are absorbed into the active fleet. In addition, the new construction of high-specification rigs, as well as changes in our competitors' drilling rig fleets, could require us to make material additional capital investments to keep our fleet competitive. Lower utilization and day-rates could adversely affect our revenues and profitability. Prolonged periods of low utilization and day-rates could also result in the recognition of impairment charges on our drilling units if future cash flow estimates, based upon information available to management at the time, indicate that the carrying value of these drilling units may not be recoverable.

The market value of our current drilling units and drilling units we may acquire in the future may decrease, which could cause us to incur losses if we decide to sell them following a decline in their market values.

If the offshore contract drilling industry suffers adverse developments in the future, the fair market value of our drilling units may decline. The fair market value of the drilling units we currently own or may acquire in the future may increase or decrease depending on a number of factors, including:

prevailing level of drilling services contract day-rates;

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general economic and market conditions affecting the offshore contract drilling industry, including competition from other offshore contract drilling companies;

types, sizes and ages of drilling units;

supply and demand for drilling units;

costs of newbuildings;

governmental or other regulations; and

technological advances.

If we sell any drilling unit when drilling unit prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the drilling unit's carrying amount on our financial statements, resulting in a loss. Additionally, our lenders may accelerate loan repayments should there be a loss in the market value of our drilling units. Such loss or repayment could materially and adversely affect our business prospects, financial condition, liquidity, results of operations, and our ability to pay dividends to our shareholders.

Consolidation of suppliers may limit our ability to obtain supplies and services at an acceptable cost, on our schedule or at all, which may have a material adverse effect on our results of operations and financial condition.

We rely on certain third parties to provide supplies and services necessary for our offshore drilling operations, including but not limited to drilling equipment suppliers, catering and machinery suppliers. Recent mergers have reduced the number of available suppliers, resulting in fewer alternatives for sourcing key supplies. We may not be able to obtain supplies and services at an acceptable cost, at the times we need them or at all. Such consolidation, combined with a high volume of drilling units under construction, may result in a shortage of supplies and services thereby potentially inhibiting the ability of suppliers to deliver on time. These cost increases or delays could have a material adverse effect on our results of operations and financial condition.

Our international operations in the offshore drilling sector involve additional risks.

We operate in the offshore drilling sector in various regions throughout the world, including Ghana that may expose us to political and other uncertainties, including risks of:

terrorist acts, piracy, war and civil disturbances;

seizure, nationalization or expropriation of property or equipment;

repudiation, nullification, indemnification or reregulation of contracts;

limitations on insurance coverage, such as war risk coverage, in certain areas;

political unrest;

foreign and U.S. monetary policy and foreign currency fluctuations and devaluations;

the inability to repatriate income or capital;

complications associated with repairing and replacing equipment in remote locations;

import-export quotas, wage and price controls, imposition of trade barriers and other forms of government regulation and economic conditions that are beyond our control;

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regulatory or financial requirements to comply with foreign bureaucratic actions; and

changing taxation policies.

In addition, international contract drilling operations are subject to various laws and regulations in countries in which we operate, including laws and regulations relating to:

use and compensation of local employees and suppliers by foreign contractors.

taxation of offshore earnings and earnings of expatriate personnel;

oil and gas exploration and development;

repatriation of foreign earnings; and

the equipping and operation of drilling units.

One of our two existing drilling rigs is currently operating offshore Ghana and the other drilling rig is operating in the Black Sea. In the past we have operated our drilling rig the *Eirik Raude* in the Gulf of Mexico, offshore Canada, and Norway while the drilling rig *Leiv Eiriksson* has operated offshore in West Africa and in the North Sea. Some foreign governments favor or effectively require the awarding of drilling contracts to local contractors, require use of a local agent or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. These practices may adversely affect our ability to compete in those regions. It is difficult to predict what governmental regulations may be enacted in the future that could adversely affect the international drilling industry. The actions of foreign governments, including initiatives by OPEC, may adversely affect our ability to compete.

We are indemnified to some extent against loss of capital assets, but generally not loss of revenue, from most of these risks through provisions in our drilling contracts.

Governmental laws and regulations, including environmental laws and regulations, may add to our costs or limit our drilling activity.

Our business in the offshore drilling industry is affected by public policy and laws and regulations relating to the energy industry and the environment in the geographic areas where we operate.

The offshore drilling industry is dependent on demand for services from the oil and gas exploration and production industry, and accordingly, we are directly affected by the adoption of laws and regulations that for economic, environmental or other policy reasons curtail exploration and development drilling for oil and gas. We may be required to make significant capital expenditures to comply with governmental laws and regulations. It is also possible that these laws and regulations may in the future add significantly to our operating costs or significantly limit drilling activity. Governments in some countries are increasingly active in regulating and controlling the ownership of concessions while favoring local contractors, the exploration for oil and gas, and other aspects of the oil and gas industries. In recent years, increased concern has been raised over protection of the environment. Offshore drilling in certain areas has been opposed by environmental groups, and has in certain cases been restricted.

To the extent new laws are enacted or other governmental actions are taken that prohibit or restrict offshore drilling or impose additional environmental protection requirements that result in increased costs to the oil and gas industry in general or the offshore drilling industry in particular, our business or prospects could be materially adversely affected. The operation of our drilling units will require certain governmental approvals, the number and prerequisites of which cannot be determined until we identify the jurisdictions in which we will operate upon securing contracts for the drilling units. Depending on the jurisdiction, these governmental approvals may involve public hearings and costly undertakings on our part. We may not obtain such approvals or such approvals may not be obtained in a timely manner. If we fail to timely secure the necessary approvals or permits, our customers may have the right to terminate or seek to renegotiate their drilling contracts to our

detriment. The amendment or

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modification of existing laws and regulations or the adoption of new laws and regulations curtailing or further regulating exploratory or development drilling and production of oil and gas could have a material adverse effect on our business, operating results or financial condition. Future earnings may be negatively affected by compliance with any such new legislation or regulations. In addition, we may become subject to additional laws and regulations as a result of future rig operations or repositioning.

We may be subject to liability under environmental laws and regulations, which could have a material adverse effect on our results of operations and financial condition.

Our operations in the offshore drilling industry may involve the use or handling of materials that may be classified as environmentally hazardous substances. Environmental laws and regulations applicable in the countries in which we conduct operations have generally become more stringent. Such laws and regulations may expose us to liability for the conduct of or for conditions caused by others, or for our acts that were in compliance with all applicable laws at the time such actions were taken.

During our drilling operations in the past, we have caused the release of oil, waste and other pollutants into the sea and into protected areas, such as the Barents Sea. While we conduct maintenance on our drilling rigs in an effort to prevent such releases, future releases could occur, especially as our rigs age. Such releases may be large in quantity, above our permitted limits or in protected or other areas in which public interest groups or governmental authorities have an interest. These releases could result in fines and other costs to us, such as costs to upgrade our drilling rigs, costs to clean up the pollution, and costs to comply with more stringent requirements in our discharge permits. Moreover, these releases may result in our customers or governmental authorities suspending or terminating our operations in the affected area, which could have a material adverse effect on our business, results of operation and financial condition.

We expect that we will be able to obtain some degree of contractual indemnification from our customers in most of our drilling contracts against pollution and environmental damages. But such indemnification may not be enforceable in all instances, the customer may not be financially capable in all cases of complying with its indemnity obligations and we may not be able to obtain such indemnification agreements in the future.

We currently maintain insurance coverage against certain environmental liabilities, including pollution caused by sudden and accidental oil spills. However, such insurance may not continue to be available or carried by us or, if available and carried, may not be adequate to cover any liability in all circumstances, which could have a material adverse effect on our business, operating results and financial condition.

Acts of terrorism and political and social unrest could affect the markets for drilling services, which may have a material adverse effect on our results of operations.

Acts of terrorism and political and social unrest, brought about by world political events or otherwise, have caused instability in the world's financial and insurance markets in the past and may occur in the future. Such acts could be directed against companies such as ours. Our drilling operations could also be targeted by acts of piracy. In addition, acts of terrorism and social unrest could lead to increased volatility in prices for crude oil and natural gas and could affect the markets for drilling services and result in lower day-rates. Insurance premiums could increase and coverage may be unavailable in the future. U.S. government regulations may effectively preclude us from actively engaging in business activities in certain countries. These regulations could be amended to cover countries where we currently operate or where we may wish to operate in the future. Increased insurance costs or increased cost of compliance with applicable regulations may have a material adverse effect on our results of operations.

Company Specific Risk Factors

We are in breach of certain financial covenants contained in our loan agreements, have obtained waivers from certain of our lenders regarding these covenant breaches, and are currently in discussions with our lenders for additional waivers, extensions of existing waivers and amendments of such financial covenants, and if we are not successful in obtaining such waivers and amendments, our lenders may declare an event of default and accelerate our outstanding indebtedness under the relevant agreement, which would impact our ability to continue to conduct our business.

Our credit facilities, which are secured by mortgages on our vessels, require us to comply with specified collateral coverage ratios and satisfy certain financial and other covenants. The current low drybulk charter rates and drybulk vessel values, and even lower rates and values experienced over the past year, have affected our ability to comply with these covenants.

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The current low drybulk charter rates and drybulk vessel values have affected our ability to comply with certain financial and other covenants. A violation of these covenants constitutes an event of default under our credit facilities, which, unless waived by our lenders, provides our lenders with the right to require us to post additional collateral, enhance our equity and liquidity, increase our interest payments, pay down our indebtedness to a level where we are in compliance with our loan covenants, sell vessels in our fleet, reclassify our indebtedness as current liabilities and accelerate our indebtedness and foreclose their liens on our vessels, which would impair our ability to continue to conduct our business.

As of December 31, 2008, we were in breach of certain financial covenants including the value maintenance clause, contained in our secured loan facilities. During 2009, we obtained waivers from all the lenders of the affected debt, which waivers expire between midnight on December 31, 2009 and October 31, 2011. We are currently in discussions with lenders to extend the waiver period for those waivers that have already expired or will expire later in 2010. In addition, on December 31, 2009, we were in breach of a financial covenant in our \$230 million loan facilities dated September 10, 2007, as amended. We are in discussions with our lenders regarding a resolution.

There can be no assurance that our lenders will grant us waivers for the covenant breaches for which we do not currently have waivers. Accordingly, our lenders could accelerate our indebtedness and foreclose their liens on our vessels, which would impair our ability to conduct our business and continue as a going concern. In addition, there can be no assurance that the lenders under our other secured loan agreements will extend the waivers of covenant breaches thereunder, if we are not in compliance with the covenants as such waivers expire, with the same potential consequences. For further discussion, please see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Breach of Loan Covenants.

Because of the presence of cross default provisions in all of our loan agreements, the refusal of any one lender to grant or extend a waiver could result in all of our indebtedness being accelerated even if our other lenders have waived covenant defaults under the respective loan agreements. A cross default provision means that if we default on one loan we would then default on all of our other loans.

If our indebtedness is accelerated, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our vessels if our lenders foreclose their liens. In addition, if the fair value of our vessels, which is calculated using undiscounted cash flows, deteriorates significantly from their currently depressed levels, we may have to record a further impairment adjustment to our financial statements, which would adversely affect our financial results and further hinder our ability to raise capital. Further, as discussed below, our independent registered public accounting firms have issued their opinions with an explanatory paragraph in connection with our audited financial statements included in this report that expresses substantial doubt about our ability to continue as a going concern.

Moreover, in connection with any waivers and/or amendments to our loan agreements, our lenders may impose additional operating and financial restrictions on us and/or modify the terms of our existing loan agreements. These restrictions may limit our ability to, among other things, pay dividends, make capital expenditures and/or incur additional indebtedness, including through the issuance of guarantees. In addition, our lenders may require the payment of additional fees, require prepayment of a portion of our indebtedness to them, accelerate the amortization schedule for our indebtedness and increase the interest rates they charge us on our outstanding indebtedness.

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Our inability to comply with certain financial and other covenants under our loan agreements raises substantial doubt about our ability to continue as a going concern.

As discussed above, we were in breach of certain financial and other covenants contained in our loan agreements as a result of the decline in the drybulk charter market and related decline in vessel values in the drybulk sector and have obtained waivers which expire in 2010 and 2011. When the waivers expire we may be unable to meet the financial and other covenants contained in our loan agreements for the foreseeable future and our lenders may choose to accelerate our indebtedness. Therefore, our ability to continue as a going concern is dependent on management's ability to successfully generate revenue and to meet our obligations as they become due and the continued support of our lenders. In 2009, we have issued a total of 165,054,595 common shares pursuant to our two at the market offerings under our ATM Equity Offering Sales Agreements, dated January 28, 2009 and May 7, 2009 by and between the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated as our agent for the sale of up to \$500 million and \$475 million of our common shares, respectively, resulting in net proceeds of \$952.4 million. In 2009, the Company also offered \$460 million aggregate principal amount of our 5% Convertible Senior Notes due December 1, 2014, resulting in net proceeds of \$447.8 million. Our independent registered public accounting firm has issued its opinion with an explanatory paragraph in connection with our financial statements included in this annual report that expresses substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of our inability to continue as a going concern. However, there is a material uncertainty related to events or conditions which raises significant doubt on our ability to continue as a going concern and, therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business.

As a result of our inability to comply with certain financial and other covenants under our loan agreements a significant amount of our indebtedness was reclassified as current liabilities as of December 31, 2009.

A total of \$1.3 billion of our indebtedness as of December 31, 2009 has been reclassified as current liabilities as a result of our non-compliance with financial covenants contained in our loan agreements. As a result of this reclassification we had a working capital deficit of \$715.4 million as of December 31, 2009. Consequently, our independent registered public accounting firms included an explanatory paragraph in their respective opinions on our most recently audited financial statements for the year ended December 31, 2009 that expressed substantial doubt about our ability to continue as a going concern. Charter rates and vessel values, particularly in the drybulk sector, may remain at low levels for an extended period of time, in which case it may be difficult for us to comply with the financial and other covenants in our loan agreements absent extensions of the existing waivers.

Our credit facilities and waivers impose operating and financial restrictions on us, and if we receive additional waivers and/or amendments to our loan agreements, our lenders may impose additional operating and financial restrictions on us and/or modify the terms of our existing loan agreements.

In addition to certain financial covenants relating to our financial position, operating performance and liquidity, the restrictions contained in our loan agreements limit our ability to, among other things:

pay dividends to investors or make capital expenditures if we do not repay amounts drawn under the credit facilities, if there is a default under the credit facilities or if the payment of the dividend or capital expenditure would result in a default or breach of a loan covenant;

incur additional indebtedness, including through the issuance of guarantees;

change the flag, class or management of our vessels;

create liens on our assets;

sell or otherwise change the ownership of our vessels;

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merge or consolidate with, or transfer all or substantially all our assets to, another person;

drop below certain minimum cash deposits, as defined in our credit facilities; and/or

receive dividends from certain subsidiaries.

See Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Breach of Loan Covenants. In connection with future waivers or amendments, lenders may impose additional restrictions on us.

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Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we may not be able to obtain our lenders' permission when needed. In addition to the above restrictions, our lenders may require the payment of additional fees, require prepayment of a portion of our indebtedness to them, accelerate the amortization schedule for our indebtedness and increase the interest rates they charge us on our outstanding indebtedness. These potential restrictions and requirements may limit our ability to pay dividends, if any, in the future, to you, finance our future operations, make acquisitions or pursue business opportunities.

The failure of our counterparties to meet their obligations under our time charter agreements could cause us to suffer losses or otherwise adversely affect our business.

Thirty-five of our drybulk vessels are currently employed under time charters, two of our drybulk vessels are currently employed on bareboat charters and our two drill rigs are under contracts for two and three years. The ability and willingness of each of our counterparties to perform its obligations under a time charter agreement with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the drybulk shipping industry and the overall financial condition of the counterparties. In addition, in challenging market conditions, there have been reports of charterers, including some of our charterers, renegotiating their charters or defaulting on their obligations under charters and our customers may fail to pay charterhire or attempt to renegotiate charter rates. The time charters on which we deploy 21 of the vessels in our fleet provide for charter rates that are significantly above current market rates. Should a counterparty fail to honor its obligations under agreements with us, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure in the spot market or on time charters would be at lower rates given currently decreased charter rate levels, particularly in the drybulk carrier market. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as our ability to pay dividends, if any, in the future, and comply with covenants in our credit facilities.

We are subject to certain risks with respect to our counterparties on drilling contracts, and failure of such counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business.

In addition to time charters, we enter into drilling services contracts with our customers, newbuilding contracts with shipyards, interest rate swap agreements and forward exchange contracts, and have employed and may employ our drilling rigs and newbuild drillships on fixed-term and well contracts. Our drilling contracts, newbuilding contracts, and hedging agreements subject us to counterparty risks. The ability of each of our counterparties to perform its obligations under a contract with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the offshore contract drilling industry, the overall financial condition of the counterparty, the day-rates received for specific types of drilling rigs and drillships and various expenses. In addition, in depressed market conditions, our customers may no longer need a drilling unit that is currently under contract or may be able to obtain a comparable drilling unit at a

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lower day-rate. As a result, customers may seek to renegotiate the terms of their existing drilling contracts or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under an agreement with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We have significant indebtedness and payment obligations relating to four drillships under construction for Ocean Rig UDW.

Our subsidiary, Ocean Rig UDW, has contracts for construction of the four drillships, Hulls 1837, 1838, 1865 and 1866, scheduled to be delivered in December 2010, March 2011, July 2011 and September 2011, respectively. As of December 31, 2009, we owe an additional \$1.0 billion in installment payments due within the next year and \$0.9 billion of newbuilding installment payments due thereafter. We have entered into two separate credit facilities, each in the amount of \$562.5 million, to finance the installment payments to Hulls 1865 and 1866. This indebtedness is in addition to the indebtedness we have incurred and will incur to finance our drybulk fleet and its operations, may adversely affect our ability to comply with our loan covenants and service our indebtedness and would adversely impact our profitability and cash flows. Our lenders are not required to fund certain drawdowns by us under these loan agreements and we would be required to repay all outstanding amounts in the event we do not obtain employment contracts by the earlier of April 30, 2011 or the delivery of the applicable drillship for these drillships at specified minimum day rates with charterers that are satisfactory to such lenders. If for any reason we fail to take delivery of the four newbuilding drillships, we would be prevented from realizing potential revenues from these projects and could also lose our deposit money, which as of December 31, 2009 amounted to \$920.6 million, and we may incur additional liability and costs.

No financing has been arranged for the construction of our two newbuilding drillships, Hulls 1837 and 1838.

Ocean Rig UDW owns the equity interests of DrillShips Holdings Inc., or DrillShips Holdings, which owns contracts for the construction of two drillships, identified as Hull 1837 and Hull 1838, scheduled to be delivered in December 2010 and March 2011, respectively. The expected cost of construction is approximately \$800 million per unit. As of December 31, 2009, \$557.8 million was capitalized as construction-related expenses for these hulls, which was financed by \$230.0 million in debt and \$327.8 million in equity contributions. In connection with the acquisition of these drillships, we have assumed construction-related payment obligations totaling approximately \$873 million as of December 31, 2009. We have not yet obtained financing for these construction-related payment obligations due during 2010 and 2011 for Hulls 1837 and 1838, which amounts to approximately 54% of the expected cost of construction of these drillships. In the current challenging financing environment, it may be difficult to obtain secured debt to finance these purchases or raise debt or equity in the capital markets. If we fail to secure financing for the two newbuilding drillships, Hulls 1837 and 1838, we could also lose our deposit money, which as of December 31, 2009 amounted to \$508.7 million, and we may incur additional liability and costs.

Construction of drillships is subject to risks, including delays and cost overruns, which could have an adverse impact on our available cash resources and results of operations.

We, through our subsidiaries, have entered into contracts with Samsung Heavy Industries Co. Ltd., or Samsung Heavy Industries, for the construction of four ultra-deepwater newbuilding drillships, which we expect to take delivery of in the fourth quarter of 2010 and the first, second and third quarter of 2011. We may also undertake new construction projects and conversion projects in the future. In addition, we make significant upgrade, refurbishment, conversion and repair expenditures for our fleet from time to time, particularly as our drilling units become older. Some of these expenditures are unplanned. These projects and other efforts of this type are subject to risks of cost overruns or delays inherent in any large construction project as a result of numerous factors, including the following:

shipyard unavailability;

shortages of equipment, materials or skilled labor;

unscheduled delays in the delivery of ordered materials and equipment;

local customs strikes or related work slowdowns that could delay importation of equipment or materials;

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engineering problems, including those relating to the commissioning of newly designed equipment;

latent damages or deterioration to the hull, equipment and machinery in excess of engineering estimates and assumptions;

work stoppages;

client acceptance delays;

weather interference or storm damage;

disputes with shipyards and suppliers;

shipyard failures and difficulties;

failure or delay of third-party equipment vendors or service providers;

unanticipated cost increases; and

difficulty in obtaining necessary permits or approvals or in meeting permit or approval conditions.

These factors may contribute to cost variations and delays in the delivery of our ultra-deepwater newbuilding drillships. Delays in the delivery of these newbuilding drillships or the inability to complete construction in accordance with their design specifications may, in some circumstances, result in a delay in contract commencement, resulting in a loss of revenue to us, and may also cause customers to renegotiate, terminate or shorten the term of a drilling contract for the drillship pursuant to applicable late delivery clauses. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as favorable terms. Additionally, capital expenditures for drillship upgrades, refurbishment and construction projects could materially exceed our planned capital expenditures. Moreover, our drillships that may undergo upgrade, refurbishment and repair may not earn a day-rate during the periods they are out of service. In addition, in the event of a shipyard failure or other difficulty, we may be unable to enforce certain provisions under our newbuilding contracts such as our refund guarantee, to recover amounts paid as installments under such contracts. The occurrence of any of these events may have a material adverse effect on our results of operations, financial condition or cash flows.

Purchasing and operating secondhand vessels may result in increased operating costs and reduced fleet utilization.

While we have the right to inspect previously owned vessels prior to our purchase of them and we intend to inspect all secondhand vessels that we acquire in the future, such an inspection does not provide us with the same knowledge about their condition that we would have if these vessels had been built for and operated exclusively by us. A secondhand vessel may have conditions or defects that we were not aware of when we bought the vessel and which may require us to incur costly repairs to the vessel. These repairs may require us to put a vessel into dry dock which would reduce our fleet utilization. Furthermore, we usually do not receive the benefit of warranties on secondhand vessels.

New technologies may cause our current drilling methods to become obsolete, resulting in an adverse effect on our business.

The offshore contract drilling industry is subject to the introduction of new drilling techniques and services using new technologies, some of which may be subject to patent protection. As competitors and others use or develop new technologies, we may be placed at a competitive disadvantage and competitive pressures may force us to implement new technologies at substantial cost. Although we purchased the right to use the Bingo 9000 design, or the Bingo Design, for our drilling rigs, neither we nor the company from which we purchased those rights has obtained or applied for any patents or other intellectual property protection relating to the Bingo Design. As a result,

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other parties may challenge our right to use the Bingo Design or seek damages for the alleged infringement of intellectual property rights that they may claim to own. We may also lose the competitive advantage that we sought to achieve through the use of the Bingo Design if our competitors duplicate key aspects of the Bingo Design without our permission, and we may be unable to prevent our competitors from doing so.

We do not yet have employment contracts for our four newbuilding drillships and decreases in the price of crude oil may affect our ability to charter these drillships and the revenues that we are able to earn from our drilling rigs.

Changes in crude oil prices often affect oil exploration and drilling activities that, in turn, drive changes in the contract rates for oil drilling equipment, such as deep sea oil rigs and drillships, or, possibly, cause the suspension of exploration and drilling programs. Such changes and any such suspension could affect the rates which we receive for any rigs when their contracts expire, with the result that we would recognize less revenue from their operations. We have not yet secured employment contracts for any of the four newbuilding drillships. If the price of crude oil were to again fall to depressed levels, we may not be able to negotiate charter agreements for Hulls 1837, 1838, 1865 or 1866 at attractive rates or at all. On April 8, 2009, we entered into a three-year contract with Petr leo Brasileiro for the employment of the *Leiv Eiriksson* for exploration drilling in the Black Sea at a day-rate maximum of \$583,000, including an 8% bonus based on operational performance. The contract commenced on October 27, 2009. As of December 31, 2009, the contract for the *Eirik Raude* was amended to an average day-rate of \$639,000 per day assuming 100% utilization, effective until the expiration of the contract in October 2011.

Our earnings may be adversely affected if we are not able to take advantage of favorable charter rates.

We charter our drybulk carriers to customers primarily pursuant to long-term or short-term time charters, which generally last from several days to several weeks, and long-term time charters, which can last up to several years. As of April 6, 2010, 35 of our drybulk vessels were employed under time charters with an average duration of three years. We may in the future extend the charter periods for additional vessels in our fleet. Our vessels that are committed to longer-term charters may not be available for employment on short-term charters during periods of increasing short-term charter hire rates when these charters may be more profitable than long-term charters.

We may expand into the oil tanker, product tanker or container shipping sectors, which are currently at depressed levels and could have an adverse effect on our business, results of operation and financial condition.

We may expand into the oil tanker, product tanker or container shipping sectors if attractive vessel acquisition opportunities arise. The charter markets for crude oil carriers and product tankers have deteriorated significantly since summer 2008 and are currently at depressed levels. These markets may be further depressed in 2010 given the significant number of newbuilding vessels scheduled to be delivered that year. Attractive investment opportunities in these sectors may reflect these depressed conditions, however, the return on any such investment would be highly uncertain in this extremely challenging operating environment. Our company has not previously operated vessels in these sectors, which are intensely competitive, have unique operational risks and are highly dependent on the availability of and demand for crude oil and petroleum products as well as being significantly impacted by the availability of modern tanker capacity and the scrapping, conversion or loss of older vessels. An inability to successfully execute any expansion into these sectors could be costly, distract us from our drybulk and drill rig business and divert management resources, each of which could have an adverse effect on our business, results of operation and financial condition.

Our board of directors has determined to suspend the payment of cash dividends as a result of market conditions in the international shipping industry, and until such market conditions improve, it is unlikely that we will reinstate the payment of dividends.

In light of a lower freight rate environment and a highly challenged financing environment, our board of directors, beginning with the fourth quarter of 2008, has suspended our common share dividend. Our dividend policy will be assessed by the board of directors from time to time. The suspension allows us to preserve capital and

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use the preserved capital to capitalize on market opportunities as they may arise. Until market conditions improve, it is unlikely that we will reinstate the payment of dividends. In addition, other external factors, such as our lenders imposing restrictions on our ability to pay dividends under the terms of our loan agreements, may limit our ability to pay dividends. Further, we may not be permitted to pay dividends if we are in breach of the covenants contained in our loan agreements. The waivers of our non-compliance with the covenants in our loan agreements that we received from our lenders prohibit us from paying dividends.

Investment in derivative instruments such as freight forward agreements could result in losses.

From time to time, we may take positions in derivative instruments including freight forward agreements, or FFAs. FFAs and other derivative instruments may be used to hedge a vessel owner's exposure to the charter market by providing for the sale of a contracted charter rate along a specified route and period of time. Upon settlement, if the contracted charter rate is less than the average of the rates, as reported by an identified index, for the specified route and period, the seller of the FFA is required to pay the buyer an amount equal to the difference between the contracted rate and the settlement rate, multiplied by the number of days in the specified period. Conversely, if the contracted rate is greater than the settlement rate, the buyer is required to pay the seller the settlement sum. If we take positions in FFAs or other derivative instruments and do not correctly anticipate charter rate movements over the specified route and time period, we could suffer losses in the settling or termination of the FFA. This could adversely affect our results of operations and cash flows.

The derivative contracts we have entered into to hedge our exposure to fluctuations in interest rates could result in higher than market interest rates and charges against our income.

We have entered into 34 interest rate swaps for purposes of managing our exposure to fluctuations in interest rates applicable to indebtedness under our credit facilities, which were advanced at a floating rate based on LIBOR. Our hedging strategies, however, may not be effective and we may incur substantial losses if interest rates move materially differently from our expectations. Some of our existing interest rate swaps do not, and future derivative contracts may not, qualify for treatment as hedges for accounting purposes. We recognize fluctuations in the fair value of these contracts in our statement of operations. In addition, our financial condition could be materially adversely affected to the extent we do not hedge our exposure to interest rate fluctuations under our financing arrangements, under which loans have been advanced at a floating rate based on LIBOR and for which we have not entered into an interest rate swap or other hedging arrangement. Any hedging activities we engage in may not effectively manage our interest rate exposure or have the desired impact on our financial conditions or results of operations. At December 31, 2009, the fair value of our interest rate swaps was a liability of \$168.9 million.

We depend entirely on Cardiff to manage and charter our drybulk fleet.

With respect to our operations in the drybulk shipping sector, we currently have five employees, our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer, our Senior Vice President Head of Accounting and Reporting and our Internal Auditor. We subcontract the commercial and technical management of our drybulk fleet, including crewing, maintenance and repair to Cardiff Marine Inc. 70% of the issued and outstanding capital stock of Cardiff is owned by a foundation which is controlled by George Economou, our Chairman and Chief Executive Officer, and a director of our Company. The remaining 30% of the issued and outstanding capital stock of Cardiff is owned by a company controlled by the sister of Mr. Economou, who is also a director of our Company. The loss of Cardiff's services or its failure to perform its obligations to us could materially and adversely affect the results of our operations. Although we may have rights against Cardiff if it defaults on its obligations to us, you will have no recourse against Cardiff. Further, we are required to seek approval from our lenders to change our manager.

Cardiff is a privately held company and there is little or no publicly available information about it.

The ability of Cardiff to continue providing services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair Cardiff's financial strength, and because it is privately held it is unlikely that information about its financial strength would become public unless Cardiff began to default on its obligations. As a result, an investor in our shares might have little advance warning of problems affecting Cardiff, even though these problems could have a material adverse effect on us.

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We are dependent upon key management personnel, particularly our Chairman and Chief Executive Officer Mr. George Economou.

Our continued operations depend to a significant extent upon the abilities and efforts of our Chairman and Chief Executive Officer, Mr. George Economou. The loss of Mr. Economou's service to our Company could adversely affect our discussions with our lenders and management of our fleet during this difficult economic period and, therefore, could adversely affect our business prospects, financial condition and results of operations. We do not currently, nor do we intend to, maintain key man life insurance on any of our personnel, including Mr. Economou.

Our Chairman, Chief Executive Officer has affiliations with Cardiff which could create conflicts of interest.

Our majority shareholder is controlled by Mr. George Economou who controls four entities that, in aggregate, own 15.8% of us as of April 6, 2010 and a foundation that owns 70% of Cardiff. Mr. Economou is also our Chairman, Chief Executive Officer and a director of our Company. These responsibilities and relationships could create conflicts of interest between us, on the one hand, and Cardiff, on the other hand. These conflicts may arise in connection with the chartering, purchase, sale and operations of the vessels in our fleet versus drybulk carriers managed by other companies affiliated with Cardiff and Mr. Economou.

In particular, Cardiff may give preferential treatment to vessels that are beneficially owned by related parties because Mr. Economou and members of his family may receive greater economic benefits.

We may have difficulty managing our planned growth properly.

We intend to continue to grow our fleet. Our future growth will primarily depend on our ability to:

locate and acquire suitable vessels;

identify and consummate acquisitions or joint ventures;

enhance our customer base;

manage our expansion; and

obtain required financing on acceptable terms.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations, the possibility that indemnification agreements will be unenforceable or insufficient to cover potential losses and difficulties associated with imposing common standards, controls, procedures and policies, obtaining additional qualified personnel, managing relationships with customers and integrating newly acquired assets and operations into existing infrastructure. We may be unable to successfully execute our growth plans or we may incur significant expenses and losses in connection with our future growth which would have an adverse impact on our financial condition and results of operations.

If our vessels fail to maintain their class certification and/or fail any annual survey, intermediate survey, dry docking or special survey, that vessel would be unable to carry cargo, thereby reducing our revenues and profitability and violating certain covenants under our credit facilities.

The hull and machinery of every commercial drybulk vessel and rig must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention, or SOLAS. All of our drybulk vessels are certified as being in class by all the major Classification Societies (e.g., American Bureau of Shipping, Lloyd's Register of Shipping). Both our drilling rigs are certified as being in class by De Norske Veritas (DNV). The *Leiv Eiriksson* completed the 5-year class in 2006 and the *Eirik Raude* in 2007.

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A drybulk vessel must undergo annual surveys, intermediate surveys, dry dockings and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Every vessel is also required to be dry docked every two to three years for inspection of the underwater parts of such vessel.

If any drybulk vessel does not maintain its class and/or fails any annual survey, intermediate survey, dry docking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable which could cause us to be in violation of certain covenants in our credit facilities. Any such inability to carry cargo or be employed, or any such violation of covenants, could have a material adverse impact on our financial condition and results of operations. That status could cause us to be in violation of certain covenants in our credit facility.

The aging of our drybulk carrier fleet may result in increased operating costs or loss of hire in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. As of April 6, 2010, the 37 vessels in our drybulk carrier fleet had an average age of 8.3 years. As our fleet ages we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

In addition, charterers actively discriminate against hiring older vessels. For example, Rightship, the ship vetting service founded by Rio Tinto and BHP-Billiton which has become the major vetting service in the drybulk shipping industry, ranks the suitability of vessels based on a scale of one to five stars. Most major carriers will not charter a vessel that Rightship has vetted with fewer than three stars. Rightship automatically downgrades any vessel over 18 years of age to two stars, which significantly decreases its chances of entering into a charter. Therefore, as our vessels approach and exceed 18 years of age, we may not be able to operate these vessels profitably during the remainder of their useful lives.

Our vessels may suffer damage and we may face unexpected dry docking costs, which could adversely affect our cash flow and financial condition.

If our vessels suffer damage, they may need to be repaired at a dry docking facility. The costs of dry dock repairs are unpredictable and can be substantial. The loss of earnings while our vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings and reduce the amount of dividends, if any, in the future. We may not have insurance that is sufficient to cover all or any of these costs or losses and may have to pay dry docking costs not covered by our insurance.

If our drilling rigs suffer damage, they may need to be repaired at a yard facility. The costs of discontinued operations due to repairs are unpredictable and can be substantial. The loss of earnings while our rigs are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings and reduce the amount of dividends, if any, in the future. We may not have insurance that is sufficient to cover all or any of these costs or losses and may have to pay repair costs not covered by our insurance.

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Currently, our revenues from the offshore drilling segment depend on two drilling rigs, which are designed to operate in harsh environments. The damage or loss of either of these drilling rigs could have a material adverse effect on our results of operations and financial condition.

Our revenues from the offshore drilling segment are dependent on two drilling rigs, the *Eirik Raude*, which is currently operating offshore Ghana and the *Leiv Eiriksson*, which is currently operating in the Black Sea. Both drilling rigs may be exposed to risks inherent in deepwater drilling and operating in harsh environments that may cause damage or loss. The drilling of oil and gas wells, particularly exploratory wells where little is known of the subsurface formations involves risks, such as extreme pressure and temperature, blowouts, reservoir damage, loss of production, loss of well control, lost or stuck drill strings, equipment defects, punch-throughs, craterings, fires, explosions, pollution and natural disasters such as hurricanes and tropical storms. In addition, offshore drilling operations are subject to perils peculiar to marine operations, either while on-site or during mobilization, including capsizing, sinking, grounding, collision, marine life infestations, and loss or damage from severe weather. The replacement or repair of a rig could take a significant amount of time, and we may not have any right to compensation for lost revenues during that time, despite our comprehensive loss of hire insurance policy. As long as we have only two drilling rigs in operation, loss of or serious damage to one of the drilling rigs could materially reduce our revenues in our offshore drilling segment for the time that a rig is out of operation. In view of the sophisticated design of the drilling rigs, we may be unable to obtain a replacement rig that could perform under the conditions that our drilling rigs are expected to operate, which could have a material adverse effect on our results of operations and financial condition.

We are exposed to U.S. Dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.

We generate all of our revenues in U.S. Dollars but currently incur approximately 50% of our operating expenses and the majority of our general and administrative expenses in currencies other than the U.S. Dollar, primarily the Euro. Our principal currency for our operations and financing for the offshore drilling sector is the U.S. Dollar. The day-rates for the drilling rigs, our principal source of revenues in the offshore drilling sector, are quoted and received in U.S. Dollars. The principal currency for operating expenses in the offshore drilling sector is also the U.S. Dollar; however, a significant portion of employee salaries and administration expenses, as well as parts of the consumables and repair and maintenance expenses for the drilling rigs, are paid in Norwegian Kroner (NOK), Great British Pound (GBP), Canadian dollar (CAD) and Euro (EUR). Because a significant portion of our expenses are incurred in currencies other than the U.S. Dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. Dollar and the Euro, which could affect the amount of net income that we report in future periods. We use financial derivatives to operationally hedge some of our currency exposure. Our use of financial derivatives involves certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

If the recent volatility in LIBOR continues, it could affect our profitability, earnings and cash flow.

LIBOR has recently been volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of the recent disruptions in the international credit markets. Because the interest rates borne by our outstanding indebtedness fluctuate with changes in LIBOR, if this volatility were to continue, it would affect the amount of interest payable on our debt, which in turn, could have an adverse effect on our profitability, earnings and cash flow.

Furthermore, interest in most loan agreements in our industry has been based on published LIBOR rates. Recently, however, lenders have insisted on provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate. If we are required to agree to such a provision in future loan agreements, our lending costs could increase significantly, which would have an adverse effect on our profitability, earnings and cash flow.

We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations or pay dividends, if any, in the future.

We are a holding company and our subsidiaries, which are all wholly-owned by us either directly or indirectly, conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to make dividend payments, if any, in the future

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depends on our subsidiaries and their ability to distribute funds to us. Under the waivers of our non-compliance with covenants in our loan agreements, we are prohibited from paying dividends during the waiver period. Furthermore, certain of our subsidiaries are obligated to use their surplus cash to prepay the balance on their long-term loans. If we are unable to obtain funds from our subsidiaries, our board of directors may not exercise its discretion to pay dividends in the future. We do not intend to obtain funds from other sources to pay dividends, if any, in the future. In addition, the declaration and payment of dividends, if any, in the future will depend on the provisions of Marshall Islands law affecting the payment of dividends. Marshall Islands law generally prohibits the payment of dividends if the company is insolvent or would be rendered insolvent upon payment of such dividend and dividends may be declared and paid out of our operating surplus; but in this case, there is no such surplus. Dividends may be declared or paid out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Our ability to pay dividends, if any, in the future will also be subject to our satisfaction of certain financial covenants contained in our credit facilities and certain waivers related thereto. We may be unable to pay dividends in the anticipated amounts or at all.

As we expand our business, we may need to improve our operating and financial systems and will need to recruit suitable employees and crew for our vessels.

Our current operating and financial systems may not be adequate as we expand the size of our fleet and our attempts to improve those systems may be ineffective. In addition, as we expand our fleet, we will need to recruit suitable additional seafarers and shoreside administrative and management personnel. We may be unable to hire suitable employees as we expand our fleet. If we or our crewing agent encounters business or financial difficulties, we may not be able to adequately staff our vessels. If we are unable to grow our financial and operating systems or to recruit suitable employees as we expand our fleet, our financial performance and our ability to pay dividends, if any, in the future may be adversely affected.

U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. shareholders.

A foreign corporation will be treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of passive income or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute passive income. U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our method of operation, we do not believe that we are, have been or will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time and voyage chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time and voyage chartering activities does not constitute passive income, and the assets that we own and operate in connection with the production of that income do not constitute assets that produce or are held for production of passive income.

There is substantial legal authority supporting this position consisting of case law and U.S. Internal Revenue Service, or IRS, pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept this position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if the nature and extent of our operations changed.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders will face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those shareholders make an election

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available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under **Additional Information Taxation**), such shareholders would be subject to U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common shares, as if the excess distribution or gain had been recognized ratably over the U.S. shareholder's holding period of our common shares. See **Additional Information Taxation** for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders if we are treated as a PFIC.

We may have to pay tax on United States source shipping income, which would reduce our earnings.

Under the U.S. Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel-owning or -chartering corporation, such as ourselves and certain of our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States may be subject to a 4% U.S. federal income tax without allowance for any deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

We expect that we and each of our vessel-owning subsidiaries qualify for this statutory tax exemption and we have taken and intend to continue to take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby become subject to U.S. federal income tax on our U.S. source shipping income. For example, we would no longer qualify for exemption under Section 883 of the Code for a particular taxable year if shareholders with a five percent or greater interest in our common stock owned, in the aggregate, 50% or more of our outstanding common stock for more than half of the days during the taxable year. Due to the factual nature of the issues involved, it is possible that our tax-exempt status or that of any of our subsidiaries may change.

If we or our vessel-owning subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries could be subject for those years to an effective 2% (i.e., 50% of 4%) U.S. federal income tax on our gross shipping income attributable to transportation that begins or ends, but that does not both begin and end, in the United States. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders.

The preferential tax rates applicable to qualified dividend income are temporary, and the enactment of proposed legislation could affect whether dividends paid by us constitute qualified dividend income eligible for the preferential rate.

Certain of our distributions may be treated as qualified dividend income eligible for preferential rates of U.S. federal income tax to non-corporate U.S. shareholders. In the absence of legislation extending the term for these preferential tax rates, all dividends received by such U.S. taxpayers in tax years beginning on January 1, 2011 or later will be taxed at graduated tax rates applicable to ordinary income.

In addition, legislation has been proposed in the U.S. Congress that would, if enacted, deny the preferential rate of U.S. federal income tax currently imposed on qualified dividend income with respect to dividends received from a non-U.S. corporation if the non-U.S. corporation is created or organized under the laws of a jurisdiction that does not have a comprehensive income tax system. Because the Marshall Islands imposes only limited taxes on entities organized under its laws, it is likely that if this legislation were enacted, the preferential tax rates of federal income tax may no longer be applicable to distributions received from us. As of the date of this prospectus, it is not possible to predict with certainty whether this proposed legislation will be enacted.

A change in tax laws, treaties or regulations, or their interpretation, of any country in which we operate our drilling rigs could result in a high tax rate on our worldwide earnings, which could result in a significant negative impact on our earnings and cash flows from operations.

We conduct our worldwide drilling operations through various subsidiaries. Tax laws and regulations are highly complex and subject to interpretation. Consequently, we are subject to changing tax laws, treaties and regulations in and between countries in which we operate. Our income tax expense is based upon our interpretation

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of tax laws in effect in various countries at the time that the expense was incurred. A change in these tax laws, treaties or regulations, or in the interpretation thereof, or in the valuation of our deferred tax assets, could result in a materially higher tax expense or a higher effective tax rate on our worldwide earnings in our offshore drilling segment, and such change could be significant to our financial results. If any tax authority successfully challenges our operational structure, inter-company pricing policies or the taxable presence of our key subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in a manner that is adverse to our structure; or if we lose a material tax dispute in any country, particularly in the United States, Canada, the United Kingdom, or Norway, our effective tax rate on our worldwide earnings from our offshore drilling operations could increase substantially and our earnings and cash flows from these operations could be materially adversely affected.

Our subsidiaries that provide services relating to drilling may be subject to taxation in the jurisdictions in which such activities are conducted. Such taxation would result in decreased earnings available to our shareholders. Ocean Rig ASA has transferred the domicile of its subsidiaries that own, directly or indirectly, the *Leiv Eiriksson* and the *Eirik Raude* to the Republic of the Marshall Islands. The *Leiv Eiriksson* and the *Eirik Raude* were transferred to the Marshall Island entities in December 2008 and the remainder of the rig-owning structure has been reorganized under Marshall Island entities during 2009.

Investors are encouraged to consult their own tax advisors concerning the overall tax consequences of the ownership of our common stock arising in an investor's particular situation under U.S. federal, state, local and foreign law.

A spin-off of our subsidiary, Ocean Rig UDW, may have adverse tax consequences to shareholders.

We may distribute, or spin-off, a majority voting and economic interest in our subsidiary, Ocean Rig UDW Inc., or Ocean Rig UDW, formerly known as Primelead Shareholders Inc., sometime in 2010. A spin-off of Ocean Rig UDW may be a taxable transaction to our shareholders depending upon their country of residence. A shareholder may recognize taxable gain and be subject to tax as a result of receiving shares of Ocean Rig UDW in the spin-off, notwithstanding that cash had not been received. In addition, after the spin-off, Ocean Rig UDW may be treated as a PFIC, which would have adverse U.S. federal income tax consequences to a U.S. share holder of Ocean Rig UDW. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders), such U.S. shareholders would be subject to U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of shares of Ocean Rig UDW, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period in such shares.

Our insurance may not be adequate to cover our losses that may result from our operations due to the inherent operational risks of the offshore drilling contract industry.

We maintain insurance in accordance with industry standards. Our insurance is intended to cover normal risks in our current operations, including insurance against property damage, loss of hire, war risk and third-party liability, including pollution liability.

Although we have obtained insurance for the full assessed market value of our drilling units, insurance coverage may not, under certain circumstances, be available, and if available, may not provide sufficient funds to protect us from all losses and liabilities that could result from our operations. We have also obtained loss of hire insurance which becomes effective after 45 days of downtime and coverage extends for approximately one year. The principal risks which may not be insurable are various environmental liabilities and liabilities resulting from reservoir damage caused by our negligence. Moreover, our insurance provides for premium adjustments based on claims and is subject to deductibles and aggregate recovery limits. In the case of pollution liabilities, our deductible is \$25,000 per event and \$10,000 in the case of other claims, our deductible is \$1.5 million per hull and machinery event and our aggregate recovery limits are \$624 million under our protection and indemnity insurance which is provided by mutual protection and indemnity associations. Our insurance coverage may not protect fully against losses resulting from a required cessation of rig operations for environmental or other reasons. The occurrence of a casualty, loss or liability against which we may not be fully insured could significantly reduce our revenues, make it financially impossible for us to obtain a replacement rig or to repair a damaged rig, cause us to pay fines or damages which are generally not insurable and that may have priority over the payment obligations under our indebtedness or otherwise impair our ability to meet our obligations under our indebtedness and to operate profitably. Insurance may not be available to us at all or on terms acceptable to us, we may not maintain insurance or, if we are so insured, our policy may not be adequate to cover our loss or liability in all cases.

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Our customers may be involved in the handling of environmentally hazardous substances and if discharged into the ocean may subject us to pollution liability which could have a negative impact on our cash flows, results of operations and ability to pay dividends, if any, in the future.

Our operations may involve the use or handling of materials that may be classified as environmentally hazardous substances. Environmental laws and regulations applicable in the countries in which we conduct operations have generally become more stringent. Such laws and regulations may expose us to liability for the conduct of or for conditions caused by others, or for our acts that were in compliance with all applicable laws at the time such actions were taken.

During our drilling operations in the past, we, through our subsidiary Ocean Rig ASA, have caused the release of oil, waste and other pollutants into the sea and into protected areas, such as the Barents Sea where on April 12, 2005, we discharged less than one cubic meter of hydraulic oil. While we conduct maintenance on our drilling rigs in an effort to prevent such releases, future releases could occur, especially as our rigs age. Such releases may be large in quantity, above our permitted limits or in protected or other areas in which public interest groups or governmental authorities have an interest. These releases could result in fines and other costs to us, such as costs to upgrade our drilling rigs, costs to clean up the pollution, and costs to comply with more stringent requirements in our discharge permits. Moreover, these releases may result in our customers or governmental authorities suspending or terminating our operations in the affected area, which could have a material adverse effect on our business, results of operation and financial condition.

We expect that we will be able to obtain some degree of contractual indemnification from our customers in most of our drilling contracts against pollution and environmental damages. But such indemnification may not be enforceable in all instances, the customer may not be financially capable in all cases of complying with its indemnity obligations or we may not be able to obtain such indemnification agreements in the future.

Failure to attract or retain key personnel, labor disruptions or an increase in labor costs could hurt our operations in the offshore drilling sector.

We require highly skilled personnel to operate and provide technical services and support for our business in the offshore drilling sector worldwide. We had at December 31, 2009 approximately 432 skilled employees in our offshore drilling sector, the majority of whom are employed on the *Leiv Eiriksson* and the *Eirik Raude*. Competition for the labor required for drilling operations has intensified as the number of rigs activated, added to worldwide fleets or under construction has increased, leading to shortages of qualified personnel in the industry and creating upward pressure on wages and higher turnover. If turnover increases, we could see a reduction in the experience level of our personnel, which could lead to higher downtime, more operating incidents and personal injury and other claims, which in turn could decrease revenues and increase costs. In addition, labor disruptions could hinder our operations from being carried out normally and if not resolved in a timely cost-effective manner, could have a material impact our business. In response to these labor market conditions, we are increasing efforts in our recruitment, training, development and retention programs as required to meet our anticipated personnel needs for offshore drilling. If these labor trends continue, we may experience further increases in costs or limits on operations in the offshore drilling sector. Some of our employees are covered by collective bargaining agreements. If we choose to cease operations in one of those countries or if market conditions reduce the demand for our drilling services in such a country, we would incur costs, which may be material, associated with workforce reductions. In addition, upon their expiration, these agreements may be renegotiated, and as a result, we could experience higher personnel expenses, other increased costs and increased operating restrictions, which may be material to our business in the offshore drilling sector.

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Our operating and maintenance costs with respect to our offshore drilling rigs will not necessarily fluctuate in proportion to changes in operating revenues, which may have a material adverse effect on our results of operations, financial condition and cash flows.

Our operating and maintenance costs with respect to our offshore drilling rigs will not necessarily fluctuate in proportion to changes in operating revenues. Operating revenues may fluctuate as a function of changes in day-rate. However, costs for operating a rig are generally fixed or only semi-variable regardless of the day-rate being earned. In addition, should our drilling units incur idle time between contracts, we typically will not de-man those drilling units because we will use the crew to prepare the rig for its next contract. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to prepare rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. In addition, as our drilling units are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the unit is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are incurred. If we experience increased operating costs without a corresponding increase in earnings, this may have a material adverse effect on our results of operations, financial condition and cash flows.

We may be subject to litigation that, if not resolved in our favor and not sufficiently insured against, could have a material adverse effect on us.

We may be, from time to time, involved in various litigation matters. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment matters, governmental claims for taxes or duties, and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or effect of any claim or other litigation matter, and the ultimate outcome of any litigation or the potential costs to resolve them may have a material adverse effect on us. Insurance may not be applicable or sufficient in all cases and/or insurers may not remain solvent which may have a material adverse effect on our financial condition.

Risks Relating to Our Common Stock

We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law, and as a result, shareholders may have fewer rights and protections under Marshall Islands law than under a typical jurisdiction in the United States.

Our corporate affairs are governed by our amended and restated articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public shareholders may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

A small number of our stockholders effectively control the outcome of matters on which our stockholders are entitled to vote.

Entities affiliated with Mr. Economou, our Chairman and Chief Executive Officer currently own, directly or indirectly, approximately 15.8% of our outstanding common stock as of April 6, 2010. While those stockholders have no agreement, arrangement or understanding relating to the voting of their shares of our common stock, they will effectively control the outcome of matters on which our stockholders are entitled to vote, including the election of directors and other significant corporate actions. The interests of these stockholders may be different from your interests.

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Future sales of our common stock could cause the market price of our common stock to decline.

The market price of our common stock could decline due to sales, or the announcements of proposed sales, of a large number of common stock in the market, including sales of common stock by our large shareholders, or the perception that these sales could occur. These sales, or the perception that these sales could occur, could also make it more difficult or impossible for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through future offerings of common stock.

Our amended and restated articles of incorporation authorize our board of directors to, among other things, issue additional shares of common or preferred stock or securities convertible or exchangeable into equity securities, without shareholder approval. We may issue such additional equity or convertible securities to raise additional capital. The issuance of any additional shares of common or preferred stock or convertible securities could be substantially dilutive to our shareholders. Moreover, to the extent that we issue restricted stock units, stock appreciation rights, options or warrants to purchase our common shares in the future and those stock appreciation rights, options or warrants are exercised or as the restricted stock units vest, our shareholders may experience further dilution. Holders of shares of our common stock have no preemptive rights that entitle such holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders.

Anti-takeover provisions in our organizational documents could make it difficult for our stockholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.

Several provisions of our amended and restated articles of incorporation and bylaws could make it difficult for our stockholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable.

These provisions include:

prior to the date of the transaction that resulted in the shareholder becoming an interested shareholder, our board of directors approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;

authorizing our board of directors to issue blank check preferred stock without stockholder approval;

providing for a classified board of directors with staggered, three-year terms;

prohibiting cumulative voting in the election of directors;

authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote for the directors;

prohibiting stockholder action by written consent;

limiting the persons who may call special meetings of stockholders; and

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establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, we have adopted a stockholders' rights agreement pursuant to which our board of directors may cause the substantial dilution of the holdings of any person that attempts to acquire us without the approval of our board of directors. Under our stockholders' rights plan adopted in 2008 and amended in 2009, our board of directors

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declared a dividend of one preferred share purchase right, or a right, to purchase one one-thousandth of a share of our Series A Participating Preferred Stock for each outstanding common share. Each right entitles the registered holder, upon the occurrence of certain events, to purchase from us one one-thousandth of a share of Series A Participating Preferred Stock. The rights may have anti-takeover effects. The rights will cause substantial dilution to any person or group that attempts to acquire us without the approval of our board of directors. As a result, the overall effect of the rights may be to render more difficult or discourage any attempt to acquire us. Because our board of directors can approve a redemption of the rights or a permitted offer, the rights should not interfere with a merger or other business combination approved by our board of directors. The adoption of the rights agreement was approved by our existing stockholders prior to the offering.

Although the Marshall Islands Business Corporation Act does not contain specific provisions regarding business combinations between corporations organized under the laws of the Republic of Marshall Islands and interested shareholders, we have included provisions regarding such combinations in our articles of incorporation.

Our articles of incorporation contain provisions which prohibit us from engaging in a business combination with an interested shareholder for a period of three years after the date of the transaction in which the person became an interested shareholder, unless:

authorizing our board of directors to issue blank check preferred stock without stockholder approval;

upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of our voting stock outstanding at the time the transaction commenced;

at or subsequent to the date of the transaction that resulted in the shareholder becoming an interested shareholder, the business combination is approved by the board of directors and authorized at an annual or special meeting of shareholders by the affirmative vote of at least 66²/₃% of the outstanding voting stock that is not owned by the interested shareholder; or

the shareholder became an interested shareholder prior to the consummation of the Initial Public Offering.

For purposes of these provisions, a business combination includes mergers, consolidations, exchanges, asset sales, leases and other transactions resulting in a financial benefit to the interested shareholder and an interested shareholder is any person or entity that beneficially owns 15% or more of our outstanding voting stock and any person or entity affiliated with or controlling or controlled by that person or entity. Further, the term business combination, when used in reference to us and any interested shareholder does not include any transactions for which definitive agreements were entered into prior to the date the articles were filed with the Republic of the Marshall Islands.

Item 4. Information on the Company

A. History and development of the Company

DryShips Inc., a company organized under the laws of the Republic of the Marshall Islands, was formed in September 2004. Prior to our initial public offering we issued 15,400,000 shares of our common stock to our shareholders in October 2004. In February 2005, we completed our initial public offering and issued an additional 14,950,000 common shares with a par value of \$0.01 at a price of \$18.00 per share. The net proceeds of the initial public offering amounted to \$251.3 million.

On May 10, 2006, we filed our universal shelf registration statement and related prospectus for the issuance of up to 5,000,000 common shares. From May 2006 through August 2006, 4,650,000 shares of common stock with a par value \$0.01 were issued. The net proceeds after underwriting commissions of 2.5% and other issuance fees were \$56.5 million.

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Our shareholders voted to adopt a resolution at our annual general shareholders meeting on July 11, 2006, which increased the aggregate number of shares of common stock that we are authorized to issue from 45,000,000 registered shares with par value of \$0.01 to 75,000,000 registered shares with par value \$0.01.

On October 24, 2006, our board of directors agreed to the request of our major shareholders (Elios Investments Inc., Advice Investments S.A. and Magic Management Inc.) following the declaration of our \$0.20 quarterly dividend per share in September 2006, to receive their dividend payment in the form of our common shares in lieu of cash. One of these shareholders, Elios Investments Inc., is controlled by our Chairman and Chief Executive Officer, Mr. George Economou. In addition, the board of directors also agreed on that date to the request of a company related to Mr. Economou to accept repayment of the outstanding balance of a seller's credit in respect of a vessel purchased by us (as discussed in Note 6 of our consolidated financial statements) in our common shares. As a result of the agreement, an aggregate of \$3.08 million in dividends and the seller's credit together with interest amounting to approximately \$3.33 million were settled with 235,585 and 254,512 of our common shares, respectively. The price used as consideration for issuance of the above common shares was equal to the average closing price of our common stock on the Nasdaq Global Select Market over the 8 trading days ended October 24, 2006, which was \$13.07 per share.

In December 2006, we filed a registration statement on Form F-3 on behalf of our major shareholders registering for resale an aggregate of 15,890,097 of our common shares.

In October 2007, we filed a registration statement on Form F-3ASR (Registration No. 333-1446540) and a prospectus supplement pursuant to Rule 424(b) relating to the offer and sale of up to 6,000,000 shares of common stock, par value \$0.01 per share, pursuant to a controlled equity offering sales agreement that we entered into with Cantor Fitzgerald & Co. From October 2007 through December 2007, we issued an aggregate of 1,191,000 common shares with par value \$0.01 per share. The net proceeds, after underwriting commissions ranging between 2% to 2.5% and other issuance fees, amounted to \$127.1 million. From January 2008 through March 2008, we issued an aggregate of 4,759,000 common shares with par value \$0.01 per share. The net proceeds, after underwriting commissions ranging between 1.5% to 2% and other issuance fees, amounted to \$352.8 million.

In January 2008, following a special shareholders meeting, we increased the aggregate number of authorized shares of common stock of the Company from 75,000,000 registered shares with par value of \$0.01 to 1,000,000,000 registered shares with a par value of \$0.01 and increased the aggregate number of authorized shares of preferred stock from 30,000,000 registered shares, par value \$0.01 per share, to 500,000,000 registered preferred shares with a par value of \$0.01 per share.

In March 2008, we filed a prospectus supplement relating to the offer and sale of up to 6,000,000 common shares, par value \$0.01 per share pursuant to our controlled equity offering. In May 2008, we issued 1,109,903 common shares pursuant to this prospectus supplement. The net proceeds, after underwriting commissions and other issuance fees, amounted to \$101.6 million.

On October 21, 2008, we filed a prospectus supplement pursuant to our controlled equity offering for the sale of up to 4,940,097 common shares, pursuant to which we sold 2,069,700 shares. The net proceeds of this offering amounted to \$41.9 million.

On November 6, 2008, we filed a prospectus supplement pursuant to our controlled equity offering for the sale of up to 25,000,000 common shares, pursuant to which we sold 24,980,300 shares. The net proceeds of this offering amounted to \$167.1 million.

On January 28, 2009, we entered into an ATM Equity Sales Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated relating to the offer and sale of up to \$500,000,000 of our common shares.

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On March 19, 2009, we issued a total of 11,990,405 common shares to the nominees of Central Mare Inc. in connection with the disposal of three newbuilding Capesize vessels. See Item 4. Information on the Company Business Overview Recent Developments in Our Drybulk Carrier Operations Disposal of Three Capesize Newbuildings.

On January 28, 2009 and on April 2, 2009, we filed two prospectus supplements pursuant to our controlled equity offering and issued 71,265,000 and 24,404,595 common shares, respectively. The net proceeds of these offerings amounted to \$487.5 million after commissions.

On May 7, 2009, we entered into another ATM Equity Sales Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated and filed a prospectus supplement for the sale of up to \$475 million of common shares, pursuant to which we sold 69,385,000 shares. The net proceeds of this offering amounted to \$464.9 million after commissions.

On July 9, 2009, we entered into an agreement with entities affiliated with our Chairman and Chief Executive Officer to acquire the remaining 25% of the total issued and outstanding capital stock of Ocean Rig UDW. The consideration paid for the 25% interest in Ocean Rig UDW consisted of a one-time \$50 million cash payment upon the closing of the transaction, and the issuance of 52,238,806 shares of Series A Convertible Preferred Stock with an aggregate face value of \$280 million. The holders of our Series A Convertible Preferred Stock have demand Registration Rights exercisable at any time.

In November 2009, we also offered \$460 million aggregate principal amount of our 5% Convertible Senior Notes due December 1, 2014, or the Notes, resulting in net proceeds of \$447.8 million. Concurrently with the offering of the Notes, we offered up to 26,100,000 common shares to loan the bank pursuant to a share lending agreement.

As of April 6, 2010, we had 284,826,871 common shares and 52,238,806 Series A Convertible Preferred Shares issued and outstanding.

Prior to our initial public offering in February 2005, our initial fleet was comprised of one Capesize drybulk carrier and five Panamax drybulk carriers. As of the year ended December 31, 2005, our fleet consisted of 27 drybulk carriers. During the year ended December 31, 2006, we purchased a total of eight drybulk carriers for an aggregate purchase price of \$274.2 million, entered into two newbuilding purchase contracts and sold one vessel for an aggregate sale price of \$11.7 million. During the year ended December 31, 2007, we purchased a total of 15 drybulk carriers for an aggregate purchase price of \$851 million, entered into six newbuilding purchase contracts and sold eleven vessels for an aggregate sale price of \$362.9 million. During the year ended December 31, 2008, we purchased a total of seven drybulk carriers for an aggregate purchase price of \$779.4 million, and sold seven vessels for an aggregate sale price of \$401.5 million. In addition, as discussed further below, we, through our acquisition of Ocean Rig ASA, acquired two ultra-deep water semi-submersible drilling rigs. We also exercised a purchase option to acquire two newbuilding ultra-deep water advanced capability drillships and we acquired the contracts for the construction of two additional newbuilding ultra-deep water advanced capability drillships.

During 2009 we: (a) took delivery of two newbuildings, through newly established wholly owned subsidiaries; (b) concluded the sale of one drybulk carrier vessel, which was contracted during 2008; (c) contracted for the sale of two vessels during 2009, delivered in 2010; (d) cancelled the remaining of the fourteen contracts which we had entered into in 2008, including the construction of five Capesize newbuildings; (e) acquired two newbuildings ultra deep water drilling rigs identified as Hulls 1837 and 1838, which had entered into construction contracts in 2007; (f) concluded the sale of three Capesize newbuildings, which were contracted in 2007 and 2008; (g) concluded the sale of the subsidiary that had previously contracted for the purchase of newbuilding drybulk carrier H2089; and (h) cancelled the acquisition of two newbuildings hulls, which we had entered into in 2007.

The Company is engaged in the ocean transportation services of drybulk cargoes worldwide through the ownership and operation of the drybulk carrier vessels and deepwater drilling rig services through the ownership of ultra-deep water drilling rigs.

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As of the year ended December 31, 2009, our fleet consisted of 39 drybulk carriers comprised of seven Capesize, 30 Panamax, two Supramax, as well as two ultra-deep-water semi-submersible drilling rigs and four ultra-deep-water newbuilding drillships.

Our executive offices are located at Omega Building, 80 Kifissias Avenue, Amaroussion GR 151 25 Greece. Our telephone number is 011-30-210-809-0570.

B. Business Overview

We are a Marshall Islands corporation with our principal executive offices in Athens, Greece. We were incorporated in September 2004. As of April 6, 2010, we own, through our subsidiaries, a fleet of 39 drybulk carriers comprised of seven Capesize, 28 Panamax, two Supramax vessels and two Panamax newbuilding vessels, which have a combined deadweight tonnage of approximately 3.3 million dwt. Our drybulk fleet principally carries a variety of drybulk commodities including major bulk items such as coal, iron ore, and grains, and minor bulk items such as bauxite, phosphate, fertilizers and steel products. The average age of the vessels in our drybulk fleet is 8.3 years. We are also an owner and operator of two ultra-deep water semi-submersible drilling rigs and four ultra deep-water newbuilding drillships, which are further discussed below.

We employ our drybulk vessels under period time charters and on bareboat charters. 35 of our vessels are currently employed on time charter, with an average remaining duration of three years, and two of our vessels are currently employed on bareboat charters.

All of our drybulk carriers are managed by Cardiff Marine Inc., or Cardiff, under separate ship management agreements. Mr. George Economou, our Chairman and Chief Executive Officer, has been active in shipping since 1976 and formed Cardiff in 1991. We are affiliated with Cardiff, a Liberian corporation with offices in Greece, which is responsible for all technical and commercial management functions of our drybulk fleet. We believe that Cardiff has established a reputation in the international shipping industry for operating and maintaining a fleet with high standards of performance, reliability and safety. Seventy percent of the issued and outstanding capital stock of Cardiff is owned by a foundation which is controlled by Mr. Economou. The remaining 30% of the issued and outstanding capital stock of Cardiff is owned by a company controlled by Mr. Economou's sister, who is also a member of our board of directors.

Cardiff provides comprehensive ship management services including technical supervision, such as repairs, maintenance and inspections, safety and quality, crewing and training, as well as supply provisioning. Cardiff's commercial management services include operations, chartering, sale and purchase, post-fixture administration, accounting, freight invoicing and insurance. Cardiff completed early implementation of the International Maritime Organization's, or IMO, International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code, in 1996. Cardiff has obtained documents of compliance for its office and safety management certificates for its vessels as required by the ISM Code and has been ISO 14001 certified since 2003, in recognition of its commitment to overall quality.

In addition, through our acquisition of Ocean Rig ASA, or Ocean Rig, a Norwegian offshore drilling services company whose shares were listed on the Oslo Stock Exchange, we own and operate two ultra-deep water, harsh environment, semi-submersible drilling rigs, the *Leiv Eiriksson* and the *Eirik Raude*. In April 2008, we, through our subsidiary, DrillShips Investment Inc., or DrillShips Investment, exercised an option to acquire two newbuilding advanced capability drillships for use in ultra-deep water locations, identified as Hull 1865 and Hull 1866, for an expected cost of approximately \$800 million per drillship. We expect to take delivery of Hulls 1865 and 1866 in July 2011 and September 2011, respectively. Our subsidiary Ocean Rig UDW, acquired Drillships Holdings, Inc., or Drillships Holdings, which has contracts for construction of two newbuilding ultra-deep water drillships, identified as Hulls 1837 and 1838, to be delivered in December 2010 and March 2011, respectively.

We may sell a minority voting and economic interest in our wholly-owned subsidiary, Ocean Rig UDW, in a public offering sometime in 2010. Alternatively, we may distribute, or spin-off, a minority voting and economic interest in Ocean Rig UDW to holders of our voting stock (including holders of our preferred shares), or complete some combination of a public offering and distribution to holders of our voting stock. Ocean Rig UDW comprises our entire offshore drilling segment, which represented approximately 53.8% of our total assets as of December 31, 2009 and over 45% of our total revenues for the year ended December 31, 2009. There can be no assurance, however, that we will complete any such transaction, which, among other things, will be subject to market conditions.

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The *Leiv Eiriksson*, one of our two drilling rigs, was under contract with Shell U.K. Limited, A/S Norske Shell and Shell E&P Ireland Limited until October 27, 2009 for drilling operations in Irish, UK and Norwegian waters, which we refer to as the Shell contract. The rig operated in Irish waters in the second quarter of 2008 and relocated to Norwegian waters in the third quarter of 2008. On July 11, 2008, we obtained the requisite approvals from the Norwegian authorities and commenced operations in Norwegian waters. From January 1 through March 31, 2008, a maximum day-rate of \$476,000 applied while the rig was operating in Ireland and in the UK, and a day-rate of \$511,000 applied while the rig was operating in Norwegian waters. Since April 1, 2008, a maximum day-rate of \$511,000 applies regardless of where the rig was operating. In October 2009, the *Leiv Eiriksson* commenced a three-year contract with Petróleo Brasileiro S.A. for exploration drilling in the Black Sea at a maximum day-rate of \$583,000 including an 8% bonus and, assuming 100% utilization, expiring in October 2012, which we refer to as the Petróleo Brasileiro contract.

In October 2008, our other drilling rig, the *Eirik Raude*, commenced a three-year term contract with Tullow Oil PLC, or Tullow Oil, for development drilling in offshore Ghana at an average day-rate of \$637,000, based upon 100% utilization, expiring in October 2011, which we refer to as the Tullow Oil contract.

Various subsidiaries of Ocean Rig directly manage the *Eirik Raude* and the *Leiv Eiriksson*. The supervision of the construction of the two newbuilding drillships identified as Hulls 1865 and 1866 is performed by our subsidiary, Ocean Rig AS, pursuant to two separate management agreements. On August 1, 2008, the owning companies of the two newbuilding drillships identified as Hulls 1837 and 1838, which on October 3, 2008 we entered into a share purchase agreement to acquire, each entered into a separate management agreement with Ocean Rig AS for the supervision of the construction of these drillships on the same terms as the agreements by and between the owning companies of drillship Hulls 1865 and 1866 and Ocean Rig AS. The transaction was completed on May 15, 2009. We have entered into a management agreement with Cardiff for supervisory services in connection with the newbuilding drillships, Hulls 1837 and 1838.

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As of April 6, 2010, our fleet was comprised of the following vessels:

	Year Built	DWT	Type	Current employment	Gross rate per day	Redelivery	
						Earliest	Latest
Capesize:							
Mystic	2008	170,500	Capesize	T/C	\$ 52,310	Aug-2018	Dec-2018
Manasota	2004	171,061	Capesize	T/C	\$ 67,000	Feb-2013	Apr-2013
Flecha	2004	170,012	Capesize	T/C	\$ 55,000	Jul-2018	Nov-2018
Capri	2001	172,579	Capesize	T/C	\$ 61,000	Apr-2018	Jun-2018
Alameda	2001	170,269	Capesize	T/C	\$ 21,000	Feb-2011	May-2011
Samsara	1996	150,393	Capesize	T/C	\$ 57,000	Dec-2011	Apr-2012
Brisbane	1995	151,066	Capesize	T/C	\$ 25,000	Dec-2011	Apr-2012
	8.7						
	years	1,155,880	7				
Panamax:							
Oliva	2009	75,000	Panamax	T/C	\$ 17,850	Oct-2011	Dec-2011
Rapallo	2009	75,000	Panamax	T/C	\$ 15,400	Aug-2011	Oct-2011
Catalina	2005	74,432	Panamax	T/C	\$ 40,000	Jun-2013	Aug-2013
Majorca	2005	74,364	Panamax	T/C	\$ 43,750	Jun-2012	Aug-2012
Sorrento	2004	76,633	Panamax	T/C	\$ 17,300	Sep-2011	Dec-2011
Avoca	2004	76,500	Panamax	T/C	\$ 45,500	Sept-2013	Dec-2013
Ligari	2004	75,583	Panamax	T/C	\$ 55,500	Jun-2012	Aug-2012
Saldanha	2004	75,500	Panamax	T/C	\$ 52,500	Jun-2012	Sep-2012
Padre	2004	73,601	Panamax	T/C	\$ 46,500	Sept-2012	Dec-2012
Mendocino	2002	76,623	Panamax	T/C	\$ 56,500	Jun-2012	Sep-2012
Bargara	2002	74,832	Panamax	T/C	\$ 43,750	May-2012	Jul-2012
Oregon	2002	74,204	Panamax	T/C	\$ 16,350	Aug-2011	Oct-2011
Maganari	2001	75,941	Panamax	T/C	\$ 14,500	Jul-2011	Sep-2011
Conquistador	2001	75,607	Panamax	T/C	\$ 17,750	Aug-2011	Nov-2011
Capitola	2001	74,832	Panamax	T/C	\$ 39,500	Jun-2013	Aug-2013
Samatan	2001	74,823	Panamax	T/C	\$ 39,500	May-2013	Jul-2013
Sonoma	2001	74,786	Panamax	T/C	\$ 19,300	Sept-2011	Nov-2011
Ecola	2001	73,931	Panamax	T/C	\$ 43,500	Jun-2012	Aug-2012
Levanto	2001	73,931	Panamax	T/C	\$ 16,800	Sep-2011	Nov-2011
Coronado	2000	75,706	Panamax	T/C	\$ 18,250	Sep-2011	Nov-2011
Redondo	2000	74,716	Panamax	T/C	\$ 34,500	Apr-2013	Jun-2013
Positano	2000	73,288	Panamax	T/C	\$ 42,500	Sept-2013	Dec-2013
Marbella	2000	72,561	Panamax	T/C	\$ 14,750	Aug-2011	Nov-2011
Ocean Crystal	1999	73,688	Panamax	T/C	\$ 15,000	Aug-2011	Nov-2011
Xanadu	1999	72,270	Panamax	T/C	\$ 39,750	Jul-2013	Sep-2013
Primera*	1998	72,495	Panamax	T/C	\$ 18,250	Aug-2011	Dec-2011
La Jolla	1997	72,126	Panamax	T/C	\$ 14,750	Aug-2011	Nov-2011
Toro	1995	73,034	Panamax	T/C	\$ 16,750	May-2011	Jul-2011
	8.3						
	years	2,086,007	28				

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Paros 1 ex Clipper Gemini**	2003	51,201	Supramax	BB	\$27,135	Oct-2011	May-2012
Pachino ex VOC Galaxy**	2002	51,201	Supramax	BB	\$20,250	Sept-2010	Feb-2011

7.5
years 102,402 2

Totals
8.3
years 3,344,289 37

Newbuildings

Panamax 1	2011	76,000	Panamax
Panamax 2	2012	76,000	Panamax

Rig:

		Fifth-generation		Contract with Petroleo Brasileiro S.A. for a three-year term ending Q4 2012 beginning at a maximum day-rate of \$583,000, including an 8% bonus.
Leiv Eiriksson	2001	drilling unit***	semi-submersible	
		Fifth-generation		Contract with Tullow Oil PLC for a three-year term ending Q4 2011 at an average day-rate of \$639,000.
Eirik Raude	2002	drilling unit***	semi-submersible	

N/B Drillships:

	Q3		
N/B-Hull No: 1865	2011		UDW Drillship****
	Q3		
N/B-Hull No: 1866	2011		UDW Drillship****
	Q4		
N/B-Hull No: 1837	2010		UDW Drillship****
	Q1		
N/B-Hull No: 1838	2011		UDW Drillship****

* Based on a synthetic time charter.

** The MV *Paros I* and MV *Pachino* are employed under a bareboat charter.

*** Fifth-generation drilling units have the capability to drill wells in 7,500 feet of water to a total depth of 35,000 feet.

**** UDW Drillships have the capability to drill wells in 10,000 feet of water to a total depth of 35,000 feet.

We actively manage the deployment of our drybulk fleet between long-term and short-term time charters, which generally last from several days to several weeks, and long-term time charters and bareboat charters, which can last up to several years. A time charter is generally a contract to charter a vessel for a fixed period of time at a set daily rate. Under time charters, the charterer pays voyage expenses such as port, canal and fuel costs. A voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for a specified total price. Under spot market voyage charters, we pay voyage expenses such as port, canal and fuel costs. Under both types of charters, we pay for vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, as well as for commissions. We are also responsible for the drydocking costs relating to each vessel. Under a bareboat charter, the vessel is chartered for a stipulated period of time which gives the charterer possession and control of the vessel, including the right to appoint the master and the crew. Under bareboat charters, all voyage costs are paid by the Company's customers.

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We deploy our drilling rigs on long-term charters, or drilling contracts that provide for a day rate to be paid to us by the charterer. Under the drilling contracts, the customer typically pays us a fixed daily rate, depending on the activity and up-time of the rig. The customer bears all fuel costs and logistics costs related to transport to/from the rig. We remain responsible for paying the operating expenses for the rigs, including the cost of crewing, catering, insuring, repairing and maintaining the rig, the costs of spares and consumable stores and other miscellaneous expenses. The lease element of revenue is recognized to the statement of operations on a straight line basis. The drilling services element of mobilization revenues, contributions from customers and the direct incremental expenses of mobilization are deferred and recognized over the estimated duration of the drilling contracts. To the extent that deferred expenses exceed revenue to be recognized, it is expensed as incurred. Demobilization fees and expenses are recognized over the demobilization period.

Our drybulk vessels and drilling rigs operate worldwide within the trading limits imposed by our insurance terms and do not operate in areas where United States, European Union or United Nations sanctions have been imposed.

Our Drybulk Operations

Competition

Demand for drybulk carriers fluctuates in line with the main patterns of trade of the major drybulk cargoes and varies according to changes in the supply and demand for these items. We compete with other owners of drybulk carriers in the Capesize, Panamax and Supramax size sectors. Ownership of drybulk carriers is highly fragmented and is divided among approximately 1,500 independent drybulk carrier owners. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an owner and operator.

Customers

During the year ended December 31, 2009, four of our customers accounted for more than ten percent of our voyage revenue: Customer A (17%), Customer B (15%), Customer C (11%) and Customer D (10%). During the year ended December 31, 2008, two of our customers accounted for more than ten percent of our voyage revenue: Customer E (20%) and Customer F (11%). During the year ended December 31, 2007, one of our customers accounted for more than ten percent of our voyage revenue: Customer G (12%). Customer G is a pool operator and therefore we do not consider Customer G as representative of any single customer that charters vessels in the vessel charter markets. Given our exposure to, and focus on, the long-term and short-term, or spot, time charter markets, we do not foresee any one client providing a significant percentage of our income over an extended period of time.

Management of the Drybulk Fleet

We do not employ personnel to run our vessel operating and chartering business on a day-to-day basis. All of our vessels are managed by Cardiff. The Entrepreneurial Spirit Foundation, a family foundation of Vaduz Liechtenstein, of which our Chief Executive Officer, Mr. George Economou, and members of his family are beneficiaries, owns 70% of the issued and outstanding capital stock of Cardiff. The remaining 30% of the issued and outstanding capital stock of Cardiff is held by Prestige Finance S.A., a Liberian corporation which is wholly owned by the sister of Mr. Economou, Ms. Chryssoula Kandyliadis, who serves on our board of directors. Cardiff performs all of our technical and commercial functions relating to the operation and employment of our vessels pursuant to management agreements concluded between Cardiff and our vessel-owning subsidiaries which have an initial term of five years and will automatically be extended to successive five year terms, unless at least 30 days advance notice of termination is given by either party. Mr. Economou, under the guidance of our board of directors, manages our business as a holding company, including our own administrative functions, and we monitor Cardiff's performance under the fleet management agreement.

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Cardiff Marine Inc.

The operations of the Company's drybulk carrier vessels are managed by Cardiff Marine Inc., or the Manager or Cardiff, a related-party entity incorporated in Liberia. Cardiff also acts as the Company's charter, sales, and purchase broker. Cardiff is beneficially majority-owned by the Company's Chief Executive Officer, Mr. Economou, and members of his immediate family.

The Company pays a management fee of Euro 600 per day, per vessel to Cardiff. In addition, the management agreements provide for payment by the Company to Cardiff of: (i) a fee of Euro 105 per day per vessel for services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002; (ii) Euro 500 for superintendent visits on board vessels in excess of five days per annum, per vessel, for each additional day, per superintendent; (iii) chartering commission of 1.25% on all freight, hire and demurrage revenues; (iv) a commission of 1.00% on all gross sale proceeds or purchase price paid for vessels; (v) a quarterly fee of \$250,000 for services in relation to the financial reporting requirements of the Company under Securities and Exchange Commission rules and the establishment and monitoring of internal controls over financial reporting; and (vi) a commission of 0.2% on derivative agreements and loan financing or refinancing.

Cardiff also provides commercial operations and freight collection services in exchange for a fee of Euro 90 per day, per vessel. Cardiff provides insurance services and obtains insurance policies for the vessels for a fee of 5.00% on the total insurance premiums, per vessel. Furthermore, if required, Cardiff will also handle and settle all claims arising out of its duties under the management agreements (other than insurance and salvage claims) in exchange for a fee of Euro 150 per person, per day of eight hours.

Cardiff provides the Company with financial accounts services in exchange for a fee of Euro 120 per day, per vessel. The Company also pays Cardiff a quarterly fee of Euro 260,500 for services rendered by Cardiff in connection with the Company's financial accounting services. Pursuant to the terms of the management agreements, all fees payable to Cardiff are adjusted upwards or downwards based on the year-on-year increase in the Greek consumer price index.

Transactions with the Manager in Euros are settled on the basis of the EUR/USD on the invoice date.

Additionally the Company pays a management fee of \$40,000 per month per drillship Hull 1837 and Hull 1838. The management agreements also provide for: (i) chartering commission of 1.25% on all freight, hire and demurrage revenues; (ii) a commission of 1.00% on all gross sale proceeds or purchase price paid for drillships; (iii) a commission of 1% on loan financing or refinancing; and (iv) commission of 2% on insurance premiums.

Consultancy Agreements

Under two consultancy agreements concluded on February 3, 2005, between the Company and Fabiana Services S.A., or Fabiana, a related party entity incorporated in the Marshall Islands, Fabiana provides the services of the individual who serves in the position of Chief Executive Officer of the Company.

On January 21, 2009, the Compensation Committee approved a Euro 5 million bonus payable to Mr. George Economou for services rendered during 2008.

On January 25, 2010, the Compensation Committee approved that a bonus in the form of 4,500,000 shares of the Company's common stock, with par value \$0.01, be granted to Fabiana for the contribution during 2009 as well as for the anticipated services of the Company's Chief Executive Officer during the years 2010, 2011 and 2012. The shares will vest over a period of four years, with 1,000,000 shares to vest on the grant date; 1,000,000 shares to vest on each of December 31, 2010 and 2011; 1,500,000 shares to vest on December 31, 2012, respectively.

On January 25, 2010, the Company's 2008 Equity Incentive Plan was amended to provide that a total of 21,834,055 common shares be reserved for issuance under the Plan.

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Crewing and Employees

Cardiff employs approximately 250 people, all of whom are shore-based. In addition, Cardiff is responsible for recruiting, either directly or through a crewing agent, the senior officers and all other crew members for our vessels. We believe the streamlining of crewing arrangements will ensure that all our vessels will be crewed with experienced seamen that have the qualifications and licenses required by international regulations and shipping conventions.

Charterhire Rates

Charterhire rates paid for drybulk carriers are primarily a function of the underlying balance between vessel supply and demand, although at times other factors may play a role. Furthermore, the pattern seen in charter rates is broadly mirrored across the different charter types and between the different drybulk carrier categories. However, because demand for larger drybulk carriers is affected by the volume and pattern of trade in a relatively small number of commodities, charterhire rates (and vessel values) of larger ships tend to be more volatile than those for smaller vessels.

In the time charter market, rates vary depending on the length of the charter period and vessel specific factors such as age, speed and fuel consumption. In the voyage charter market, rates are influenced by cargo size, commodity, port dues and canal transit fees, as well as delivery and redelivery regions. In general, a larger cargo size is quoted at a lower rate per ton than a smaller cargo size. Routes with costly ports or canals generally command higher rates than routes with low port dues and no canals to transit.

Voyages with a load port within a region that includes ports where vessels usually discharge cargo or a discharge port within a region with ports where vessels load cargo also are generally quoted at lower rates, because such voyages generally increase vessel utilization by reducing the unloaded portion (or ballast leg) that is included in the calculation of the return charter to a loading area.

Within the drybulk shipping industry, the charterhire rate references most likely to be monitored are the freight rate indices issued by the Baltic Exchange. These references are based on actual charterhire rates under charter entered into by market participants as well as daily assessments provided to the Baltic Exchange by a panel of major shipbrokers. The Baltic Panamax Index is the index with the longest history. The Baltic Capesize Index and Baltic Handymax Index are of more recent origin. In 2008, the Baltic Drybulk Index, or BDI, declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94%. The BDI fell over 70% during the month of October 2008 alone. Over the comparable period of May through December 2008, the high and low of the Baltic Panamax Index and the Baltic Capesize Index represent a decline of 96% and 99%, respectively. In 2009, BDI increased from the low of 773 in January 2009 to 3,005 in December 2009, reaching its high of 4,661 in November 2009. In 2010, the BDI decreased from a high of 3,235 in January 2010 to 2,911 in March 2010, reaching its high of 3,299 in January 2010. On April 1, 2010, the BDI was 2,991.

Vessel Prices

Drybulk vessel prices, both for new-buildings and secondhand vessels, have decreased significantly since the year ended 2008 as a result of the weakening of the drybulk shipping industry. The vessel values have also declined as a result of a slowdown in the availability of global credit. The lack of credit has resulted in the restriction to fund both vessel purchases and purchases of commodities carried by sea. There can be no assurance as to how long charterhire rates and vessel values will remain depressed or whether they will drop any further. Should the charterhire rates remain at these depressed levels for some time our revenue and profitability will be adversely affected.

The International Drybulk Shipping Industry

Drybulk cargo is cargo that is shipped in quantities and can be easily stowed in a single hold with little risk of cargo damage. According to industry sources, in 2009, approximately 2,230 million tons of drybulk cargo was transported by sea, including iron ore, coal and grains representing 41.4%, 36.8% and 9.1% of the total drybulk trade, respectively.

The demand for drybulk carrier capacity is determined by the underlying demand for commodities transported in drybulk carriers, which in turn is influenced by trends in the global economy. Between 2001 and

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2007, trade in all drybulk commodities increased from 2,108 million tons to 2,961 million tons, an increase of 40.46%. One of the main reasons for that increase in drybulk trade was the growth in imports by China of iron ore, coal and steel products during the last eight years. Chinese imports of iron ore alone increased from 92.2 million tons in 2001 to approximately 382 million tons in 2007. In 2009, seaborne trade in all drybulk commodities increased to 2,202 million tons. However, demand for drybulk shipping decreased dramatically in the second quarter of 2008 evidenced by the decrease in Chinese iron ore imports which decreased from a high of 119.5 million tons in the second quarter of 2008 to a low of 96.2 million tons during the fourth quarter of 2008 representing a decrease of 19.5%. In 2009, seaborne trade in all drybulk commodities increased to 2,229.6 million tons as demand for drybulk shipping picked up following mainly an increase in Chinese iron ore imports from 443.7 million in 2008 to 628.1 million tons in 2009. At the current time, seaborne trade is expected to increase by 7.4% in 2010 while Chinese iron ore imports are expected to rise by 7.5%.

The global drybulk carrier fleet may be divided into four categories based on a vessel's carrying capacity. These categories consist of:

Capesize vessels, which have carrying capacities of more than 85,000 dwt. These vessels generally operate along long-haul iron ore and coal trade routes. There are relatively few ports around the world with the infrastructure to accommodate vessels of this size.

Panamax vessels, which have a carrying capacity of between 60,000 and 85,000 dwt. These vessels carry coal, grains, and, to a lesser extent, minor bulks, including steel products, forest products and fertilizers. Panamax vessels are able to pass through the Panama Canal making them more versatile than larger vessels.

Handymax vessels, which have a carrying capacity of between 35,000 and 60,000 dwt. The subcategory of vessels that have a carrying capacity of between 45,000 and 60,000 dwt called Supramax. These vessels operate along a large number of geographically dispersed global trade routes mainly carrying grains and minor bulks. Vessels below 60,000 dwt are sometimes built with on-board cranes enabling them to load and discharge cargo in countries and ports with limited infrastructure.

Handysize vessels, which have a carrying capacity of up to 35,000 dwt. These vessels carry exclusively minor bulk cargo. Increasingly, these vessels have operated along regional trading routes. Handysize vessels are well suited for small ports with length and draft restrictions that may lack the infrastructure for cargo loading and unloading.

The supply of drybulk carriers is dependent on the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or loss. The orderbook of new drybulk vessels scheduled to be delivered in 2010 represents approximately 19.2% of the world drybulk fleet. The level of scrapping activity is generally a function of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs. Drybulk carriers at or over 25 years old are considered to be scrapping candidate vessels.

The Effect of Recent Developments In The International Drybulk Shipping Industry On Our Business

The BDI, a daily average of charter rates in 26 shipping routes measured on a time charter and voyage basis and covering Supramax, Panamax and Capesize drybulk carriers, declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94%. The BDI fell over 70% during the month of October alone. Over the comparable period of May through December 2008, the high and low of the Baltic Panamax Index and the Baltic Capesize Index represent a decline of 96% and 99%, respectively. In 2009, the BDI increased from the low of 773 in January 2009 to 3,005 in December 2009, reaching its high of 4,661 in November 2009. In 2010, the BDI decreased from a high of 3,235 in January 2010 to 2,911 in March 2010 reaching its high of 3,299 in January 2010.

The general decline in the drybulk carrier charter market is due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which has resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which has resulted in falling iron ore prices and increased stockpiles in Chinese ports.

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The general decline in the drybulk carrier charter market has resulted in lower charter rates for some of our vessels exposed to the spot market and our time charters and bareboat charter linked to the BDI.

In addition, the general decline in the drybulk carrier charter market has resulted in lower drybulk vessel values. We previously entered into contracts for the sale of MV *La Jolla*, MV *Delray*, MV *Paragon* and MV *Toro* for an aggregate purchase price of \$245.4 million. As further discussed below, (i) we agreed with the buyers of the MV *La Jolla* to retain the vessel in exchange for aggregate compensation of \$9.0 million and we employ the vessel under time charter employment; (ii) the sale of MV *Delray* will not close due to the buyer's repudiation of its obligations under the memorandum of agreement. A deposit on the vessel in the amount of \$5.6 million was made by the buyer. We are pursuing all legal remedies against the buyer; (iii) we reached an agreement with the buyers of the MV *Paragon* to sell the vessel for a reduced price of \$30.8 million; and (iv) we entered into an agreement with Samsun, the buyers of the MV *Toro*, to sell the vessel at a reduced price of \$36 million. As part of the agreement, the buyers released the deposit of \$6,300 to the Company immediately and were required to make a new deposit of \$1,500 towards the revised purchase price. On February 19, 2009, the Company proceeded with the cancellation of the sale agreement due to the buyer's failure to pay the new deposit of \$1,500. In February 2009, Samsun was placed in corporate rehabilitation.

In February 2010 Samsun's plan of reorganization was approved by its creditors. As part of this plan the Company will recoup a certain percentage of the agreed-upon purchase price. As this is contingent on the successful implementation of the plan of reorganization, the Company is unable to estimate the impact on the Company's financial statements.

Recent Developments

Iguana Sale

On November 11, 2009, we entered into a memorandum of agreement for the sale of the vessel MV *Iguana* for \$23.35 million. The vessel was delivered to its new owners on January 19, 2010.

Delray Sale

On November 26, 2009, we entered into a memorandum of agreement for the sale of the vessel MV *Delray ex Lacerta* for \$20.15 million. The vessel was delivered to its new owners on February 5, 2010.

Vessel Acquisition

On February 17, 2010, we placed an order for two 76,000 dwt Panamax dry bulk vessels, with a quality Chinese shipyard, for a price of \$33.05 million per vessel. Delivery of the two vessels is expected to take place in the fourth quarter of 2011 and the first quarter of 2012, respectively.

Payment for the construction of the Drillship Hulls in 2010

During 2010, the Company made payments amounting to \$313.4 million towards the yard installments for the construction of its three newbuilding drillship Hulls 1865, 1866 and 1837, which were financed by cash on hand.

Our Offshore Drilling Operations

Through most of 2009, the ultra-deepwater drilling market reversed some of its late improvements with a relatively low number of drilling contracts providing for day rates mostly around \$500,000 and forward start, term contracts extending out to 2013 and beyond. The deep water and ultra deepwater exploration demand will longer term be supported by the thesis that deepwater drilling is a viable source of new supply. Large discoveries made in the lower Tertiary in the Gulf of Mexico, Brazil and Angola similarly confirmed new discoveries in the sub salt regions and substantial discoveries were also made in the emerging areas of India, South East Asia and West Africa. This unprecedented demand supported a massive new construction phase where more than 80 newbuilding drill ships and semi submersible drilling rigs were ordered in various shipyards around the world.

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Early in the fourth quarter of 2008, the ultra-deepwater market began to show signs of slowing, with less bid and general inquiry activity. The near-term market conditions have been adversely impacted by depressed commodity prices, the ongoing financial turmoil and economic recession. New fixtures have been relatively few. However, day rates in the ultra-deepwater market remain relatively robust, although clearly lower than the highs that existed in the middle of 2008. The economic uncertainty has prompted a number of international and independent energy and petroleum operators to postpone some near term activity and or delay making commitments on forward start contracts. The national oil companies, in contrast, remain active and have appeared to see the current economic downturn as an opportune period to lock up drilling capacity, especially near term capacity. The financial turmoil will also impact the supply of newbuild rig capacity. During the period from the fourth quarter of 2009 to mid March 2010, we believe a total of two newbuilding contracts have been cancelled in the ultra deepwater market. We expect this trend to continue as many of the new entrants may struggle to secure the necessary financing for their newbuild programs.

Longer-term, we believe the fundamentals are strong, growth in demand will likely return once the economic woes recede and the supply of oil and gas will remain constrained, with deepwater basins being the primary source of incremental supply.

In October 2009, the *Leiv Eiriksson*, one of our two drilling rigs, commenced a three-year contract with Petroleo Brasileiro S.A. for exploration drilling in the Black Sea at a day-rate, maximum of \$583,000 including an 8% bonus and assuming 100% utilization, expiring in October 2012, which we refer to as the Petroleo Brasileiro contract.

In October 2008, our other drilling rig, the *Eirik Raude*, commenced a three-year contract with Tullow Oil PLC for development drilling in offshore Ghana expiring in October 2011, which we refer to as the Tullow Oil contract. Tullow Oil did not exercise an option that expired March 31, 2009 to extend the contract for an additional one or two years. As of December 31, 2009, the average day-rate, assuming 100% utilization, was \$639,000.

Competition

Our competition in the contract drilling industry ranges from large multinational companies to smaller, locally-owned companies. We believe we are competitive in terms of safety, pricing, performance, equipment, availability of equipment to meet customer needs and availability of experienced, skilled personnel. However, industry-wide shortages of supplies, services, skilled personnel and equipment necessary to conduct our business can occur. Competition for offshore drilling rigs and drillships is usually on a global basis, as these drilling rigs and drillships are highly mobile and may be moved, at a cost that may sometimes be substantial, from one region to another in response to customers drilling programs and demand.

Customers

Our drilling customers generally fall within three categories: national oil companies, large integrated major oil companies and medium to smaller independent exploration and production companies. The customers that have contracted our rigs are predominantly the large integrated major oil companies. During 2009, our contract with Customer A accounted for 38% of our total drilling revenues, and our contract with Customer B accounted for 62% of our total drilling revenues.

Management of Our Offshore Drilling Operations, Including Crewing and Employees

Our subsidiary, Ocean Rig, directly manages its two drill rigs, the *Eirik Raude* and the *Leiv Eiriksson*. At year end 2009, the Ocean Rig group had 432 employees, compared to 401 at year end 2008, with 360 employees directly employed by Ocean Rig and the balance of 72 short-term substitute employees and employees representing permanent crew engaged through agencies. The increase in the number of employees is due to the build up of the Drillship project team in South Korea and more local employees in Ghana. 144 persons are employed on *Eirik Raude* and 154 persons on *Leiv Eiriksson*. Ocean Rig also has a Crew Resource Team serving both rigs with 32 employees. 88 employees are shore based support and management positions. 47 employees are based at Forus, Norway and London, UK and a total of 41 employees are located at Ocean Rig's shore and yard bases in Ankara, Turkey, Geoje, South Korea and Accra, Ghana.

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The supervision of the construction of our two newbuilding drillships identified as Hulls 1865 and 1866 is performed by our subsidiary Ocean Rig AS pursuant to separate management agreements.

On August 1, 2008, the owning companies of the two newbuilding drillships identified as Hulls 1837 and 1838, which we subsequently acquired, each entered into a separate management agreement with Ocean Rig AS for the supervision of the construction of these drillships on the same terms as previous agreements with Ocean Rig AS. We have entered into a management agreement with Cardiff for supervisory services in connection with the newbuilding drillships, Hull 1837 and Hull 1838.

Under the terms and conditions of these agreements, Ocean Rig AS, among other things, is responsible for (i) assisting in construction contract technical negotiations, (ii) securing contracts for the future employment the drillships, and (iii) providing commercial, technical and operational management for the drillships.

Pursuant to each of these agreements, Ocean Rig AS is entitled to: (i) a fee of \$250 per day until steel cutting; (ii) a fee of \$2,500 per day from the date of steel cutting until the date of delivery of the applicable drillship to its owner; and (iii) \$8,000 per day thereafter. The management fees are subject to an increase based on the U.S. Consumer Price Index for the preceding 12 months. Ocean Rig AS is also entitled to a commission fee equal to 0.75% of gross hire and charter hire for contracts or charter parties entered into during the term of the management agreement, payable on the date that the gross or charter hire money is collected.

The agreements each terminate on December 31, 2020, unless earlier terminated by Ocean Rig AS for non-payment within fifteen working days of request.

Various subsidiaries of Ocean Rig UDW directly manage the *Eirik Raude* and the *Leiv Eiriksson*.

Insurance for Our Offshore Drilling Rigs

We maintain insurance for our drilling units in accordance with industry standards. Our insurance is intended to cover normal risks in our current operations, including insurance against property damage, loss of hire, war risk and third-party liability, including pollution liability.

We have obtained insurance for the full assessed market value of our drilling units, as assessed by rig brokers. Our insurance provides for premium adjustments based on claims and is subject to deductibles and aggregate recovery limits. In the case of pollution liabilities, our deductible is \$10,000 per event and in the case of other hull and machinery claims, our deductible is \$1.5 million per event. Our insurance coverage may not protect fully against losses resulting from a required cessation of rig operations for environmental or other reasons.

We also have loss of hire insurance which becomes effective after 45 days of off-hire and coverage extends for approximately one year.

The principal risks which may not be insurable are various environmental liabilities and liabilities resulting from reservoir damage caused by our negligence. In addition, insurance may not be available to us at all or on terms acceptable to us, and there is no guarantee that even if we are insured, our policy will be adequate to cover our loss or liability in all cases.

Environmental and Other Regulations in the Drybulk Shipping Industry

Government regulation and laws significantly affect the ownership and operation of our fleet. We are subject to international conventions and treaties, national, state and local laws and regulations in force in the

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countries in which our vessels may operate or are registered relating to safety and health and environmental protection including the storage, handling, emission, transportation and discharge of hazardous and non-hazardous materials, and the remediation of contamination and liability for damage to natural resources. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of government and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (applicable national authorities such as the United States Coast Guard, harbor master or equivalent), classification societies, flag state administrations (countries of registry) and charterers, particularly terminal operators. Certain of these entities require us to obtain permits, licenses, certificates and other authorizations for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or result in the temporary suspension of the operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations. However, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident that causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

International Maritime Organization

The IMO, the United Nations agency for maritime safety and the prevention of pollution by ships has adopted the International Convention for the Prevention of Marine Pollution, 1973, as modified by the related Protocol of 1978 relating thereto, which has been updated through various amendments, or the MARPOL Convention. The MARPOL Convention establishes environmental standards relating to oil leakage or spilling, garbage management, sewage, air emissions, handling and disposal of noxious liquids and the handling of harmful substances in packaged forms. The IMO adopted regulations that set forth pollution prevention requirements applicable to drybulk carriers. These regulations have been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate.

In September 1997, the IMO adopted Annex VI to the MARPOL Convention, Regulations for the Prevention of Pollution from Ships, to address air pollution from ships. Effective May 2005, Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from all commercial vessel exhausts and prohibits deliberate emissions of ozone depleting substances (such as halons and chlorofluorocarbons), emissions of volatile compounds from cargo tanks, and the shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. We believe that all our vessels are currently compliant in all material respects with these regulations. In October 2008, the IMO adopted amendments to Annex VI regarding nitrogen oxide and sulfur oxide emissions standards which will enter into force on July 1, 2010. The amended Annex VI would reduce air pollution from vessels by, among other things, (i) implementing a progressive reduction of sulfur oxide emissions from ships, with the global sulfur cap reduced initially to 3.50% (from the current cap of 4.50%), effective from January 1, 2012, then progressively to 0.50%, effective from January 1, 2020, subject to a feasibility review to be completed no later than 2018; and (ii) establishing new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. Additionally, more stringent emission standards could apply in coastal areas designated as Emission Control Areas, such as the United States and Canadian coastal areas recently designated by the IMO's Marine Environment Protection Committee. U.S. air emissions standards are now equivalent to these amended Annex VI requirements, and once these amendments become effective, we may incur costs to comply with these revised standards. Additional or new conventions, laws and regulations may be adopted that could require the installation of expensive emission control systems and could adversely affect our business, results of operations, cash flows and financial condition.

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Safety Management System Requirements

IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. We believe that all our vessels are in substantial compliance with SOLAS and LL Convention standards.

Under Chapter IX of SOLAS, the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, our operations are also subject to environmental standards and requirements contained in the ISM Code promulgated by the IMO. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We rely upon the safety management system that we and our technical manager have developed for compliance with the ISM Code. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. As of the date of this filing, each of our vessels is ISM Code-certified.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with the ISM Code requirements for a safety management system. No vessel can obtain a safety management certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. We will obtain documents of compliance for our offices and safety management certificates for all of our vessels for which the certificates are required by the IMO. The document of compliance, or the DOC, and safety management certificate, or the SMC, are renewed every five years but the DOC is subject to audit verification annually and the SMC at least every 2.5 years.

Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and the territorial waters of the signatory to such conventions. For example, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements (beginning in 2009), to be replaced in time with mandatory concentration limits. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. The convention has not yet entered into force because a sufficient number of states has failed to adopt it.

Although the United States is not a party to these conventions, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended in 2000, or the CLC. Under this convention and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain defenses. The limits on liability outlined in the 1992 Protocol use the International Monetary Fund currency unit of Special Drawing Rights, or SDR. Under an amendment to the 1992 Protocol that became effective on November 1, 2003, for vessels between 5,000 and 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability is limited to approximately \$6.85 million (4.51 million SDR) plus \$959 (631 SDR) for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability is limited to \$136.43 million (89.77 million SDR). As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates of 0.658729 SDR per U.S. dollar on April 5, 2010. The right to limit liability is forfeited under the CLC where the spill is caused by the shipowner's actual fault and under the 1992 Protocol where the spill is caused by the shipowner's intentional or reckless conduct. Vessels trading with states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that of the convention. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by the IMO.

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In March 2006, the IMO amended Annex I to MARPOL, including a new regulation relating to oil fuel tank protection, which became effective August 1, 2007. The new regulation will apply to various ships delivered on or after August 1, 2010. It includes requirements for the protected location of the fuel tanks, performance standards for accidental oil fuel outflow, a tank capacity limit and certain other maintenance, inspection and engineering standards.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on shipowners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention, which became effective on November 21, 2008, requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in a vessel's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

IMO regulations also require owners and operators of vessels to adopt Ship Oil Pollution Emergency Plans. Periodic training and drills for response personnel and for vessels and their crews are required.

Compliance Enforcement

The flag state, as defined by the United Nations Convention on Law of the Sea, has overall responsibility for the implementation and enforcement of international maritime regulations for all ships granted the right to fly its flag. The Shipping Industry Guidelines on Flag State Performance evaluates flag states based on factors such as sufficiency of infrastructure, ratification of international maritime treaties, implementation and enforcement of international maritime regulations, supervision of surveys, casualty investigations and participation at IMO meetings. Our vessels are flagged in Malta, except for two vessels which are flagged in Antigua and Barbuda. Malta flagged vessels have historically received a good assessment in the shipping industry. We recognize the importance of a credible flag state and do not intend to use flags of convenience or flag states with poor performance indicators.

Noncompliance with the ISM Code or other IMO regulations may subject the shipowner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. The U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code by the applicable deadlines will be prohibited from trading in U.S. and European Union ports, respectively. As of the date of this report, each of our vessels is ISM Code certified. However, there can be no assurance that such certificates will be maintained in the future.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

The U.S. Oil Pollution Act of 1990 and Comprehensive Environmental Response, Compensation and Liability Act

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:

natural resources damage and the costs of assessment thereof;

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real and personal property damage;

net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage;

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and

loss of subsistence use of natural resources.

Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for non-tank vessels to the greater of \$1,000 per gross ton or \$0.85 million per non-tank (e.g. drybulk) vessel that is over 3,000 gross tons (subject to periodic adjustment for inflation). CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$0.5 million for any other vessel. These OPA and CERCLA limits of liability do not apply if an incident was directly caused by violation of applicable U.S. federal safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities.

OPA and the U.S. Coast Guard also require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential liability under OPA and CERCLA. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, self-insurance or a guaranty. We plan to comply with the U.S. Coast Guard's financial responsibility regulations by providing a certificate of responsibility evidencing sufficient self-insurance.

We currently maintain pollution liability coverage insurance in the amount of \$625 million per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could have an adverse effect on our business and results of operation.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states, which have enacted such legislation, have not yet issued implementing regulations defining vessels owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call. We believe that we are in substantial compliance with all applicable existing state requirements. In addition, we intend to comply with all future applicable state regulations in the ports where our vessels call.

Other Environmental Initiatives

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. In addition, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The U.S. Environmental Protection Agency, or the EPA, regulates the discharge of ballast water and other substances in U.S. waters under the CWA. Effective February 6, 2009, EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit authorizing ballast water discharges and other discharges incidental to the operation of vessels. The Vessel General Permit imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S.

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waters, and the Coast Guard recently proposed new ballast water management standards and practices, including limits regarding ballast water releases. Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements.

European Union Regulations

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change, or UNFCCC, which we refer to as the Kyoto Protocol, entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of certain gases, generally referred to as greenhouse gases, which are suspected of contributing to global warming. Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol. However, international negotiations are continuing with respect to a successor to the Kyoto Protocol, which sets emission reduction targets through 2012, and restrictions on shipping emissions may be included in any new treaty. In December 2009, more than 27 nations, including the United States and China, signed the Copenhagen Accord, which includes a non-binding commitment to reduce greenhouse gas emissions. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from vessels, if such emissions are not regulated through the IMO or the UNFCCC by December 31, 2010. In the United States, the EPA has issued a final finding that greenhouse gases threaten public health and safety, and has proposed regulations governing the emission of greenhouse gases from motor vehicles and stationary sources. The EPA may decide in the future to regulate greenhouse gas emissions from ships and has already been petitioned by the California Attorney General to regulate greenhouse gas emissions from ocean-going vessels. Other federal and state regulations relating to the control of greenhouse gas emissions may follow, including the climate change initiatives that are being considered in the U.S. Congress. In addition, the IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, including market-based instruments. Any passage of climate control legislation or other regulatory initiatives by the EU, U.S., IMO or other countries where we operate that restrict emissions of greenhouse gases could require us to make significant financial expenditures that we cannot predict with certainty at this time.

Environmental and Other Regulations in the Offshore Drilling Industry

Our operations in the offshore drilling sector include activities that are subject to numerous international, federal, state and local laws and regulations, including MARPOL, OPA and CERCLA, each of which is discussed above, and the U.S. Outer Continental Shelf Lands Act. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection.

For example, the IMO adopted MARPOL and Annex VI to MARPOL to regulate the discharge of harmful air emissions from ships, which include rigs and drillships. Rigs and drillships must comply with MARPOL limits on sulfur oxide and nitrogen oxide emissions, chlorofluorocarbons, and the discharge of other air pollutants, except that the MARPOL limits do not apply to emissions that are directly related to drilling, production, or processing activities. Our drilling units are subject not only to MARPOL regulation of air emissions, but also to the Bunker Convention's strict liability for pollution damage caused by discharges of bunker fuel in ratifying states. We believe that all of our drill units are currently compliant in all material respects with these regulations. As described above, in October 2008, MEPC adopted amendments to the Annex VI regulations that require a progressive reduction of sulfur oxide levels in heavy bunker fuels and create more stringent nitrogen oxide emissions standards for marine engines. We may incur costs to comply with these revised standards.

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Furthermore, any drilling units we operate in the waters of the U.S., including the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the U.S., would have to comply with OPA and CERCLA regulations, as described above, that impose liability (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges of oil or other hazardous substances, other than discharges related to drilling.

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Numerous governmental agencies issue such regulations to implement and enforce the laws of the applicable jurisdiction, which often involve lengthy permitting procedures, impose difficult and costly compliance measures particularly in ecologically sensitive areas, and subject operators to substantial administrative, civil and criminal penalties or injunctive relief for failure to comply. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly compliance could adversely affect our consolidated financial statements. While we believe that we are in substantial compliance with the current laws and regulations, there is no assurance that compliance can be maintained in the future.

Implementation of new environmental laws or regulations that may apply to ultra-deepwater drilling units may subject us to increased costs or limit the operational capabilities of our drilling units and could materially and adversely affect our operations and financial condition. See **Risk Factors** Governmental laws and regulations, including environmental laws and regulations, may add to our costs or limit our drilling activity .

In addition to the MARPOL, OPA, and CERCLA requirements described above, our international operations in the offshore drilling segment are subject to various laws and regulations in countries in which we operate, including laws and regulations relating to the importation of and operation of drilling units and equipment, currency conversions and repatriation, oil and natural gas exploration and development, environmental protection, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of drilling units and other equipment. New environmental or safety laws and regulations could be enacted, which could adversely affect our ability to operate in certain jurisdictions. Governments in some foreign countries have become increasingly active in regulating and controlling the ownership of concessions and companies holding concessions, the exploration for oil and natural gas and other aspects of the oil and natural gas industries in their countries. In some areas of the world, this governmental activity has adversely affected the amount of exploration and development work done by major oil and natural gas companies and may continue to do so. Operations in less developed countries can be subject to legal systems that are not as mature or predictable as those in more developed countries, which can lead to greater uncertainty in legal matters and proceedings.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facility Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;

on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;

the development of a ship security plan;

ship identification number to be permanently marked on a vessel's hull;

a continuous synopsis record kept onboard showing a vessel's history including the name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and

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compliance with flag state security certification requirements, which are reviewed every five years and are subject to intermediate verification every 2.5 years.

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The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid International Ship Security Certificate attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. Our managers intend to implement the various security measures addressed by MTSA, SOLAS and the ISPS Code, and we intend that our fleet will comply with applicable security requirements. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

Inspection by Classification Societies

Every oceangoing vessel must be classed by a classification society. The classification society certifies that the vessel is in class, signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class certification, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

Annual Surveys. For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

Intermediate Surveys. Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys may be carried out on the occasion of the second or third annual survey.

Class Renewal Surveys. Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a shipowner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. Upon a shipowner's request, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years. Vessels under five years of age can waive drydocking in order to increase available days and decrease capital expenditures, provided the vessel is inspected underwater.

Most vessels are also drydocked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a recommendation which must be rectified by the shipowner within prescribed time limits.

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Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as in class by a classification society which is a member of the International Association of Classification Societies. All our vessels are certified as being in class by all the major Classification Societies (e.g., American Bureau of Shipping, Lloyd's Register of Shipping). All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memorandum of agreement. If the vessel is not certified on the date of closing, we have no obligation to take delivery of the vessel.

Class Surveys - drilling rigs. Class renewal surveys, also known as special surveys or class work, are carried out for the rig's hull, machinery, drilling equipment, and for any special equipment classed, at the intervals indicated by the character of classification, normally every five years. At the special survey the rig is thoroughly examined. The classification society may grant a grace period for completion of the entire or parts of the special survey.

Substantial amounts of money have to be spent for renewals and repairs to pass a special survey, as several spares and components have a defined life-time of 5-15 years. This is accelerated if the rig experiences excessive wear and tear.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as in class by a classification society which is a member of the International Association of Classification Societies. Both our drilling rigs are certified as being in class by De Norske Veritas (DNV). The *Leiv Eiriksson* completed the 5-year class in 2006 and the *Eirik Raude* in 2007.

Risk of Loss and Liability Insurance

The operation of any drybulk vessel includes risks such as mechanical failure, hull damage, collision, property loss and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental incidents, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for shipowners and operators trading in the United States market.

We maintain hull and machinery insurance, war risks insurance, protection and indemnity cover, and freight, demurrage and defense cover for our fleet in amounts that we believe to be prudent to cover normal risks in our operations. However, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe that the insurance coverage that we will obtain is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Hull & Machinery and War Risks Insurance

We maintain marine hull and machinery and war risks insurance, which includes the risk of actual or constructive total loss, for all of our vessels. Our vessels are each covered up to at least fair market value with deductibles of \$100,000 - \$150,000 per vessel per incident. We also maintain increased value coverage for most of our vessels. Under this increased value coverage, in the event of total loss of a vessel, we will be able to recover the sum insured under the increased value policy in addition to the sum insured under the hull and machinery policy. Increased value insurance also covers excess liabilities which are not recoverable under our hull and machinery policy by reason of under insurance.

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Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which insure liabilities to third parties in connection with our shipping activities. This includes third-party liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Our P&I coverage is subject to and in accordance with the rules of the P&I Association in which the vessel is entered. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or clubs. Our coverage is limited to approximately \$4.25 billion, except for pollution which is limited to \$1 billion and passenger and crew which is limited to \$3 billion.

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The fourteen P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I Association has capped its exposure to this pooling agreement at \$4.25 billion. As a member of a P&I Association which is a member of the International Group, we are subject to calls payable to the associations based on the group's claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I Associations comprising the International Group.

Permits and Authorizations

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required depend upon several factors, including the commodity transported, the waters in which the vessel operates, the nationality of the vessel's crew and the age of a vessel. We have been able to obtain all permits, licenses and certificates currently required to permit our vessels to operate. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of us doing business.

C. Organizational Structure

As of December 31, 2009, the Company is the sole owner of all of the outstanding shares of the Company's subsidiaries, as listed on Exhibit 8.1 to this document.

D. Property, Plant and Equipment

We do not own any real property. We lease office space in Athens, Greece from our Chief Executive Officer. Through our subsidiaries, we lease office space in Nicosia, Cyprus; Stavanger, Norway; London, UK; Taccoradi, Ghana and Accra, Ghana. Our interests in the drybulk vessels and drilling units in our fleet are our only material properties. See "Our Fleet" in this section.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. Operating Results

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our historical consolidated financial statements and accompanying notes included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" and elsewhere in this report.

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Our Drybulk Carrier Segment

Factors Affecting Our Results of Operations – Drybulk Carrier Segment

We charter our drybulk carriers to customers primarily pursuant to time charters. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter. Although the vessels in our fleet are primarily employed on short-term time charters ranging from two to twelve months, we may employ additional vessels on longer-term time charters in the future. We also charter three of our vessels on bareboat charters. Under a bareboat charter, the vessel is chartered for a stipulated period of time which gives the charterer possession and control of the vessel, including the right to appoint the master and the crew. Under bareboat charters all voyage costs are paid by the Company's customers.

We believe that the important measures for analyzing trends in the results of our operations consist of the following:

Calendar days. We define calendar days as the total number of days in a period during which each vessel in our fleet was in our possession including off-hire days associated with major repairs, drydockings or special or intermediate surveys. Calendar days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during that period.

Voyage days. We define voyage days as the total number of days in a period during which each vessel in our fleet was in our possession net of off-hire days associated with major repairs, drydockings or special or intermediate surveys. The shipping industry uses voyage days (also referred to as available days) to measure the number of days in a period during which vessels actually generate revenues.

Fleet utilization. We calculate fleet utilization by dividing the number of our voyage days during a period by the number of our calendar days during that period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons such as scheduled repairs, vessel upgrades, drydockings or special or intermediate surveys.

Spot charter rates. Spot charter rates are volatile and fluctuate on a seasonal and year to year basis. Fluctuations are caused by imbalances in the availability of cargoes for shipment and the number of vessels available at any given time to transport these cargoes.

TCE rates. We define TCE rates as our voyage and time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. TCE rate, a non-GAAP measure, provides additional meaningful information in conjunction with revenues from our drybulk carriers, the most directly comparable GAAP measure, because it assists Company management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance. TCE rate is also a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters generally are expressed in such amounts.

The following table reflects our voyage days, calendar days, fleet utilization and TCE rates for our drybulk carrier segment for the periods indicated.

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	Year Ended December 31,				
	2005	2006	2007	2008	2009
Average number of vessels	21.6	29.76	33.67	38.56	38.12
Total voyage days for fleet	7,710	10,606	12,130	13,896	13,660
Total calendar days for fleet	7,866	10,859	12,288	14,114	13,914
Fleet Utilization	98.00%	97.70%	98.71%	98.45%	98.17%
Time charter equivalent	28,446	21,918	45,417	58,155	30,425

Voyage Revenues

Our voyage revenues are driven primarily by the number of vessels in our fleet, the number of voyage days during which our vessels generate revenues and the amount of daily charterhire that our vessels earn under charters, which, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and disposals, the amount of time that we spend positioning our vessels, the amount of time that our vessels spend in drydock undergoing repairs, maintenance and upgrade work, the age, condition and specifications of our vessels, levels of supply and demand in the drybulk transportation market and other factors affecting spot market charter rates for drybulk carriers.

Vessels operating on period time charters provide more predictable cash flows, but can yield lower profit margins than vessels operating in the short-term, or spot, charter market during periods characterized by favorable market conditions. Vessels operating in the spot charter market generate revenues that are less predictable but may enable us to capture increased profit margins during periods of improvements in charter rates although we are exposed to the risk of declining charter rates, which may have a materially adverse impact on our financial performance. If we employ vessels on period time charters, future spot market rates may be higher or lower than the rates at which we have employed our vessels on period time charters.

In 2009, we had one of our vessels in the Baumarine pool, which remained in the pool as of December 31, 2009. We are paid a percentage of revenues generated by the pool calculated in accordance with a pool point formula, which is determined by points awarded to each vessel based on the vessel's age, dwt, speed, fuel consumption and certain other factors. For example, a younger vessel with higher carrying capacity and greater fuel efficiency would earn higher pool points than an older vessel with lower carrying capacity and lesser fuel efficiency. Revenues are paid every 15 days in arrears based on the points earned by each vessel. We believe that by placing our vessels in a pool of similar vessels, we benefit from certain economies of scale available to the pool relating to negotiations with major charterers and flexibility in positioning vessels to obtain maximum utilization.

Revenue from these pooling arrangements is accounted for on the accrual basis and is recognized when the collectability has been reasonably assured. Revenue from the pooling arrangements for the years ended December 31, 2007, 2008 and 2009 accounted for 12%, 6% and 1% of our voyage revenues, respectively.

Voyage Expenses and Voyage Expenses Related Party

Voyage expenses and voyage expenses related party primarily consists of commissions paid.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Our vessel operating expenses, which generally represent fixed costs, have historically increased as a result of the increase in the size of our fleet. Other factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for insurance, may also cause these expenses to increase.

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Depreciation

We depreciate our vessels on a straight-line basis over their estimated useful lives determined to be 25 years from the date of their initial delivery from the shipyard. Depreciation is based on cost less the estimated residual value.

Management Fees Related Party

We outsource all of our technical and commercial functions relating to the operation and employment of our drybulk carrier vessels to Cardiff pursuant to new management agreements effective July 1, 2008, with an initial term of five years that will automatically be extended to successive five year terms. In the case of a vessel having been sold, notice to terminate the relevant management agreement is not effective until 90 days following the date of the protocol of delivery, unless otherwise mutually agreed in writing.

General and Administrative Expenses

Our general and administrative expenses mainly include executive compensation and the fees paid to Fabiana, a related party entity incorporated in the Marshall Islands. Fabiana provides the services of the individuals who serve in the position of Chief Executive Officer. Fabiana is beneficially owned by our Chief Executive Officer.

Interest and Finance Costs

We have historically incurred interest expense and financing costs in connection with vessel-specific debt of our subsidiaries. We used a portion of the proceeds of our initial public offering in February 2005 to repay all of our then-outstanding debt. We used a portion of the proceeds of our controlled equity offering through Cantor Fitzgerald as sales agent in 2006, 2007 and 2008 as well as a portion of the proceeds of our at the market offering through Merrill Lynch & Co. as sales agent in 2009 to repay existing indebtedness. We have incurred financing costs and we also expect to incur interest expenses under our credit facilities and convertible notes facility in connection with debt incurred to finance future acquisitions. However, we intend to limit the amount of these expenses and costs by repaying our outstanding indebtedness from time to time with the net proceeds of future equity issuances.

Inflation

Inflation has not had a material effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing costs.

Lack of Historical Operating Data for Vessels Before Their Acquisition

Although vessels are generally acquired free of charter, we have acquired (and may in the future acquire) some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is usually delivered to the buyer free of charter. It is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer entering into a separate direct agreement (called a novation agreement) with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter because it is a separate service agreement between the vessel owner and the charterer.

Where we identify any intangible assets or liabilities associated with the acquisition of a vessel, we record all identified tangible and intangible assets or liabilities at fair value. Fair value is determined by reference to market data and the discounted amount of expected future cash flows. Where we have assumed an existing charter obligation or entered into a time charter with the existing charterer in connection with the purchase of a vessel at charter rates that are less than market charter rates, we record a liability, based on the difference between the assumed charter rate and the market charter rate for an equivalent vessel to the extent the vessel's capitalized cost would not exceed its fair value without a time charter. Conversely, where we assume an existing charter obligation or enter into a time charter with the existing charterer in connection with the purchase of a vessel at charter rates that

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are above market charter rates, we record an asset, based on the difference between the market charter rate for an equivalent vessel and the contracted charter rate. This determination is made at the time the vessel is delivered to us, and such assets and liabilities are amortized to revenue over the remaining period of the charter.

During 2007, the Company acquired three drybulk carrier vessels for \$193.1 million which were under existing bareboat time charter contracts which the Company agreed to assume through arrangements with the respective charterers. The Company upon delivery of the above vessels evaluated the charter contracts assumed and recognized a liability of \$38.7 million representing the fair value of below market acquired time charters, which is an equivalent of a present value of the excess of market rates of equivalent time charters prevailing at the time the foregoing vessels were delivered over existing rates of time charters assumed.

During 2008 and 2009, the Company did not acquire any vessels which were under existing bareboat or time charter contracts.

When we purchase a vessel and assume or renegotiate a related time charter, we must take the following steps before the vessel will be ready to commence operations:

obtain the charterer's consent to us as the new owner;

obtain the charterer's consent to a new technical manager;

in some cases, obtain the charterer's consent to a new flag for the vessel;

arrange for a new crew for the vessel, and where the vessel is on charter, in some cases, the crew must be approved by the charterer;

replace all hired equipment on board, such as gas cylinders and communication equipment;

negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;

register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state;

implement a new planned maintenance program for the vessel; and

ensure that the new technical manager obtains new certificates for compliance with the safety and vessel security regulations of the flag state.

The following discussion is intended to help you understand how acquisitions of vessels affect our business and results of operations.

Our business is comprised of the following main elements:

employment and operation of our drybulk vessels;

drilling rigs; and

management of the financial, general and administrative elements involved in the conduct of our business and ownership of our drybulk vessels and drilling rigs.

The employment and operation of our vessels require the following main components:

vessel maintenance and repair;

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crew selection and training;

vessel spares and stores supply;

contingency response planning;

onboard safety procedures auditing;

accounting;

vessel insurance arrangement;

vessel chartering;

vessel security training and security response plans (ISPS);

obtain ISM certification and audit for each vessel within the six months of taking over a vessel;

vessel hire management;

vessel surveying; and

vessel performance monitoring.

The management of financial, general and administrative elements involved in the conduct of our business and ownership of our vessels requires the following main components:

management of our financial resources, including banking relationships, i.e., administration of bank loans and bank accounts;

management of our accounting system and records and financial reporting;

administration of the legal and regulatory requirements affecting our business and assets; and

management of the relationships with our service providers and customers.

The principal factors that affect our profitability, cash flows and shareholders' return on investment include:

Charter rates and periods of charter hire for our drybulk vessels;

day rates and duration of drilling contracts;

utilization of rigs (earnings efficiency);

levels of drybulk carrier and rig operating expenses;

depreciation and amortization expenses;

financing costs; and

fluctuations in foreign exchange rates.

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Our Offshore Drilling Segment

Factors Affecting Our Results of Operations Offshore Drilling Segment

We charter our drilling rigs to customers primarily pursuant to long-term drilling contracts. Under the drilling contracts, the customer typically pays us a fixed daily rate, depending on the activity and up-time of the rig. The customer bears all fuel costs and logistics costs related to transport to/from the rig. We remain responsible for paying the rigs operating expenses, including the cost of crewing, catering, insuring, repairing and maintaining the rig, the costs of spares and consumable stores and other miscellaneous expenses.

We believe that the most important measures for analyzing trends in the results of our operations consist of the following:

Employment Days We define employment days as the total number of days the drilling vessels are employed on a drilling contract.

Day rates. We define drilling day rates as the maximum rate in Dollars possible to earn for drilling services for one day, under the drilling contract. Such day rate may be measured by quarter-hour, half-hour or hourly basis, and may be reduced depending on the activity performed according to the drilling contract.

Earning efficiency on hire. Earning efficiency measures the effective earnings ratio reduced by certain operations paid at reduced rate, non-productive time at zero rate, or off hire without day rates, as a percentage of full earnings rate. Earning efficiency on hire measures the earning efficiency only for the period being on contract, not including off-hire periods.

Mobilization / demobilization fees: In connection with drilling contracts the Company may receive revenues for preparation and mobilization of equipment and personnel or for capital improvements to the drilling vessels, day rate or fixed price mobilization and demobilization fees. For each contract, the Company determines whether the contract, for accounting purposes, is a multiple element arrangement and, if so, identifies all deliverables (elements). For each element the Company determines how and when to recognize revenue.

Term contracts: These are contracts where the assignment is to operate the unit for a specified period of time. For these types of contracts, the Company determines whether the arrangement is a multi element arrangement, containing both a lease element and drilling services element.

Lease accounting: For revenues derived from contracts that contain a lease, the lease elements are recognized to the statement of operations on a straight line basis, taking into consideration the different day rates, utilization and transit between locations that are anticipated to take place in the lease period. The drilling services element of mobilization and contributions from customers is recognized in the period in which the services are rendered. The Company will make a best effort estimate to split the contractual day rate into a lease element and a drilling services element in order to conduct such accounting. Direct incremental expenses of mobilization are deferred and recognized over the estimated duration of the drilling contracts. To the extent that deferred expenses exceed revenue to be recognized, they are expensed as incurred. Capital improvements to the rig are depreciated over the estimated useful lives of the asset. Demobilization fees and expenses are recognized over the demobilization period. Other operating expenses are expensed when incurred.

Revenue from Drilling Contracts

Our drilling revenues are driven primarily by the number of rigs in our fleet, the contractual day rates and the utilization of the rigs. This, in turn, is affected by a number of factors, including our decisions relating to rig acquisitions and disposals, the amount of time that our rigs spend on planned off-hire class work, unplanned off-hire

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maintenance and repair, off-hire upgrade and modification work, the age, condition and specifications of our rigs, levels of supply and demand in the rig market, the price of oil, and other factors affecting the market day rates for drilling rigs.

Rig Operating Expenses

Rig operating expenses include crew wages and related costs, catering, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, shore based costs and other miscellaneous expenses. Our rig operating expenses, which generally represent fixed costs, have historically increased as a result of the business climate in the offshore drilling sector. Specifically, wages and vendor supplied spares, parts and services have experienced a significant price increase over the last two to three years. Other factors beyond our control, some of which may affect the offshore drilling industry in general, including, but not limited to, developments relating to market prices for insurance, may also cause these expenses to increase.

Depreciation

We depreciate our rigs on a straight-line basis over their estimated useful lives. Bare-decks are depreciated over 30 years and other asset parts over 5-15 years. We expense the costs associated with a five year periodic class work.

Management Fees to Related Party

The owning companies of Hulls 1837 and 1838 pay a management fee of \$40,000 per month per drillship Hull to Cardiff. The management agreements also provide for: (i) chartering commission of 1.25% on all freight, hire and demurrage revenues; (ii) a commission of 1% on all gross sale proceeds or purchase price paid for drillships; (iii) a commission of 1% on loan financing or refinancing; and (iv) a commission of 2% on insurance premiums.

Management Fees from Related Party

In August 2008, Ocean Rig AS entered into management agreements with the entities that own newbuilding Hulls 1837 and 1838 and with the Company in respect of newbuilding Hulls 1865 and 1866 for both the construction and operations period until the end of 2020. The owner entities cover all designated costs of the manager. In addition, the manager receives in the pre steel-cutting construction period a fee of \$250 per day per vessel, increasing to \$2,500 after the steel-cutting in the construction period. The fee increases to \$8,000 per day in the operations period.

General and Administrative Expenses

Our general and administrative expenses mainly include the costs of our offices, including approximately 47 senior management and employees and related costs.

Interest and Finance Costs

Ocean Rig completed a global refinancing in 2008, replacing secured bank debt and two bond issuances with secured bank debt only. See below under Current Credit Facilities \$1.04 billion revolving credit and term loan facility, dated September 17, 2008. Historically, we have incurred interest expense and financing costs in connection with debt covering the fleet and not with rig-specific debt.

Table of Contents**Results of Operations****Selected Financial Data**

Following our acquisition of Ocean Rig ASA, or Ocean Rig, and entrance into the drillship construction contracts, we have two reportable segments, the Drybulk Carrier segment and the offshore Drilling Rig segment. We commenced consolidation of Ocean Rig on May 15, 2008.

The following table reflects our voyage days, calendar days, fleet utilization and TCE rates for our drybulk vessels for the periods indicated.

Drybulk Carrier segment

	2007	2008	2009
Average number of vessels	33.67	38.56	38.12
Total voyage days for fleet	12,130	13,896	13,660
Total calendar days for fleet	12,288	14,114	13,914
Fleet Utilization	98.71%	98.45%	98.17%
Time charter equivalent	\$ 45,417	\$ 58,155	\$ 30,425

Drilling Rig segment

The following table reflects our day rates and earning efficiencies for the year ended December 31, 2009.

(Day rates in thousands of Dollars, earning efficiency in percent)

	2008	2009
Average day rates	476	572
Average earning efficiency on hire	89%	95%

Please see Item 3. Key Information A. Selected Financial Data for information concerning the calculation of TCE rates.

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Year ended December 31, 2009 compared to the year ended December 31, 2008

	Year ended December 31,		Change	
	2008	2009		
REVENUES:				
Revenues	\$ 1,080,702	\$ 819,834	\$ (260,868)	(24.1)%
EXPENSES:				
Voyage expenses	53,172	28,779	(24,393)	(45.9)%
Vessels and drilling rigs operating expenses	165,891	201,887	35,996	21.7%
Depreciation and amortization	157,979	196,309	38,330	24.3%
Gain on sale of assets, net	(223,022)	(2,045)	220,977	99.1%
Gain on contract cancellation	(9,098)	(15,270)	(6,172)	(67.8)%
Contract termination fees and forfeiture of vessels deposits	160,000	259,459	99,459	62.2%
Vessel impairment charge		1,578	1,578	100%
Goodwill impairment charge	700,457		(700,457)	(100)%
General and administrative expenses	89,358	90,823	1,465	1.6%
Operating income/(loss)	(14,035)	58,314	72,349	515.5%
OTHER INCOME /(EXPENSES):				
Interest and finance costs	(113,194)	(97,599)	15,595	13.8%
Interest income	13,085	10,414	(2,671)	(20.4)%
Gain/(loss) on interest rate swaps	(207,936)	23,160	231,096	111.1%
Other, net	(12,640)	(6,692)	5,948	47.1%
Total other expenses, net	(320,685)	(70,717)	249,968	77.9%
INCOME/(LOSS) BEFORE INCOME TAXES AND EQUITY IN LOSS OF INVESTEE				
	(334,720)	(12,403)	322,317	96.3%
Income taxes	(2,844)	(12,797)	(9,953)	(350)%
Equity in loss of investee	(6,893)		6,893	100%
NET LOSS	(344,457)	(25,200)	319,257	92.7%
Less: Net income attributable to non controlling interests	(16,825)	(7,178)	9,647	57.3%
NET LOSS ATTRIBUTABLE TO DRYSHIPS INC.	\$ (361,282)	\$ (32,378)	\$ 328,904	91%

Revenues*Drybulk Carrier segment*

Voyage Revenues decreased by \$416.9 million, or 48.4%, to \$444.4 million for the year ended December 31, 2009, as compared to \$861.3 million for the year ended December 31, 2008. The decrease is attributable to the substantially decreased hire rates earned during in 2009 as compared to 2008. TCE (time charter equivalent) decreased from \$58,155 in 2008 to \$30,425 in 2009.

Drilling Rig segment

Revenues from drilling contracts increased by \$156 million, or 71.1%, to \$375.4 million for the year ended December 31, 2009, as compared to \$219.4 million for the year ended December 31, 2008. The increase is mainly

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due to the 12 months earnings contribution of our drilling rig segment in 2009 compared to a 7.5 month contribution in 2008. The increase is also attributable to a higher contracted day rate for the drilling rig *Eirik Raude*, as well as increased earnings efficiency for both the *Leiv Eriksson* and the *Eirik Raude*, which is partly offset due to the mobilization of the *Leiv Eriksson* to the Black Sea.

Voyage expenses

Drybulk Carrier segment

Voyage expenses decreased by \$24.4 million, or 45.9%, to \$28.8 million for the year ended December 31, 2009, as compared to \$53.2 million for the year ended December 31, 2008. The decrease is mainly attributable to the decrease in voyage revenues earned in 2009 compared to 2008.

Drilling Rig segment

The Drilling Rig segment did not incur any voyage expenses during the relevant periods.

Operating expenses

Drybulk Carrier segment

Vessel operating expenses decreased slightly by \$4.1 million, or 5.1%, to \$75.6 million for the year ended December 31, 2009, as compared to \$79.7 million for the year ended December 31, 2008. The decrease is mainly attributable to the decreased repairs, stores and spares expenses incurred in 2008 compared to 2009.

Drilling Rig segment

Drilling rig operating expenses increased by \$40.1 million, or 46.5%, to \$126.3 million for the year ended December 31, 2009, as compared to \$86.2 million for the year ended December 31, 2008. The increase was mainly due to the 12 months of expenses in 2009 compared to the 7.5 months in 2008.

Depreciation and amortization expense

Drybulk Carrier segment

Depreciation and Amortization expense for the vessels increased by \$7.0 million, or 6.3%, to \$117.5 million for the year ended December 31, 2009, as compared to \$110.5 million for the year ended December 31, 2008. The increase is due to the depreciation charge for a full year for the fleet in 2009 as opposed to the partial year for 2008 due to the various acquisitions made at higher vessel costs which is slightly offset by the disposal of vessels in 2008.

Drilling Rig segment

Depreciation and Amortization expense for the drilling rigs increased by \$31.3 million, or 65.9%, to \$78.8 million for the year ended December 31, 2009, as compared to \$47.5 million for the year ended December 31, 2008. The increase was mainly due to the increased period of operations of our drilling rigs segment in 2009.

Gain on sale of assets, net

Drybulk Carrier segment

Gain on sale of vessels decreased by \$220.6 million, or 98.9%, to \$2.4 million for the year ended December 31, 2009, compared to \$223 million for the year ended December 31, 2008. During 2009, we disposed of one vessel (*MV Paragon*) compared to seven vessels (*MV Matira*, *MV Menorca*, *MV Lanzarote*, *MV Netadola*, *MV Waikiki*, *MV Tonga* and *MV Solana*) for the same period in 2008.

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Drilling Rig segment

The Drilling Rig segment disposed assets and realized a loss of \$0.4 million for the year ended December 31, 2009.

Gain on contract cancellation

Drybulk Carrier segment

We recorded a gain on contract cancellation of \$15.3 million, which represents the deposits we retained in connection with the cancellation of the sales of the vessels MV *La Jolla* and MV *Toro* during the year ended December 31, 2009. For the year ended December 31, 2008 a gain on contract cancellation of \$9.1 million, was recorded representing the deposit we retained in connection with the cancellation of the sale of the vessel MV *Primera*.

Drilling Rig segment

The Drilling Rig segment did not undergo any asset cancellations during the relevant periods.

Contract termination fees and forfeiture of vessel deposits

Drybulk Carrier segment

An amount of \$259.5 million was recognized as contract termination fees and forfeiture of vessel deposits during the year ended December 31, 2009, of which \$118.7 million is attributable to the transfer of our interests in the owning companies of three Capesize newbuildings to an unrelated party, \$49.2 million represents the value of the shares, warrants awarded to related and third parties and George Economou's deemed shareholders contribution in connection with the cancellation of the acquisition of nine Capesize vessels, \$14.1 million is attributable to the cancellation of the memorandum of agreement to acquire a vessel, \$44.7 million is attributable to the sale of our interests in the owning company that contracted for the purchase of a newbuilding drybulk carrier and \$30.8 million is attributable to the cancellation of the construction of the two newbuildings Drybulk carriers (SS058 and SS059). An amount of \$160 million was paid as a loss on contract termination fees and forfeiture of vessel deposits for four Panamax drybulk carriers in 2008.

Drilling Rig segment

The Drilling Rig segment did not incur any such fees.

Vessel impairment charge

An amount of \$1.6 million was recognized in 2009, as a result of the impairment testing performed due to the sale of the MV *Iguana* as the sales price indicated that there were changes in circumstances that suggested the carrying amount of the asset may not be recoverable.

Goodwill impairment

An amount of \$700.5 million was recognized in 2008, as a result of the impairment testing performed on goodwill at December 31, 2008 which arose as a result of the acquisition of Ocean Rig during 2008.

General and administrative expenses

Drybulk Carrier segment

General and Administrative expenses for vessels decreased by \$2.1 million, or 2.8%, to \$72.9 million for the year ended December 31, 2009, as compared to \$75.0 million for the year ended December 31, 2008. The decrease is mainly attributable to the decrease in management fees due to commissions for financing services charged in 2008. General and administrative expenses for the year ended December 31, 2009 included cash expenses of \$34.8 million and non-cash expenses of \$38.1 million.

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Drilling Rig segment

General and Administrative expenses for drilling rigs increased by \$3.6 million, or 25%, to \$18 million for the year ended December 31, 2009, as compared to \$14.4 million for the year ended December 31, 2008. The increase is mainly due to the fact that we consolidated Ocean Rig for 7.5 months in 2008.

Interest and finance costs

Drybulk Carrier segment

Interest and finance costs for vessels decreased by \$9.2 million, or 18.5%, to \$40.5 million for the year ended December 31, 2009, compared to \$49.7 million for the year ended December 31, 2008. This decrease was mainly due to lower average interest rates in 2009, as compared to 2008.

Drilling Rig segment

Interest and Finance Costs for drilling rigs decreased by \$6.4 million, or 10.1%, to \$57.1 million for the year ended December 31, 2009, compared to \$63.5 million for the year ended December 31, 2008. The increase is mainly due to interest expense being borne for 12 months in 2009 as compared to 7.5 months in 2008.

Interest Income

Drybulk Carrier segment

For the Drybulk Carrier segment, interest income decreased by \$4.4 million, or 59.5%, to \$3.0 million for the year ended December 31, 2009, compared to \$7.4 million for the year ended December 31, 2008, due to lower interest rates during 2009.

Drilling Rig segment

For the Drilling Rig segment, interest income amounted to \$7.4 million for the year ended December 31, 2009 compared to \$5.7 million for the year ended December 31, 2008, due to interest income for 12 months in 2009 compared to 7.5 months in 2008.

Gain/(Loss) On Interest Rate Swaps

Drybulk Carrier segment

For the Drybulk Carrier segment, loss on interest rate swaps decreased by \$146.1 million from a loss on the mark-to market interest rate swaps amounting to \$145.0 million for 2008 to a gain of \$1.1 million for 2009. The change is attributable to the movement in interest rates during 2009 since the number of contracts remained unchanged in 2008 and 2009. Even though the Company considers these instruments as economic hedges, none of the interest rate swaps for the Drybulk Carrier segment qualify for hedge accounting.

Drilling Rig segment

The Drilling Rig segment realized a gain on interest rate swaps which did not qualify for hedge accounting of \$22.1 million during 2009 compared a loss of \$62.9 million in 2008.

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Other, net

Drybulk Carrier segment

For the Drybulk Carrier segment, a loss of \$8.7 million was realized during 2009 compared to a loss of \$0.2 million during 2008. The increase is mainly attributable to the loss on FFA trading, which commenced during 2009, amounting to \$10.0 million.

Drilling Rig segment

For the Drilling Rig segment, a gain of \$2 million was realized during 2009 compared to a loss of \$12.4 million during 2008. The loss in 2008 is mainly attributable to the commission of \$9.9 million paid to Cardiff in connection with the acquisition of the remaining shares in Ocean Rig and the loss on the foreign currency contracts of \$2.5 million. During 2009 the foreign currency contracts realized a gain of \$2 million.

Income taxes

Drybulk Carrier segment

No income taxes were incurred on the international shipping income in the Drybulk Carrier segment for the relevant periods.

Drilling Rig segment

Income taxes increased by \$10 million to \$12.8 million for the year ended December 31, 2009, compared to \$2.8 million for the period from May 15, 2008 to December 31, 2008. These taxes primarily represent taxes for the operations of the *Eirik Raude* in Ghana.

Equity in Loss of Investees

Equity in loss of investees amounted to \$6.9 million in the year ended December 31, 2008. This represents the amount of loss that is attributable to the shareholding of DryShips Inc. prior to obtaining control of Ocean Rig for the period from January 1, 2008 to May 14, 2008. There is no such income/loss for the year ended December 31, 2009.

Non controlling Interest

Net income allocated to non controlling interest amounted to an expense of \$16.8 million in the year ended December 31, 2008 and \$7.2 million in the year ended December 31, 2009. This represents the amount of consolidated income that is not attributable to Dryships Inc.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Following our acquisition and consolidation of Ocean Rig at May 14, 2008, we have two reportable segments, the Drybulk Carrier segment and the Drilling Rig segment.

Table of Contents**Results of Operations**

Year ended December 31, 2008, compared to the year ended December 31, 2007.

	Year ended December 31,		Change	
	2007	2008		
REVENUES:				
Revenues	\$ 582,561	\$ 1,080,702	\$ 498,141	85.5%
EXPENSES:				
Voyage expenses	31,647	53,172	21,525	68.0%
Vessels and drilling rigs operating expenses	63,225	165,891	102,666	162.4%
Depreciation and amortization	76,511	157,979	81,468	106.5%
Gain on sale of vessels	(137,694)	(223,022)	(85,328)	(62.0)%
Gain on contract cancellation		(9,098)	(9,098)	(100.0)%
Contract termination fees and forfeiture of vessels deposits		160,000	160,000	100%
Goodwill impairment charge		700,457	700,457	100%
General and administrative expenses	17,072	89,358	72,286	423.4%
Operating income/(loss)	531,800	(14,035)	(545,835)	(102.6)%
OTHER INCOME /(EXPENSES):				
Interest and finance costs	(51,231)	(113,194)	(61,963)	(120.9)%
Interest income	5,073	13,085		