
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

**FORM 20-F/A
Amendment No. 1**

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)

**Republic of the Marshall Islands
(Jurisdiction of incorporation or organization)**

**80 Kifissias Avenue
GR 15125 Amaroussion
Greece
(Address of principal executive offices)**

**Mr. George Economou
Tel: + 011 30 210-80 90-570, Fax: + 011 30 210 80 90 585
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

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

<u>Title of class</u>	<u>Name of exchange on which registered</u>
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 by the International Accounting Standards Board Other

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

TABLE OF CONTENTS

PART I

<u>Forward-Looking Statements</u>	1
<u>Explanatory Note</u>	2
<u>Item 3 - Key Information</u>	3
<u>Item 5 - Operating and Financial Review and Prospects</u>	8
<u>Item 8 - Financial Information</u>	18
<u>Item 11 - Quantitative and Qualitative Disclosures about Market Risk</u>	18

PART II

<u>Item 15 - Controls and Procedures</u>	18
--	----

PART III

<u>Item 17 - Financial Statements</u>	20
<u>Item 18 - Financial Statements</u>	20
<u>Item 19 - Exhibits</u>	21

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 Amendment No. 1 to our 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 Amendment No. 1 to our 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 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.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 20-F/A amends our Annual Report on Form 20-F for the year ended December 31, 2009, as filed with the U.S. Securities and Exchange Commission (the “Commission”) on April 9, 2010 (the “2009 Annual Report”).

In 2011 and subsequent to the issuance of the Company’s 2009 consolidated financial statements, the Company’s management determined that the amount of interest capitalized pursuant to ASC 835-20, *Capitalization of Interest* (ASC 835-20) for four drillships under construction for the year ended December 31, 2009 was erroneously calculated. The errors comprised the following:

- From the amount of the expenditures for the qualifying assets, the Company erroneously excluded the portion of the purchase price of two drillships under construction acquired by its consolidated subsidiary, Ocean Rig UDW, that was paid for in shares of stock of Ocean Rig UDW.
- From the calculation of the capitalization rate used to determine capitalized interest, the Company erroneously excluded borrowings of its consolidated subsidiary, Ocean Rig UDW, and certain borrowings of DryShips Inc.

The correction of the above errors results in an increase in the amount of interest capitalized in 2009 by \$7.9 million (included in Advances for vessels and rigs under construction and acquisitions in the balance sheet) and a corresponding decrease in interest and finance costs for the year ended December 31, 2009.

In addition, the Company erroneously accounted for under ASC 815-30, *Cash Flow Hedges* (ASC 815-30), the settlement payments made in 2009 on interest rate swaps that were designated and effective as cash flow hedges on variable rate debt interest on which was being capitalized as cost of drillships under construction by immediately reclassifying the entire settlement payments from accumulated other comprehensive loss (“AOCL”) to interest and finance costs in the statement of operations. A portion of the settlement payments on interest rate swaps is reclassified back to AOCL and will be reclassified to interest and finance costs at the same time that the capitalized interest on the hedged variable rate debts is recognized in income through depreciation. The correction of the erroneous application of ASC 815-30 results in a decrease in interest and finance costs for the year ended December 31, 2009 and an increase in AOCL by \$5.3 million as of December 31, 2009.

The Company has restated its consolidated financial statements for the year ended December 31, 2009 (the “Restated Financial Statements”) to reflect the adjustments discussed above, resulting in an aggregate (i) decrease in net loss of \$13.2 million, (ii) decrease in loss per common share of \$0.06, (iii) increase in net cash provided by operating activities of \$7.9 million and (iv) increase in net cash used in investing activities of \$7.9 million. The Restated Financial Statements are otherwise identical in all respects to the financial statements contained in our 2009 Annual Report. In addition, new Reports of Independent Registered Public Accounting Firms have been issued in relation to the audit of the Restated Financial Statements and of the effectiveness of internal control over financial reporting, the latter of which expresses an adverse opinion.

In connection with the restatement described above, we have concluded that we did not maintain effective disclosure controls and procedures and internal controls over financial reporting as of December 31, 2009. We have amended “Part II —Item 15. Controls and Procedures” to reflect this conclusion.

Included in this Form 20-F/A are amended Items 3A. (Selected Financial Data), 5A. (Operating Results), solely with respect to the comparison of the year ended December 31, 2009 to the year ended December 31, 2008 and a restatement of the Company’s critical accounting policies, 8 (Financial Information), 11 (Quantitative and Qualitative Disclosures about Market Risk), solely with respect to interest rate risk, 15 (Controls and Procedures), 17 (Financial Statements), and Item 18 (Financial Statements).

Other than as described above, this Form 20-F/A does not, and does not purport to, amend, update or restate any other information or disclosure included in our 2009 Annual Report and does not purport to reflect any events that have occurred after the date of the initial filing of our 2009 Annual Report. As a result, our 2009 Annual Report, as amended by this Form 20-F/A and the attached certifications and consents, continues to speak as of the initial filing date of our 2009 Annual Report. We are including currently dated Sarbanes Oxley Act Section 302 and Section 906 certifications of our Chief Executive Officer and Chief Financial Officer, which are attached to this Form 20-F/A as Exhibits 12.1, 12.2, 13.1 and 13.2, and currently dated consents of our independent registered public accounting firm, which are attached to this Form 20-F/A as Exhibits 15.1, 15.2, 15.3.

PART I.

Item 3. Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data and other operating data 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 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 (“U.S. 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 (as restated)(2)
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)	(84,430)
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)	766
Income taxes	—	—	—	(2,844)	(12,797)
Equity in loss of investee	—	—	(299)	(6,893)	—
Net Income/(loss)	110,243	54,312	478,325	(344,457)	(12,031)
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)	(19,209)
Net Income/ (Loss) attributable to common stockholders	110,243	54,312	478,325	(361,809)	(26,706)
Earnings/(loss) per common share attributable to Dryships Inc. common stockholders, basic	\$ 3.81	\$ 1.68	\$ 13.40	\$ (8.11)	\$ (0.13)
Weighted average number of common shares, basic	28,957,397	32,348,194	35,700,182	44,598,585	209,331,737
Earning / (loss) per common share attributable to Dryships Inc. common stockholders, diluted	\$ 3.81	\$ 1.68	\$ 13.40	\$ (8.11)	\$ (0.13)
Weighted average number at common shares, 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	\$ —

(1) Cash compensation to members of our senior management and directors amounted to \$1.4 million, \$1.5 million, \$9.7 million, \$5.3 million and \$11.8 million for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 respectively.

- (2) As a result of the restatement, interest and finance costs, loss before income taxes and equity in loss of investee, net loss, net loss attributable to Dryships Inc., net loss attributable to common stockholders, loss per common share attributable to Dryships Inc. common stockholders, basic and diluted, total assets, stockholders' equity, net cash provided by operating activities, net cash used in investing activities have been restated. See Note 3 to the consolidated financial statements.

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 (as restated) ⁽²⁾
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	5,806,995
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	2,812,542
OTHER FINANCIAL DATA					
Net cash provided by operating activities	163,806	99,082	407,899	540,129	294,124
Net cash used in investing activities	(847,649)	(287,512)	(955,749)	(2,110,852)	(169,950)
Net cash provided by financing activities	680,656	185,783	656,381	1,762,769	265,881
EBITDA ⁽¹⁾	170,393	153,024	600,994	(100,350)	263,913
DRYBULK FLEET DATA:					
Average number of vessels ⁽²⁾	21.6	29.76	33.67	38.56	38.12
Total voyage days for drybulk carrier fleet ⁽³⁾	7,710	10,606	12,130	13,896	13,660
Total calendar days for drybulk carrier fleet ⁽⁴⁾	7,866	10,859	12,288	14,114	13,914
Drybulk carrier fleet utilization ⁽⁵⁾	98.00%	97.70%	98.71%	98.46%	98.17%
(In Dollars)					
AVERAGE DAILY RESULTS					
Time charter equivalent ⁽⁶⁾	28,446	21,918	45,417	58,155	30,425
Vessel operating expenses ⁽⁷⁾	5,069	4,988	5,145	5,644	5,434
DRILLING RIG FLEET DATA:					
Average number of drilling rigs ⁽²⁾	—	—	—	2.0	2.0
Total voyage days for drilling rig fleet ⁽³⁾	—	—	—	410	695
Total calendar days for drilling rig fleet ⁽⁴⁾	—	—	—	462	730

(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 (as restated)
Drilling rig fleet utilization ⁽⁵⁾	—	—	—	88.66%	95.25%

(In Dollars)

AVERAGE DAILY RESULTS

Rig operating expenses ⁽⁷⁾	—	—	—	181,821	192,988
---------------------------------------	---	---	---	---------	---------

- (1) 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 U.S. 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.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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-U.S. GAAP measure, provides additional meaningful information in conjunction with revenues from our vessels, the most directly comparable U.S. 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.
- (7) 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.

<i>(Dollars in thousands)</i>	For the Year Ended December 31,				2009
	2005	2006	2007	2008	(as restated)
Net income/(loss)	110,243	54,312	478,325	(361,282)	(19,209)
Add: Net interest expense	19,919	40,701	46,158	100,109	74,016
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

Drybulk Carrier Segment <i>(In thousands of Dollars, except for TCE rates, which are expressed in Dollars and voyage days)</i>	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

<i>(In thousands of Dollars)</i>	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

Item 5. Operating and Financial Review and Prospects

Year ended December 31, 2009 (as restated) compared to the year ended December 31, 2008

	Year ended December 31,		Change	
	2008	2009 (as restated)		
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)	(84,430)	28,764	25.4%
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)	(57,548)	263,137	82.1%
INCOME/(LOSS) BEFORE INCOME TAXES AND EQUITY IN LOSS OF INVESTEE				
	(334,720)	766	335,486	100.2%
Income taxes	(2,844)	(12,797)	(9,953)	(350)%
Equity in loss of investee	(6,893)	—	6,893	100%
NET LOSS	(344,457)	(12,031)	332,426	96.5%
Less: Net income attributable to non controlling interests	(16,825)	(7,178)	9,647	57.3%
NET LOSS ATTRIBUTABLE TO DRYSHIPS INC.	\$ (361,282)	\$ (19,209)	\$ 342,073	94.7%

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.

Offshore drilling 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 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 Eiriksson* 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.

Offshore drilling segment

The offshore drilling 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.

Offshore drilling 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.

Offshore drilling 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.

Offshore drilling 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*.

Offshore drilling 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.

Offshore drilling 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.

Offshore drilling segment

General and Administrative expenses for drilling rigs increased by \$3.6 million, or 25%, to \$18.0 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.

Offshore drilling segment

Interest and Finance Costs for drilling rigs decreased by \$19.6 million, or 30.9%, to \$43.9 million for the year ended December 31, 2009, compared to \$63.5 million for the year ended December 31, 2008. The decrease is mainly due to lower average loan balance in 2009 compared to 2008, partly offset by interest expense being borne for 12 months in 2009 as compared to 7.5 months in 2008. Additionally, \$30.2 million of interest was capitalized in 2009, compared to \$9.0 million in 2008, relating to rigs under construction.

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.

Offshore drilling 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.

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.

Offshore drilling 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 to a loss of \$62.9 million in 2008.

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.

Offshore drilling 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 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.

Offshore drilling 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.

Cash Flows

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

Our cash and cash equivalents increased to \$693.2 million as of December 31, 2009, compared to \$303.1 million as of December 31, 2008, primarily due to increased cash provided by operating and financing activities. Working capital is equal to current assets minus current liabilities, including the current portion of long-term debt. Our working capital deficit was \$715.4 million as of December 31, 2009. The deficit decrease is due to the reclassification of long term debt to current liabilities. If we were not in breach of our loan covenants, and \$1.3 billion of indebtedness were not reclassified to current liabilities as a result of such breach, our working capital would be a "surplus" \$582.3 million.

If our working capital deficit is not reduced or continues to grow, lenders may be unwilling to provide future financing or will provide future financing at significantly increased interest rates, which will negatively affect our earnings, liquidity and capital position, and our ability to make timely payments on our newbuilding purchase contracts and to meet our debt repayment obligations.

We are currently in negotiations with our lenders to obtain additional waivers for those that expire in 2010, or to restructure our debt. Management expects that the lenders will not demand payment of loans before their maturity, provided that we pay loan installments and accumulated accrued interest as they come due under the existing facilities. Management plans to settle the loan interest and scheduled loan repayments with cash generated from operations.

Net Cash Provided By Operating Activities

Net cash provided by operating activities decreased by \$246 million, or 45.5%, to \$294.1 million for the year ended December 31, 2009 compared to \$540.1 million for the year ended December 31, 2008. This decrease is primarily attributable to the decreased time charter rates for the drybulk carrier segment during the year ended December 31, 2009, which is offset in part by the annual contribution for the drilling rig segment in 2009 as compared to a partial contribution in 2008.

Net Cash Used In Investing Activities

Net cash used in investing activities was \$170.0 million for the year ended December 31, 2009. The Company made payments of approximately \$193.0 million for asset acquisitions and improvements, and \$23.3 million as a result of the net increase in minimum cash deposits required by our lenders. These cash outflows were partially offset by receipt of vessel sale proceeds of approximately \$45.4 million.

Net cash used in investing activities was \$2.1 billion during 2008 consisting of \$991.3 million paid to acquire Ocean Rig, \$742.8 million in payments for vessel acquisitions, \$507.3 million in advances for vessel acquisitions and vessels under construction, \$16.6 million in payments for rig improvements, \$262.7 million in payments to restricted cash, partially offset by an amount of \$410.2 million representing the net proceeds received from the sale of the vessels *MV Matira*, *MV Menorca*, *MV Netadola*, *MV Lanzarote*, *MV Waikiki*, *MV Solana* and *MV Tonga* during the year ended December 31, 2008.

Net Cash Provided By Financing Activities

Net cash provided by financing activities was \$265.9 million for the year ended December 31, 2009, consisting mainly of net proceeds of \$950.6 million from the issuance of common stock in at-the-market offerings, the net proceeds of \$447.8 million from the issuance of the convertible senior notes and the drawdown of an additional \$150.9 million under the credit facilities. This is partially offset by the repayment of \$1.2 billion of debt under our long and short-term credit facilities and the \$50 million paid for the acquisition of the non-controlling interests for the acquisition of the drillships.

Net cash provided by financing activities was \$1.8 billion for the year ended December 31, 2008, consisting mainly of a \$2.9 billion drawdown under short-term and long-term facilities and \$662.7 million from net proceeds from the issuance of common stock, partly offset by payments under short-term and long-term credit facilities in the aggregate amount of \$1.7 billion and \$33.2 million of cash dividends paid to stockholders.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of those consolidated financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially result in materially different results under different assumptions and conditions. On an ongoing basis, we evaluate our estimates, including those related to bad debts, materials and supplies obsolescence, investments, property and equipment, intangible assets and goodwill, income taxes, pensions and share based compensation. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We have described below what we believe are our most critical accounting policies that involve a high degree of judgment and the methods of their application. For a description of all of the company's significant accounting policies, see Note 2 to the Company's consolidated financial statements.

Convertible Senior Notes: In accordance with Financial Accounting Standards guidance for convertible debt instruments that contain cash settlement option upon conversion at an option of an issuer, the Company determines the carrying amounts of the liability and equity components of its convertible notes issued in November 2009 that contain cash settlement provisions by first determining the carrying amount of the liability component of the convertible notes by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component representing embedded conversion option is then determined by deducting the fair value of the liability component from the total proceeds.

Resulting debt discount is amortized to interest cost using the effective interest method over the period the debt is expected to be outstanding as an additional non-cash interest expense. Transaction costs associated with the instrument are allocated pro-rata between the debt and equity components.

The fair value of the liability component was determined assuming a 12% interest rate, representing an assumed rate that the company would have to pay for the comparable debt without the conversion feature. The fair value of the share lending agreement component was determined assuming a 5.5% interest rate representing hypothetical interest rate of equivalent Convertible Senior Notes without the share lending agreement.

Vessels' Depreciation: We record the value of our vessels at their cost (which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. Depreciation begins when the vessel is ready for its intended use, on a straight-line basis over the vessel's remaining economic useful life, after considering the estimated residual value (vessel's residual value is equal to the product of its lightweight tonnage and estimated scrap rate). Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. We estimate the useful life of our vessels to be 25 years from the date of initial delivery from the shipyard and the residual value of our vessels to be \$120 per lightweight ton. A decrease in the useful life of a dry bulk vessel or in its residual value would have the effect of increasing the annual depreciation charge. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its remaining useful life is adjusted at the date such regulations become effective.

Impairment of Long-Lived Assets: The Company reviews for impairment long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In this respect, the Company reviews its assets for impairment on a vessel by vessel or drilling rig by drilling rig basis. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company evaluates the asset for impairment loss. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value of the asset.

No impairment indicators were present and therefore no impairment losses were recorded in the year ended December 31, 2007.

As at December 31, 2008 and 2009, as well as at the end of each quarterly reporting period ended during 2009, the Company performed an impairment review of the Company's long-lived assets due to the global economic downturn, the significant decline in charter rates in the drybulk shipping industry and the outlook of the oil services industry. The Company compared undiscounted cash flows with the carrying values of the Company's long-lived assets to determine if the assets were impaired. In developing estimates of future cash flows, the Company relied upon assumptions made by management with regard to the Company's vessels and drilling rigs, including future charter rates, utilization rates, operating expenses, future dry docking costs and the estimated remaining useful lives of the vessels and drilling rigs. These assumptions are based on historical trends as well as future expectations in line with the Company's historical performance and the Company's expectations for future fleet utilization under its current fleet deployment strategy, and are consistent with the plans and forecasts used by management to conduct its business. The variability of these factors depends on a number of conditions, including uncertainty about future events and general economic conditions; therefore, the Company's accounting estimates might change from period to period. As a result of the impairment review, the Company determined that the carrying amount of the vessels was recoverable, with the exception of the MV *Iguana*, and therefore, concluded that an impairment loss was necessary.

Goodwill and intangible assets: Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired within the Drilling Rigs reporting unit. Goodwill is reviewed for impairment whenever events or circumstances indicate possible impairment in accordance with guidance regarding goodwill and other intangible assets. This guidance requires at least the annual testing for impairment, and not the amortization, of goodwill and other intangible assets with an indefinite life.

The Company tests for impairment each year on December 31. The Company tests goodwill for impairment by first comparing the carrying value of the Drilling Rigs reporting unit, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management, to its fair value. The Company estimates the fair value of the Drilling Rigs reporting unit by weighting the combination of generally accepted valuation methodologies, including both income and market approaches.

For the income approach, the Company discounts projected cash flows using a long-term weighted average cost of capital ("WACC") rate, which is based on the Company's estimate of the investment returns that market participants would require. To develop the projected net cash flows from the Company's Drilling Rigs reporting unit, which are based on estimated future utilization, day rates, projected demand for its services, and rig availability, the Company considers key factors that include assumptions regarding future commodity prices, credit market uncertainties and the effect these factors may have on the Company's contract drilling operations and the capital expenditure budgets of its customers. The estimates and assumptions regarding expected cash flows and the appropriate discount rates require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions.

For the market approach, the Company derives publicly traded company multiples from companies with operations similar to the Company's reporting units by using information publicly disclosed by other publicly traded companies and, when available, analyses of recent acquisitions in the marketplace.

If the fair value of a reporting unit exceeds its carrying value, then no further testing is required. This is referred to as Step 1. If the fair value is determined to be less than the carrying value, a second step, or Step 2, is performed to compute the amount of the impairment, if any. In this process, an implied fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the implied fair value of goodwill below its carrying value represents the amount of goodwill impairment.

From the date the Company acquired Ocean Rig ASA in May 2008 through the annual goodwill impairment test performed on December 31, 2008, the market declined significantly and various factors negatively affected industry trends and conditions, which resulted in the revision of certain key assumptions used in determining the fair value of the Company's Drilling Rigs reporting unit and therefore the implied fair value of goodwill. During the second half of 2008, the credit markets tightened, driving up the cost of capital and therefore the Company increased the WACC rate. In addition, the economic downturn and the volatile oil prices resulted in a downward revision of projected cash flows from the Company's Drilling Rigs reporting unit in the Company's forecasted-discounted cash flows analysis for its 2008 impairment testing. Furthermore, the decline in the global economy negatively impacted publicly traded company multiples used when estimating fair value under the market approach. Based on results of the Company's

annual goodwill impairment analysis and subsequent reconciliation to its market capitalization, the Company determined that the carrying value of the Company's goodwill was impaired. A total impairment charge of \$700.5 million was recorded for the year ended December 31, 2008, which represents the write-off of all recorded goodwill in the Drilling Rigs reporting unit.

The Company's finite-lived acquired intangible assets are amortized on a straight-line basis over their estimated useful lives as follows: Trade Names, 10 years; Software, 10 years; and fair value of below and above market acquired time charters, over the life of the associated contract. In accordance with guidance regarding the accounting for the Impairment or Disposal of Long-Lived Assets, the Company evaluates the potential impairment of finite-lived acquired intangible assets when there are indicators of impairment. The Company's finite-lived intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable based on estimates of future undiscounted cash flows. In the event of impairment, the asset is written down to its fair value. An impairment loss, if any, is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Further downward pressure on the Company's operating results and/or further deterioration of economic conditions could result in additional future impairments of the Company's intangible assets. See "Significant Accounting Policies", Note (7) "Acquisition of Ocean Rig ASA" and Note 8 "Intangible Assets and Liabilities" to the Notes to Consolidated Financial Statements for additional information.

Accounting for Revenue and Related Expenses:

(i) Drybulk Carrier vessels:

Time and bareboat charters: The Company generates its revenues from charterers for the charter hire of its vessels, which are considered to be operating lease arrangements. Vessels are chartered using time and bareboat charters and where a contract exists, the price is fixed, service is provided and collection of the related revenue is reasonably assured, revenue is recognized as it is earned ratably on a straight-line basis over the duration of the period of each time charter as adjusted for the off-hire days that the vessel spends undergoing repairs, maintenance and upgrade work depending on the condition and specification of the vessel.

Pooling Arrangement: For vessels operating in pooling arrangements, the Company earns a portion of total revenues generated by the pool, net of expenses incurred by the pool. The amount allocated to each pool participant vessel, including the Company's vessels, is determined in accordance with an agreed-upon formula, which is determined by points awarded to each vessel in the pool based on the vessel's age, design and other performance characteristics. Revenue under pooling arrangements is accounted for on the accrual basis and is recognized when an agreement with the pool exists, price is fixed, service is provided and the collectability is reasonably assured.

The allocation of such net revenue may be subject to future adjustments by the pool however, historically, such changes have not been material.

Voyage related and vessel operating costs: Voyage related and vessel operating costs are expensed as incurred. Under a time charter, specified voyage costs, such as fuel and port charges are paid by the charterer and other non-specified voyage expenses, such as commissions, are paid by the Company. Vessel operating costs including crews, maintenance and insurance are paid by the Company. Under a bareboat charter, the charterer assumes responsibility for all voyage and vessel operating expenses and risk of operation.

Deferred Voyage Revenue: Deferred voyage revenue primarily relates to cash advances received from charterers. These amounts are recognized as revenue over the voyage or charter period.

(ii) Drilling Rigs:

Revenues: The majority of revenues are derived from contracts including day rate based compensation for drilling services. 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 rigs and 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 as elements.

For each element the Company determines how and when to recognize revenue. There are two types of drilling contracts: well contracts and term contracts.

Well contracts: These are contracts where the assignment is to drill a certain number of wells. Revenue from day rate based compensation for drilling operations is recognized in the period during which the services are rendered at the rates established in the contracts. Mobilization fees, expenses and contributions from customers for capital improvements are recognized over the estimated duration of the drilling period. Demobilization fees and expenses are recognized over the demobilization period.

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 multiple element arrangement containing both a lease element and drilling services element. For revenues derived from contracts that contain a lease, the lease elements are recognized in 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 is recognized in the period in which the services are rendered at rates at fair value. Revenues related to mobilization and direct incremental expenses of mobilization are deferred and recognized over the estimated duration of the drilling contracts. To the extent that expenses exceed revenue to be recognized, they are expensed as incurred. Demobilization fees and expenses are recognized over the demobilization period.

Fair value of above/below market acquired time charter: Where the Company identifies any assets or liabilities associated with the acquisition of a vessel or drilling rigs the Company records all such identified assets or liabilities at fair value. Fair value is determined by reference to market data. The Company values any asset or liability arising from the market value of the time charters assumed when a vessel and/or rig is acquired. The amount to be recorded as an asset or liability at the date of delivery of a vessel or drilling rig is based on the difference between the current fair values of a charter with similar characteristics as the time charter assumed and the net present value of future contractual cash flows from the time charter contract assumed. When the present value of the time charter assumed is greater than the current fair value of such charter, the difference is recorded as "Fair value of above market acquired time charter." When the opposite situation occurs, the difference is recorded as "Fair value of below market acquired time charter." Such assets and liabilities are amortized as a reduction of, or an increase in revenue, respectively over the period of the time charter assumed.

Financial Instruments: The Company designates its derivatives based upon guidance on accounting for derivative instruments and hedging activities which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The guidance on accounting for certain derivative instruments and certain hedging activities requires all derivative instruments to be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized in earnings unless specific hedge accounting criteria are met.

- (i) **Hedge Accounting:** At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy undertaken for the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine whether they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company is party to interest swap agreements where it receives a floating interest rate and pays a fixed interest rate for a certain period in exchange. Contracts which meet the strict criteria for hedge accounting are accounted for as cash flow hedges. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognized directly as a component of other comprehensive income in equity, while the ineffective portion, if any, is recognized immediately in current period earnings.

The Company discontinues cash flow hedge accounting if the hedging instrument expires and it no longer meets the criteria for hedge accounting or the designation is revoked by the Company. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecasted transaction occurs. When the forecasted transaction occurs, any cumulative gain or loss on the hedging instrument is recognized as profit or loss. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the year as financial income or expense.

- (ii) **Other Derivatives:** Changes in the fair value of derivative instruments that have not been designated as hedging instruments are reported in current period earnings.

Stock-based compensation: Stock-based compensation represents restricted common stock granted to employees and directors, for their services. The Company calculates total compensation expenses for the award based on its fair value on the grant date and amortizes the total compensation on a straight-line basis over the vesting period of the award or service period. Expense concerning restricted common stock granted to employees and directors is included in "General and administrative expenses" in the consolidated statements of operations

Recent accounting pronouncements:

In December 2007, new guidance established accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The new guidance also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The above-mentioned guidance was effective for fiscal years beginning after December 15, 2008, and was adopted by the Company in the first quarter of 2009. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements. The new guidance was retroactively applied to the consolidated statement of stockholders equity for the year ended December 31, 2008.

In March 2008, new guidance was issued with the intent to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities. The new guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This guidance does not require comparative disclosures for earlier periods at initial adoption. The Company adopted this guidance in the first quarter of 2009.

In June 2008, new guidance clarified that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities, and the two-class method of computing basic and diluted earnings per share must be applied. The Company determined that non-vested shares granted under its equity incentive plan are participating securities because the non-vested shares participate in dividends. The guidance was effective for fiscal years beginning after December 15, 2008. The Company adopted this new guidance in 2009, which was retroactively applied to the years ended December 31, 2008 and 2007 and did not have a material impact on the earnings per share.

In December 2008, new guidance was issued which requires more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The guidance was effective for fiscal years ending after December 15, 2009. Adoption of this guidance in 2009 did not have a significant impact on the Company's financial statements.

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance establishing the FASB Accounting Standards Codification as the single source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification's content effectively supersedes previous guidance and includes only two levels of GAAP: authoritative and non-authoritative. The guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the new guidance in the third quarter of 2009 and revised references to US GAAP in these consolidated financial statements to reflect the guidance in the Codification.

In June 2009, new guidance was issued with regard to the consolidation of variable interest entities ("VIE"). This guidance responds to concerns about the application of certain key provisions of the FASB interpretation, including those regarding the transparency of the involvement with VIEs. The new guidance revises the approach to determining the primary beneficiary of a VIE to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. Specifically, the new guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, the standard requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. The Company is evaluating the impact of this guidance on its consolidated financial statements.

In September 2009, clarifying guidance was issued on multiple-element revenue arrangements. The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. The new guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting pronouncement to its consolidated financial statements.

In October 2009, new guidance was issued with regard to accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. This guidance requires that a share-lending arrangement entered into on an entity's own shares should be measured at fair value and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement. The Company applied the new guidance to the own-share lending agreement entered into in association with the Convertible Senior Notes issued in November 2009.

Item 8. Financial Information

A. Consolidated statements and other financial information.

See Item 18.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term and short-term debt. The international drybulk and offshore drilling industries are capital intensive industries, requiring significant amounts of investment. Much of this investment is provided in the form of long-term debt. Our debt usually contains interest rates that fluctuate with LIBOR. Increasing interest rates could adversely impact future earnings.

Historically, we have been subject to market risks relating to changes in interest rates, because we have had significant amounts of floating rate debt outstanding. We manage this risk by entering into interest rate swap agreements in which we exchange fixed and variable interest rates based on agreed upon notional amounts. We use such derivative financial instruments as risk management tools and not for speculative or trading purposes. In addition, the counterparty to the derivative financial instrument is a major financial institution in order to manage exposure to nonperformance counterparties.

We have a total of 34 interest rate swap, cap and floor agreements, maturing from June 2011 through September 2017. These agreements are entered into in order to hedge our exposure to interest rate fluctuations with respect to our borrowings. Three of these agreements relate to interest rate swaps that are designated and effective hedge instruments.

Our interest expense is affected by changes in the general level of interest rates. As an indication of the extent of our sensitivity to interest rate changes, an increase of 100 basis points would have decreased our net income and cash flows in the current year by approximately \$24.4 million based upon our debt level at December 31, 2009. A 1% increase in LIBOR would have increased our interest expense for the year ended December 31, 2009 from \$63.3 million to \$87.7 million.

PART II.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

As at December 31, 2009, management had originally evaluated that our disclosure controls and procedures were effective. In connection with the restatement of the 2009 consolidated financial statements of the Company as described in the "Explanatory Note" to this Form 20-F/A, we conducted a re-evaluation (under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer), pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, or the Exchange Act, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2009 (the "Evaluation Date"). Based on this re-evaluation, and as a result of the restatement of our 2009 consolidated financial statements as described in the "Explanatory Note" to this Form 20-F/A, our Chief Executive Officer and Chief Financial Officer concluded that as of the Evaluation Date, our disclosure controls and procedures were not effective to provide reasonable assurance that material information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission.

(b) Management's Annual Report on Internal Control over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), as of December 31, 2009. In making this assessment, management used the criteria set forth by the COSO in Internal Control-Integrated Framework. Based on this reassessment, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2009, due to the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness resulted in the following errors:

- From the amount of the expenditures for the qualifying assets, the Company erroneously excluded the portion of the purchase price of two drillships under construction acquired by its consolidated subsidiary, Ocean Rig UDW, that was paid for in shares of stock of Ocean Rig UDW.
- From the calculation of the capitalization rate used to determine capitalized interest, the Company erroneously excluded borrowings of its consolidated subsidiary, Ocean Rig UDW, and certain borrowings of DryShips Inc.

The correction of the above errors results in an increase in the amount of interest capitalized in 2009 by \$7.9 million (included in Advances for vessels and rigs under construction and acquisitions in the balance sheet) and a corresponding decrease in interest and finance costs for the year ended December 31, 2009.

In addition, the Company erroneously accounted for under ASC 815-30, *Cash Flow Hedges* (ASC 815-30), the settlement payments made in 2009 on interest rate swaps that were designated and effective as cash flow hedges on variable rate debt (interest on which was being capitalized as cost of drillships under construction) by immediately reclassifying the entire settlement payments from AOCL to interest and finance costs in the statement of operations. A portion of the settlement payments on the interest rate swaps is reclassified back to AOCL and will be reclassified to interest and finance costs at the same time that the capitalized interest on the hedged variable rate debts is recognized in income through depreciation. The correction of the erroneous application of ASC 815-30 results in a decrease in interest and finance costs for the year ended December 31, 2009 and an increase in AOCL by \$5.3 million as of December 31, 2009.

The foregoing financial statements misstatements were not detected by the Company's internal controls over financial reporting because of the absence of an effectively-designed control to ensure that the calculation of capitalized interest included all relevant qualifying expenditures associated with qualifying assets and captured the entire population of borrowings and borrowing costs and certain deferred financing costs. There was also the absence of an effectively-designed control to identify those cash flow hedges for which the interest on the associated borrowings was capitalized and will be recognized in earnings through depreciation. The adjustments to correct the foregoing misstatements of the 2009 financial statements were recorded by the Company.

The independent registered public accounting firm, Deloitte Hadjipavlou, Sofianos & Cambanis S.A., that audited the 2009 consolidated financial statements of the Company included in this Amendment No. 1 to the Annual Report on Form 20-F/A, has issued an updated attestation report on the Company's internal control over financial reporting which is provided in page F-7.

The independent registered public accounting firm, Ernst & Young AS, that audited the 2009 financial statements of our consolidated subsidiary, Ocean Rig UDW, included in this Amendment No. 1 to the Annual Report on Form 20-F/A, has also issued an updated attestation report on the Company's internal control over financial reporting which is provided in page F-4.

(c) Attestation Report of Independent Registered Public Accounting Firm.

Our internal control over financial reporting as of December 31, 2009 was audited by the independent registered public accounting firms that audited the 2009 consolidated financial statements, Deloitte Hadjipavlou, Sofianos & Cambanis S.A. and Ernst & Young AS (the independent registered public accounting firm that audited Ocean Rig UDW Inc., a consolidated subsidiary of the Company), as stated in their reports on pages F-7 and F-4, respectively, of the 2009 consolidated financial statements filed as part of this report.

(d) Changes in Internal Control over Financial Reporting

Other than the material weakness described above, there was no change in the Company's internal control over financial reporting that occurred during the period covered by the 2009 Annual Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(e) Remediation of Material Weaknesses in Internal Control Over Financial Reporting

To remediate the material weakness in our internal control over financial reporting as described above, management is enhancing its controls over the financial statement closing process in this area, specifically by adding additional review procedures over the relevant computations including:

- Implementing a new control over the determination of the completeness of the population of borrowings used in the determination of our capitalization rate; and
- Implementing a new control over the identification of derivative hedging instruments associated with borrowings used in determining our capitalization rate.

We anticipate that the actions described above will remediate the December 31, 2009 material weakness. The material weakness will only be considered remediated when the revised internal controls are operational for a period of time and are tested and management has concluded that the controls are operating effectively.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART III.

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

The financial statements, beginning on page F-1, together with the respective reports of the Independent Registered Public Accounting Firms thereon, are filed as a part of this amended report.

Item 19. Exhibits

(a) Exhibits, Exhibit Number, Description

- 12.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
 - 12.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
 - 13.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - 13.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - 15.1 Consent of Independent Registered Public Accounting Firm (Ernst & Young AS)
 - 15.2 Consent of Independent Registered Public Accounting Firm (Deloitte Hadjipavlou, Sofianos & Cambanis S.A.)
-

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing this Amendment No.1 to Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

DRYSHIPS INC.
(Registrant)

Date: April 15, 2011

By: /s/ Ziad Nakhleh

Ziad Nakhleh
Chief Financial Officer

DRYSHIPS INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm (Ernst & Young AS)</u>	F-2
<u>Report of Independent Registered Public Accounting Firm (Ernst & Young AS)</u>	F-3
<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting (Ernst & Young AS)</u>	F-4
<u>Report of Independent Registered Public Accounting Firm (Deloitte Hadjipavlou, Sofianos & Cambanis S.A.)</u>	F-6
<u>Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting (Deloitte Hadjipavlou Sofianos & Cambanis S.A.)</u>	F-7
<u>Consolidated Balance Sheets as of December 31, 2008 and 2009, as restated</u>	F-8
<u>Consolidated Statements of Operations for the years ended December 31, 2007, 2008 and 2009, as restated</u>	F-9
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007, 2008 and 2009, as restated</u>	F-11
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2008 and 2009, as restated</u>	F-13
<u>Notes to Consolidated Financial Statements, as restated</u>	F-15
<u>Schedule I – Condensed Financial Information of Dryships Inc.</u>	F-65

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Ocean Rig UDW Inc.

We have audited the consolidated balance sheet of Ocean Rig UDW Inc. and subsidiaries (“the Company”) as of December 31, 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

International Accounting Standards (IAS) No. 1, Presentation of Financial Statements, requires that financial statements be presented with comparative financial information. These consolidated financial statements have been prepared solely for the purpose of meeting the requirements of Rule 2-05 of Regulation S-X as it relates to the results of operations of the Company for the year ended December 31, 2009. Accordingly, no comparative financial information is presented.

Since the date of initial issuance of our report on the financial statements dated April 7, 2010, which report contained an explanatory paragraph regarding the Company’s ability to continue as a going concern, the Company, as discussed in Note 20, has in March 2011, received commitments from financial institutions for additional financing amounting to \$800 million and consents from existing lenders to draw down an additional amount of \$495 million to cover obligations falling due within 2011. Additionally, Dryships Inc., majority owner of the Company, has committed to provide cash to meet the Company’s liquidity needs during 2011. Therefore, the conditions that raised substantial doubt about whether the Company will continue as going concern no longer exist.

In our opinion, except for the omission of comparative information as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ocean Rig UDW Inc. and subsidiaries at December 31, 2009, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As discussed in Note 23 and Note 24 to the consolidated financial statements, the financial statements have been restated to correct errors in the application of IAS 23, Borrowing costs, and ASC 835-20, Capitalization of Interest.

International Financial Reporting Standards as issued by the International Accounting Standards Board differ in certain respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 24 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ocean Rig UDW Inc.’s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 15, 2011 expressed an adverse opinion thereon.

/s/ Ernst & Young AS
April 15, 2011
Stavanger, Norway

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Ocean Rig ASA

We have audited the accompanying consolidated balance sheet of Ocean Rig ASA and subsidiaries (“the Company”) as of December 31, 2008, and the related consolidated statements of income, shareholders’ equity, and cash flows for the period May 15, 2008 to December 31, 2008 (not presented separately herein). These financial statements are the responsibility of the Company’s management and the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

IAS 1 requires that financial statements be presented with comparative financial information. These consolidated financial statements have been prepared solely for the purpose of meeting the requirements of Rule 2-05 of Regulation S-X as it relates to the results of operations of the Company for the period from the date control of Company was acquired by Dry Ships, Inc. through December 31, 2008. Accordingly no comparative financial information is presented.

In our opinion, except for the omission of comparative information as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ocean Rig ASA and subsidiaries at December 31, 2008, and the consolidated results of their operations and their cash flows for the period May 15, 2008 to December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

International Financial Reporting Standards as issued by the International Accounting Standards Board differ in certain respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 21 to the consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that Ocean Rig ASA and subsidiaries will continue as a going concern. As more fully described in Note 13, Ocean Rig ASA is a wholly owned subsidiary of DryShips Inc. On a consolidated basis, DryShips Inc. reported a current portion of long- term debt of \$2,370,556 as of December 31, 2008 due to DryShips Inc.’s inability to comply with financial covenants under its current debt agreements and a negative working capital position. These conditions raise substantial doubt about DryShips Inc.’s ability to continue as a going concern. Because of the aforementioned conditions relating to DryShips Inc., and the uncertainties surrounding its plans to address its liquidity needs, the parent entity’s actions could have a substantial effect on Ocean Rig ASA and subsidiaries’ assets; therefore, there is also substantial doubt about whether Ocean Rig ASA and subsidiaries will continue as a going concern. The 2008 consolidated financial statements of Ocean Rig ASA and subsidiaries 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 this uncertainty.

/s/ Ernst & Young AS
March 27, 2009
Stavanger, Norway

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Ocean Rig UDW Inc.

We have audited Ocean Rig UDW Inc. and subsidiaries' ("The Company") internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the Management's report on internal control of financial reporting (not presented separately herein). Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our previously issued report, we expressed an opinion, that the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria. Subsequently a material weakness was identified described in the following paragraph. As a result, management has revised its assessment, in its Management's report on internal control of financial reporting (not presented separately herein), to conclude that the Company's internal control over financial reporting was not effective as of December 31, 2009. Accordingly, our present opinion on the effectiveness of internal control over financial reporting, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. A material weakness in the Company's internal control over financial reporting has been identified, specifically related to the design and operational failure of the controls over the computation of capitalized interest on rigs under construction.

As a result of these deficiencies, the amount of interest capitalized as a component of "Rigs under construction" at December 31, 2009 was understated, the amount of interest related to cash flow hedges that should have remained in "Accumulated other comprehensive loss" at December 31, 2009 was understated, and the amount of "Interest and finance costs" was overstated for the year ended December 31, 2010.

The misstatements were not detected by the Company's internal controls over financial reporting because of the absence of a properly designed control to verify that the entire population of borrowings, borrowing costs and deferred financing cost was captured in the Company's capitalized interest calculation. As a result, certain borrowing and deferred financing costs were not included in the calculation. There was also an absence of an effectively-designed control to identify those cash flow hedges associated with borrowings for which interest was capitalized as a component of rigs under construction. As a result, the interest expense for certain cash flow hedges was reported immediately in earnings as "Interest and finance costs" and not deferred in "Accumulated other comprehensive loss". The 2009 financial statements have been restated to reflect the impacts of these adjustments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Ocean Rig UDW Inc. and subsidiaries as of December 31, 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2009 financial statements and this report does not affect our report dated April 15, 2011, which expressed an unqualified opinion thereon.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Ocean Rig UDW Inc. and subsidiaries have not maintained effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

/s/ Ernst & Young AS
April 15, 2011
Stavanger, Norway

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of DryShips, Inc.

We have audited the accompanying consolidated balance sheets of DryShips, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 18. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. We did not audit the consolidated financial statements of Ocean Rig UDW and subsidiaries (a consolidated subsidiary) as of December 31, 2009 and for the year then ended, which statements reflect total assets and total revenues constituting 54% and 47%, respectively, of the related consolidated totals for that year. We did not audit the consolidated financial statements of Ocean Rig ASA and subsidiaries (the consolidated subsidiary) as of December 31, 2008 and for the period from May 15, 2008 to December 31, 2008. Such statements reflect total assets constituting 30.5% of consolidated total assets as of December 31, 2008 and total revenues constituting 18.7% of consolidated total revenues for the period May 15, 2008 to December 31, 2008, prior to the allocation of the Company's purchase price to Ocean Rig ASA and subsidiaries' net assets. Those statements were audited by other auditors whose reports as to: (1) 2008 expresses an unqualified opinion on the consolidated financial statements and includes an explanatory paragraph relating to substantial doubt about the consolidated subsidiary's ability to continue as a going concern and (2) 2009 expresses an unqualified opinion on the consolidated financial statements and includes explanatory paragraphs relating to the (i) restatement discussed in Note 3 to the consolidated financial statements and (ii) removal of the explanatory paragraph relating to the consolidated subsidiary's ability to continue as a going concern, have been furnished to us, and our opinion, insofar as it relates to the amounts included for Ocean Rig UDW and Ocean Rig ASA for the years ended December 31, 2009 and 2008, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of DryShips, Inc. and its subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

The accompanying consolidated financial statements for the years ended December 31, 2009 and 2008, have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the consolidated financial statements, the Company's inability to comply with financial covenants under its original loan agreements as of December 31, 2009 and 2008, its negative working capital position and other matters discussed in Note 4 raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 4 to the consolidated financial statements to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the consolidated financial statements, the accompanying consolidated 2009 financial statements have been restated to correct a misstatement. As discussed in the financial statement schedule listed in the Index at Item 18, the financial statement schedule has been restated to correct a misstatement.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 7, 2010, April 15, 2011 as to the effects of the material weakness identified in our report, expressed an adverse opinion on the Company's internal control over financial reporting.

/s/ Deloitte.

Hadjipavlou Sofianos & Cambanis S.A.
Athens, Greece

April 7, 2010 (April 15, 2011 as to the effects of the restatement discussed in Note 3 to the consolidated financial statements and in the financial statement schedule listed in the Index at Item 18)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Dryships, Inc.

We have audited the internal control over financial reporting of DryShips Inc. and subsidiaries (the “Company”) as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting . Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We did not audit the internal control over financial reporting of Ocean Rig UDW and subsidiaries (a consolidated subsidiary) (the “Ocean Rig UDW”) whose financial statements reflect total assets and revenues constituting 54% and 47%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2009. The internal control over financial reporting of Ocean Rig UDW was audited by other auditors whose report has been furnished to us and which report expressed an adverse opinion on the Ocean Rig UDW’s internal control over financial reporting, and our opinion, insofar as they relate to the Ocean Rig UDW’s internal control over financial reporting, is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment: There was the absence of effectively-designed control over the computation of interest to be capitalized relating to drillships under construction. There was also an absence of an effectively-designed control to appropriately account for net settlements on interest rate swaps classified as effective cash flow hedges associated with borrowings for which interest was capitalized as a component of drillships under construction. This resulted in restatement of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2009 that was not detected by the Company’s internal control over financial reporting. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2009 of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2009 of the Company and our report dated April 7, 2010 (April 15, 2011 as to the effects of the restatement discussed in Note 3 to the consolidated financial

statements and in the financial statement schedule listed in the Index at Item 18) expressed an unqualified opinion on the consolidated financial statements and financial statement schedule and included explanatory paragraphs relating to: (i) the restatement discussed in Note 3 to the consolidated financial statements and in the financial statement schedule listed in the Index at Item 18 and (ii) substantial doubt about the Company's ability to continue as a going concern.

/s/ Deloitte.

Hadjipavlou Sofianos & Cambanis S.A.

Athens, Greece

April 7, 2010 (April 15, 2011 as to the effects of the material weakness)

DRYSHIPS INC.

Consolidated Balance Sheets
As of December 31, 2008 and 2009 (as restated)
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	<u>2008</u>	<u>2009</u> (as restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 303,114	\$ 693,169
Restricted cash (Note 2 and 10)	320,560	350,833
Trade accounts receivable, net of allowance for doubtful receivables of \$957 and \$487	52,441	66,681
Insurance claims	1,179	1,853
Due from related parties (Note 5)	17,696	27,594
Inventories	3,488	3,118
Financial instruments (Note 11)	779	993
Other current assets	21,170	36,409
Total current assets	<u>720,427</u>	<u>1,180,650</u>
FIXED ASSETS, NET:		
Advances for vessels and rigs under construction and acquisitions (Note 6)	535,616	1,182,600
Vessels, net (Note 7)	2,134,650	2,058,329
Drilling rigs, machinery and equipment, net (Note 7)	1,393,158	1,329,641
Total fixed assets, net	<u>4,063,424</u>	<u>4,570,570</u>
OTHER NON-CURRENT ASSETS:		
Intangible assets, net (Note 9)	14,143	12,639
Above-market acquired time charter (Note 9)	12,960	2,048
Other non-current assets (Note 11 and 14)	31,726	41,088
Total other non-current assets	<u>58,829</u>	<u>55,775</u>
Total assets	<u>\$4,842,680</u>	<u>\$5,806,995</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 10)	\$2,370,556	\$1,698,692
Accounts payable	17,122	19,727
Accrued liabilities	63,073	80,236
Deferred revenue	23,009	19,693
Financial instruments (Note 11)	44,795	72,837
Other current liabilities	6,493	4,838
Total current liabilities	<u>2,525,048</u>	<u>1,896,023</u>
NON-CURRENT LIABILITIES		
Below- market acquired time charter (Note 9)	28,006	7,632
Long-term debt, net of current portion (Note 10)	788,314	985,992
Financial instruments (Note 11)	208,961	104,763
Other non-current liabilities (Note 14)	779	43
Total non-current liabilities	<u>1,026,060</u>	<u>1,098,430</u>
COMMITMENTS AND CONTINGENCIES (Note 15)		
	—	—
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 500,000,000 shares authorized at December 31, 2008 and 2009; none issued and outstanding (Note 12)	—	—
Series A Convertible preferred stock, \$0.01 par value; 100,000,000 shares authorized and 52,238,806 issued and outstanding at December 31, 2009 (Note 12)	—	522
Common stock, \$0.01 par value; 1,000,000,000 shares authorized at December 31, 2008 and 2009; 70,600,000 and 280,326,271 shares issued and outstanding at December 31, 2008 and 2009, respectively (Note 12)	706	2,803
Accumulated other comprehensive loss	(44,847)	(33,399)
Additional paid-in capital (Note 12)	1,148,365	2,681,974
Retained earnings	187,348	160,642
Total stockholders' equity	<u>1,291,572</u>	<u>2,812,542</u>
Total liabilities and stockholders' equity	<u>\$4,842,680</u>	<u>\$5,806,995</u>

The accompanying notes are an integral part of these consolidated financial statements.

DRYSHIPS INC.

Consolidated Statements of Operations
For the years ended December 31, 2007, 2008 and 2009 (as restated)
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	<u>2007</u>	<u>2008</u>	<u>2009</u> (as restated)
REVENUES:			
Revenues (Note 18)	\$ 582,561	\$ 1,066,236	\$ 819,834
Revenues-related party (Note 5 and 18)	<u>—</u>	<u>14,466</u>	<u>—</u>
	<u>582,561</u>	<u>1,080,702</u>	<u>819,834</u>
EXPENSES:			
Voyage expenses (Note 16)	24,488	42,636	23,342
Voyage expenses-related party (Note 5 and 16)	7,159	10,536	5,437
Vessel and drilling rigs operating expenses (Note 16 and 18)	63,225	165,891	201,887
Depreciation and amortization (Note 7, 9 and 18)	76,511	157,979	196,309
Gain on sale of assets, net (Note 7)	(137,694)	(223,022)	(2,045)
Gain on contract cancellation (Note 7)	—	(9,098)	(15,270)
Contract termination fees and forfeiture of vessel deposits (Note 5 and 6)	—	160,000	259,459
Vessel impairment charge (Note 7 and 11)	—	—	1,578
Goodwill impairment charge (Note 8 and 18)	—	700,457	—
General and administrative expenses	17,072	89,358	90,823
Operating income/(loss)	<u>531,800</u>	<u>(14,035)</u>	<u>58,314</u>
OTHER INCOME / (EXPENSES):			
Interest and finance costs (Note 17 and 18)	(51,231)	(113,194)	(84,430)
Interest income (Note 18)	5,073	13,085	10,414
Gain/(loss) on interest rate swaps (Note 11)	(3,981)	(207,936)	23,160
Other, net (Note 11)	<u>(3,037)</u>	<u>(12,640)</u>	<u>(6,692)</u>
Total expenses, net	<u>(53,176)</u>	<u>(320,685)</u>	<u>(57,548)</u>
INCOME /(LOSS) BEFORE INCOME TAXES AND EQUITY IN LOSS OF INVESTEE			
Income taxes (Note 20)	—	(2,844)	(12,797)
Equity in loss of investee (Note 8 and 18)	<u>(299)</u>	<u>(6,893)</u>	<u>—</u>

NET INCOME/(LOSS)	<u>478,325</u>	<u>(344,457)</u>	<u>(12,031)</u>
Less: Net income attributable to non controlling interests (Note 5)	<u>—</u>	<u>(16,825)</u>	<u>(7,178)</u>
NET INCOME/(LOSS) ATTRIBUTABLE TO DRYSHIPS INC.	<u>\$ 478,325</u>	<u>(361,282)</u>	<u>\$ (19,209)</u>
EARNINGS/(LOSS) PER COMMON SHARE ATTRIBUTABLE TO DRYSHIPS INC. COMMON STOCKHOLDERS, BASIC AND DILUTED (Note 19)	\$ 13.40	\$ (8.11)	\$ (0.13)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES, BASIC AND DILUTED (Note 19)	<u>35,700,182</u>	<u>44,598,585</u>	<u>209,331,737</u>

The accompanying notes are an integral part of these consolidated financial statements

DRYSHIPS INC.

Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2007, 2008 and 2009 (as restated)

	Series A Convertible Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Dryships' Inc. Stockholders' Equity	Non controlling interests	Total Equity	Redeemable Non controlling interests (Temporary equity)	Net income
	Comprehensive Income/ Loss	# of Shares	Par Value	# of Shares	Par Value								
BALANCE, December 31, 2006		—	—	35,490,097	355	327,446	—	116,891	444,692	—	444,692		
-Net income	478,325	—	—	—	—	—	—	478,325	478,325	—	478,325		
-Issuance of common stock	—	—	—	1,191,000	12	127,092	—	—	127,104	—	127,104		
Dividends declares and paid (0.80 per share)	—	—	—	—	—	—	—	(28,392)	(28,392)	—	(28,392)		
Comprehensive income	<u>478,325</u>	—	—	—	—	—	—	—	—	—	—		
BALANCE, December 31, 2007		—	—	36,681,097	367	454,538	—	566,824	1,021,729	—	1,021,729		
-Net loss	(361,282)	—	—	—	—	—	—	(361,282)	(361,282)	—	(361,282)	16,825	(344,457)
-Issuance of common stock	—	—	—	32,918,903	329	662,335	—	—	662,664	—	662,664		
-Issuance of non-vested shares and amortization of stock based compensation	—	—	—	1,000,000	10	31,492	—	—	31,502	—	31,502		
-Acquisition of subsidiary shares to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	4,644	
-Unrealized loss on cash flows hedges	(46,548)	—	—	—	—	—	(46,548)	—	(46,548)	—	(46,548)		
-Redemption of noncontrolling interest	—	—	—	—	—	—	—	15,050	15,050	—	15,050	(21,469)	
-Amortization of stock based compensation	—	—	—	—	—	—	—	—	—	—	—		
-Decrease in minimum pension liability	1,701	—	—	—	—	—	1,701	—	1,701	—	1,701		
-Dividends declared and paid (\$ 0.80 per share)	—	—	—	—	—	—	—	(33,244)	(33,244)	—	(33,244)		
Comprehensive loss	<u>(406,129)</u>	—	—	—	—	—	—	—	—	—	—		
BALANCE, December 31, 2008		—	—	70,600,000	706	1,148,365	(44,847)	187,348	1,291,572	—	1,291,572		
-Net income/(loss) (As restated)	(12,031)	—	—	—	—	—	—	(19,209)	(19,209)	7,178	(12,031)		
-Issuance of common stock and warrants	—	—	—	209,645,000	2,096	1,027,967	—	—	1,030,063	—	1,030,063		
Issuance of non-vested shares	—	—	—	81,271	1	(1)	—	—	—	—	—		
Equity component of convertible notes	—	—	—	—	—	125,336	—	—	125,336	—	125,336		
-Issuance of subsidiary shares to noncontrolling interest	—	—	—	—	—	(37,511)	9,738	—	(27,773)	385,898	358,125		
-Issuance of Series A convertible preferred stock	—	52,238,806	522	—	—	267,478	—	—	268,000	—	268,000		
-Acquisition of noncontrolling interest	—	—	—	—	—	84,814	(6,331)	—	78,483	(396,483)	(318,000)		
-Shareholder's contribution of cancellation fees for vessels acquisitions	—	—	—	—	—	19,958	—	—	19,958	—	19,958		

-Unrealized gain on cash flows hedges (As restated)	10,878	—	—	—	—	—	7,627	—	7,627	3,251	10,878
-Amortization of stock based compensation	—	—	—	—	—	38,071	—	—	38,071	—	38,071
-Decrease in minimum pension liability	570	—	—	—	—	—	414	—	414	156	570
Dividends declared						7,497		(7,497)			
Comprehensive loss (As restated)	<u>(583)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
BALANCE December 31, 2009 (As restated)		<u><u>52,238,806</u></u>	<u><u>522</u></u>	<u><u>280,326,271</u></u>	<u><u>2,803</u></u>	<u><u>2,681,974</u></u>	<u><u>(33,399)</u></u>	<u><u>160,642</u></u>	<u><u>2,812,542</u></u>	<u><u>—</u></u>	<u><u>2,812,542</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

DRYSHIPS INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2007, 2008 and 2009 (as restated)
(Expressed in thousands of U.S. Dollars - except for share and per share data)

	Year ended December 31,		
	2007	2008	2009 (as restated)
Cash Flows from Operating Activities:			
Net income/(loss)	\$ 478,325	\$ (344,457)	\$ (12,031)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	76,511	157,979	196,309
Commitments fees on undrawn line of credit	—	2,855	5,760
Amortization, write off of financing costs and premium paid over withdrawn loans	2,190	15,980	12,940
Amortization of convertible senior notes debt discount	—	—	1,769
Amortization of fair value of acquired time charters	(7,185)	(34,638)	(9,462)
Vessel impairment charge	—	—	1,578
Gain on sale of vessels, net	(137,694)	(223,022)	(2,045)
Gain on contract cancellation	—	(9,098)	(15,270)
Goodwill impairment charge	—	700,457	—
Equity in loss of investees	299	6,893	—
Forfeiture of advances for vessel acquisitions	—	55,000	93,158
Contract termination fees	—	—	99,205
Amortization of stock based compensation	—	31,502	38,071
Interest income on restricted cash	—	—	(6,997)
Change in fair value of derivatives	128	204,964	(60,230)
Security deposits for derivatives	—	(31,600)	(9,100)
Amortization of free lubricants benefit	(257)	(276)	(333)
Changes in operating assets and liabilities:			
Trade accounts receivable	(6,303)	23	(14,240)
Insurance claims	(7,296)	(994)	(1,190)
Due from related parties	(6,610)	(2,770)	(15,451)
Inventories	(1,341)	462	370
Other current assets	(1,741)	965	(15,239)
Accounts payable	(4,257)	556	2,605
Due to related parties	(86)	—	—
Other current liabilities	—	(847)	(1,346)
Pension liability	—	—	(142)
Accrued liabilities	13,017	10,770	13,887
Other non – current assets	—	—	126
Net Settlements on interest rate swaps qualifying as cash flow hedges	—	—	(5,262)
Deferred revenue	10,199	(575)	(3,316)
Net Cash Provided by Operating Activities	<u>407,899</u>	<u>540,129</u>	<u>294,124</u>
Cash Flows from Investing Activities:			
Insurance proceeds	3,160	4,622	516
Business acquisitions, net of cash acquired	(406,024)	(991,306)	—
Cash from acquisition of drillships	—	—	248
Advances for vessel acquisitions / rig under construction	(105,242)	(507,322)	(129,889)
Advances for rigs under constructions – related party	—	(4,963)	—
Vessel acquisitions and improvements	(799,456)	(742,844)	(48,542)
Drilling rigs, equipment and other improvements	—	(16,584)	(14,540)
Proceeds from sale of vessels	351,813	410,204	45,433
Proceeds from sale of subsidiary	—	—	100
Increase in restricted cash	—	(262,659)	(35,363)
Decrease in restricted cash	—	—	12,087
Net Cash Used in Investing Activities	<u>(955,749)</u>	<u>(2,110,852)</u>	<u>(169,950)</u>

Cash Flows from Financing Activities:			
Proceeds from issuance of convertible notes	—	—	447,810
Increase in Restricted cash	(177)	—	—
Proceeds from long-term credit facility	787,298	2,443,987	855
Proceeds from short-term credit facility	73,476	430,926	150,000
Payments of short-term credit facility	(68,400)	(793,416)	(355,052)
Principal payments and repayments of long-term debt	(228,278)	(914,347)	(874,344)
Net proceeds from common stock issuance	127,104	662,664	950,555
Proceeds from share-lending arrangement	—	—	261
Acquisition of noncontrolling interests	—	—	(50,000)
Dividends paid	(28,392)	(33,244)	—
Payment of financing costs	(6,250)	(33,801)	(4,204)
Net Cash Provided by Financing Activities	<u>656,381</u>	<u>1,762,769</u>	<u>265,881</u>
Net increase in cash and cash equivalents	108,531	192,046	390,055
Cash and cash equivalents at beginning of period	<u>2,537</u>	<u>111,068</u>	<u>303,114</u>
Cash and cash equivalents at end of period	<u>\$ 111,068</u>	<u>\$ 303,114</u>	<u>\$ 693,169</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year/period for:			
Interest, net of amount capitalized	\$ 47,342	85,910	\$ 63,814
Income taxes	—	2,566	13,233
Non cash financing and investing activities:			
Issuance of non-vested shares	—	10	1
Issuance of common stock and warrants for termination agreements	—	—	79,247
Deemed shareholders contribution	—	—	19,958
Fair value of shares issued for the acquisition of non controlling interest	—	—	268,000
Issuance of subsidiary shares to non controlling interest	—	—	357,877
Fair value of below market charter acquired	(38,687)	—	—
Fair value of preferred share dividends	—	—	7,497
Amounts owed for capital expenditures	\$ (671)	—	—

The accompanying notes are an integral part of these consolidated financial statements.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

1. Basis of Presentation and General Information:

The accompanying consolidated financial statements include the accounts of DryShips Inc. and its subsidiaries (collectively, the “Company” or “DryShips”). DryShips was formed on September 9, 2004 under the laws of the Republic of the Marshall Islands. The Company is engaged in the ocean transportation services of drybulk cargoes worldwide and deepwater drilling rig services.

The Company’s material subsidiaries (all 100% owned) as of December 31, 2009 are listed below.

Ship-owning Company	Country of Incorporation	Vessel
1. Malvina Shipping Company Limited (“Malvina”)	Malta	Coronado
2. Arleta Navigation Company Limited (“Arleta”)	Malta	Xanadu
3. Selma Shipping Company Limited (“Selma”)	Malta	La Jolla
4. Samsara Shipping Company Limited (“Samsara”)	Malta	Ocean Crystal
5. Farat Shipping Company Limited (“Farat”)	Malta	Toro
6. Iguana Shipping Company Limited (“Iguana”)	Malta	Iguana (Note 7)
7. Borsari Shipping Company Limited (“Borsari”)	Malta	Catalina
8. Onil Shipping Company Limited (“Onil”)	Malta	Padre
9. Fabiana Navigation Company Limited (“Fabiana Navigation”)	Malta	Alameda
10. Karmen Shipping Company Limited (“Karmen”)	Malta	Sonoma
11. Thelma Shipping Company Limited (“Thelma”)	Malta	Manasota
12. Celine Shipping Company Limited (“Celine”)	Malta	Mendocino
13. Lotis Traders Inc. (“Lotis”)	Marshall Islands	Delray (Note 7)
14. Tempo Marine Co. (“Tempo”)	Marshall Islands	Maganari
15. Star Record Owing Company Limited (“Star”)	Marshall Islands	Ligari
16. Argo Owing Company Limited (“Argo”)	Marshall Islands	Redondo
17. Rea Owing Company Limited (“Rea”)	Marshall Islands	Ecola
18. Gaia Owing Company Limited (“Gaia”)	Marshall Islands	Samsara
19. Kronos Owing Company Limited (“Kronos”)	Marshall Islands	Primera
20. Trojan Maritime Co. (“Trojan”)	Marshall Islands	Brisbane
21. Dione Owing Company Limited (“Dione”)	Marshall Islands	Marbella
22. Phoebe Owing Company Limited (“Phoebe”)	Marshall Islands	Majorca
23. Uranus Owing Company Limited (“Uranus”)	Marshall Islands	Levando
24. Selene Owing Company Limited (“Selene”)	Marshall Islands	Bargara
25. Tethys Owing Company Limited (“Tethys”)	Marshall Islands	Capitola
26. Ioli Owing Company Limited (“Ioli”)	Marshall Islands	Paros I (ex Clipper Gemini)
27. Iason Owing Company Limited (“Iason”)	Marshall Islands	Oregon
28. Orpheus Owing Company Limited (“Orpheus”)	Marshall Islands	Avoca
29. Team up Owing Company Limited (“Team-up”)	Marshall Islands	Saldanha
30. Iokasti Owing Company Limited (“Iokasti”)	Marshall Islands	Pachino (ex VOC Galaxy)

Ship-owning Company	Country of Incorporation	Vessel
31. Boone Star Owners Inc. (“Boone”)	Marshall Islands	Samatan
32. Norwalk Star Owners Inc. (“Norwalk”)	Marshall Islands	Capri
33. Ionian Traders Inc. (“Ionian”)	Marshall Islands	Positano
34. NT LLC Investors Ltd. (“NT”)	Marshall Islands	Conquistador
35. Dalian Star Owners Inc. (“Dalian”)	Marshall Islands	Mystic
36. Aegean Traders Inc. (“Aegean”)	Marshall Islands	Sorrento
37. Cretan Traders Inc. (“Cretan”)	Marshall Islands	Flecha
38. Monteagle Shipping S.A. (“Monteagle”)	Marshall Islands	Oliva (Note 7)
39. Roscoe Marine Ltd. (“Roscoe”)	Marshall Islands	Rapalo (Note 7)
40. Ocean Rig 1 Inc.	Marshall Islands	Leiv Eriksson
41. Ocean Rig 2 Inc.	Marshall Islands	Eirik Raude
42. Drillship Hydra Owners Inc (“Hydra”)	Marshall Islands	Drillship Hull 1837 (Note 6)
43. Drillship Paros Owners Inc. (“Paros”)	Marshall Islands	Drillship Hull 1838 (Note 6)
44. Drillship Kithira Owners Inc. (“Kithira”)	Marshall Islands	Drillship Hull 1865
45. Drillship Skopelos Owners Inc. (“Skopelos”)	Marshall Islands	Drillship Hull 1866

Company	Country of Incorporation	Description
46. OCR UDW Inc. (formerly Primelead Shareholders Inc)	Marshall Islands	Holding Company
47. Ocean Rig AS	Norway	Operations Manager
48. Ocean Rig Ghana Ltd	Ghana	Operations
49. Ocean Rig North Sea AS	Norway	Operations
50. Sunlight Shipholding One Inc.	Marshall Islands	Other
51. Wealth Management Inc.	Marshall Islands	Other

Charterers individually accounting for more than 10% of the Company’s voyage revenues and drilling rig revenues during the years ended December 31, 2007, 2008 and 2009 were as follows:

	Year ended December 31, 2009		
	2007	2008	2009
Charterer A	—	16%	—
Charterer B	—	10%	19%
Charterer C	—	—	27%

In addition, 12%, 6% and 1% of the Company’s voyage revenues during the years ended December 31, 2007, 2008 and 2009, respectively, were derived from the participation of certain of the Company’s vessels in a drybulk pool.

2. Significant Accounting policies:

(a) Principles of Consolidation: The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and include the accounts and operating results of DryShips and its wholly-owned subsidiaries referred to in Note 1 above. All intercompany balances and transactions have been eliminated on consolidation. Where necessary, comparatives have been reclassified to conform to changes in presentation in the current year.

(b) Equity method investments: Investments in entities that the Company does not control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for using the equity method.

(c) Business Combinations: In accordance with Financial Accounting Standards guidance related to business combinations, the purchase price of acquired businesses or properties is allocated to tangible and identified intangible assets and liabilities based on their respective fair values. The excess of the purchase price over the respective fair value of net assets acquired is recorded as goodwill. Costs incurred in relation to pursuing any business acquisition were capitalized until adoption of the new guidance for business combinations on January 1, 2009 that requires the expensing of all costs related to business combinations, when they are directly related to the business acquisition and the acquisition is probable. Acquisition costs also include fees paid to bankers in connection with obtaining related financing. Such financing costs are an element of the effective interest cost of the debt; therefore they are classified as a contra to debt upon the business combination and the receipt of the related debt proceeds and are amortized using the effective interest method through the term of the respective debt.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

(d) *Goodwill and intangible assets:* Goodwill represents the excess of the purchase price over the estimated fair value of net assets acquired within the Drilling Rigs reporting unit. Goodwill is reviewed for impairment whenever events or circumstances indicate possible impairment in accordance with guidance related to Goodwill and Other Intangible Assets. This guidance requires at least the annual testing for impairment, and not the amortization, of goodwill and other intangible assets with an indefinite life. The Company tests for impairment each year on December 31.

The Company tests goodwill for impairment by first comparing the carrying value of the Drilling Rigs reporting unit, which is defined as an operating segment or a component of an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management, to its fair value. The Company estimates the fair value of the Drilling Rigs reporting unit by weighting the combination of generally accepted valuation methodologies, including both income and market approaches.

For the income approach, the Company discounts projected cash flows using a long-term weighted average cost of capital (“WACC”) rate, which is based on the Company’s estimate of the investment returns that market participants would require. To develop the projected net cash flows from the Company’s Drilling Rigs reporting unit, which are based on estimated future utilization, day rates, projected demand for its services, and rig availability, the Company considers key factors that include assumptions regarding future commodity prices, credit market uncertainties and the effect these factors may have on the Company’s contract drilling operations and the capital expenditure budgets of its customers.

For the market approach, the Company derives publicly traded company multiples from companies with operations similar to the Company’s reporting units by using information publicly disclosed by other publicly traded companies and, when available, analyses of recent acquisitions in the marketplace.

If the fair value of a reporting unit exceeds its carrying value, then no further testing is required. This is referred to as Step 1. If the fair value is determined to be less than the carrying value, a second step, or Step 2, is performed to compute the amount of the impairment, if any. In this process, an implied fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The shortfall of the implied fair value of goodwill below its carrying value represents the amount of goodwill impairment.

From the date the Company acquired Ocean Rig ASA (“Ocean Rig”) in May 2008 through the annual goodwill impairment test performed on December 31, 2008, the market declined significantly and various factors negatively affected industry trends and conditions, which resulted in the revision of certain key assumptions used in determining the fair value of the Company’s Drilling Rigs reporting unit and therefore the implied fair value of goodwill. During the second half of 2008, the credit markets tightened, driving up the cost of capital and therefore the Company increased the rate of a long-term weighted average cost of capital. In addition, the economic downturn and the volatile oil prices resulted in a downward revision of projected cash flows from the Company’s Drilling Rigs reporting unit in the Company’s forecasted discounted cash flows analysis for its 2008 impairment testing. Furthermore, the decline in the global economy negatively impacted publicly traded company multiples used when estimating fair value under the market approach. Based on results of the Company’s annual goodwill impairment analysis and subsequent reconciliation to its market capitalization, the Company determined that the carrying value of the Company’s goodwill was impaired. A total impairment charge of \$700.5 million was recorded for the year ended December 31, 2008, which represents the write-off of all recorded goodwill in the Drilling Rigs reporting unit (Note 8).

The Company’s finite-lived acquired intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

<u>Intangible assets/liabilities</u>	<u>Years</u>
Tradenames	10
Software	10
Fair value of above market acquired time charters	Over remaining contract term
Fair value of below market acquired time charters	Over remaining contract term

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

In accordance with guidance related to Accounting for the Impairment or Disposal of Long-Lived Assets, the Company evaluates the potential impairment of finite-lived acquired intangible assets when there are indicators of impairment. The finite-lived intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable based on estimates of future undiscounted cash flows. In the event of impairment, the asset is written down to its fair value. An impairment loss, if any, is measured as the amount by which the carrying amount of the asset exceeds its fair value. For finite-lived intangible assets, no impairment was recognized during any period presented.

(e) Use of Estimates: The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Other Comprehensive Income/(Loss): The Company follows the provisions of guidance regarding reporting comprehensive income/(loss) which requires separate presentation of certain transactions, which are recorded directly as components of stockholders' equity. The Company's comprehensive income/(loss) is comprised of net income, actuarial gain of \$570 related to the adoption and implementation of ASC 715, "Compensation-Retirement Benefits", as well as a loss of \$10,878 in the fair value of the derivatives that qualify for hedge accounting in accordance with ASC 815 "Derivatives and Hedging".

(g) Cash and Cash Equivalents: The Company considers highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents.

(h) Restricted Cash: Restricted cash includes (i) cash collateral required under the Company's financing and forward freight arrangements ("FFAs"), (ii) retention accounts which can only be used to fund the loan installments coming due and (iii) minimum liquidity requirements under the loan facilities.

In terms of the loan agreement, the Company is required to hold bank deposits which are used to fund the loan installments coming due. These funds can only be used for the purposes of loan repayments and are shown as "Restricted cash" under current assets that at December 31, 2008 and 2009, amounted to \$320,560 and \$337,764, respectively, in the accompanying consolidated balance sheets. Restricted cash also includes additional minimum cash deposits required to be maintained with certain banks under the Company's borrowing arrangements.

Restricted cash balances include minimum required cash deposits, as defined in the loan agreements, which amounted to \$280,000, and \$270,000 at December 31, 2008 and 2009, respectively, and are classified as current assets in the accompanying consolidated balance sheets. Restricted cash has been classified as current as of December 31, 2008 and 2009, as the related debt has been classified as current as discussed above. Included in the restricted cash balances of the accompanying consolidated balance sheets are minimum required cash deposits, as defined in the FFAs which amounted to \$0 and \$13,069, at December 31, 2008 and 2009, respectively. These deposits are used as collateral to FFAs.

(i) Concentration of Credit Risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and cash equivalents; trade accounts receivable and derivative contracts (interest rate swaps, foreign currency contracts and forward freight agreements). The Company places its cash and cash equivalents, consisting mostly of deposits, with qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions. The Company is exposed to credit risk in the event of non-performance by counter parties to derivative instruments; however, the Company limits its exposure by diversifying among counter parties. The Company limits its credit risk with trade accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its trade accounts receivable.

(j) Trade Accounts Receivable: The amount shown as accounts receivable, trade, at each balance sheet date, includes receivables from charterers for hire of vessels and drilling rigs, freight and demurrage billings, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. Provision for doubtful accounts at December 31, 2008 and 2009 totaled \$957 and \$487, respectively.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

Balance December 31, 2007	\$—
Additions	<u>957</u>
Balance December 31, 2008	957
Write off	<u>470</u>
Balance December 31, 2009	<u>\$487</u>

(k) Fixed assets under construction: This represents amounts expended by the Company in accordance with the terms of the purchase agreements for vessels and the construction contracts for vessels and drilling rigs. Interest costs incurred during the construction (until the asset is substantially complete and ready for its intended use) are capitalized. Capitalized interest expense for the years ended December 31, 2007, 2008 and 2009 amounted to \$2,597, \$13,058 and \$31,383, respectively.

(l) Insurance Claims: The Company records insurance claim recoveries for insured losses incurred on damages to fixed assets and for insured crew medical expenses. Insurance claims are recorded on the accrual basis and represent the claimable expenses, net of applicable deductibles, incurred through December 31, of each reported period, which are expected to be recovered from insurance companies.

(m) Inventories: Inventories consist of consumable bunkers (if any), lubricants and victualling stores, which are stated at the lower of cost or market value. Cost is determined by the first in, first out method.

(n) Foreign Currency Translation: The functional currency of the Company is the U.S. Dollar since the Company operates in international shipping and drilling markets, and therefore primarily transacts business in U.S. Dollars. The Company's books of accounts are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are translated into U.S. Dollars at the year-end exchange rates. Resulting gains or losses are included in "General and administrative expenses" in the accompanying consolidated statements of operations.

(o) Fixed Assets, Net:

- (i) Drybulk carrier vessels are stated at cost, which consists of the contract price and any material expenses incurred upon acquisition (initial repairs, improvements, delivery expenses and other expenditures to prepare the vessel for its initial voyage). Subsequent expenditures for major improvements are also capitalized when they appreciably extend the useful life, increase the earning capacity or improve the efficiency or safety of the vessels. The cost of each of the Company's vessels is depreciated beginning when the vessel is ready for its intended use, on a straight-line basis over the vessel's remaining economic useful life, after considering the estimated residual value. Vessel's residual value is equal to the product of its lightweight tonnage and estimated scrap rate per ton. In general, management estimates the useful life of the Company's vessels to be 25 years from the date of initial delivery from the shipyard. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its remaining useful life is adjusted at the date such regulations are adopted.
- (ii) Drilling rigs are stated at cost less accumulated depreciation. Such costs include the cost of adding/replacing parts of drilling rig machinery and equipment when that cost is incurred, if the recognition criteria are met. The recognition criteria require that the cost incurred extends the useful life of a drilling rig. The carrying amounts of those parts that are replaced are written off and the cost of the new parts are capitalized. Depreciation is calculated on a straight-line basis over the useful life of the assets as follows: baredeck 30 years and other asset parts 5 to 15 years.
- (iii) Drilling rig machinery and equipment, IT and office equipment, are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

(p) Long lived assets held for sale: The Company classifies long lived assets as being held for sale when: (i) management has committed to a plan to sell the long lived assets; (ii) the long lived assets are available for immediate sale in their present condition; (iii) an active program to locate a buyer and other actions required to complete the plan to sell the long lived assets have been initiated; (iv) the sale of the long lived assets is probable and transfer of the asset is expected to qualify for recognition as a completed sale within one year; and (v) the long lived assets are being actively marketed for sale at a price that is reasonable in relation to its current fair value and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Long lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These long lived assets are not depreciated once they meet the criteria to be classified as held for sale.

When the Company concludes a Memorandum of Agreement for the disposal of a vessel/rig which has yet to complete a time charter contract, it is considered that the held for sale criteria discussed in guidance are not met until the time charter contract has been completed as the vessel is not available for immediate sale. As a result, such vessels/rigs are not classified as held for sale.

When the Company concludes a Memorandum of Agreement for the disposal of a vessel/rig which has no time charter contract to complete or a time charter that is transferable to a buyer, it is considered that the held for sale criteria discussed in guidance are met. As a result such vessels/rigs are classified as held for sale.

Furthermore, in the period a long-lived asset meets the held for sale criteria of guidance, a loss is recognized for any reduction of the long-lived asset's carrying amount to its fair value less cost to sell. No such adjustments were identified for the years ended December 31, 2007, 2008 and 2009 (Note 7).

(q) Fair value of above/below market acquired time charter: Where the Company identifies any assets or liabilities associated with the acquisition of a vessel or drilling rigs the Company records all such identified assets or liabilities at fair value. Fair value is determined by reference to market data. The Company values any asset or liability arising from the market value of the time charters assumed when a vessel and/or rig is acquired. The amount to be recorded as an asset or liability at the date of delivery of a vessel or drilling rig is based on the difference between the current fair values of a charter with similar characteristics as the time charter assumed and the net present value of future contractual cash flows from the time charter contract assumed. When the present value of the time charter assumed is greater than the current fair value of such charter, the difference is recorded as "Fair value of above market acquired time charter". When the opposite situation occurs, the difference is recorded as "Fair value of below-market acquired time charter". Such assets and liabilities are amortized as a reduction of, or an increase in revenue, respectively over the period of the time charter assumed.

(r) Impairment of Long-Lived Assets: The Company reviews for impairment long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In this respect, the Company reviews its assets for impairment on a vessel by vessel or drilling rig by drilling rig basis. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company evaluates the asset for impairment loss. The impairment loss is determined by the difference between the carrying amount of the asset and the fair value of the asset.

No impairment indicators were present and therefore no impairment losses were recorded in the year ended December 31, 2007.

As at December 31, 2008 and 2009, as well as at the end of each quarterly reporting period during 2009, the Company performed an impairment review of the Company's long-lived assets due to the global economic downturn, the significant decline in charter rates in the drybulk shipping industry and the outlook of the oil services industry. The Company compared undiscounted cash flows with the carrying values of the Company's long-lived assets to determine if the assets were impaired. In developing estimates of future cash flows, the Company relied upon assumptions made by management with regard to the Company's vessels and drilling rigs, including future charter rates, utilization rates, operating expenses, future dry docking costs and the estimated remaining useful lives of the vessels and drilling rigs. These assumptions are based on historical trends as well as future expectations in line with the Company's historical performance and the Company's expectations for future fleet utilization under its current fleet deployment strategy, and are consistent with the plans and forecasts used by management to conduct its business. The variability of these factors depends on a number of conditions, including uncertainty about future events and general economic conditions; therefore, the Company's accounting estimates might change from period to period. As a result of the impairment review, the Company determined that the carrying amounts of its assets held for use were recoverable,

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

and therefore, concluded that no impairment loss was necessary for 2008 while for 2009 an impairment charge of \$1,578 should be recognized in 2009 (Note 7).

(s) **Dry-docking Costs:** The Company follows the direct expense method of accounting for dry-docking costs whereby costs are expensed in the period incurred for the drybulk carrier vessels and the drilling rigs.

(t) **Deferred Financing Costs:** Deferred financing costs include fees, commissions and legal expenses associated with the Company's long-term debt. These costs are amortized over the life of the related debt using the effective interest method and are included in interest expense. Unamortized fees relating to loans repaid or refinanced as debt extinguishments are expensed as interest and finance costs in the period the repayment or extinguishment is made. Amortization and write offs for each of the years ended December 31, 2007, 2008 and 2009 amounted to \$2,190, \$15,848 and \$12,745, respectively.

(u) **Convertible Senior Notes:** In accordance with Financial Accounting Standards guidance for convertible debt instruments that contain cash settlement options upon conversion at the option of the issuer, the Company determines the carrying amounts of the liability and equity components of its convertible notes issued in November 2009 that contain cash settlement provisions by first determining the carrying amount of the liability component of the convertible notes by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component representing the embedded conversion option is then determined by deducting the fair value of the liability component from the total proceeds.

The resulting debt discount is amortized to interest cost using the effective interest method over the period the debt is expected to be outstanding as an additional non-cash interest expense. Transaction costs associated with the instrument are allocated pro-rata between the debt and equity components (Note 10).

(v) **Revenue and Related Expenses:**

(i) **Drybulk Carrier vessels:**

Time and bareboat charters: The Company generates its revenues from charterers for the charter hire of its vessels, which are considered to be operating lease arrangements. Vessels are chartered using time and bareboat charters and where a contract exists, the price is fixed, service is provided and collection of the related revenue is reasonably assured, revenue is recognized as it is earned ratably on a straight-line basis over the duration of the period of each time charter as adjusted for the off-hire days that the vessel spends undergoing repairs, maintenance and upgrade work depending on the condition and specification of the vessel.

Pooling Arrangement: For vessels operating in pooling arrangements, the Company earns a portion of total revenues generated by the pool, net of expenses incurred by the pool. The amount allocated to each pool participant vessel, including the Company's vessels, is determined in accordance with an agreed-upon formula, which is determined by points awarded to each vessel in the pool based on the vessel's age, design and other performance characteristics. Revenue under pooling arrangements is accounted for on the accrual basis and is recognized when an agreement with the pool exists, price is fixed, service is provided and the collectability is reasonably assured.

The allocation of such net revenue may be subject to future adjustments by the pool however, historically, such changes have not been material.

Voyage related and vessel operating costs: Voyage related and vessel operating costs are expensed as incurred. Under a time charter, specified voyage costs, such as fuel and port charges are paid by the charterer and other non-specified voyage expenses, such as commissions, are paid by the Company. Vessel operating costs including crews, maintenance and insurance are paid by the Company. Under a bareboat charter, the charterer assumes responsibility for all voyage and vessel operating expenses and risk of operation.

Deferred Voyage Revenue: Deferred voyage revenue primarily relates to cash advances received from charterers. These amounts are recognized as revenue over the voyage or charter period.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

(ii) Drilling Rigs:

Revenues: The majority of revenues are derived from contracts including day rate based compensation for drilling services. 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 rigs and 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. For each element the Company determines how and when to recognize revenue. There are two types of drilling contracts: well contracts and term contracts.

Well contracts: These are contracts where the assignment is to drill a certain number of wells. Revenue from day rate based compensation for drilling operations is recognized in the period during which the services are rendered at the rates established in the contracts. Mobilization revenues, expenses and contributions from customers for capital improvements are recognized over the estimated duration of the drilling period. Demobilization revenues and expenses are recognized over the demobilization period.

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 multiple element arrangement containing both a lease element and drilling services element. For revenues derived from contracts that contain a lease, the lease elements are recognized in the income statement 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 is recognized in the period in which the services are rendered at rates at fair value. Revenues related to mobilization and direct incremental expenses of mobilization are deferred and recognized over the estimated duration of the drilling contracts. To the extent that expenses exceed revenue to be recognized, it is expensed as incurred. Demobilization fees and expenses are recognized over the demobilization period.

(w) Earnings/(loss) per Common Share: Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per common share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised. Dilution has been computed by the treasury stock method whereby all of the Company's dilutive securities (the warrants, stock options, non-vested common stock and convertible senior notes) are assumed to be exercised or converted and the proceeds used to repurchase common shares at the weighted average market price of the Company's common stock during the relevant periods. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share computation. The treasury stock method is used in calculating diluted earnings per share for convertible senior notes as the Company expects to settle the principle partially or wholly in cash. The "if converted method" is used in calculating diluted earnings per share for Series A convertible preferred stock.

(x) Segment Reporting: The Company reports financial information and evaluates its operations by charter revenues and not by the length of its vessel or its drilling rig employment by its customers, i.e., spot or time charters. The Company does not have discrete financial information to evaluate the operating results for each such type of employment. Although revenue can be identified for these types of employments, management cannot and does not identify expenses, profitability or other financial information for these types of employments. As a result, management, including the chief operating officer reviews results solely by revenue per day and operating results of the drybulk carrier and drilling rig fleets. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and as a result, the disclosure of geographic information is impracticable. The Company's acquisition of Ocean Rig during 2008 has resulted in the Company determining that it operates under two reportable segments, as a provider of drybulk commodities for the steel, electric utility, construction and agri-food industries (Drybulk carrier segment) and as a provider of ultra deep water drilling rig services (Drilling rig segment). The accounting policies applied to the reportable segments are the same as those used in the preparation of the Company's consolidated financial statements.

(y) Financial Instruments: The Company designates its derivatives based upon guidance on accounting for derivative instruments and hedging activities which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The guidance on accounting for certain derivative instruments and certain hedging activities requires all derivative instruments to be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized in earnings unless specific hedge accounting criteria are met.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

- (i) **Hedge Accounting:** At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy undertaken for the hedge. The documentation includes identification of the hedging instrument, hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine whether they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Company is party to interest swap agreements where it receives a floating interest rate and pays a fixed interest rate for a certain period in exchange. Contracts which meet the strict criteria for hedge accounting are accounted for as cash flow hedges. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognized directly as a component of Other comprehensive income in equity, while any ineffective portion, if any, is recognized immediately in current period earnings.

The Company discontinues cash flow hedge accounting if the hedging instrument expires and it no longer meets the criteria for hedge accounting or designation is revoked by the Company. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is kept in equity until the forecasted transaction occurs. When the forecasted transaction occurs, any cumulative gain or loss on the hedging instrument is recognized in profit or loss. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to net profit or loss for the year as financial income or expense.

- (ii) **Other Derivatives:** Changes in the fair value of derivative instruments that have not been designated as hedging instruments are reported in current period earnings.

(z) Guidance "Fair Value Measurements": Effective January 1, 2008, the Company adopted the guidance "Fair Value Measurements and Disclosures". In addition, on January 1, 2008, the Company made no election to account for its monetary assets and liabilities at fair values as allowed by FASB guidance for financial instruments. (Note 11).

(aa) Stock-based compensation: Stock-based compensation represents non-vested common stock granted to employees and directors, for their services. The Company calculates total compensation expense for the award based on its fair value on the grant date and amortizes the total compensation on a straight-line basis over the vesting period of the award or service period (Note 13).

(ab) Income Taxes: Income taxes have been provided for based upon the tax laws and rates in effect in the countries in which the Company's operations are conducted and income is earned. There is no expected relationship between the provision for/or benefit from income taxes and income or loss before income taxes because the countries in which the Company operates have taxation regimes that vary not only with respect to the nominal rate, but also in terms of the availability of deductions, credits and other benefits. Variations also arise because income earned and taxed in any particular country or countries may fluctuate from year to year. Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company assets and liabilities using the applicable jurisdictional tax rates in effect at the year end. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The Company accrues interest and penalties related to its liabilities for unrecognized tax benefits as a component of income tax expense.

(ac) Pension and retirement benefit obligation: Administrative personnel employed by Ocean Rig are covered by state-sponsored pension funds under Norwegian law. Both employees and the Company are required to contribute a portion of the employees' gross salary to the fund. Upon retirement, the state-sponsored pension funds are responsible for paying the employees retirement benefits and accordingly the Company has no such obligation. Administrative personnel are entitled to an indemnity in case of dismissal or retirement unless they resign or are dismissed with cause. The determination of the Company's liability for pension and retirement benefits is based on an actuarial valuation.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

ad) Recent accounting pronouncements: In December 2007, new guidance established accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The new guidance also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The above-mentioned guidance was effective for fiscal years beginning after December 15, 2008, and was adopted by the Company in the first quarter of 2009. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements. The new guidance was retroactively applied to the consolidated statement of stockholders equity for the year ended December 31, 2008.

(ii) In March 2008, new guidance was issued with the intent to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities. The new guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This guidance does not require comparative disclosures for earlier periods at initial adoption. The Company adopted this guidance in the first quarter of 2009 (Note 11).

(iii) In June 2008, new guidance clarified that all outstanding unvested share-based payment awards that contain rights to non forfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities, and the two-class method of computing basic and diluted earnings per share must be applied. The Company determined that non-vested shares granted under its equity incentive plan are participating securities because the non-vested shares participate in dividends. The guidance was effective for fiscal years beginning after December 15, 2008. The Company adopted this new guidance in 2009, which was retroactively applied to the years ended December 31, 2008 and 2007 and did not have a material impact on the earnings per share (Note 13).

(iv) In December 2008 new guidance was issued which requires more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The guidance was effective for fiscal years ending after December 15, 2009. Adoption of this guidance in 2009 did not have a significant impact on the Company's financial statements (Note 14).

(v) In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance establishing the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification's content effectively supersedes previous guidance and include only two levels of GAAP: authoritative and non authoritative. The guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the new guidance in the third quarter of 2009 and revised references to US GAAP in these consolidated financial statements to reflect the guidance in the Codification.

(vi) In June 2009, new guidance was issued with regards to the consolidation of variable interest entities ("VIE"). This guidance responds to concerns about the application of certain key provisions of the FASB Interpretation, including those regarding the transparency of the involvement with VIEs. The new guidance revises the approach to determining the primary beneficiary of a VIE to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. Specifically, the new guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, the standard requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. The Company is evaluating the impact of this guidance on its consolidated financial statements.

(vii) In September 2009, clarifying guidance was issued on multiple-element revenue arrangements. The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

2. Significant Accounting policies - continued:

ad) Recent accounting pronouncements - continued:

requirements for revenue recognition. The new guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting pronouncement to its consolidated financial statements.

(viii) In October, 2009 new guidance was issued with regards to accounting and reporting for own-share lending arrangements issued in contemplation of a convertible debt issuance. This guidance requires that a share-lending arrangement entered into on an entity's own shares should be measured at fair value and recognized as an issuance cost, with an offset to additional paid-in capital. Loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs. The amendments also require several disclosures including a description and the terms of the arrangement and the reason for entering into the arrangement.

The Company applied the new guidance to the own-share lending agreement entered into in association with the Convertible Senior Notes issued in November 2009 (Note 10).

3. Restatement of Financial Statements:

In 2011 and subsequent to the issuance of the Company's 2009 consolidated financial statements, the Company's management determined that the amount of interest capitalized pursuant to ASC 835-20, *Capitalization of Interest* (ASC 835-20) for four drillships under construction for the year ended December 31, 2009 was erroneously calculated. The errors comprised the following:

- The Company erroneously excluded from the amount of the expenditures for the qualifying assets the portion of the purchase price of two drillships under construction acquired by its consolidated subsidiary, Ocean Rig UDW, that was paid for in shares of stock of Ocean Rig UDW.
- The Company erroneously excluded borrowings of its consolidated subsidiary, Ocean Rig UDW, and certain borrowings of DryShips Inc. from the calculation of the capitalization rate used to determine capitalized interest.

The correction of the above errors results in an increase in the amount of interest capitalized as of December 31, 2009 by \$7.9 million (included in advances for vessels and rigs under construction and acquisitions in the balance sheet) and a corresponding decrease in interest and finance costs for the year ended December 31, 2009.

In addition, the Company erroneously accounted for under ASC 815-30, *Cash Flow Hedges* (ASC 815-30) the settlement payments made in 2009 on interest rate swaps that were designated and effective as cash flow hedges on variable rates debts (interest on which was being capitalized as cost of drillships under construction) by immediately reclassifying the entire settlement payments from accumulated other comprehensive loss ("AOCL") to interest and finance costs in the statement of operations. Accordingly, a portion of the settlement payments on the interest rate swaps is reclassified back to AOCL and will be reclassified to interest and finance costs at the same time that the capitalized interest on the hedged variable rate debts is recognized in income through depreciation. The correction of the erroneous application of ASC 815-30 results in a decrease in interest and finance costs for the year ended December 31, 2009 and an increase in AOCL by \$5.3 million as of December 31, 2009.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

3. Restatement of Financial Statements - continued:

The impact of the foregoing errors is shown below:

Consolidated Statement of Operations	For the Year Ended December 31, 2009	
	as previously reported	as restated
	Interest and finance costs	\$ (97,599)
Income/(Loss) before income taxes and equity in loss of investee	(12,403)	766
Net loss	(25,200)	(12,031)
Net loss attributable to Dryships Inc.	(32,378)	(19,209)
Net loss attributable to common stockholders	(39,875)	(26,706)
Loss per common share, basic and diluted	\$ (0.19)	\$ (0.13)

Consolidated Balance Sheet	As at December 31, 2009	
	as previously reported	as restated
	Advances for vessels and rigs under construction and acquisitions	\$ 1,174,693
Total Fixed Assets, net	4,562,663	4,570,570
Total assets	5,799,088	5,806,995
Accumulated other comprehensive loss	\$ (28,137)	\$ (33,399)
Total Dryships Inc. stockholders' equity	2,804,635	2,812,542
Total equity	2,804,635	2,812,542
Total liabilities and stockholders' equity	5,799,088	5,806,995

Consolidated Cash Flow	For the Year ended December 31, 2009	
	as previously reported	as restated
	Net Loss	\$ (25,200)
Net Cash provided by Operating Activities	286,217	294,124
Advances for vessel acquisitions/rigs under construction	(121,982)	(129,889)
Net cash Used in Investing Activities	(162,043)	\$ (169,950)

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

4. Going Concern:

As of December 31, 2008, the Company was in breach of certain financial covenants, mainly the loan-to-value ratios (also known as value maintenance clauses), contained in the Company's loan agreements relating to \$1.8 billion of the Company's debt. Even though none of the lenders declared an Event of Default under the loan agreements, these breaches constituted potential events of default (also known as technical defaults) and could have resulted in the lenders requiring immediate repayment of the loans. During 2009 and up to December 31, 2009, the Company has obtained waivers from all of its lenders to resolve the above-mentioned breaches. Accordingly, as of December 31, 2009, the Company is in compliance with the loan-to-value ratios contained in the waiver agreements. However, some of these waiver agreements expire during 2010 when the original covenants come back in force. For some of these waiver agreements expiring in 2010, the Company, in theory, does not expect to meet the loan-to-value ratios contained in the original covenants using the current fair market values of its vessels. Accordingly, assuming that current market conditions would prevail upon waiver agreement expiration in 2010, the Company has deemed that it is probable that the Company will not be able to comply with the original covenants at measurement dates that are within the next 12 months. Accordingly, the Company has classified this debt as a current liability. In addition, the Company was in breach of a financial covenant in its \$230 million loan facilities as of December 31, 2009, and is in process of resolving this breach. As a result of the cross default provisions in the Company's loan agreements, actual breaches existing under its credit facilities, as well as theoretical technical defaults on waivers expiring in 2010, could result in defaults under all of the Company's affected debt and the acceleration of such debt by its lender. As such the Company has classified all of the Company's affected debt as current liabilities (Note 10).

The Company is currently in negotiations with its lenders to obtain waivers, waiver extensions or to restructure the affected debt. Management expects that the lenders will not demand payment of the loans before their maturity, provided that the Company pays loan installments and accumulated or accrued interest as they fall due under the existing credit facilities. Management plans to settle the loan interest and scheduled loan repayments with cash generated from operations.

As of December 31, 2009, the Company's theoretical exposure (current portion of long-term debt less cash and cash equivalents less restricted cash) amounted to \$654,690.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern, except for the current classification of debt discussed in Note 10.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Transactions with Related Parties:

The amounts included in the accompanying consolidated balance sheets and consolidated statement of operations are as follows:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2009</u>			
Balance Sheet					
Due from related party – Manager	\$ 12,733	\$ 27,594			
Vessels, net – Manager, for the year	7,728	626			
Advances for vessels/rigs under construction – Manager, for the year	352	1,557			
			<u>Year ended December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>		
Statement of Operations					
Gain on sale of vessels	\$3,629	\$ 4,121	\$ 308		
Contract termination fee and forfeiture of vessel deposits	—	160,000	25,350		
Management fees	9,579	21,129	17,941		
General and administrative expenses					
Consultancy fees – Fabiana	1,448	2,031	2,802		
SOX fees – Manager	2,369	2,832	3,056		
Rent – Manager	12	13	13		
Interest and finance costs	\$ 614	\$ —	\$ —		

(Per day and per quarter information in this note is expressed in United States Dollars/Euros)

Cardiff Marine Inc.: The operations of the Company’s vessels are managed by Cardiff (“Cardiff”), a related technical and commercial management company incorporated in Liberia. The Manager also acts as the Company’s charter and sales and purchase broker. The Manager is beneficially majority-owned by the Company’s Chairman and Chief Executive Officer George Economou, and members of his immediate family. The remaining interest in the Manager is beneficially owned by Ms. Chryssoula Kandylidis, who serves on the Company’s board of directors.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Transactions with Related Parties - continued:

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% 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 average USD rate on the invoice date.

Additionally the Company pays a management fee of \$40 per month per drillship for 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% 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.

Consultancy Agreements: Under the consultancy agreements effective from February 3, 2005, between the Company and Fabiana Services S.A. ("Fabiana"), a related party entity incorporated in the Marshall Islands, Fabiana provides the services of George Economou in his capacity as Chief Executive Officer of the Company (Note 13).

On January 21, 2009, the Compensation Committee approved a Euro 5 million (\$7 million) bonus payable for CEO 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 of George Economou for CEO services rendered during 2009 as well as for anticipated services during the years 2010, 2011 and 2012. The shares shall 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.

Lease Agreement: The Company leases office space in Athens, Greece from George Economou.

Chartering agreement: During 2008, two subsidiaries concluded charter party agreements with Classic Maritime Inc., a then related party entity incorporated in the Marshall Islands and then controlled by George Economou. On September 3, 2008, Classic Maritime Inc. was sold to an unrelated party and was no longer considered a related party to Dryships. Under the agreements, the Company chartered the vessels Manasota and Redondo for a daily rate ranging from \$35,000 to \$67,000 and for a period of five years.

Adjustment in Contract Price for Two Panamax Newbuildings: We had previously agreed to acquire two Panamax newbuildings, identified as Hulls 1518A and 1519A, for a purchase price in the amount of \$33.6 million each. These vessels were scheduled for delivery from Hudong Shipbuilding in the fourth quarter of 2009 and the first quarter of 2010, respectively. An affiliated client of our manager, Cardiff, with which we are affiliated, had agreed to purchase Hull 1569A, a sister vessel to Hulls 1518A and 1519A. We had agreed to increase the purchase price for Hulls 1518A and 1519A by \$4.5 million each in consideration for: (i) a corresponding \$9.0 million decrease in the purchase price of Hull 1569A and (ii) an undertaking that on delivery of Hulls 1518A and 1519A, the owner of Hull 1569A will repay us by effecting payment of \$9.0 million to Hudong Shipbuilding. We issued a guarantee to the shipyard for this increase in the purchase price of Hulls 1518A and 1519A. These hulls were delivered in 2009.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Transactions with Related Parties - continued:

Cancellation of the acquisition of nine Capesize vessels: In October 2008, the Company agreed to purchase the ship-owning companies of nine Capesize drybulk carriers for an aggregate purchase price of \$1.17 billion from clients of Cardiff, including affiliates of George Economou, and unrelated third parties, consisting of 19.4 million Company common shares and the assumption of an aggregate of \$478,300 in debt and future commitments. In light of the considerable subsequent decrease in the asset values of the nine Capesize vessels, the Company reached an agreement with the sellers to cancel this transaction. The cancellation of the acquisition was approved by the independent members of the Company's Board of Directors on January 21, 2009, and the termination and release agreements were signed on March 6, 2009. The consideration for canceling the transaction consisted of 6.5 million common shares issued to entities unaffiliated with the Company and nominated by the third-party sellers, which common shares were subject to a six-month "lock up" period, and 3.5 million "out-of-the-money" warrants issued to entities controlled by George Economou. As the affiliated entities received less consideration to cancel these contracts than the unrelated third parties, George Economou was deemed to have made an investor's contribution to the Company's capital.

The shares and warrants were issued on April 9, 2009. Each warrant entitles the holder to purchase one share of the Company's common stock. These warrants have a cost of \$0.01 and strike prices, depending on the relevant tranches, of between \$20 and \$30 per share. The warrants are subject to an 18-month "lock up" period and expire after five years.

The costs of this cancellation recorded in "Contract termination fee and forfeiture of vessel deposits", are summarized as follows:

Compensation to unrelated parties (a)	\$23,855
Compensation to related parties (b)	<u>25,350</u>
Total cancellation fee	<u>\$49,205</u>

- (a) The fair value of the Company's 6.5 million common shares issued to the third-party sellers was measured on March 6, 2009 (i.e., the date when the Company terminated the contracts in accordance with their terms) using the closing stock price of \$3.67 per share or an aggregate fair value of \$23,855.
- (b) The fair value of the compensation to terminate the purchase commitment with the related parties on five of the nine vessels was \$25,350, measured using the loss in value method (calculated as the difference between the total purchase consideration and the fair value of the five vessels using independent brokers' valuations). A portion of such compensation was in the form of the Company's warrants with a fair value of \$5,392, which was determined using the Black-Scholes Model with the Company's common shares as the underlying security.

Cancellation of the acquisition of vessels: On June 25, 2008, the Company entered into two memoranda of agreement to acquire the vessels Sidari and Petani built in 2007 and 2008 for \$200,000 in total from companies beneficially owned by George Economou. The vessels were expected to be delivered by the end of 2008 with their existing time charters attached for a period of approximately four years each with an unrelated party for a daily rate of \$43,800 each. On July 10, 2008, the Company paid \$40,000 representing an advance payment of 20% in accordance with the related clauses of the memoranda of agreement. On December 10, 2008, the Company entered an agreement to cancel the acquisition of these vessels for a total consideration of \$80,000 (Note 6).

Cancellation of the acquisition of companies: In July 2008, the Company entered into two agreements to acquire all of the issued and outstanding shares of two ship-owning companies beneficially owned by George Economou. The aggregate purchase price was \$140,000, which represented the fair value of the sole assets of the two companies. In exchange for the aggregate purchase price, the Company agreed to acquire two newbuilding Panamax vessels that were scheduled to be delivered in the fourth quarter of 2008 and the first quarter of 2009, respectively, net of advances of \$60,000 in total to be made under the shipbuilding contract by the Company. During October and November 2008 the Company paid \$15,000 representing advances for the newbuilding hulls. On December 10, 2008, the Company entered an agreement to cancel the acquisition of these companies for a total consideration of \$80,000 (Note 6).

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Transactions with Related Parties - continued:

Purchase of Ocean Rig from a related party: On December 20, 2007 Primelead Limited (“Primelead”) acquired 51,778,647 shares in Ocean Rig from Cardiff, who acted as an intermediary, for a consideration of \$406,024. This represented 30.4% of the issued shares in Ocean Rig. A commission was paid to Cardiff, amounting to \$4,050 which for the year ended December 31, 2007 was included in “Other, net” in the accompanying consolidated statements of operations. The above commission was paid on February 1, 2008.

In April 2008, 7,546,668 shares, representing 4.4% of the share capital of Ocean Rig were purchased from companies controlled by George Economou for a consideration of \$66,782, which is the USD equivalent (Norwegian Kroner) of 45 per share, which is the price that was offered to all shareholders in a mandatory offering (Note 8).

In addition, a commission was paid to Cardiff amounting to \$9,925 for services rendered in relation to the acquisition of the remaining shares in Ocean Rig. The above commission was paid on December 5, 2008 and is reflected in “Other, net” in the accompanying consolidated statements of operations.

Acquisition of drillships: On October 3, 2008, the Company’s wholly owned subsidiary, Ocean Rig UDW Inc. (“Ocean Rig UDW”), formerly known as Primelead Shareholders Inc., entered into a share purchase agreement with certain unrelated parties and certain entities affiliated with George Economou to acquire the full equity interests in Drillships Holdings Inc. (“Drillships Holdings”), the owner of drillships Hulls 1837 and 1838 newbuilding advanced capability drillships for use in ultra deepwater drilling locations (Note 6).

On May 15, 2009, the above transaction closed. As consideration of this acquisition, Ocean Rig UDW issued to the sellers the number of common shares equal to 25% of its total issued and outstanding common shares as of May 15, 2009. The consideration paid to the related-party sellers was determined based on various fair value valuation methods.

The following table summarizes the aggregate fair values of assets acquired and liabilities assumed by the Company as of May 15, 2009:

Fair value of assets and liabilities acquired

Cash equivalents	\$ 248
Advances for rigs under construction	625,445
Short-term borrowings (Note 10)	(31,102)
Other current liabilities	(7,656)
Long-term debt (Note 10)	<u>(228,810)</u>
Total fair value of net assets	<u>\$ 358,125</u>

The carrying amount of the advances for rigs under construction was \$447,445 as of the acquisition date. A fair value adjustment of \$178,000 was made to the carrying amounts based on the fair value of the assets acquired. The carrying amounts of the remaining assets and liabilities acquired did not require fair value adjustments. No intangible assets were identified during the acquisition of Drillships Holdings.

On July 15, 2009, the Company acquired the remaining 25% of the total issued and outstanding capital stock of Ocean Rig UDW from the minority interests. The consideration paid for the 25% interest consisted of a one-time \$50,000 cash payment and the issuance of the Company’s Series A Convertible Preferred Stock with an aggregate face value of \$280,000 (Note 12).

In the event that any of the newbuilding drillships Hulls 1837 and 1838 are sold by the Company for less than \$800 million prior to delivery, the sellers of Drillships Holdings are obligated to pay to the Company, in cash or in shares, 25% of the difference between the sale price and \$800 million which cannot exceed \$12.5 million. Management has assessed the probability of occurrence of this event as remote.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

5. Transactions with Related Parties - continued:

Short-term credit facility: During 2007, the Company borrowed an aggregate amount of \$63,000 from Elios Investment Inc., a wholly-owned subsidiary of the Foundation (Note 1) in order to partly finance the acquisition cost of the vessels Bargarra, Marbella, Primera, Brisbane, Menorca, Capitola, Ecola and Majorca. The loan was provided in two tranches: \$33,000 in April 2007 and \$30,000 in May 2007 and was fully repaid as of June 15, 2007. Interest paid during the year ended December 31, 2007 amounted to \$614.

Purchase of derivatives from related parties: In order to maintain the minimum hedging ratio of one of its loans, on June 22, 2007 the Company acquired from Sea Glory Navigation Ltd. and River Camel Shipping Co., both related-party companies managed by Cardiff, two interest rate cap and floor agreements which were valued on that date by the financial institutions counterparties to the agreements at an amount of \$1,290 (asset).

Drybulk S.A: An amount of \$2,011 was charged by Drybulk S.A, a related party, during the year ended December 31, 2007 for chartering commissions.

6. Advances for Vessels and Rigs under Construction and Acquisitions:

The amounts shown in the accompanying consolidated balance sheets include milestone payments relating to the shipbuilding contracts with the shipyards, supervision costs and any material related expenses incurred during the construction periods, all of which are capitalized in accordance with the accounting policy discussed in Note 2.

As of December 31, 2008 and 2009, the advances for vessel and rigs under construction and acquisitions are set forth below:

Vessel name	Expected delivery	Contract amount	December 31, 2008			December 31, 2009		
			Contract payments	Capitalized expenses	Total	Contract payments	Capitalized expenses and fair value adjustments (as restated)	Total (as restated)
H1518A	Delivered 2009	\$ 33,593	9,975	1,029	\$ 11,004	\$ —	—	\$ —
H1519A	Delivered 2009	33,593	9,975	992	10,967	—	—	—
HSS058	Cancelled 2009	54,250	10,850	749	11,599	—	—	—
HSS059	Cancelled 2009	54,250	10,850	749	11,599	—	—	—
H0002	Cancelled 2009	105,500	10,550	734	11,284	—	—	—
H0003	Cancelled 2009	105,500	10,550	734	11,284	—	—	—
H2089	Sold 2009	114,000	22,800	1,678	24,478	—	—	—
H1128	Cancelled 2009	—	15,300	705	16,005	—	—	—
Petalidi	Cancelled 2009	—	6,100	—	6,100	—	—	—
H1865	July 2011	701,555	205,939	4,703	210,642	205,939	15,167	221,106
H1866	September 2011	701,555	205,939	4,715	210,654	205,939	14,010	219,949
H1837	December 2010	689,795	—	—	—	254,347	117,002	371,349
H1838	March 2011	689,545	—	—	—	254,347	115,849	370,196
		<u>\$3,283,136</u>	<u>518,828</u>	<u>16,788</u>	<u>\$535,616</u>	<u>920,572</u>	<u>262,028</u>	<u>\$1,182,600</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

6. Advances for Vessels and Rigs under Construction and Acquisitions - continued:

On December 10, 2008, the Company agreed to cancel its acquisition of the four Panamax drybulk carriers, including two newbuildings (Note 5), from companies beneficially owned by George Economou. The agreement was negotiated and approved by a committee consisting of the independent members of the Company's Board of Directors. The cancellation fee consisted of forfeiture of the Company's deposits totaling \$55,000, plus a cash payment of \$26,250 per vessel. The total cancellation fee of \$160,000 is included in contract termination fees and forfeiture of vessel deposits in the consolidated statement of operations. In addition, the Company has entered into an agreement with the selling companies of the above vessels, providing the Company with the exclusive option to purchase the abovementioned four Panamax drybulk carriers on an en bloc basis at a fixed purchase price of \$160,000 to be exercised up to December 31, 2009. The fair value of such option as of December 31, 2008 is deemed to be zero. The exclusive purchase option granted to the Company by the seller was not exercised on December 31, 2009.

On August 13, 2008, the Company entered into a memorandum of agreement to acquire the vessel Maple Valley for total consideration of \$61,000 from an unrelated party. The vessel was expected to be delivered during the first quarter of 2009. In September 2008, the Company paid \$6,100 representing an advance payment of 10% in accordance with the related clauses of the memorandum of agreement. On January 29, 2009, the Company and the seller mutually agreed to cancel the memorandum of agreement to acquire the vessel in consideration of a payment of \$8,000 to the seller and the seller's retention of the \$6,100 deposit that was previously paid.

On January 15, 2009, the Company agreed to transfer its interests in the ship-owning companies of three Capesize newbuildings (Hulls 0002, 0003 and 1128) to an entity not affiliated with the Company. In connection with this transfer of interest, the sellers released the Company and its relevant subsidiaries from the purchase agreements for these vessels.

The total consideration of \$118,688, including capitalized expenses, included in "Contract termination fees and forfeiture of vessel deposits" in the accompanying consolidated statement of operations consists mainly of the forfeiture of \$36,400 in deposits for the acquisition of the three vessels already made by the Company, \$30,000 in cash consideration and two additional tranches of \$25,000 each payable in cash or the equivalent amount in the form of common shares. On March 19, 2009, the Company issued a total of 11,990,405 common shares to the nominees of the seller to settle the two additional tranches.

On May 15, 2009, the Company acquired the equity interests of Drillships Holdings, which owns two newbuilding advanced capability drillships for use in ultra deepwater drilling locations, identified as Hull 1837 and Hull 1838 (Note 5).

On May 27, 2009, the Company sold the ship-owning company that had previously contracted for the purchase of newbuilding drybulk carrier H2089 to an unrelated party for \$100 and incurred a cancellation fee and forfeiture of vessel deposits, of \$44,693, including capitalized expenses. Pursuant to the sale, the buyer assumed the liability for the remaining payments due in respect of H2089 and has received the benefit of our down payment in the amount of \$22,800 already made in respect of the vessel. In connection with this transfer of interest, the sellers released the Company and the relevant subsidiary from the purchase agreement for the vessel. The total consideration of \$44,693 included in "Contract termination fees and forfeiture of vessel deposits" in the accompanying consolidated statement of operations was comprised of \$24,693 in forfeited deposits including capitalized expenses, and a \$20,000 cancellation fee which was paid to the sellers through Cardiff, who acted as agent for the Company.

On October 16, 2009, the Company entered into two separate agreements with third-party sellers to cancel Hulls SS058 and SS059. The total consideration of \$30,773 included in "Contract termination fees and forfeiture of vessel deposits" in the accompanying consolidated statement of operations consists of the forfeiture of \$23,773, including capitalized expenses, and \$7,000 in cash consideration in respect of the cancellation.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

6. Advances for Vessels and Rigs under Construction and Acquisitions - continued:

During the years ended December 31, 2008 and 2009, the movement of the advances for vessels/drillships under construction and acquisitions was as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2009 (as restated)</u>
Balance at beginning of period	\$118,652	\$ 535,616
Acquisitions of Drillships	—	625,445
Advances for vessels/drillships under construction and related costs	509,165	136,662
Advances forfeited due to cancellation of vessel acquisitions	(55,000)	(93,158)
Vessels delivered	<u>(37,201)</u>	<u>(21,965)</u>
Balance at end of period	<u>\$535,616</u>	<u>\$ 1,182,600</u>

7. Fixed assets:

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

Drybulk vessels:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Balance, December 31, 2007	\$1,794,184	\$ (150,317)	\$1,643,867
Vessel acquisitions	779,374	—	779,374
Vessel disposals	(222,712)	44,628	(178,084)
Depreciation	<u>—</u>	<u>(110,507)</u>	<u>(110,507)</u>
Balance, December 31, 2008	2,350,846	(216,196)	2,134,650
Vessel acquisitions	70,507	—	70,507
Vessel disposals	(37,312)	9,584	(27,728)
Depreciation	—	(117,522)	(117,522)
Vessel impairment charge	<u>(11,651)</u>	<u>10,073</u>	<u>(1,578)</u>
Balance, December 31, 2009	<u>\$2,372,390</u>	<u>\$ (314,061)</u>	<u>\$2,058,329</u>

During 2008, the vessels Avoca, Conquistador, Capri, Positano, Flecha, Sorrento and Mystic were delivered to the Company for \$779,374. The vessels Matira, Netadola, Lanzarote, Menorca, Waikiki, Solana and Tonga were sold for net proceeds of \$401,106 realizing a gain from the sale of \$223,022.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

7. Fixed assets - continued:

In addition during 2008, the Company concluded Memoranda of Agreement for the sale of vessels, Paragon, Delray, Toro and MV La Jolla, for \$245,400. After negotiations the final sales price for these vessels was adjusted to \$188,300. (Note 15) In 2009, the sale of the vessel La Jolla was cancelled and a gain on contract cancellation of \$9,000 was recognized.

On May 19, 2008 the Company entered into a memorandum of agreement for the sale of vessel Primera for \$75,000. The sale agreement was subsequently cancelled on October 15, 2008 and the advance of \$9,098 was retained by the Company.

During 2009, the vessels Rapallo and Oliva were delivered to the Company for \$70,507. In addition, during 2009, the vessel Paragon was sold for net proceeds of \$30,163, resulting in a gain from the sale of \$2,432.

During 2009, the Company concluded Memoranda of Agreement for the sale of vessels, Iguana and Delray, for \$23,350 and \$20,145, respectively. The vessels were delivered in the first quarter of 2010.

Due to the above-mentioned sales, the Company performed an impairment review on the Iguana and the Delray as of December 31, 2009 to determine whether the change in the circumstances indicated that the carrying amount of the assets may not be recoverable. The Company's review indicated that future undiscounted operating cash flows for the vessel Iguana, including revenues from the existing charter through the expected date of sale and the agreed-upon sale price, were below its carrying amount, and accordingly a vessel impairment charge of approximately \$1,578 was recognized and reflected in the accompanying consolidated statement of operations for the year ended December 31, 2009.

Drilling rigs, machinery and equipment:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Balance on acquisition	\$1,423,156	—	\$1,423,156
Acquisitions	16,584	—	16,584
Depreciation	—	(46,582)	(46,582)
Balance, December 31, 2008	1,439,740	(46,582)	1,393,158
Acquisitions	14,152	—	14,152
Disposals	(501)	114	(387)
Depreciation	—	(77,282)	(77,282)
Balance December 31, 2009	<u>\$1,453,391</u>	<u>\$ (123,750)</u>	<u>\$1,329,641</u>

As of December 31, 2009, all of the Company's vessels and drilling rigs have been pledged as collateral to secure the bank loans (Note 10).

8. Acquisition of Ocean Rig:

On December 20, 2007, the Company acquired 51,778,647 or 30.4% of the issued shares in Ocean Rig. Ocean Rig, incorporated on September 26, 1996 and at that time domiciled in Norway, was a public limited company whose shares previously traded on the Oslo Stock Exchange.

The Company accounted for its investment in Ocean Rig for the year ended December 31, 2007, and for the period from January 1, 2008 to May 14, 2008 using the equity method of accounting. The Company's equity in the loss of Ocean Rig is shown in the accompanying consolidated statements of operations for the year ended December 31, 2007 and 2008 as "Equity in loss of investee" and amounted to a loss of \$299 and \$6,893, respectively.

After acquiring 33% of Ocean Rig's outstanding shares on April 22, 2008, the Company, as required by Norwegian Law, launched a mandatory bid for the remaining shares of Ocean Rig at a price of NOK45 per share (\$8.89 per share). The Company

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

8. Acquisition of Ocean Rig - continued:

acquired additional shares of Ocean Rig, resulting in the Company gaining control over Ocean Rig on May 14, 2008. The results of operations related to the acquisition are included in the consolidated financial statements since May 15, 2008. The mandatory bid expired on June 11, 2008. As of July 10, 2008, the total shares held by the Company in Ocean Rig amounted to 100% (163.6 million shares). Out of the total shares acquired as discussed above, 4.4% of the share capital of Ocean Rig was purchased from companies controlled by George Economou (Note 5).

The Company had recorded a non-controlling minority interest on its balance sheet as of June 30, 2008 in accordance with guidance related to classification and measurement of redeemable securities. The resulting non-controlling interest carrying value of \$21,457 was recorded at redemption value, which was higher than the amount that would result from applying consolidation accounting under guidance relating to consolidation, resulting in an additional \$15,050 allocated to non-controlling interest recorded in the consolidated statement of operations for the year ended December 31, 2008. The transaction was completed in 2008.

Impairment Charge

At December 31, 2008, the Company performed its annual impairment testing for Goodwill. As a result of its impairment testing, the Company determined that the Goodwill associated with its Drilling Rigs reporting unit was impaired. Accordingly, the Company recognized an impairment charge for the full carrying amount of the Goodwill associated with this reporting unit in the amount of \$700,457, which had no tax effect.

The Goodwill balance and changes in the Goodwill is as follows:

Balance May 14, 2008	\$ 700,457
Goodwill impairment charge	<u>(700,457)</u>
Balance December 31, 2008	<u>\$ —</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

9. Intangible Assets and Liabilities:

The Company identified finite-lived intangible assets associated with the trade names, software, and above- and below-market acquired time charters that are being amortized over their useful lives. In the case of the trade names and software, the useful lives are 10 years. The useful lives of above- and below-market acquired time charters depend on the contract term remaining at the date of acquisition. Trade names and software are included in “Intangible assets, net” in the accompanying consolidated balance sheets net of accumulated amortization. Above- and below-market acquired time charters are presented separately in the accompanying consolidated balance sheets, net of accumulated amortization.

	<u>Amount Acquired</u>	<u>Accumulated amortization as of December 31, 2008</u>	<u>Amortization for the year ended December 31, 2009</u>	<u>Amortization Schedule</u>					
				<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>thereafter</u>
Trade names	\$ 9,145	541	915	915	915	915	915	915	\$ 3,114
Software	5,888	349	590	589	589	589	589	589	2,004
Total Intangible Assets, net	\$15,033	890	1,505	1,504	1,504	1,504	1,504	1,504	5,118
Above-market acquired time charters	\$15,053	2,093	10,912	1,294	754	—	—	—	—
Below-market acquired time charters	\$65,844	37,838	20,374	6,778	854	—	—	—	\$ —

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Long-term Debt:

The amount of long-term debt shown in the accompanying consolidated balance sheets is analyzed as follows:

	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Convertible Senior Notes	\$ —	\$ 460,000
Loan Facilities – Drybulk Segment	1,392,308	1,168,016
Loan Facilities – Drilling Rig Segment	1,805,926	1,224,824
Less: Deferred financing costs	<u>(39,364)</u>	<u>(168,156)</u>
Total debt	3,158,870	2,684,684
Less: Current portion	<u>(2,370,556)</u>	<u>(1,698,692)</u>
Long-term portion	<u>\$ 788,314</u>	<u>\$ 985,992</u>

Convertible Senior Notes and Related Borrow Facility

In November 2009, the Company issued \$400,000 aggregate principal amount of 5% Convertible unsecured Senior Notes (the “Notes”), which are due December 1, 2014. The full over allotment option granted was exercised and an additional \$60,000 Notes were purchased. Accordingly, \$460,000 in aggregate principal amount of Notes were sold, resulting in aggregate net proceeds of approximately \$447,810 after the underwriter commissions.

The holders may convert their Notes at any time on or after June 1, 2014 but prior to maturity. However, holders may also convert their Notes prior to June 1, 2014 under the following circumstances: (1) if the closing price of the common stock reaches and remains at or above 130% of the conversion price of \$7.19 per share of common stock or 139.0821 share of common stock per \$1,000 aggregate principal amount of Notes, in effect on that last trading day for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs; (2) during the ten consecutive trading-day period after any five consecutive trading-day period in which the trading price per \$1,000 principal amount of the Notes for each day of that period was less than 98% of the closing price of our common stock multiplied by then applicable conversion rate; or (3) if specified distributions to holders of our common stock are made or specified corporate transactions occur. The Notes are unsecured and pay interest semi-annually at a rate of 5% per annum commencing June 1, 2010. Since the Company’s stock price was below the Notes conversion price of \$7.19 as of December 31, 2009, the if-converted value did not exceed the principal amount of the Notes.

As the Notes contain a cash settlement option upon conversion at the option of the issuer, the Company has applied the guidance for “Accounting for Convertible Debt Instruments That May be Settled in Cash Upon Conversion (Including Partial Cash Settlement)”, and therefore, on the day of the Note issuance, bifurcated the \$460,000 principal amount of the Notes into liability and the equity components of \$341,156 and \$118,844, respectively, by first determining the carrying amount of the liability component of the Notes by measuring the fair value of a similar liability that does not have an associated equity component. The equity component was calculated by deducting the fair value of the liability component from the total proceeds received at issuance. Additionally, the guidance requires the Company to accrete the discount of \$118,844 to the principal amount of the Notes over the term of the Notes. The Company’s interest expense associated with this Note accretion is based on an effective interest rate of 12%. The total interest expense related to the convertible notes in the Company’s Consolidated Statement of Operations for the year ended December 31, 2009 was \$4,037, of which \$1,769 is non-cash amortization of the discount on the liability component and \$2,268 is the contractual interest to be paid semi-annually at a coupon rate of 5% per year. At December 31, 2009 the net carrying amount of the liability component and unamortized discount were \$342,925 and \$117,075, respectively.

In conjunction with the public offering of the 5% Notes described above, the Company also entered into a share lending agreement with an affiliate of the underwriter of the offering, or the share borrower, pursuant to which the Company loaned the share borrower approximately 26.1 million shares of our common stock. Under the share lending agreement, the share borrower

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Long-term Debt - continued:

is required to return the borrowed shares when the notes are no longer outstanding. The Company did not receive any proceeds from the sale of the borrowed shares by the share borrower, but the Company did receive a nominal lending fee of \$0.01 per share from the share borrower for the use of the borrowed shares.

The fair value of the outstanding loaned shares as of December 31, 2009 was \$151,902. On the day of the Note issuance the fair value of the share lending agreement was determined to be \$9,900 based on a 5.5% interest rate of the Notes without the share lending agreement and was recorded as debt issuance cost. Amortization of the issuance costs associated with the share lending agreement recorded as interest expense during the year ended December 31, 2009 was \$195, resulting in an unamortized amount of \$9,705 at December 31, 2009.

Loan Facilities—Drybulk Segment

a) On December 4, 2007, as amended, the Company entered into a \$101,150 term loan facility to partially finance the acquisition cost of vessels Saldanha and Avoca. The loan bears interest at LIBOR plus 1%-1.2%, depending on the equity ratio, and is repayable in twenty-eight quarterly installments plus a balloon payment through January 2015. The facility contains various covenants, including: i) market-adjusted equity ratio greater than or equal to 30%; and ii) market value to loan amount greater than or equal to 125%.

On June 11, 2009, the Company entered into a supplemental agreement on waiver terms for this facility, which provides, among other things that through May 19, 2011; (i) the lender will waive the financial covenants contained in the corporate guarantee; and (ii) the lender will waive the required prepayment in the event of a security value shortfall. Furthermore, the applicable margin was amended to 2% until maturity of the loan.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$91,775 and \$70,318, respectively.

b) On March 31, 2006, as amended, the Company concluded certain senior and junior facilities with the same bank to partially finance the acquisition cost of certain vessels. Both the senior and junior facilities bear interest at LIBOR plus a margin (senior: 0.85%-1.1%, depending on market adjusted equity ratio; junior: 2.2%-2.53%, depending on market adjusted equity ratio) and are repayable in 37 quarterly installments with a balloon payment payable together with the last installment on May 31, 2016. The facilities contain various covenants, including: (i) market-adjusted equity ratio greater than or equal to 40%; (ii) market value adjusted net worth greater than or equal to \$800,000, and (iii) market value to loan amount greater than or equal to 130% (senior and junior combined) and 200% (senior only).

On November 17, 2009 the Company entered into a supplemental agreement waiving and amending terms of the above loan facilities. These supplemental agreements, among other things, amend the (i) market adjusted equity ratios to 15%; (ii) market value adjusted net worth to \$100 million; (iii) applicable margins on the facilities from December 22, 2008 until September 30, 2010 to 1.9% for the senior loan and 3% for the junior loan; and (vi) security cover requirements during the waiver period to be between 80%-100%, depending on the facility.

As of December 31, 2008 and 2009, the aggregate amount outstanding under these facilities was \$673,408 and \$598,237, respectively.

c) On March 13, 2008, as amended, the Company concluded a loan agreement of up to \$130,000 for working capital and general corporate purposes. This facility is collateralized by the vessels Toro and Delray. The loan bears interest at 1.1%-1.2%, depending on the leverage ratio, and is repayable in twenty-eight quarterly installments plus a balloon payment through March 2015. The facility contains various covenants, including: (i) market-adjusted equity ratio greater than or equal to 30%; (ii) market value adjusted net worth greater than or equal to \$225,000; and (iii) market value to loan amount greater than or equal to 125%.

On July 30, 2009, the Company entered into a covenant waiver and amendment agreement with respect to its \$130,000 credit facility, providing for the waiver of certain covenants. This covenant waiver and amendment agreement, among other things, (i) increases the applicable margin on the facility to 2% per annum from April 1, 2009 until March 31, 2011, to 1.75% from March 31, 2011 to March 31, 2012, and to 1.5% per annum from March 31, 2012 until the final maturity date; (ii) requires that until March 31, 2011, proceeds from the sale or loss of the collateral vessels be applied to the outstanding advance of the facility; (iii) requires additional security and a restricted cash account equaling a minimum of the next four quarterly principal installments; (iv) waives the minimum required security cover until March 31, 2011; and (v) waives the financial covenants of

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Long-term Debt - continued:

DryShips until March 31, 2011. During the year ended December 31, 2009, the Company repaid an amount of \$28,552 against the outstanding loan balance for the vessel Paragon upon her sale.

On January 25, 2010 the Company entered into a vessel substitution agreement for MVs Toro and Delray. This agreement provides, among other things that after the end of the waiver period the applicable margin of the loan facility shall be reduced from 2% to 1.75% for a period of 12 months and thereafter to be reduced to 1.5% until the final maturity date.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$84,025 and \$48,961, respectively.

d) On May 5, 2008, as amended, the Company concluded a loan agreement of up to \$90,000 in order to partly finance the acquisition cost of the vessel Mystic. The loan bears interest at LIBOR plus 1.2% and is repayable in fifteen semi-annual installments, plus a balloon payment, payable with the last installment in December 2015. The facility contains various covenants, including: (i) market-adjusted equity ratio greater than or equal to 20%; (ii) market value adjusted net worth greater than or equal to \$250,000; and (iii) market value to loan amount greater than or equal to 125%.

On October 22, 2009, the Company reached an agreement on waiver and amendment terms on this facility, providing for a waiver of certain covenants through September 30, 2010. This agreement, among other things: (i) amends the security cover to 80% for the duration of the waiver period and further; and (ii) amends the minimum requirements for the market adjusted equity ratio, market value adjusted net worth of the group and the interest leverage ratio. Furthermore, the waiver agreement increases the interest margin for the duration of the waiver period to 1.85%.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$80,000 and \$60,000, respectively.

e) On May 13, 2008, as amended, the Company concluded a loan agreement of up to \$125,000 in order to partly finance the acquisition cost of the vessels Capri and Positano. The loan bears interest at LIBOR plus 1.15% and is repayable in thirty two quarterly installments, plus a balloon payment through June 2016. The facility contains various covenants, including: (i) market-adjusted equity ratio greater than or equal to 30%; (ii) market value adjusted net worth greater than or equal to \$225 million; and (iii) market value to loan amount greater or equal to 125%.

On February 25, 2010, the Company entered into a supplemental agreement for a waiver of certain covenants. These covenant waivers and amendment agreement, among other things, (i) increase the applicable margin on the facilities from January 1, 2009 until December 31, 2010 to 1.9%; (ii) amend security cover to 77% until June 30, 2010 and to 91% for the duration to the end of the waiver period; and (iii) amend our financial covenants as guarantor until midnight on December 31, 2010.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$112,000 and \$86,000, respectively.

f) On June 20, 2008, the Company concluded a loan agreement of up to \$103,200 in order to partly finance the acquisition cost of the vessels Sorrento and Iguana. The loan bears interest at LIBOR plus 1.2% and is repayable in thirty-two quarterly installments plus a balloon payment through July 2016 for the vessel Sorrento and twenty quarterly installments through June 2013 for the vessel Iguana. The facility contains various covenants, including: (i) market-adjusted equity ratio greater than or equal to 20%; (ii) market value adjusted net worth greater than or equal to \$250,000; and (iii) market value to loan amount greater than or equal to 135%.

On October 8, 2009, the Company entered into a supplemental agreement on waiver and amendment terms on this loan facility providing for a waiver of certain covenants. This supplemental agreement, among other things, waives (i) the security cover provisions; (ii) market adjusted equity ratio; (iii) market value adjusted net worth; and (iv) some of our financial covenants as guarantor through April 8, 2011. Furthermore, the margin was increased to 2% throughout the waiver period.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$78,350 and \$63,350, respectively.

g) On July 23, 2008, as amended, the Company concluded a facility agreement for an amount of \$126,400 in order to partly finance the acquisition of a secondhand vessel, to be named Flecha. The loan bears interest at LIBOR plus 1.25%-1.35%, depending on the tranche, and is repayable in forty quarterly installments, plus a balloon payment, payable with the last installment in July 2018. The facility contains various covenants, including maintaining a market value to loan amount equal to or greater than 125%.

On October 12, 2009, the Company entered into a supplemental agreement on waiver and amendment terms on this loan facility providing for a waiver of certain covenants, including the security cover provisions, through October 9, 2011. Furthermore, the margin was increased to 1.85% throughout the waiver period.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$123,750 and \$113,150, respectively.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Long-term Debt - continued:

(h) On October 2, 2007, as amended, the Company concluded a loan agreement of up to \$ 35,000 in order to partly finance the acquisition cost of the second-hand vessel Paros (ex. Clipper Gemini). The loan bears interest at LIBOR plus 0.9% and will be repaid in thirty-six quarterly installments through October 2016. The facility contains various covenants, including a market value to loan amount greater than or equal to 125%.

On February 25, 2010, we entered into a supplemental agreement for a waiver of certain covenants. These covenant waivers and amendment agreement, among other things: (i) increase the applicable margin on the facilities from January 1, 2009 until December 31, 2010 to 1.9%; (ii) amends the minimum security cover to 83% over the waiver period; and (iii) amend our financial covenants as guarantor until midnight on December 31, 2010.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$29,000 and \$25,000, respectively.

(i) On October 5, 2007, as amended, the Company concluded a loan agreement of up to \$90,000 in order to partly finance the acquisition cost of the second-hand vessels Samatan and VOC Galaxy. The loan bears interest at LIBOR plus 0.95%-1.05%, depending on the leverage ratio, and will be repaid in thirty-two quarterly installments through November 2015. The facility contains various covenants, including: (i) market-adjusted equity ratio greater than or equal to 30%; (ii) market value adjusted net worth greater than or equal to \$225,000; and (iii) market value to loan amount greater than or equal to 125%.

On July 30, 2009, the Company entered into a covenant waiver and amendment agreement with respect to its \$90,000 credit facility providing for the waiver of certain covenants. This covenant waiver and amendment agreement, among other things: (i) increases the applicable margin on the facility to 2% per annum from April 1, 2009 until March 31, 2011 and 1.5% per annum from March 31, 2011 until the final maturity date; (ii) requires that until March 31, 2011, proceeds from the sale or loss of the collateral vessels be applied to the outstanding advance of the facility; (iii) requires additional security; (iv) waives the minimum required security cover until March 31, 2011; and (v) waives the financial covenants of DryShips as guarantor until March 31, 2011.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$82,000 and \$74,000, respectively.

(j) On November 16, 2007 the Company concluded a loan agreement of up to \$47,000 in order to partly finance the acquisition cost of the vessel Oregon. The loan bears interest at LIBOR plus 0.85% and will be repaid in thirty-two quarterly installments through December 2015. The facility contains various covenants, including: (i) market-adjusted equity ratio greater than or equal to 20%; (ii) market value adjusted net worth greater than or equal to \$225,000; and (iii) market value to loan amount greater than or equal to 130%.

In February 2009, the Company entered in a supplemental agreement on waiver and amendment terms on a \$47,000 loan facility, providing for a waiver of certain covenants through December 31, 2009. On November 11, 2009, the Company entered into an agreement to confirm that the conditions in such waivers remain satisfied, and that the waivers extend to certain financial covenants in our guarantee of this loan facility through December 31, 2009.

In February 2010, we signed a waiver letter providing for certain covenant amendments including the waiver of our financial covenants until January 1, 2011. The waiver letter increases the applicable margin on this facility to 3%.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$38,000 and \$29,000, respectively.

Loan Facilities—Drilling Rig Segment

a) On May 9, 2008, the Company concluded a guarantee facility of NOK 5.0 billion (approximately \$974,500) and a term loan of \$800,000 in order to guarantee the purchase price of the Ocean Rig shares to be acquired through the mandatory offering, to finance the acquisition cost of the Ocean Rig shares and to refinance existing debt. The term loan is repayable in four quarterly installments of \$75,000 followed by four quarterly installments of \$50,000 plus a balloon payment payable together with the last installment on May 12, 2010. As of December 31, 2008, the Company drew down the total amount of \$800,000 and repaid \$150,000. The facility contains various covenants, including a market-adjusted equity ratio greater than or equal to 30%.

During the first quarter of 2009 and in April 2009, the Company repaid \$190,000 and \$160,000, respectively, of its existing \$800,000 facility. The remaining outstanding balance of \$300,000 was fully repaid in May 2009, of which \$150,000 was paid with the Company's new credit facility discussed below.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Long-term Debt - continued:

On May 13, 2009, the Company entered into a new one-year credit facility for the amount of up to \$300,000 in order to refinance the Company's existing loan indebtedness discussed above. In May 2009, the Company drew down \$150,000 of the loan in order to refinance the \$150,000 outstanding debt at the date of the drawdown of the above facility. This new credit facility was fully repaid in May 2009 using the Company's proceeds of its at-the-market offerings and the undrawn amount was fully cancelled.

b) On July 18, 2008, the Company concluded two facility agreements for an aggregate amount of \$1,125,000 in order to partly finance the construction cost of Drillship Hulls 1865 and 1866. The loans bear interest at LIBOR plus 1.6%-2.0%, depending on the period (pre-completion or post-completion) and depending on the lender (commercial lender or export agency) and are repayable in eighteen semi-annual installments through November 2020. The first installment is payable six months after the delivery of the vessels, which is expected to be in the third quarter of 2011. The facility contains various covenants, including: (i) market-adjusted equity ratio greater than or equal to 25%; and (ii) market value adjusted net worth greater than or equal to \$500,000.

On June 5, 2009, the Company entered into agreements with a bank, as facility agent, and certain other lenders on waiver and amendment terms with respect to each of the two \$562,500 credit facility agreements providing for a waiver of certain financial covenants through January 31, 2010. These agreements provide for, among other things; (i) a waiver of the required market adjusted equity ratio; (ii) a waiver of the required market value adjusted net worth; and (iii) a required payment from us to each lender and the facility agent.

On January 28, 2010, we signed two supplemental agreements provided for certain non-financial covenant amendments. In addition these agreements revoked all the waivers obtained.

As of December 31, 2008 and 2009, the amount outstanding under these facilities was \$173,426 and \$186,274, respectively.

c) On September 17, 2008, Ocean Rig entered into a new five-year secured credit facility for the amount of up to \$1.04 billion in order to refinance Ocean Rig's existing loan indebtedness and for general corporate purposes. In September and October, 2008, Ocean Rig drew down \$1.02 billion of the new credit facility. The drawdown proceeds were used to repay all other Ocean Rig outstanding debt at the date of the drawdown amounting to \$776,000 including the \$250,000 loan discussed above. The credit facility consists of a guarantee facility, three revolving credit facilities (A, B and C) and a term loan.

The aggregate amount of the term loan is up to \$400,000 and the aggregate amount under the revolving credit facility A is up to \$350,000. The aggregate amount under the revolving credit facility B is up to \$250,000 and under the revolving credit facility C is up to \$20,000. The guarantee facility provides Ocean Rig with a credit facility of up to \$20,000.

The commitment under credit facility A was reduced by \$17,500 on December 17, 2008 and will continue to be reduced by \$17,500 quarterly thereafter until September 17, 2013, which is 60 months after the date of the agreement. The loan bears interest at LIBOR plus a margin and is repayable in twenty quarterly installments. The term loan will be repaid by one balloon payment of \$400,000 on September 17, 2013. The commitment under credit facility B will be reduced quarterly by 12 unequal quarterly installments with a final maturity date of not later than the earlier of the expiry of the time charter of the drilling rig the Eirik Raude, which is scheduled to expire in October 2011 and September 17, 2011.

As of December 31, 2008 and 2009, the amount outstanding under this facility was \$982,500 and \$808,550, respectively.

d) In connection with the acquisition of Drillships Holdings on May 15, 2009, the Company assumed two \$115,000 loan facilities that were entered into in September 2007, in order to finance the construction of Hulls 1837 and 1838. The loans bear interest at LIBOR plus 1.25% and are repayable upon the delivery of Hull 1837 in December 2010 and Hull 1838 in March 2011. Borrowings under these loans are subject to certain financial covenants and restrictions on dividend payments, assignment of the relevant shipbuilding contracts, refund guarantees and other related items. In addition to the customary security and guarantees issued to the borrower, this facility was collateralized by certain vessels owned by certain related parties, corporate guarantees of certain related parties and a personal guarantee from Mr. Economou. As of December 31, 2009, the amount outstanding under these facilities was \$230,000.

In connection with the acquisition of Drillships Holdings on May 15, 2009, the Company also assumed two \$15,551 fixed-rate term notes that were entered into in January 2009, in order to finance the construction of Hulls 1837 and 1838. The term notes were fully repaid in July 2009.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

10. Long-term Debt - continued:

The above loans are secured by a first priority mortgage over the vessels, corporate guarantee, a first assignment of all freights, earnings, insurances and requisition compensation. The loans contain covenants including restrictions, without the bank's prior consent, as to changes in management and ownership of the vessels, additional indebtedness and mortgaging of vessels, change in the general nature of the Company's business, and maintaining an established place of business in the United States or the United Kingdom. In addition, the vessel owning companies are not permitted to pay any dividends to DryShips Inc. nor DryShips Inc. to its shareholders without the lender's prior consent. The loans also contain certain financial covenants relating to the Company's financial position, operating performance and liquidity.

The vessel-owning subsidiary companies with outstanding loans had restricted net assets amounting to \$727,038 and \$1,340,501 as of December 31, 2008 and 2009, respectively.

Total interest incurred on long-term debt, including capitalized interest, for the years ended December 31, 2007, 2008 and 2009 amounted to \$50,887, \$106,200 and \$99,979, respectively. These amounts net of capitalized interest are included in "Interest and finance costs" in the accompanying consolidated statements of operations. The Company's weighted average interest rate (including the margin) as of December 31, 2007, 2008 and 2009 was 6.48%, 4.28% and 3.92%, respectively.

The principal payments to be made after December 31, 2009, for the loans discussed above, are as follows:

2010	\$1,721,923
2011	148,417
2012	70,000
2013	452,500
2014	<u>460,000</u>
Total principal payments	2,852,840
Less: Financing fees	<u>(168,156)</u>
Total debt	<u>\$2,684,684</u>

As of December 31, 2008 and 2009 the Company's unutilized line of credit, which is subject to certain conditions including the contemporaneous employment of both drillships under suitable revenue contracts, as defined in the loan agreements, totaled \$951,574 and \$938,726 respectively and the Company is required to pay a quarterly commitment fee of 0.60% per annum of the unutilized portion of the unutilized line of credit.

The Company was in breach of certain of its financial covenants as of December 31, 2008. Furthermore, as of December 31, 2009, the Company was deemed to be in breach of one financial covenant and deemed to be in theoretical breach of certain of its financial covenants during 2010 (Note 4). In accordance with guidance related to classification of obligation that are callable by the creditor, the Company has classified all of its long-term debt in breach amounting to \$1.8 billion and \$1.3 billion as current at December 31, 2008 and 2009, respectively.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11. Financial Instruments and Fair Value Measurements:

All derivatives are carried at fair value on the consolidated balance sheet at each period end. Balances as of December 31, 2008 and 2009 are as follows:

	December 31, 2008				December 31, 2009			
	Interest Rate Swaps	Forward Freight Agreements	Foreign Currency Forward Contracts	Total	Interest Rate Swaps	Forward Freight Agreements	Foreign Currency Forward Contracts	Total
Current assets	\$ 779	—	—	779	—	559	434	\$ 993
Current liabilities	(43,206)	—	(1,589)	(44,795)	(65,129)	(7,708)	—	(72,837)
Non current liabilities	(208,961)	—	—	(208,961)	(103,765)	(998)	—	(104,763)
	<u><u>\$ (251,388)</u></u>	<u><u>—</u></u>	<u><u>(1,589)</u></u>	<u><u>(252,977)</u></u>	<u><u>(168,894)</u></u>	<u><u>(8,147)</u></u>	<u><u>434</u></u>	<u><u>\$(176,607)</u></u>

11.1 Interest rate swaps, cap and floor agreements: As of December 31, 2008 and 2009, the Company had outstanding 34 interest rate swap, cap and floor agreements, of \$2.6 billion and \$2.5 billion respectively, maturing from June 2011 through November 2017. These agreements are entered into in order to hedge its exposure to interest rate fluctuations with respect to the Company's borrowings. Of these contracts, 31 do not qualify for hedge accounting and as such changes in their fair values are included in the accompanying consolidated statement of operations, while 3 contracts are designated for hedge accounting and as such changes in their fair values are included in other comprehensive loss. The fair value of these agreements equates to the amount that would be paid by the Company if the agreements were cancelled at the reporting date, taking into account current interest rates and creditworthiness of the Company.

As of December 31, 2008 and 2009, security deposits (margin calls) of \$15,700 and \$20,200 for Hull 1865, respectively, and \$15,900 and \$20,500 for Hull 1866, respectively, were paid and were recorded as "Other non current assets" in the accompanying consolidated balance sheets. These deposits are required by the counterparty due to the market loss in the swap agreements for the year ended December 31, 2008 and 2009.

11.2 Forward freight agreements: The Company trades in the FFA market effective from May 2009, with both an objective to utilize the FFAs as economic hedging instruments that are effective at reducing the risk of specific vessels and to take advantage of short term fluctuations in the market prices. FFA trading generally has not qualified as hedge accounting and as such the trading of FFAs could lead to material fluctuations in the Company's reported results from operations on a period to period basis.

As of December 31, 2009, the Company had sixteen open FFAs. None of the "mark to market" positions of the open FFA contracts qualified for hedge accounting treatment.

11.3 Foreign currency forward contracts: As of December 31, 2009 and 2008, the Company had outstanding ten forward contracts, to sell \$20,000 for NOK 118.8 million and eleven forward contracts to sell \$16,500 for NOK 104.3 million. These agreements are entered into in order to hedge its exposure to foreign currency fluctuations. Such fair value at December 31, 2008 and December 31, 2009 was a liability of \$1,589 and an asset of \$434, respectively.

The change in the fair value of such agreements for the year ended December 31, 2008 and December 31, 2009 amounted to a loss of \$2,512 and a gain of \$2,023, respectively and is reflected under "Other, net" in the accompanying consolidated statement of operations.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11. Financial Instruments and Fair Value Measurements - continued:

Tabular disclosure of financial instruments is as follows:

Fair Values of Derivative Instruments in the Statement of Financial Position:

Derivatives designated as hedging instruments	Balance Sheet Location	Asset Derivatives		Balance Sheet Location	Liability Derivatives	
		December 31, 2008 Fair value	December 31, 2009 Fair value		December 31, 2008 Fair value	December 31, 2009 Fair value
Interest rate swaps	Financial instruments	\$ —	—	Financial instruments-non current liabilities	47,168	\$ 31,028
Total derivatives designated as hedging instruments		—	—		47,168	31,028
Derivatives not designated as hedging instruments						
Interest rate swaps	Financial instruments-current assets	779	—	Financial instruments-current liabilities	43,206	65,129
Interest rate swaps	Financial instruments-non current assets	—	—	Financial instruments-non current liabilities	161,793	72,737
Forward freight agreements	Financial instruments-current assets	—	559	Financial instruments-current liabilities	—	7,708
Forward freight agreements	Financial instruments-non current assets	—	—	Financial instruments-non current liabilities	—	998
Foreign currency forward contracts	Financial instruments-current assets	—	434	Financial instruments-current liabilities	1,589	—
Total derivatives not designated as hedging instruments		779	993		206,588	146,572
Total derivatives		\$ 779	993	Total derivatives	253,756	\$ 177,600

The Effect of Derivative Instruments on the Statement of Financial Performance:

Derivatives designated for cash flow hedging relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)	
	Year Ended December 31, 2008	Year Ended December 31, 2009 (as restated)
Interest rate swaps	\$ (46,548)	\$ 10,878
Total	\$ (46,548)	\$ 10,878

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11. Financial Instruments and Fair Value Measurements - continued:

No portion of the cash flow hedges shown above was ineffective during the year. In addition, the Company did not transfer any gains/losses on the hedges from accumulated OCI into statement of operations.

Derivatives not designated as hedging instruments	Location of Gain or (Loss) Recognized	Amount of Gain/(Loss)	
		Year Ended December 31, 2008	Year Ended December 31, 2009
Interest rate swaps	Gain/(loss) on interest rate swaps	\$ (207,936)	\$ 23,160
Forward freight agreements	Other, net	—	(9,970)
Foreign currency forward contracts	Other, net	(2,512)	2,023
Total		\$ (210,448)	\$ 15,213

The relevant guidance for derivatives requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with the guidance, the Company designates all the contracts as cash flow hedges, if they qualify for that treatment, with the last contract expiring in November 2017.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Accordingly a portion of the settlement payments on the foregoing interest rate swaps is reclassified back to accumulated other comprehensive income and will be reclassified to interest and finance costs at the same time that the capitalized interest on the hedged variable rate debts is recognized in income through depreciation. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in the accompanying consolidated statement of operations. Changes in the fair value of derivative instruments that have not been designated as hedging instruments are reported in the accompanying consolidated statement of operations.

The Company enters into interest rate swap transactions to manage interest costs and risk associated with changing interest rates with respect to its variable interest rate loans and credit facilities. The Company enters into FFAs and foreign currency forward contracts in order to manage risks associated with future hire rates and fluctuations in foreign currencies, respectively.

The carrying amounts of cash and cash equivalents, restricted cash and trade accounts receivable reported in the consolidated balance sheets approximate their respective fair values because of the short term nature of these accounts. The fair value of revolving credit facilities is estimated based on current rates offered to the Company for similar debt of the same remaining maturities. Additionally, the Company considers its creditworthiness in determining the fair value of the revolving credit facilities. The carrying value approximates the fair market value for the floating rate loans. The fair value of the interest rate swaps was determined using a discounted cash flow method based on market-based LIBOR swap yield curves, taking into account current interest rates and the creditworthiness of both the financial instrument counterparty and the Company. The fair value of the forward freight agreements was determined based on quoted rates. The fair value of foreign currency forward contracts was based on the forward exchange rates. The fair value of the convertible notes was \$469,200 at December 31, 2009.

The guidance for fair value measurements applies to all assets and liabilities that are being measured and reported on a fair value basis. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market- based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

11. Financial Instruments and Fair Value Measurements - continued:

The following table summarizes the valuation of assets and liabilities measured at fair value on a recurring basis as of the valuation date.

	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Recurring measurements:				
Interest rate swaps – asset position	\$ —	\$ —	\$ —	\$ —
Interest rate swaps-liability position	(168,894)	—	(168,894)	—
Forward freight agreements – asset position	559	559	—	—
Forward freight agreements – liability position	(8,706)	(8,706)	—	—
Foreign currency forward contracts – asset position	434	—	434	—
Total	\$ (176,607)	\$ (8,147)	\$ (168,460)	\$ —

The following table summarizes the valuation of our assets measured at fair value on a non-recurring basis as of the valuation date.

	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Gains/ (Losses)
Non- Recurring measurements:					
Long- lived assets held and used	\$ 23,350	—	23,350	—	\$(1,578)
Total	\$ 23,350	—	23,350	—	\$(1,578)

In accordance with the provisions of relevant guidance, long-lived asset held and used with a carrying amount of \$24,928 was written down to their fair value of \$23,350, resulting in an impairment charge of \$1,578, which was included in accompanying consolidated statement of operations for December 31, 2009.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

12. Common Stock and Additional Paid-in Capital:

Net Income Attributable to Dryships Inc. and Transfers from the Noncontrolling Interest:

The following table represents effects of any changes in Dryships Inc. ownership interest in a subsidiary on the equity attributable to the shareholders of Dryships Inc.

	Year Ended December 31,	
	2008	2009 (as restated)
Net loss attributable to Dryships Inc.	\$(361,282)	\$ (19,209)
Transfers from the noncontrolling interest:		
Increase in Dryships Inc. equity for acquisition of noncontrolling interest	—	352,814
Decrease in Dryships Inc. equity for issuance of subsidiary shares	—	(37,511)
Increase in Dryships Inc. retained earnings for Redemption of noncontrolling interest	(15,050)	—
Net transfers to/from the noncontrolling interest	(15,050)	315,303
Net income/ (loss) attributable to Dryships Inc. and transfers to/from the noncontrolling interest	\$(376,332)	\$ 296,094

Issuance of common shares

In October 2007, the Company filed a universal shelf registration statement on Form F-3 relating to the offer and sale of up to 6,000,000 common shares. From October through December 2007, an amount of 1,191,000 shares of common stock were issued. The net proceeds, after underwriting commissions ranging between 2% to 2.5% and other issuance fees, amounted to \$127,104. From January through March 2008, an amount of 4,759,000 shares of common stock were issued. The net proceeds, after underwriting commissions ranging between 1.5% to 2% and other issuance fees, amounted to \$352,748.

In March 2008, the Company filed a prospectus supplement relating to the offer and sale of up to 6,000,000 shares of common stock, par value \$0.01 per share. On May 6 and 7, 2008, the Company issued 1,109,903 shares of common stock. The net proceeds, after underwriting commissions of 1.75% and other issuance fees, amounted to \$101,574. In October 2008, the Company issued 2,069,700 shares of common stock. The net proceeds, after underwriting commissions of 1.75% and other issuance fees, amounted to \$41,891.

In November 2008, the Company filed a prospectus supplement relating to the offer and sale of up to 25,000,000 common shares. In November and December 2008, the Company issued 24,980,300 shares of common stock. The net proceeds, after underwriting commissions of 2.5% to 3% and other issuance fees, amounted to \$167,057.

On January 15, 2009, the Company agreed to transfer its interests in the ship-owning companies of three Capesize newbuildings to an entity that is not affiliated with the Company. As consideration for liabilities assumed by the purchasers, on March 19, 2009, the Company issued a total of 11,990,405 common shares to the nominees of Central Mare Inc. (Note 6).

During 2009, the Company effected two at-the-market equity offerings. Under these offerings, the Company issued 165,054,595 shares of common stock. The total net proceeds, after commissions, amounted to \$952,369.

In November 2009, concurrently with the offering of the Notes, the Company entered into a share lending agreement and issued 26,100,000 shares of common stock, which it subsequently loaned to the underwriter pursuant to the share lending agreement. The Company received a one time loan fee of \$0.01 per share (Note 10).

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

12. Common Stock and Additional Paid-in Capital - continued:

Issuance of Series A preferred stock

On July 15, 2009, the Company issued 52,238,806 shares of its Series A Convertible Preferred Stock under its agreement to acquire the remaining 25% of the total issued and outstanding capital stock of Ocean Rig UDW (Note 4). The aggregate face value of these shares was \$280,000 and the fair value of the Preferred Stock was determined by management to be \$268,000.

The Company determined that the fair value of the 25% of the total issued and outstanding capital stock of Ocean Rig UDW is more reliably measurable than the fair value of the preferred stock issued. The Company determined that \$318,000 is the fair value of the 25% of the outstanding common shares of Ocean Rig UDW in accordance with fair value guidance by weighting the fair values derived using the following three valuation methods: (i) Fair value of the net assets of Ocean Rig UDW; (ii) Discounted cash flow method; and (iii) Comparable company approach. Based on the foregoing, the Company recorded the preferred stock at \$268,000, which was calculated as the fair value of the 25% of the total issued and outstanding capital stock of Ocean Rig UDW of \$318,000 less cash consideration of \$50,000.

The changes in the Company's ownership interest in Ocean Rig UDW did not represent a change in control and therefore the Company accounted for this transaction as an equity transaction with no gain or loss recorded in the statement of operations or comprehensive income. The difference between the fair value of the 25% of the total issued and outstanding capital stock of Ocean Rig UDW and the amount the non-controlling interest was recognized as equity attributable to the parent.

The Series A Convertible Preferred Stock accrues cumulative dividends on a quarterly basis at an annual rate of 6.75% of the aggregate face value. Dividends are payable in preferred stock or cash, if cash dividends have been declared on common stock. Such accrued dividends are payable in additional shares of preferred stock immediately prior to any conversion.

As of December 31, 2009, the fair value of the accrued stock dividends amounted to \$7,497. Each share of this instrument mandatorily converts into shares of the Company's common stock proportionally, upon the contractual delivery of each of the four newbuilding ultra deepwater drillships at a premium of 127.5% of the original purchase price. Furthermore, each share of this instrument can also be converted into shares of the Company's common stock at any time at the option of the holder at a conversion rate of 1.0:0.7.

The Series A Convertible Preferred Stock ranks senior to all other series of the Company's preferred stock as to the payment of dividends and the distribution of assets. Finally, the holders of this stock and the holders of shares of common stock vote together as one class on all matters submitted to a vote of the stockholders of the Company.

Series A Convertible Preferred Stock shall not be redeemable unless upon any liquidation, dissolution or winding up of the Company, or sale of all or substantially all of the Company's assets, in which case a one-to-one redemption takes place plus any accrued and unpaid dividends.

Stockholders Rights Agreement

As of January 18, 2008, the Company entered into a Stockholders Rights Agreement (the "Agreement"). Under the Agreement, our board of directors declared a dividend payable of one preferred share purchase right, ("Right"), to purchase one one-thousandth of a share of the Company's 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. As of December 31, 2009, no exercise of any purchase right has occurred.

As of July 9, 2009, an amendment has been effected to the Agreement to reflect the issuance of Series A Convertible Preferred Stock.

13. Equity incentive plan

On January 16, 2008, the Company's Board of Directors approved the 2008 Equity Incentive Plan (the "Plan"). Under the Plan, officers, key employees and directors are eligible to receive awards of stock options, stock appreciation rights, restricted stock, restricted stock units, phantom stock units and unrestricted stock.

On March 5, 2008, 1,000,000 shares of non-vested common stock out of the 1,834,055 shares reserved under the Plan were granted to Fabiana, an entity that offers consultancy services to the Chief Executive Officer, George Economou. The shares vest quarterly in eight equal installments with the first installment of 125,000 common shares vested on May 28, 2008. The stock-

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

13. Equity incentive plan - continued:

based compensation is being recognized to expenses over the vesting period and based on the fair value of the shares on the grant date of \$75.09 per share.

On October 2, 2008, the Company's Board of Directors and Compensation Committee approved grants for the non-executive directors of the Company. On October 2, 2008, 9,000 shares of non-vested common stock and 9,000 shares of vested common stock were granted to the non-executive directors.

The non-vested common stock will vest evenly over a three-year period with the first vesting date commencing on January 1, 2009. For the director vested and non-vested stock, the fair value of each share on the grant date was \$33.59.

On March 12, 2009, 70,621 shares of non-vested common stock out of the 1,834,055 shares reserved under the Plan were granted to an executive of the Company. The shares will vest in annual installments of 42,373 and 28,248 shares on March 1, 2010 and 2011, respectively. The fair value of each share on the grant date was \$3.54.

A summary of the status of the Company's non vested shares as of December 31, 2008, and movement during the year ended December 31, 2009, is presented below. There were no share awards in 2007 and no shares were forfeited in 2008 and 2009.

	<u>Number of non vested shares</u>	<u>Weighted average grant date fair value per non vested shares</u>
Balance as at January 1, 2008	—	—
Granted	1,018,000	\$ 74.36
Vested	<u>(384,000)</u>	<u>74.12</u>
Balance December 31, 2008	634,000	74.50
Granted	70,621	3.54
Vested	<u>(501,650)</u>	<u>74.95</u>
Balance December 31, 2009	<u>202,971</u>	<u>\$ 48.69</u>

	<u>Number of vested shares</u>	<u>Weighted average grant date fair value per non vested shares</u>
Balance as at January 1, 2008	—	\$ —
Granted	9,000	33.59
Non vested shares granted and vested 2008	<u>375,000</u>	<u>75.09</u>
As at December 31, 2008	384,000	74.12
Non vested shares granted in prior years and vested 2009	<u>501,650</u>	<u>74.95</u>
As at December 31, 2009	<u>885,650</u>	<u>\$ 74.59</u>

Dividends of \$0.60 per share were declared and paid to the non-vested shares during 2008.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

14. Other non-current liabilities:

As of December 31, 2008 and 2009, there was \$44,192 and \$6,372, respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of two years. The amounts of \$31,502 and \$38,071 are recorded in “General and administrative expenses,” in the accompanying consolidated statement of operations for the year ended December 31, 2008 and 2009, respectively. The total fair value of shares vested during the years ended December 31, 2008 and 2009 were \$21,860 and \$2,826, respectively.

Other non-current liabilities in the accompanying consolidated balance sheets are analyzed as follows:

	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Pension and retirement benefit obligation	\$ 712	\$ —
Other	67	43
Total	<u>\$ 779</u>	<u>\$ 43</u>

The Company has three retirement benefit plans for employees managed and funded through Norwegian life insurance companies. As of December 31, 2009 the pension plans cover 264 employees. The pension scheme is in compliance with the Norwegian law on required occupational pension.

The Company uses a January 1 measurement date for net periodic benefit cost and a December 31 measurement date for benefit obligations and plan assets.

The change in projected benefit obligation, change in plan assets, funded status and the amounts recognized in the accompanying consolidated balance sheets are shown in the table below:

	<u>May 14 – December 31, 2008</u>	<u>Year ended, December 31, 2009</u>
Change in plan assets		
Fair value of plan assets at beginning	\$ 6,904	\$ 6,321
Expected return on plan assets	270	378
Actual return on plan assets	(1,222)	(1,395)
Employer contributions	2,600	3,138
Settlement	(105)	(624)
Foreign currency exchange rate changes	(2,126)	1,468
Fair value of plan assets at end of year	<u>\$ 6,321</u>	<u>\$ 9,286</u>
	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Unfunded projected benefit obligation/ (receivable)	<u>\$ 712</u>	<u>\$ (388)</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

14. Other non-current liabilities - continued:

The unfunded projected benefit obligation is reflected in “Other non-current liabilities” in the accompanying consolidated balance sheets as of December 31, 2008 and in “Other non-current assets” in the accompanying consolidation balance sheet as of December 31, 2009.

	<u>May 14 – December 31, 2008</u>	<u>Year ended, December 31, 2009</u>
Change in projected benefit obligation		
Projected benefits earned at beginning	\$ 9,374	\$ 7,033
Service cost for benefits earned	1,989	4,121
Interest cost	155	280
Settlement	(298)	(1,983)
Actuarial losses	(1,210)	(1,587)
Benefits paid	—	(42)
Payroll tax of employer contribution	(367)	(442)
Foreign currency exchange rate changes	(2,610)	1,518
Projected benefit obligation at end of year	<u>\$ 7,033</u>	<u>\$ 8,898</u>

Net periodic benefit cost included the following components:

	<u>May 14 – December 31, 2008</u>	<u>Year ended, December 31, 2009</u>
Components of net periodic benefit cost		
Expected return on plan assets	\$ (140)	\$ (378)
Service cost	883	4,121
Interest cost	120	280
Amortization of prior service cost	190	—
Amortization of actuarial loss	77	168
Settlement	—	(539)
Net periodic benefit cost	<u>\$ 1,130</u>	<u>\$ 3,652</u>
	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Decrease in minimum pension liability included in other comprehensive loss	<u>\$ 1,701</u>	<u>\$ 570</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

14. Other non-current liabilities - continued:

Pension obligations are actuarially determined and are affected by assumptions including expected return on plan assets. As of December 31, 2009 contributions amounting to \$3,138 have been made to the pension plan.

The Company evaluates assumptions regarding the estimated long-term rate of return on plan assets based on historical experience and future expectations on investment returns, which are calculated by an unaffiliated investment advisor utilizing the asset allocation classes held by the plan's portfolios. Changes in these and other assumptions used in the actuarial computations could impact the Company's projected benefit obligations, pension liabilities, pension expense and other comprehensive income.

The Company bases its determination of pension expense on a market-related valuation of assets that reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets.

The following are the weighted-average assumptions used to determine net periodic benefit cost:

	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Weighted average assumptions		
Expected return on plan assets	5.80%	5.70%
Discount rate	3.80%	4.50%
Compensation increases	4.25%	4.50%

The Company reviews its investments and policies annually. In determining its asset allocation strategy, the Company reviews models presenting many different asset allocation scenarios to assess the most appropriate target allocation to produce long-term gains without taking on undue risk.

The following pension benefits payments are expected to be paid by the Company during the years ending:

December 31, 2010	\$ 82
December 31, 2011	76
December 31, 2012	77
December 31, 2013	58
December 31, 2014	76
Thereafter	<u>989</u>
Total pension payments	<u>\$1,358</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

14. Other non-current liabilities - continued:

The Company's pension funds are managed by an independent life-insurance company that invests the Company's funds according to Norwegian law. The law requires a low risk profile; hence the majority of the funds are invested in government bonds and high-rated corporate bonds. The major categories of plan assets as a percentage of the fair value of plan assets are as follows:

	As of December 31,	
	2009	2008
Shares and other equity instruments	13%	17%
Bonds	67%	64%
Properties and real estate	16%	12%
Other	4%	7%
Total	100%	100%

The Company's estimated contribution to the pension plan for the fiscal year 2010 is \$2,510.

15. Commitments and contingencies:

15.1 Legal proceedings

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business.

In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company's vessels. Except as described below, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

The Company accrues the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Currently, management is not aware of any such claims or contingent liabilities which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements. A minimum of up to \$1.0 billion of the liabilities associated with the individual vessel's actions, mainly for sea pollution, are covered by the Protection and Indemnity (P&I) Club insurance.

On July 17, 2008, the Company entered into an agreement to sell the MV Toro, a 1995-built 73,034 dwt Panamax drybulk carrier, to Samsun Logix Corporation, or Samsun, for the price of approximately \$63,400. On January 29, 2009, the Company reached an agreement with the buyers whereby the price was reduced to \$36,000. 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 13, 2009, the Company proceeded with the cancellation of the sale agreement due to the buyers' 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 (Note 7).

On March 5, 2009, a complaint against the Company's board of directors and a former director was filed in the High Court of the Republic of the Marshall Islands for an unspecified amount of damages alleging that such directors had breached their fiduciary duty of good faith in connection with the termination of the acquisition of four Panamax drybulk carriers and nine Capesize drybulk carriers. The complaint, which was amended on August 14, 2009, also seeks the disgorgement of all payments made in connection with the termination of these acquisitions. The Company filed a motion for an early dismissal of this complaint. This motion to dismiss the complaint was granted by the High Court in February 2010. On March 16, 2010, the claimant filed with the Supreme Court of the Republic of the Marshall Islands a Notice of Appeal against the Order of the High

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

15. Commitments and contingencies - continued:

15.1 Legal proceedings - continued:

Court. This appeal is to be heard by the Supreme Court on a future unknown date. The Company believes that this case is without merit and that an unfavorable outcome is remote. Furthermore, no estimate of a possible loss, if any, can be made.

Ocean Rig's Leiv Eiriksson operated in Angola in the period 2002 to 2007. Ocean Rig understands that the Angolan government may retroactively levy import/export duties for the period 2002 to 2007. As Ocean Rig has not received any formal claim in relation to the potential duties, no provision has been made. The maximum amount is estimated to be between \$5-10 million.

15.2 Purchase obligations:

The following table sets forth the Company's contractual obligations and their maturity dates as of December 31, 2009:

<u>Obligations:</u>	<u>Total</u>	<u>1st year</u>	<u>2nd year</u>
Drillship Shipbuilding contracts	1,892,277	1,005,984	886,293
Total obligations	<u>\$1,892,277</u>	<u>\$1,005,984</u>	<u>\$886,293</u>

15.3 Contractual charter revenue

Future minimum contractual charter revenue, based on vessels and rigs committed to non-cancelable, long-term time and bareboat charter contracts as of December 31, 2009, will be \$868,531 during 2010, \$780,036 during 2011, \$412,023 during 2012, \$111,963 during 2013 and \$57,872 during 2014 and thereafter. These amounts do not include any assumed off-hire.

15.4 Rental payments

The Company leases office space in Athens, Greece, from George Economou. As of December 31, 2009, the future obligations amount to \$13 for 2010, and \$10 for 2011. The contract expires in 2011. Ocean Rig entered into a five year office lease agreement with Vestre Svanholmen 6 AS which commenced on July 1, 2007. This lease includes an option for an additional five year term which must be exercised at least six months prior to the end of the term of the contract which expires in June 2012. As of December 31, 2009, the future obligations amount to \$1,527 for 2010, \$1,072 for 2011 and \$441 for 2012.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

16. Voyage and Vessel and Drilling Rig Operating Expenses:

The amounts in the accompanying consolidated statements of operations are analyzed as follows:

<u>Vessel Voyage Expenses</u>	<u>Year ended December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Port charges	\$ 748	\$ 1,041	\$ 1,078
Bunkers	717	5,952	4,601
Gain on sale of bunkers	(7,467)	(9,473)	(2,146)
Commissions charged by third parties	24,450	39,181	19,809
Charter in – hire expense	6,040	5,935	—
	<u>24,488</u>	<u>42,636</u>	<u>23,342</u>
Commissions charged by a related party	7,159	10,536	5,437
Total	<u>\$31,647</u>	<u>\$53,172</u>	<u>\$28,779</u>

<u>Vessel Operating Expenses</u>	<u>Year ended December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Crew wages and related costs	\$28,187	36,723	\$36,560
Insurance	5,636	7,596	7,695
Repairs and maintenance	10,247	18,278	12,897
Spares and consumable stores	18,856	16,599	18,137
Tonnage taxes	299	515	316
Total	<u>\$63,225</u>	<u>79,711</u>	<u>\$75,605</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

17. Interest and finance Costs:

The amounts in the accompanying consolidated statements of operations are analyzed as follows:

	<u>Year ended December 31,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u> <u>(as restated)</u>
Interest on long-term debt	\$48,583	93,142	\$ 63,334
Long-term debt commitment fees	223	3,208	5,869
Bank charges	238	817	503
Amortization and write-off of financing fees	2,190	15,848	12,745
Amortization of convertible notes discount	—	—	1,769
Amortization of share lending agreement- note issuance costs	—	—	195
Other	(3)	179	15
Total	<u>51,231</u>	<u>113,194</u>	<u>84,430</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

18. Segment information:

The Company has two reportable segments from which it derives its revenues: Drybulk carrier and Drilling Rig segments. The reportable segments reflect the internal organization of the Company and are a strategic business that offers different products and services. The Drybulk business segment consists of transportation and handling of Drybulk cargoes through ownership and trading of vessels. The Drilling Rig business segment consists of trading of the drilling rigs through ownership and trading of such drilling rigs.

The table below presents information about the Company's reportable segments as of and for the years ended December 31, 2008 and 2009.

The accounting policies followed in the preparation of the reportable segments are the same with those followed in the preparation of the Company's consolidated financial statements.

The Company measures segment performance based on net income. Summarized financial information concerning each of the Company's reportable segments is as follows:

	Drybulk Segment		Drilling Rigs Segment		Total	
	As of and for the year ended December 31,		As of and for the year ended December 31,		As of and for the year ended December 31,	
	2008	2009	2008	2009 (as restated)	2008	2009 (as restated)
Revenues from external customers	\$ 861,296	444,385	219,406	375,449	1,080,702	\$ 819,834
Vessel and rig operating expenses	79,711	75,605	86,180	126,282	165,891	201,887
Depreciation and amortization	110,507	117,522	47,472	78,787	157,979	196,309
Income tax expenses	—	—	2,844	12,797	2,844	12,797
Net income/(loss)	427,544	(138,874)	(788,826)	119,665	(361,282)	(19,209)
Interest and finance cost	49,700	40,528	63,494	43,902	113,194	84,430
Interest income	7,425	2,995	5,660	7,419	13,085	10,414
Change in fair value of derivatives	139,537	(33,950)	65,427	(26,280)	204,964	(60,230)
Equity in loss of investee	—	—	6,893	—	6,893	—
Goodwill impairment charge	—	—	700,457	—	700,457	—
Total assets	\$2,419,159	2,680,421	2,423,521	3,126,574	4,842,680	\$5,806,995

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

19. Earnings per share:

The Company calculates basic and diluted earnings per share as follows:

	For the year ended December 31,								
	2007			2008			2009 (as restated)		
	Income (numerator)	Weighted- average number of outstanding shares (denominator)	Amount per share	Income (numerator)	Weighted- average number of outstanding shares (denominator)	Amount per share	Income (numerator)	Weighted- average number of outstanding shares (denominator)	Amount per share
Net income/(loss) attributable to DryShips Inc.	\$ 478,325	—	—	(361,282)	—	—	(19,209)	—	—
Less: Series A Convertible Preferred stock dividends	—	—	—	—	—	—	(7,497)	—	—
Less: Non-vested common stock dividends declared and undistributed earnings	—	—	—	(527)	—	—	—	—	—

Basic and diluted EPS

Income/(loss) available to common stockholders	\$ 478,325	35,700,182	13.40	(361,809)	44,598,585	(8.11)	(26,706)	209,331,737	(0.13)
--	------------	------------	-------	-----------	------------	--------	----------	-------------	--------

On July 15, 2009, the Company issued 52,238,806 shares of its Series A Convertible Preferred Stock under its agreement to acquire the remaining 25% of the total issued and outstanding capital stock of Ocean Rig UDW (Note 5). The aggregate face value of these shares was \$280,000. The Series A Convertible Preferred Stock accrues cumulative dividends on a quarterly basis at an annual rate of 6.75% of the aggregate face value. Such accrued dividends are payable in additional shares of preferred stock immediately prior to any conversion. As of December 31, 2009, the fair value of the stock dividends amounted to \$7,497.

Non-vested share-based payment awards that contain rights to receive non forfeitable dividends or dividend equivalents (whether paid or unpaid) and participate equally in undistributed earnings are participating securities and, thus, are included in the two-class method of computing earnings per share. This method was adopted on January 1, 2009 and was applied retroactively to all periods presented.

For the year ended December 31, 2009, Series A Convertible Preferred Stock was not included in the computation of diluted earnings per share because the effect is anti-dilutive.

Non-vested, participating restricted common stock does not have a contractual obligation to share in the losses and was therefore, excluded from the basic loss per share calculation for the year ended December 31, 2008 and 2009 due to the losses in 2008 and 2009. As of December 31, 2007 no non-vested common stock existed.

In relation to the Notes described in Note 10, none of the shares were dilutive since the average share price for the period the Notes were issued until December 31, 2009 did not exceed the conversion price. Concurrently with the offering of the Notes, the 26,100,000 loaned shares of common stock are excluded in computing earnings per share as no default has occurred as set out in the share lending agreement.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

20. Income Taxes:

20.1 Drybulk Carrier Segment

Neither the Marshall Islands nor Malta imposes a tax on international shipping income earned by a “non-resident” corporation thereof. Under the laws of the Marshall Islands and Malta, the countries in which the vessels owned by subsidiaries of the Company are registered, the Company’s subsidiaries (and their vessels) are subject to registration fees and tonnage taxes, as applicable, which have been included in Vessels’ operating expenses in the accompanying consolidated statements of operations.

Pursuant to Section 883 of the United States Internal Revenue Code (the “Code”) and the regulations thereunder, a foreign corporation engaged in the international operation of ships is generally exempt from U.S. federal income tax on its U.S.-source shipping income if the foreign corporation meets both of the following requirements: (a) the foreign corporation is organized in a foreign country that grants an “equivalent exemption” to corporations organized in the United States for the types of shipping income (e.g., voyage, time, bareboat charter) earned by the foreign corporation and (b) more than 50% of the value of the foreign corporation’s stock is owned, directly or indirectly, by individuals who are “residents” of the foreign corporation’s country of organization or of another foreign country that grants an “equivalent exemption” to corporations organized in the United States (the “50% Ownership Test”). For purposes of the 50% Ownership Test, stock owned in a foreign corporation by a foreign corporation whose stock is “primarily and regularly traded on an established securities market” in the United States (the “Publicly-Traded Test”) will be treated as owned by individuals who are “residents” in the country of organization of the foreign corporation that satisfies the Publicly-Traded Test.

The Marshall Islands and Malta, the jurisdictions where the Company’s ship-owning subsidiaries are incorporated, each grants an “equivalent exemption” to United States corporations with respect to each type of shipping income earned by the Company’s ship-owning subsidiaries. Therefore, the ship-owning subsidiaries will be exempt from United States federal income taxation with respect to U.S.-source shipping income if they satisfy the 50% Ownership Test.

The Company believes that it satisfied the Publicly-Traded Test for its 2007, 2008 and 2009 Taxable Years and therefore 100% of the stock of its Marshall Islands and Malta ship-owning subsidiaries will be treated as owned by individuals “resident” in the Marshall Islands. As such, each of the Company’s Marshall Islands and Malta ship-owning subsidiaries will be entitled to exemption from U.S. federal income tax in respect of their U.S. source shipping income. The Company’s ship-owning subsidiaries intend to take such position on their U.S. federal income tax returns for the 2009 taxable year.

20.2 Drilling Rig Segment

Ocean Rig UDW, the holding company of the drilling segment, is incorporated in the Marshall Islands. Some of its subsidiaries are incorporated and domiciled in Norway, and as such, are generally subject to Norwegian income tax of 28%. In addition, the Norwegian entities are subject to the Norwegian participation exemption model which implies that only 3% of dividend income and capital gains are subject to tax. In effect this gives an effective tax of total income under the participation exemption of 0.84% (3% * 28%).

The participation exemption normally applies to equity investments in the EEA (European Economic Area) except investments in low-tax countries. The model may also apply to investments outside of the EEA (except low-tax countries) to the extent the investment for the last two years has constituted at least 10% of the capital and votes in the entity in question.

Ocean Rig UDW operates through its various subsidiaries in a number of countries throughout the world. Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted and income is earned. The countries in which Ocean Rig UDW operates have taxation regimes with varying nominal rates, deductions, credits and other tax attributes. Consequently, there is an expected relationship between the provision for benefit from income taxes and income or loss before income taxes.

Up to December 15, 2009, when a reorganization occurred, Ocean Rig’s drilling operations were consolidated in Ocean Rig ASA, a company incorporated and domiciled in Norway.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

20. Income Taxes - continued:

The components of Ocean Rig's provision/(benefit) for income taxes are as follows:

	<u>Year Ended</u>	
	<u>December 31, 2008</u>	<u>December 31, 2009</u>
Current provisions	\$ 2,844	\$ 12,797
Deferred provision/(benefit)	—	—
Income tax provision	\$ 2,844	\$ 12,797
Effective tax rate	(16)%	13%

Reconciliation of total tax cost:

	<u>As restated*</u> <u>May 15 to</u> <u>December 31, 2008</u>	<u>January 1 to</u> <u>December 31, 2009</u>
Domestic tax rate multiplied by profit/(loss) before tax	\$ (80,252)	\$ 138,672
Change in valuation allowance	115,407	(93,362)
Differences in tax rates	3,344	193
Effect of permanent differences	(74,929)	21,317
Effect of exchange rate differences	39,274	(65,468)
Withholding tax	—	11,445
Total	\$ 2,844	\$ 12,797

Ocean Rig is subject to changes in tax laws, treaties, regulations and interpretations in and between the countries in which its subsidiaries operate. A material change in these tax laws, treaties, regulations and interpretations could result in a higher or lower effective tax rate on worldwide earnings.

Deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities at the applicable tax rates in effect. The significant components of deferred tax assets and liabilities are as follow:

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

20. Income Taxes - continued:

<u>Temporary differences – tax effects</u>	<u>Year Ended</u>	
	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2009</u>
Deferred tax assets		
Net operation loss carry forwards	\$ 67,109	\$ 65,045
Outside basis in subsidiaries	91,447	—
Accrued expenses	13,656	728
Accelerated depreciation of assets	—	9
Pension	199	—
Total deferred tax assets	<u>172,411</u>	<u>65,782</u>
Deferred tax liabilities		
Depreciation and amortization	(3,712)	(122)
Rig contracts	(9,789)	—
Pension assets	—	(108)
Total deferred tax liabilities	<u>(13,501)</u>	<u>(230)</u>
Net deferred tax asset	<u>158,910</u>	<u>65,552</u>
Valuation allowance	<u>(158,910)</u>	<u>(65,552)</u>
Long-term portion of net deferred tax asset	<u>158,910</u>	<u>65,552</u>
Long-term portion of valuation allowance	<u>\$ 158,910</u>	<u>\$ 65,552</u>

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

20. Income Taxes - continued

Deferred taxes have not been provided for in circumstances where the Company does not expect the operations in a jurisdiction to give rise to future tax consequences, due to the structure of operations and applicable law. Should its expectations change regarding the expected future tax consequences, the Company may be required to record additional deferred taxes that could have a material adverse effect on its consolidated statement of financial position, results of operations or cash flows.

The Company has not provided for deferred taxes on the unremitted earnings of certain subsidiaries that the Company considers to be permanently reinvested. Should the Company make a distribution of the unremitted earnings of these subsidiaries, it may be required to record additional taxes. Because the Company cannot predict when, if it at all, it will make distribution of these unremitted earnings, it is unable to make a determination of the amount of unrecognized deferred tax liability.

Ocean Rig ASA filed for liquidation in 2009 and on December 15, 2009 it distributed all significant assets to Primelead Ltd., a subsidiary of Dryships, as a liquidation dividend, including the shares in all its subsidiaries. The company does not expect any adverse tax effects from this transaction, but it cannot rule out the possibility that the tax authorities will challenge elements of the transaction.

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. The Company provides a valuation allowance to offset deferred tax assets for net operating losses ("NOL") incurred during the year in certain jurisdictions and for other deferred tax assets where, in the Company's opinion, it is more likely than not that the financial statement benefit of these losses will not be realized. The Company provides a valuation allowance for foreign tax loss carryforward to reflect the possible expiration of these benefits prior to their utilization. As of December 31, 2009, the valuation allowance for non-current deferred tax assets is reduced from \$158,910 in 2008 to \$65,552 in 2009. The decrease is primarily a result of the reduction of deferred tax asset due to effects of the rig export.

The Company has tax losses, which arose in Norway of \$183,998 and \$192,700 at December 31, 2009 and 2008, respectively, that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. However, all of these amounts are related to Ocean Rig ASA, Ocean Rig Norway AS, Ocean Rig 1 AS and Ocean Rig 2 AS that are under liquidation. Upon liquidation the tax losses will not be available.

The Company had tax losses, which arose in Canada of \$23,896 and \$24,419 at December 31, 2008 and 2009, respectively, that are available indefinitely for offset against future taxable profits of the company in which the losses arose. The tax loss in Canada may be deducted in the future only against income and proceeds of disposition derived from resource properties owned at the time of the acquisition of control, or the Weymouth well. Thus the possibility for utilization of this tax position is in practice expired for the period after the change of control in Ocean Rig on May 14, 2008.

The Company had tax losses, which arose in Cyprus of \$45,189 and \$57,112 at December 31, 2008 and 2009, respectively that are available indefinitely for offset against future taxable profits of the company in which the losses arose. A 100% valuation allowance in the assets resulting from the loss carryforward has been provided for as the Company is not profitable.

The Company's income tax returns are subject to review and examination in the various jurisdictions in which the Company operates. Currently one tax audit is open. The Company may contest any tax assessment that deviates from its tax filing. However, this review is not expected to incur any tax payables.

The Company accrues for income tax contingencies that it believes are more likely than not exposures in accordance with the provisions of guidance related to accounting for uncertainty in income taxes.

The Company accrues interest and penalties related to its liabilities for unrecognized tax benefits as a component of income tax expense. During the year ended December 31, 2009, the Company did not incur any interest or penalties.

Ocean Rig UDW, and/or one of its subsidiaries, filed federal and local tax returns in several jurisdictions throughout the world. With few exceptions, they are no longer subject to examinations of the Company's U.S. and non-U.S. tax matters for years prior to 1999. The amount of current tax benefit recognized during the years ended December 31, 2009, December 31, 2008 and December 31, 2007 from the settlement of disputes with tax authorities and the expiration of statute of limitations was insignificant.

DRYSHIPS INC.

Notes to Consolidated Financial Statements

As of and for the Years Ended December 31, 2007, 2008 and 2009 (as restated)

(Expressed in thousands of United States Dollars – except for share and per share data, unless otherwise stated)

21. Subsequent Events:

- 21.1 On February 17, 2010, we placed an order for two (2) 76,000 dwt Panamax dry bulk vessels, with a quality Chinese shipyard, for a price of \$33.05 million each. Delivery of the two vessels is expected to take place in Q4 of 2011 and Q1 of 2012, respectively.

Schedule I- Condensed Financial Information of Dryships Inc. (Parent Company Only)

Balance Sheets
December 31, 2008 and 2009
 (Expressed in thousands of U.S. Dollars – except for share and per share data)

	<u>2008</u>	<u>2009</u> (as restated)
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,039	\$ 208
Restricted cash	14,326	25,851
Due from related parties	17,480	27,576
Financial instruments	—	559
Other current assets	<u>324</u>	<u>432</u>
Total current assets	<u>33,169</u>	<u>54,626</u>
NON-CURRENT ASSETS:		
Investments in subsidiaries*	<u>2,692,706</u>	<u>4,100,536</u>
Total non-current assets	<u>2,692,706</u>	<u>4,100,536</u>
Total assets	<u>\$2,725,875</u>	<u>\$4,155,162</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 669,834	\$ 593,578
Due to subsidiaries*	637,064	331,856
Financial instruments	31,921	54,089
Other current liabilities	<u>14,916</u>	<u>7,166</u>
Total current liabilities	<u>1,353,735</u>	<u>986,689</u>
NON-CURRENT LIABILITIES		
Long term debt, net of current portion	—	323,630
Financial instruments	<u>80,568</u>	<u>32,301</u>
Total non-current liabilities	<u>80,568</u>	<u>355,931</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 500,000,000 shares authorized at December 31, 2008 and 2009; none issued and outstanding	—	—

	<u>2008</u>	<u>2009</u> (as restated)
Series A Convertible preferred stock, \$0.01 par value; 100,000,000 shares authorized and 52,238,806 issued and outstanding at December 31, 2009	—	522
Common stock, \$0.01 par value; 1,000,000,000 shares authorized at December 31, 2008 and 2009; 70,600,000 and 280,326,271 shares issued and outstanding at December 31, 2008 and 2009, respectively	706	2,803
Accumulated other comprehensive loss	(44,847)	(33,399)
Additional paid-in capital	1,148,365	2,681,974
Retained earnings	<u>187,348</u>	<u>160,642</u>
Total stockholders' equity	<u>1,291,572</u>	<u>2,812,542</u>
Total liabilities and stockholders' equity	<u>\$2,725,875</u>	<u>\$4,155,162</u>

* Eliminated in consolidation

Schedule I- Condensed Financial Information of Dryships Inc. (Parent Company Only)

Statements of Operations
 For the years ended December 31, 2007, 2008 and 2009
 (Expressed in thousands of U.S. Dollars – except for share and per share data)

	<u>2007</u>	<u>2008</u>	<u>2009</u> (as restated)
EXPENSES:			
Contract termination fees	\$ —	—	\$ 212,586
Loss on contract cancellation	—	—	69
General and administrative expenses	<u>5,069</u>	<u>56,351</u>	<u>54,433</u>
Operating loss	<u>5,069</u>	<u>56,351</u>	<u>267,088</u>
OTHER INCOME / (EXPENSES):			
Interest and finance costs	(49,065)	(31,489)	(26,395)
Interest income	2,197	2,556	74
Gain/(loss) on interest rate swaps	(3,638)	(115,613)	4,139
Other, net	<u>1,222</u>	<u>90</u>	<u>(9,787)</u>
Total other expenses, net	<u>(49,284)</u>	<u>(144,456)</u>	<u>(31,969)</u>
Equity in earnings/(loss) of subsidiaries*	<u>532,678</u>	<u>(160,475)</u>	<u>279,848</u>
Net income/(loss)	<u>\$ 478,325</u>	<u>\$ (361,282)</u>	<u>\$ (19,209)</u>
Earnings/(loss) per share, basic and diluted	13.40	(8.11)	(0.13)
Weighted average number of shares, basic and diluted	35,700,182	44,598,585	209,331,737

* Eliminated in consolidation

Schedule I- Condensed Financial Information of Dryships Inc. (Parent Company Only)

Statements of Cash Flows
For the years ended December 31, 2007, 2008 and 2009
(Expressed in thousands of U.S. Dollars)

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Cash Provided by/(Used in) Operating Activities	\$ 128,978	\$ 934,909	\$ (443,323)
Cash Flows from Investing Activities:			
Proceeds of sale of subsidiary	—	—	100
Investments in subsidiaries	(359,388)	(1,450,562)	(817,565)
Restricted cash	—	(2,227)	(11,525)
Net Cash Used in Investing Activities	<u>(359,388)</u>	<u>(1,452,789)</u>	<u>(828,990)</u>
Cash Flows from Financing Activities:			
Restricted cash	4,566	—	—
Proceeds from long-term debt	319,697	49,400	—
Proceeds from short-term credit facility	30,076	—	—
Proceeds from issuance of convertible notes	—	—	447,810
Payment of short term credit facility	—	(30,076)	—
Principal payments of long-term debt	(228,278)	(128,996)	(75,171)
Net proceeds from common stock issuance	127,104	662,664	950,555
Proceeds from share-lending arrangement	—	—	261
Acquisition of noncontrolling interests	—	—	(50,000)
Dividends paid	(28,392)	(33,244)	—
Payment of financing costs	(2,640)	(1,405)	(1,973)
Net Cash Provided by Financing Activities	<u>222,133</u>	<u>518,343</u>	<u>1,271,482</u>
Net increase/(decrease) in cash and cash equivalents	(8,277)	463	(831)
Cash and cash equivalents at beginning of year	<u>8,853</u>	<u>576</u>	<u>1,039</u>
Cash and cash equivalents at end of year	<u>\$ 576</u>	<u>\$ 1,039</u>	<u>\$ 208</u>

Schedule I- Condensed Financial

Information of Dryships Inc. (Parent Company Only)

In the condensed financial information of the Parent Company, the Parent Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries. The Parent Company, during the years ended December 31, 2007, 2008 and 2009, received cash dividends from its subsidiaries of \$28,392, \$33,244 and \$0, respectively, which are included in equity in earnings/(loss) of subsidiaries in the condensed statements of operations.

The Parent Company is a joint and several borrower under certain secured loan facilities and guarantor under the remaining loans outstanding at December 31, 2008 and 2009.

In November 2009, the Parent Company issued \$400,000 aggregate principal amount of 5% Convertible unsecured Senior Notes (the "Notes"), which are due December 1, 2014. The full over allotment option granted was exercised and an additional \$60,000 Notes were purchased. Accordingly, \$460,000 in aggregate principal amount of Notes were sold, resulting in aggregate net proceeds of approximately \$447,810 after underwriter commissions.

The principal payments required to be made after December 31, 2009 for the loans discussed above are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2010	\$ 598,237
2011	—
2012	—
2013	—
2014	460,000
Less-Financing fees	(141,029)
	<u>\$ 917,208</u>

As of December 31, 2008, the Parent Company was not in compliance with certain of its financial covenants under its secured loan facilities. During 2009 the Parent Company obtained waivers for its secured loan facilities resulting in the Company's compliance with its financial covenants under its secured loan facilities as of December 31, 2009. However, since the relevant waivers expire during 2010, the Parent Company has deemed itself to be in technical breach and has classified all of its secured long-term debt as current liabilities as of December 31, 2009.

The Company is in process of negotiating further waivers or to restructure this debt upon waiver expiry in 2010.

See Note 10 "Long-term Debt" to the consolidated financial statements for further information.

The condensed financial information of the Parent Company should be read in conjunction with the Company's consolidated financial statements.

Restatement of Parent Company's financial statements:

In 2011 and subsequent to the issuance of the Parent Company's 2009 consolidated financial statements, the Parent Company's management determined that the amount of interest capitalized pursuant to ASC 835-20, *Capitalization of Interest* (ASC 835-20) for four drillships under construction acquired by its consolidated subsidiary, Ocean Rig UDW (the "Subsidiary") was erroneously calculated for the year ended December 31, 2009. The errors comprised the following:

- From the amount of the expenditures for the qualifying assets the Subsidiary erroneously excluded the portion of the purchase price of two drillships under construction that was paid for in shares of stock of Ocean Rig UDW.
- From the calculation of the capitalization rate used to determine capitalized interest, the Subsidiary erroneously excluded its variable rate loan.

In addition, the Subsidiary erroneously accounted for under ASC 815-30, *Cash Flow Hedges* (ASC 815-30) the settlement payments made in 2009 on interest rate swaps that were designated and effective as cash flow hedges on variable rates loan, interest of which was capitalized as cost of drillships under construction, by immediately reclassifying the entire net settlement payments from accumulated other comprehensive loss to interest and finance costs in the statement of operations. Accordingly, a portion of the net settlement payments on the foregoing interest rate swaps is reclassified back to accumulated other comprehensive loss and will be reclassified to interest and finance costs at the same time that the capitalized interest on the hedged variable rate debts is recognized in income through depreciation.

The correction of the above errors results in an increase in the Parent Company's: (i) equity in earnings of subsidiary by \$13.2 million, (ii) investments in subsidiaries by \$7.9 million and (iii) accumulated other comprehensive loss by \$5.3 million.

The impact of the foregoing errors is shown below:

Statement of Operations	For the Year Ended December 31, 2009	
	as previously reported	as restated
Equity in earnings of subsidiaries	\$ 266,679	\$ 279,848
Net loss	(32,378)	(19,209)
Loss per common share, basic and diluted	\$ (0.19)	\$ (0.13)
 Balance Sheet	 As at December 31, 2009	
	as previously reported	as restated
Investments in subsidiaries	\$ 4,092,629	\$ 4,100,536
Total assets	4,147,255	4,155,162
Accumulated other comprehensive loss	(28,137)	(33,399)
Total stockholders' equity	2,804,635	2,812,542
Total liabilities and stockholders' equity	\$ 4,147,255	\$ 4,155,162

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a), AS AMENDED**

I, George Economou, certify that:

1. I have reviewed this annual report on Form 20-F of DryShips Inc., as amended by Amendment No. 1 on Form 20-F/A;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 15, 2011

/s/ George Economou

George Economou
Principal Executive Officer

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a), AS AMENDED**

I, Ziad Nakhleh, certify that:

1. I have reviewed this annual report on Form 20-F/A of Dryships Inc., as amended by Amendment No. 1 on Form 20-F/A;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 15, 2011

/s/ Ziad Nakhleh

Ziad Nakhleh

Principal Financial Officer

**PRINCIPAL EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Annual Report of Dryships Inc. (the "Company") on Form 20-F for the year ended December 31, 2009, as amended by this Amendment No. 1 on Form 20-F/A, as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, George Economou, the Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: April 15, 2011

/s/ George Economou

George Economou

Principal Executive Officer

**PRINCIPAL FINANCIAL OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Annual Report of Dryships Inc. (the "Company") on Form 20-F for the year ended December 31, 2009, as amended by this Amendment No. 1 on Form 20-F/A, as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Ziad Nakhleh, the Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: April 15, 2011

/s/ Ziad Nakhleh

Ziad Nakhleh

Principal Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form F-3 /A No. 333-146540 and Form F-3 No. 333-139204) and in the related prospectuses of DryShips Inc. of our reports dated April 15, 2011, with respect to the consolidated financial statements of Ocean Rig UDW Inc. as of December 31, 2009 and for the year ended December 31, 2009, and the effectiveness of internal control over financial reporting of Ocean Rig UDW Inc., included in this Annual Report (Form 20-F/A) of DryShips Inc. for the year ended December 31, 2009.

We also consent to the incorporation by reference therein of our report dated March 27, 2009, with respect to the consolidated financial statements of Ocean Rig ASA as of December 31, 2008 and for the period May 15, 2008 to December 31, 2008, included in this Annual Report (Form 20-F/A) of DryShips Inc. for the year ended December 31, 2009.

/s/ Ernst & Young AS

Stavanger, Norway

April 15, 2011

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements No. 333-146540 on Form F-3 ASR and No. 333-139204 on Form F-3 of our report relating to the consolidated financial statements and financial statement schedule of DryShips Inc. and subsidiaries (the "Company") dated April 7, 2010, April 15, 2011, as to the effects of the restatement discussed in Note 3 to the consolidated financial statements and in the financial statement schedule listed in the Index at Item 18 (which report expresses an unqualified opinion on those financial statements and financial statement schedule and includes explanatory paragraphs relating to: (i) the restatement discussed in Note 3 to the consolidated financial statements and in the financial statement schedule listed in the Index at Item 18 and (ii) substantial doubt about the Company's ability to continue as a going concern), and our report relating to the effectiveness of the Company's internal control over financial reporting dated April 7, 2010, April 15, 2011 as to the effects of the material weakness identified in our report (which report expresses an adverse opinion on internal control over financial reporting), appearing in the Annual Report on Form 20-F/A of the Company for the year ended December 31, 2009.

/s/ Deloitte.
Hadjipavlou Sofianos & Cambanis S.A.
Athens, Greece
April 15, 2011