

Verso Corp  
Form 8-K  
April 03, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the**  
**Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): **April 3, 2017**

**VERSO CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
**(State or other jurisdiction**

**of incorporation)**

**001-34056**  
**(Commission**

**File Number)**  
**8540 Gander Creek Drive**

**75-3217389**  
**(IRS Employer**

**Identification Number)**

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**Miamisburg, Ohio 45342**

(Address of principal executive offices) (zip code)

**(877) 855-7243**

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 8.01 Other Events.**

Verso Corporation ( Verso ) will hold its 2017 Annual Meeting of Stockholders at the Loews Regency New York Hotel, located at 540 Park Avenue (at 61<sup>st</sup> Street), New York, New York, on May 12, 2017, beginning at 12:00 p.m. (noon) (Eastern Time). The holders of Verso s Class A common stock and Class B common stock of record at the close of business on April 6, 2017, the record date for the meeting, will be entitled to receive notice of the meeting and to vote the shares of common stock that they hold on the record date at the meeting and any postponement or adjournment thereof. Additional information regarding Verso and the meeting will be set forth in the proxy statement that Verso will file with the Securities and Exchange Commission and distribute to its stockholders in connection with the meeting.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: April 3, 2017

**VERSO CORPORATION**

By: /s/ Peter H. Kesser  
Peter H. Kesser

Senior Vice President

General Counsel and Secretary

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OCEAN RIG UDW INC.

Dated: June 15, 2016

By: /s/George Economou

George Economou

Chief Executive Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise specified herein, references to "Ocean Rig" or the "Company" or "we" shall include Ocean Rig UDW Inc. and its applicable subsidiaries. The following management's discussion and analysis should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes included herein. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" included in Company's Annual Report on Form 20-F (File No. 001-35298) for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission (the "Commission") on March 31, 2016 and our Registration Statement on Form F-4, declared effective by the Commission on April 14, 2016. See also the discussion in the section entitled "Forward Looking Statements" below.

Unaudited Results of Operations

Three-months ended March 31, 2016 compared to the three-months ended March 31, 2015.

Selected Financial Data

(Expressed in thousands of U.S. Dollars)

	Three-months ended		Change	
	March 31,	2016	Amount	%
	2015			
<b>REVENUES:</b>				
Total revenues	\$402,083	\$508,007	\$105,924	26.3 %
<b>EXPENSES:</b>				
Drilling units operating expenses	152,927	145,559	(7,368 )	(4.8 )%
Depreciation and amortization	88,360	85,919	(2,441 )	(2.8 )%
General and administrative expenses	28,001	18,812	(9,189 )	(32.8 )%
Legal settlements and other, net	-	32	32	- %
Operating income	132,795	257,685	124,890	94.0 %
<b>OTHER INCOME/(EXPENSES):</b>				
Interest and finance costs	(65,059 )	(60,266 )	4,793	(7.4 )%
Interest income	3,369	565	(2,804 )	(83.2 )%
Loss on interest rate swaps	(8,191 )	(5,067 )	3,124	(38.1 )%
Gain from repurchase of senior notes	-	125,001	125,001	- %
Other, net	(2,183 )	(1,139 )	1,044	(47.8 )%
Total other income/(expenses), net	(72,064 )	59,094	131,158	(182.0)%
<b>INCOME BEFORE INCOME TAXES</b>	<b>60,731</b>	<b>316,779</b>	<b>256,048</b>	<b>421.6 %</b>
Income taxes	(19,590 )	(28,755 )	(9,165 )	46.8 %
<b>NET INCOME</b>	<b>\$41,141</b>	<b>\$288,024</b>	<b>\$246,883</b>	<b>600.1 %</b>

Revenues

Revenues from drilling contracts increased by \$105.9 million, or 26.3%, to \$508.0 million for the three-month period ended March 31, 2016, as compared to \$402.1 million for the three-month period ended March 31, 2015. The increase is mainly attributable to the operations of the Ocean Rig Skyros and the Ocean Rig Apollo, which resulted in a total increase of \$144.9 million in aggregate, due to the higher number of employment days. Additionally, the increase is also attributable to the operations of Ocean Rig Athena, which contributed \$6.5 million more during the period, mainly due to the higher average dayrate. The total increase was partly offset by the lower employment days of the Leiv Eiriksson and the Ocean Rig Olympia, resulted in a total decrease of \$37.6 million in aggregate, as well as in the decreased operations of Ocean Rig Poseidon, which contributed \$16.0 million less during this period, mainly due to lower average dayrate.

During the three-month periods 2015 and 2016, we recorded 89.2% and 83.9% utilization (excluding the days for which we received termination fee), respectively. Furthermore, our fleet under contract achieved an earnings efficiency of 95.5% for the three-month period ended March 31, 2016, as compared to 98.5% for the three-month period ended March 31, 2015.

### Operating expenses

Drilling units operating expenses decreased by \$7.3 million, or 4.8%, to \$145.6 million for the three-month period ended March 31, 2016, compared to \$152.9 million for the three-month period ended March 31, 2015. The decrease is mainly attributable to cost-reduction initiatives for the entire fleet. This decrease was partly offset by the operating expenses of the drilling unit, the Ocean Rig Apollo, due to its increased operational days during the three-month period ended March 31, 2016, as compared to the same period in 2015.

### Depreciation and amortization

Depreciation and amortization expense decreased by \$2.5 million, or 2.8%, to \$85.9 million for the three-month period ended March 31, 2016, as compared to \$88.4 million for the three-month period ended March 31, 2015. The decrease in depreciation and amortization expense was mainly attributable to the decrease in depreciation expense of the Leiv Eiriksson and the Eirik Raude amounting to \$8.2 million, in aggregate, due to the lower depreciable value of these drilling units as a result of the impairment charge that was recognized during the year ended December 31, 2015. This decrease, was partly offset by the increase in depreciation of \$5.5 million of the Ocean Rig Apollo that was delivered in March 2015. The depreciation expense charged for the remaining drilling units remained approximately the same for the three-month period ended March 31, 2016, as compared to the corresponding three-month period ended March 31, 2015.

### General and administrative expenses

General and administrative expenses decreased by \$9.2 million, or 32.9%, to \$18.8 million for the three-month period ended March 31, 2016, as compared to \$28.0 million for three-month period ended March 31, 2015, due to the decreased operating costs of our offices in Angola, Brazil and Athens.

### Legal Settlements and other, net

Legal settlements and other, net has remained approximately the same for the three-month period ended March 31, 2016, as compared to the three-month period ended March 31, 2015.

### Interest and finance costs

Interest and finance costs decreased by \$4.8 million, or 7.4%, to \$60.3 million for the three-month period ended March 31, 2016, as compared to \$65.1 million for the three-month period ended March 31, 2015. The decrease is mainly associated with the lower level of debt during the three-month period ended March 31, 2016, as compared to the level of debt during the three-month period ended March 31, 2015, mainly due to the repurchase of the 7.25% Senior Unsecured Notes and 6.50% Senior Secured Notes.

### Interest income

Interest income decreased by \$2.8 million, or 82.4%, to \$0.6 million for the three-month period ended March 31, 2016, compared to \$3.4 million for the three-month period ended March 31, 2015. The decrease was mainly due to the fact that during the three-month period ended March 31, 2015 the Company received interest income from the \$120 million Exchangeable Promissory Note provided to DryShips Inc..

#### Loss on interest rate swaps

Loss on interest rate swaps decreased by \$3.1 million, or 37.8%, to \$5.1 million for the three-month period ended March 31, 2016, as compared to \$8.2 million for the three-month period ended March 31, 2015. The losses for the three-month period ended March 31, 2016, were mainly due to payments of interest on swaps.

#### Gain from repurchase of Senior Notes

For the three-month period ended March 31, 2016, we recognized gains of \$125.0 million due to the repurchase of the 7.25% Senior Unsecured Notes and 6.50% Senior Secured Notes at a discount due to the market value at which the notes were trading. No such case existed for the relevant three-month period ended March 31, 2015.

#### Other, net

Other, net decreased by \$1.1 million, or 50.0% to a loss of \$1.1 million for three-month period ended March 31, 2016, compared to a loss of \$2.2 million for the three-month period ended March 31, 2015. The decrease is mainly due to foreign currency exchange rate differences between the United States Dollars (USD) and the Norwegian Krone (NOK), the Brazilian Real (BRL) and the Angolan Kwanza (AOA).

#### Income taxes

Income taxes increased by \$9.2 million, or 46.9%, to \$28.8 million for three-month period ended March 31, 2016, compared to \$19.6 million for the three-month period ended March 31, 2015, mainly due to the increase of withholding taxes based on the revenues of the fleet. As our drilling units operate around the world, they may become subject to taxation in many different jurisdictions. The basis for such taxation depends on the relevant regulation in the countries in which we operate. Consequently, there is no expected relationship between the income tax expense or benefit for the period and the income or loss before taxes.

#### Liquidity

As of March 31, 2016, we had \$811.0 million of cash and cash equivalents and \$16.9 million restricted cash.

Our cash and cash equivalents increased by \$76.3 million, or 10.4%, to \$811.0 million as of March 31, 2016, compared to \$734.7 million as of December 31, 2015 and our restricted cash increased by \$4.2 million, or 33.1%, to \$16.9 million as of March 31, 2016, compared to \$12.7 million as of December 31, 2015. The increase in our cash and cash equivalents was mainly due to cash provided by operating activities amounting to \$251.0 million partly offset by cash used in financing activities amounting to \$139.2 million. Working capital is defined as current assets minus current liabilities (including the current portion of long-term debt). Our working capital surplus amounted to \$753.3 million as of March 31, 2016, compared to a working capital surplus of \$836.6 million as of December 31, 2015. We believe that we will be able to satisfy our liquidity needs for the next 12 months with the cash we generate from our operations and, if required, proceeds from future debt or equity issuances.

As of March 31, 2016, we had total indebtedness of \$4.1 billion under our senior secured credit facilities and secured notes, excluding unamortized deferred financing costs. As of March 31, 2016, we were in compliance with all covenants related to our credit facilities.



On February 11, 2016, the charterer of the Ocean Rig Apollo sent us a notice of termination for convenience of the drilling contract. Under the \$462 million Senior Secured Credit Facility, we were required to find a new Satisfactory Drilling Contract (as defined in the loan agreement) by May 21, 2016. We have not yet entered into a new drilling contract for the Ocean Rig Apollo and therefore we are required to make a mandatory prepayment of approximately \$145.9 million by August 22, 2016.

As of March 31, 2016, we had \$1.6 billion of remaining installment payments under our drilling unit newbuilding contracts relating to our three newbuilding drilling units.

## Cash flow

Net cash provided by operating activities was \$251.0 million for the three-month period ended March 31, 2016. For the three-month period ended March 31, 2016, net income of \$288.0 was adjusted for the effects of certain non-cash items including \$92.7 million of depreciation and amortization of deferred financing costs and the movement in accounts receivable amounting to \$47.2, partly offset by the gain from the repurchase of senior notes amounting to \$125.0 million. Net cash provided by operating activities was \$58.7 million for the three-month period ended March 31, 2015.

Net cash used in investing activities was \$35.6 million for the three-month period ended March 31, 2016, compared to \$501.0 million used in investing activities for the three-month period ended March 31, 2015. We made shipyard payments and expenditures related to drilling units machinery, equipment and other improvements of approximately \$31.4 million, compared to \$492.3 million in the corresponding period of 2015. The increase in restricted cash was \$4.1 million during the three-month period ended March 31, 2016, compared to an increase of \$8.7 million in the corresponding period of 2015.

Net cash used in financing activities was \$139.2 million for the three-month period ended March 31, 2016, compared to net cash provided by financing activities of \$422.7 million for the three-month period ended March 31, 2015. For the three-month period ended March 31, 2016, cash was used for the repurchase of senior notes amounting to \$121.5 million and principal payments amounting to \$17.7 million, whereas, for the three-month period ended March 31, 2015, cash was provided mainly from proceeds from long-term debt amounting to \$462.0 million partly offset by principal payments and repayments of long-term debt amounting to \$8.0 million.

## Financing activities

## Long-term debt

As of March 31, 2016, the Company was in compliance with the covenants in its credit facilities.

The annual principal payments required to be made after March 31, 2016, including balloon payments, totaling \$4.1 billion due through July 2021, are as follows:

	Total (in thousands)
Twelve months ending:	
March 31, 2017	216,800
March 31, 2018	530,628
March 31, 2019	70,905
March 31, 2020	323,458
March 31, 2021 and thereafter	3,005,000
Total principal payments	4,146,791
Less: Deferred financing costs	(75,704 )
Total debt	\$4,071,087

## Off-balance sheet arrangements

We do not have any off-balance sheet arrangements.



Recent developments

On April 5, 2016, our unrestricted subsidiary, Ocean Rig Investments Inc., purchased 56,079,533 shares of our common stock previously held by DryShips. After this transaction, DryShips, no longer holds any equity interest in our Company.

On April 14, 2016, our corporate domicile moved from the Republic of the Marshall Islands to the Cayman Islands.

On April 25, 2016, we acquired the 6th generation ultra-deepwater drilling unit Cerrado, being sold through an auction, for a purchase price of \$65.0 million. The drilling unit was built in 2011 to similar design specifications to our existing 6th generation drilling units and was renamed as Ocean Rig Paros.

On May 17, 2016, we appointed Mr. Anthony Kandylidis as the Company's President.

Supplemental Information

Ocean Rig UDW Inc. and its Operating Subsidiaries

Adjustments to the calculation of Consolidated Net Income under the Company's 7.25% Senior Unsecured Notes due 2019.

During the three-months ended March 31, 2016, we estimate that we will not exceed \$11.9 million of adjustments to the calculation of consolidated net income in connection with drydock, shipyard stay and special survey expenses for the drilling units of Ocean Rig.

Drill Rigs Holdings Inc. and its Operating Subsidiaries

Selected historical consolidated financial information and other data:

The following table sets forth certain financial and other data of Drill Rigs Holdings Inc., our wholly-owned subsidiary and the issuer of \$800.0 million aggregate principal amount of 6.50% Senior Secured Notes due 2017 (the "6.50% Senior Secured Notes") and each of its subsidiaries that is a guarantor of the Senior Secured Notes (collectively "Drill Rigs Holdings"), at the dates and for the periods indicated, which are derived from the unaudited financial statements of Drill Rigs Holdings on a consolidated basis and were prepared by us for use in connection with certain reporting requirements set forth in the indenture governing the 6.50% Senior Secured Notes.

	Year ended December 31, 2015	Three Months ended March 31, 2016
(Dollars in thousands)		
Total assets	\$ 742,778	\$ 712,852
Total debt, net of financing fees	794,103	796,140
Shareholders equity	(95,897 )	(137,271)
Total cash and cash equivalents	43,339	39,448

Three Months  
ended  
March 31,  
2015      2016

(Dollars in thousands)

Total revenue	\$82,546	\$74,297
EBITDA	\$46,225	\$48,191

EBITDA reconciliation:

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 ("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 Drill Rigs Holdings measures its operations and efficiency. EBITDA is also presented herein because Drill Rigs Holdings believes that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

(Dollars in thousands)	Three Months Ended March 31,	
	2015	2016
Net income	\$4,651	\$14,732
Add: Net interest expense	14,058	15,163
Add: Depreciation and amortization	23,721	15,566
Add: Income taxes	3,795	2,730
EBITDA	\$46,225	\$48,191

#### Drillships Financing Holdings Inc. and its Operating Subsidiaries

Adjustments to the calculation of Consolidated Net Income under the Drillships Financing Holdings Inc. \$1.9 billion Term Loan B Facility.

During the three-months ended March 31, 2016, we estimate that we will not exceed \$11.9 million of adjustments to the calculation of consolidated net income in connection with drydock, shipyard stay and special survey expenses for the drilling units of Drillships Financing Holdings Inc.

#### Selected historical consolidated financial information and other data:

The following table sets forth certain financial and other data of Drillships Financing Holdings Inc., our wholly owned subsidiary and the issuer of \$1.9 billion Term Loan B Facility (the "Term Loan B") and each of its subsidiaries that is a guarantor of the Term Loan B (collectively "Drillships Financing Holdings"), at the dates and for the periods indicated, which are derived from the unaudited financial statements of Drillships Financing Holdings on a consolidated basis and were prepared by us for use in connection with certain reporting requirements set forth in the indenture governing the Term Loan B.

(Dollars in thousands)	Year ended	Three Months ended
	December 31, 2015	March 31, 2016
Total assets	\$3,184,134	\$3,142,444
Total debt, net of financing fees	1,814,746	1,812,074
Shareholders equity	1,265,391	1,239,988
Total cash and cash equivalents	155,945	203,357

(Dollars in thousands)	Three Months ended March 31,	
	2015	2016

Total revenue	\$ 154,025	\$ 129,181
EBITDA	\$97,295	\$85,845
EBITDA reconciliation:		

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 ("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 Drillships Financing Holdings measures its operations and efficiency. EBITDA is also presented herein because Drillships Financing Holdings believes that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

(Dollars in thousands)	Three Months Ended March 31,	
	2015	2016
Net income	\$23,518	\$14,488
Add: Net interest expense	30,041	29,138
Add: Depreciation and amortization	37,646	37,796
Add: Income taxes	6,090	4,423
EBITDA	\$97,295	\$85,845

#### Drillships Ocean Ventures Inc. and its Operating Subsidiaries

Adjustments to the calculation of Consolidated Net Income under the Drillships Ocean Ventures Inc. \$1.3 billion Senior Secured Term Loan B Facility.

During the three-months ended March 31, 2016, we estimate that we will not exceed \$11.9 million of adjustments to the calculation of consolidated net income in connection with drydock, shipyard stay and special survey expenses for the drilling units of Drillships Ocean Ventures Inc.

Selected historical consolidated financial information and other data:

The following table sets forth certain financial and other data of Drillships Ocean Ventures Inc. our wholly-owned subsidiary and the issuer of \$1.3 billion Senior Secured Term Loan B Facility (the "New Term Loan B") and each of its subsidiaries that is a guarantor of the New Term Loan B (collectively "Drillships Ocean Ventures"), at the dates and for the periods indicated, which are derived from the unaudited financial statements of Drillships Ocean Ventures on a consolidated basis and were prepared by us for use in connection with certain reporting requirements set forth in the indenture governing the New Term Loan B.

(Dollars in thousands)	Year ended	Three Months ended
	December 31, 2015	March 31, 2016
Total assets	\$2,257,523	\$2,220,930
Total debt, net of financing fees	1,257,484	1,255,276
Shareholders equity	866,879	848,245
Total cash and cash equivalents	4,226	6,979

Three Months ended  
March 31,  
2015      2016



(Dollars in thousands)

Total revenue	\$115,831	\$174,364
EBITDA	\$66,773	\$129,469

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## EBITDA reconciliation:

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 ("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 Drillships Ocean Ventures measures its operations and efficiency. EBITDA is also presented herein because Drillships Ocean Ventures believes that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

(Dollars in thousands)	Three Months Ended March 31,	
	2015	2016
Net income/(loss)	\$19,218	\$75,080
Add: Net interest expense	18,836	18,860
Add: Depreciation and amortization	24,469	24,347
Add: Income taxes	4,250	11,182
EBITDA	\$66,773	\$129,469

Ocean Rig Investments Inc.

## Selected Historical Consolidated Financial Information and Other Data

The following table sets forth certain financial and other data of Ocean Rig Investments Inc., our wholly owned subsidiary, which is designated as an unrestricted subsidiary under our loan agreements and were prepared by us for use in connection with certain reporting requirements included in our loan agreements.

(Dollars in thousands)	Year	Three
	ended December 31, 2015	Months ended March 31, 2016
Total assets	\$180,013	\$180,162
Shareholders equity	180,012	180,162
Total cash and cash equivalents	180,010	180,162

(Dollars in thousands)	Three Months ended March 31, 2015	2016
EBITDA	\$-	\$(1)

EBITDA reconciliation:

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 ("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 Drillships Financing Holdings measures its operations. EBITDA is also presented herein because Drillships Financing Holdings believes that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

	Three Months Ended	March 31, 201 <del>5</del> 2016
(Dollars in thousands)		
Net income/(loss)	\$-	\$ 149
Add: Net interest expense	-	(150)
EBITDA	\$-	\$(1 )

#### Significant Accounting Policies

Other than those disclosed in the interim condensed consolidated financial statements, there have been no material changes to these policies in the three-month period ended March 31, 2016.

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical or present facts or conditions.

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are including this cautionary statement in connection therewith. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," and "expect" and similar expressions identify forward-looking statements.

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 the Company's records and other data available from third parties. Although we believe 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, we cannot assure you that it will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere in this document, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include factors related to:

the offshore drilling market, including supply and demand, utilization rates, dayrates, customer drilling programs, commodity prices, effects of new drilling units on the market and effects of declines in commodity prices and downturns in the global economy on t

hazards inherent in the offshore drilling industry and marine operations causing personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by third parties or customers and suspension of operations;

customer contracts, including contract backlog, contract commencements, contract terminations, contract option exercises, contract revenues, contract awards and drilling unit mobilizations, performance provisions, newbuildings, upgrades, shipyard and other capital projects, including completion, delivery and commencement of operations dates, expected downtime and lost revenue;

political and other uncertainties, including political unrest, risks of terrorist acts, war and civil disturbances, piracy, significant governmental influence over many aspects of local economies, seizure, nationalization or expropriation of property or equipment;

repudiation, nullification, termination, modification or renegotiation of contracts;

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

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

the inability to repatriate income or capital;

complications associated with repairing and replacing equipment in remote locations;

import-export quotas, wage and price controls or imposition of trade barriers;

regulatory or financial requirements to comply with foreign bureaucratic actions, including potential limitations on drilling activity;

changing taxation policies and other forms of government regulation and economic conditions that are beyond our control;

the level of expected capital expenditures and the timing and cost of completion of capital projects;

our ability to successfully employ both our existing and newbuilding drilling units, procure or have access to financing, ability to comply with loan covenants, liquidity and adequacy of cash flow for our obligations;

Continued borrowing ability under our debt agreements and compliance with the covenants contained therein;

Our substantial leverage, including our ability to generate sufficient cash flow to service our existing debt and the incurrence of substantial indebtedness in the future;

factors affecting our results of operations and cash flow from operations, including revenues and expenses, uses of excess cash, including debt retirement, dividends, timing and proceeds of asset sales, tax matters, changes in tax laws, treaties and regulations, tax assessments and liabilities for tax issues, legal and regulatory matters, including results and effects of legal proceedings, customs and environmental matters, insurance matters, debt levels, including impacts of the financial and credit crisis;

the effects of accounting changes and adoption of accounting policies;

recruitment and retention of personnel; and

other factors listed from time to time in reports, registration statements and other materials that we file with the U.S. Securities and Exchange Commission, including the Company's most recently filed Annual Report on Form 20-F.

We caution readers of this document not to place undue reliance on these forward-looking statements, which speak only as of their dates. Except as required by law, we expressly disclaim any obligation to update and revise any forward looking statements to reflect changes in assumptions, the occurrence of unanticipated events, changes in future operating results over time or otherwise.

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## OCEAN RIG UDW INC.

## Consolidated Balance Sheets

As of December 31, 2015 and March 31, 2016 (unaudited)

(Expressed in thousands of U.S. Dollars - except for share and per share data)

	December 31, 2015	March 31, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$734,747	\$811,004
Restricted cash	2,718	1,886
Trade accounts receivable, net of allowance for doubtful receivables of \$117,438 and \$117,457 at December 31, 2015 and March 31, 2016, respectively	416,104	368,917
Other current assets (Note 4)	84,533	68,824
Total current assets	1,238,102	1,250,631
<b>FIXED ASSETS, NET:</b>		
Advances for drilling units under construction and related costs (Note 5)	394,852	413,504
Drilling units, machinery and equipment, net (Note 6)	6,336,892	6,264,378
Total fixed assets, net	6,731,744	6,677,882
<b>OTHER NON-CURRENT ASSETS:</b>		
Restricted cash (Note 8)	10,020	15,000
Financial instruments (Note 9)	3,494	334
Other non-current assets (Note 7)	36,860	23,045
Total non-current assets, net	50,374	38,379
Total assets	\$8,020,220	\$7,966,892
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt, net of deferred financing costs (Note 8)	\$56,725	\$201,250
Accounts payable and other current liabilities	104,029	95,169
Accrued liabilities (Note 3)	118,231	121,915
Deferred revenue	113,548	71,459
Financial instruments (Note 9)	8,931	7,558
Total current liabilities	401,464	497,351
<b>NON-CURRENT LIABILITIES</b>		
Long term debt, net of current portion and deferred financing costs (Note 8)	4,271,743	3,869,837
Financial instruments (Note 9)	2,743	2,110
Deferred revenue	66,643	31,375
Other non-current liabilities	2,862	2,715
Total non-current liabilities	4,343,991	3,906,037
COMMITMENTS AND CONTINGENCIES (Note 14)	-	



## STOCKHOLDERS' EQUITY:

Preferred stock, \$0.01 par value; 500,000,000 shares authorized at December 31, 2015 and March 31, 2016, nil issued and outstanding at December 31, 2015 and March 31, 2016, respectively

- -

Common stock, \$0.01 par value; 1,000,000,000 shares authorized, at December 31, 2015 and March 31, 2016 160,888,606 issued and outstanding at December 31, 2015 and March 31, 2016, respectively (Note 10)

1,609 1,609

Treasury stock: 22,222,222 shares at \$0.01 par value at December 31, 2015 and March 31, 2016 (Note 3)

(222 ) (222 )

Additional paid-in capital

3,572,549 3,573,006

Accumulated other comprehensive loss

(22,841 ) (22,583 )

Retained earnings / (Accumulated deficit)

(276,330 ) 11,694

Total stockholders' equity

3,274,765 3,563,504

Total liabilities and stockholders' equity

\$8,020,220 \$7,966,892

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

## OCEAN RIG UDW INC.

## Unaudited Interim Condensed Consolidated Statements of Operations

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars - except for share and per share data)

	Three-month period ended March 31,	
	2015	2016
<b>REVENUES:</b>		
Revenues	\$402,083	\$508,007
<b>EXPENSES:</b>		
Drilling units operating expenses	152,927	145,559
Depreciation and amortization	88,360	85,919
General and administrative expenses	28,001	18,812
Legal settlements and other, net	-	32
Operating income	132,795	257,685
<b>OTHER INCOME / (EXPENSES):</b>		
Interest and finance costs (Note 12)	(65,059 )	(60,266 )
Interest income	3,369	565
Loss on interest rate swaps (Note 9)	(8,191 )	(5,067 )
Gain from repurchase of senior notes (Note 8)	-	125,001
Other, net	(2,183 )	(1,139 )
Total other income/ (expenses), net	(72,064 )	59,094
<b>INCOME BEFORE INCOME TAXES</b>	60,731	316,779
Income taxes (Note 11)	(19,590 )	(28,755 )
<b>NET INCOME ATTRIBUTABLE TO OCEAN RIG UDW INC.</b>	\$41,141	\$288,024
<b>NET INCOME ATTRIBUTABLE TO OCEAN RIG UDW INC COMMON STOCKHOLDERS (Note 13)</b>	\$41,011	\$287,189
<b>EARNINGS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED (Note 13)</b>	\$0.31	\$2.07
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES, BASIC AND DILUTED (Note 13)</b>	131,992,529	138,653,520

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

OCEAN RIG UDW INC.

Unaudited Interim Condensed Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars)

	Three-month period ended March 31,	
	2015	2016
Net income	\$41,141	\$288,024
Other Comprehensive income :		
Reclassification of realized losses associated with capitalized interest to the Unaudited Interim Condensed Consolidated Statement of Operations (Note 9)	258	258
Actuarial gains	41	-
Total Other Comprehensive income	299	258
Total Comprehensive income	\$41,440	\$288,282

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

## OCEAN RIG UDW INC.

Unaudited Interim Condensed Consolidated Statements of Cash Flows  
 For the three-month periods ended March 31, 2015 and 2016  
 (Expressed in thousands of U.S. Dollars)

	Three-month period ended March 31,	
	2015	2016
Net Cash Provided by Operating Activities	\$58,713	\$251,027
Cash Flows Used in Investing Activities:		
Advances for drilling units under construction and related costs	(452,505)	(18,652 )
Drilling units machinery, equipment and other improvements/ upgrades	(39,793 )	(12,788 )
Increase in restricted cash	(8,690 )	(4,148 )
Net Cash Used in Investing Activities	(500,988)	(35,588 )
Cash Flows Provided by/(Used in) Financing Activities:		
Proceeds from short/ long-term credit facilities, term loans and senior notes	462,000	-
Principal payments and repayments of long-term debt and senior notes	(8,000 )	(17,727 )
Senior notes repurchase	-	(121,455)
Dividends paid	(25,140 )	-
Payment of financing costs, net	(6,175 )	-
Net Cash Provided by/ (Used in) Financing Activities	422,685	(139,182)
Net increase/(decrease) in cash and cash equivalents	(19,590 )	76,257
Cash and cash equivalents at beginning of period	528,933	734,747
Cash and cash equivalents at end of period	\$509,343	\$811,004

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

OCEAN RIG UDW INC.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars)

1. Basis of Presentation and General Information:

The accompanying unaudited interim condensed consolidated financial statements include the accounts of Ocean Rig UDW Inc., its subsidiaries and consolidated Variable Interest Entities ("VIEs") (collectively, the "Company," "Ocean Rig" or the "Group"). Ocean Rig was formed on December 10, 2007, under the laws of the Republic of the Marshall Islands under the name Primelead Shareholders Inc. as an international contractor of offshore deepwater drilling services. The Company was established by DryShips Inc. ("DryShips" or formerly the "Parent") for the purpose of being the holding company of its drilling segment. On November 24, 2010, Ocean Rig UDW established an office and was registered with the Cypriot Registrar of companies as an overseas company. As of April 14, 2016, the corporate domicile of the Company moved from the Republic of the Marshall Islands to the Cayman Islands.

From June 8, 2015 and following a public offering (Note 10), the Company is considered as an affiliate entity and not as a controlled subsidiary of DryShips. On April 5, 2016, the Company purchased all of its shares held by DryShips, through its unrestricted subsidiary, Ocean Rig Investments Inc. (Note 10). After this transaction, DryShips no longer holds an equity interest in the Company.

On September 11, 2015, the Company entered into an agreement to provide third party technical management services for the offshore drilling unit Cerrado. On April 25, 2016, the Company acquired the drilling unit Cerrado which was renamed to Ocean Rig Paros.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all the information and notes required by U.S. GAAP for complete financial statements. These statements and the accompanying notes should be read in conjunction with the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed with the SEC on March 31, 2016.

These unaudited interim condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements. As of December 31, 2015 and March 31, 2016, the Company consolidated one VIE, which supports the Company's drilling operations in specific locations, for which it is deemed to be the primary beneficiary, i.e. it has a controlling financial interest in this entity. The VIE's total assets and liabilities, as of December 31, 2015, were \$35,362 and \$77,647, respectively, while total liabilities exceeded total assets by \$42,285. The VIE's total assets and liabilities, as of March 31, 2016, were \$31,787 and \$81,637, respectively, while total assets exceeded total liabilities by \$49,850.

In the opinion of the management, these unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. Operating results for the three-month period ended March 31, 2016, are not necessarily indicative of the results that might be expected for the fiscal year ending December 31, 2016.

2. Significant Accounting Policies:

A discussion of the Company's significant accounting policies can be found in the Company's consolidated financial statements included in the Annual Report on Form 20-F for the fiscal year ended December 31, 2015, filed with the SEC on March 31, 2016 (the "Consolidated Financial Statements for the year ended December 31, 2015"). There have been no material changes to these policies in the three-month period ended March 31, 2016, apart from the below.

**Consolidation:** In February 2015, the FASB issued Accounting Standards Update No. 2015-02 (ASU 2015-02): Consolidation - Amendments to the Consolidation Analysis, which changes the guidance as to whether an entity is a variable interest entity (VIE) or a voting interest entity and how related parties are considered in the VIE model. As of March 31, 2016, the Company has adopted the provisions of ASU 2015-02, which did not impact the consolidated financial statements.

**Recent Accounting Pronouncements:**

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations. The Amendments in ASU 2016-8 affect the guidance in the ASU 2014-09, which is not yet effective. ASU 2016-08 is effective for fiscal years beginning after December 15, 2017, and interim reporting periods within those years. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the provisions of this guidance and assessing its impact on its consolidated financial statements and notes disclosures.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation – Improvements to Employee Share-Based Payment Accounting (Topic 718)" ("ASU 2016-09"), which involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, all excess income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess Tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period, however early adoption is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on its consolidated financial statements and notes disclosures.

## OCEAN RIG UDW INC.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars)

## 3. Transactions with Related Parties:

The amounts included in the accompanying consolidated balance sheets and unaudited interim condensed consolidated statements of operations are as follows:

	December 31, 2015	March 31, 2016
Balance Sheet		
Advances for drilling units under construction and related costs	\$ 394	\$-
Drilling units, machinery and equipment, net	\$ 2,961	\$-
Accrued liabilities	\$ 6,432	\$5,256

	Three-month period ended March 31,	
	2015	2016
Statement of Operations		
Revenues – commission fees	\$4,192	\$4,716
Drilling units operating expenses	\$-	\$(12 )
General and administrative expenses	\$3,092	\$1,067
Interest income	\$3,113	\$-

Cardiff Drilling Inc.: Effective January 1, 2013, Ocean Rig Management Inc. ("Ocean Rig Management"), a wholly-owned subsidiary of Ocean Rig entered into a Global Services Agreement with Cardiff Drilling Inc. ("Cardiff Drilling") a company controlled by the Chairman, President and Chief Executive Officer of the Company, Mr. George Economou, pursuant to which Ocean Rig Management has engaged Cardiff Drilling to act as consultant on matters of chartering and sale and purchase transactions for the offshore drilling units operated by the Company. Under the Global Services Agreement, Cardiff Drilling, or its subcontractor, (i) provides consulting services related to the identification, sourcing, negotiation and arrangement of new employment for offshore assets of the Company and its subsidiaries; and (ii) identifies, sources, negotiates and arranges the sale or purchase of the offshore assets of the Company and its subsidiaries. In consideration of such services, the Company will pay Cardiff Drilling a fee of 1.0% in connection with employment arrangements and 0.75% in connection with sale and purchase activities and will also reimburse associated legal expenses. Costs from the Global Services Agreement are expensed in the consolidated statement of operations or capitalized as a component of "Advances for drilling units under construction and related costs" being a directly attributable cost to the construction, as applicable. The consultancy agreement has a term of five years and may be terminated (i) at the end of its term unless extended by mutual agreement of the parties; and, (ii) at any time by the mutual agreement of the parties.

OCEAN RIG UDW INC.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the three-month periods ended March 31, 2015 and 2016  
(Expressed in thousands of U.S. Dollars)

3. Transactions with Related Parties (continued):

Vivid Finance Limited: Under the consultancy agreement effective from January 1, 2013, between Ocean Rig Management and Vivid Finance Limited ("Vivid"), a company controlled by the Chairman, President and Chief Executive Officer of the Company, Mr. George Economou, pursuant to which Vivid acts as a consultant on financing matters for Ocean Rig and its subsidiaries, Vivid provides the Company with financing-related services such as (i) negotiating and arranging new loan and credit facilities, interest rate swap agreements, foreign currency contracts and forward exchange contracts, (ii) renegotiating existing loan facilities and other debt instruments and, (iii) the raising of equity or debt in the capital markets. In exchange for its services in respect of the Company, Vivid is entitled to a fee equal to 0.20% on the total transaction amount. The consultancy agreement has a term of five years and may be terminated (i) at the end of its term unless extended by mutual agreement of the parties; and, (ii) at any time by the mutual agreement of the parties. On July 29, 2015, the Company amended its agreement with Vivid to expand the scope of the services provided under the agreement to the Company and its subsidiaries or affiliates, to cover certain cash management and cash investment services. In exchange for its services in respect of the Company, Vivid is entitled to a fee equal to 30% of any profits provided the profits are at least 10% of the invested amount.

Basset Holdings Inc.: Effective June 1, 2012, the Company entered through one of its' wholly owned subsidiaries into a consultancy agreement with Basset Holdings Inc., or Basset, a Marshall Islands entity beneficially owned by the Company's Executive Vice President, Mr. Anthony Kandylidis, for the provision of the services of the Company's Executive Vice President. The agreement has an initial term of five years and may be renewed or extended for one-year successive terms with the consent of both parties. Under the terms of the agreement, the Company is obligated to pay an annual remuneration to Basset. Basset is also entitled to cash or equity-based bonuses to be awarded at the Company's sole discretion. The Company may terminate the agreement for cause, as defined in the agreement, in which case Basset will not be entitled to further payments of any kind. Upon termination of the agreement without cause, or in the event the agreement is terminated within three months of a change of control, as defined in the agreement, the Company will be obligated to pay a lump sum amount. Basset may terminate the agreement without cause upon three months written notice. In addition, Basset may terminate the agreement for good reason and in such event, the Company will be obligated to pay a lump sum amount.

Basset is also the owner of 114,286 shares of the Company's common stock, as of March 31, 2016.

Steel Wheel Investments Limited: Steel Wheel Investments Limited ("Steel Wheel"), a company controlled by the Company's Executive Vice President, Mr. Antony Kandylidis, is the owner of 1,570,226 shares of the Company's common stock, as of March 31, 2016.

George Economou: Mr. George Economou, the Company's Chairman, President and Chief Executive Officer, purchased \$10,000, or 1,428,571 shares, of common stock in the offering of 28,571,428 shares of the Company's common stock at the public offering price (Note 10). As of March 31, 2016, Mr. George Economou has a 5.4% shareholding of the Company.

Azara Services S.A.: Effective January 1, 2013, the Company entered through one of its' wholly owned subsidiaries into a consultancy agreement with Azara Services S.A. ("Azara"), a Marshall Islands entity beneficially owned by the Company's Chief Executive Officer, Mr. George Economou, for the provision of the services of the Company's Chief



Executive Officer. The agreement has an initial term of five years and may be renewed or extended with the consent of both parties. Under the terms of the agreement, the Company is obligated to pay an annual remuneration to Azara. Azara is also entitled to cash or equity-based bonuses to be awarded at the Company's sole discretion. The Company may terminate the agreement for cause, as defined in the agreement, in which case Azara will not be entitled to further payments of any kind. Upon termination of the agreement without cause, or in the event the agreement is terminated within three months of a change of control, as defined in the agreement, the Company will be obligated to pay a lump sum amount. Azara may terminate the agreement without cause upon three months written notice. In addition, Azara may terminate the agreement for good reason and in such event the Company will be obligated to pay a lump sum amount.

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## OCEAN RIG UDW INC.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars)

## 3. Transactions with Related Parties (continued):

DryShips Inc.: On November 18, 2014, the Company entered into a \$120,000 Exchangeable Promissory Note with its former parent company, DryShips. The loan from the Company to DryShips bore interest at a LIBOR plus margin rate and was due in May 2016. On June 4, 2015, the Company and DryShips signed an amendment under the \$120,000 Exchangeable Promissory Note to, among other things, partially exchange \$40,000 of the loan for 4,444,444 of the Company's shares owned by DryShips, amend the interest of the loan and pledged to the Company 20,555,556 shares of the Company's stock owned by DryShips. On August 13, 2015, the Company reached an agreement with DryShips and exchanged the remaining outstanding balance of \$80,000 owed to the Company under the \$120,000 Exchangeable Promissory Note, for 17,777,778 shares of the Company's shares owned by DryShips. During the three-month period ended March 31, 2015, the Company earned interest income amounting to \$3,113 from DryShips under this loan agreement. During the three-month period ended March 31, 2015, the Company paid dividends of \$25,140 of which, \$14,878 were paid to DryShips.

On March 29, 2016, the Company entered into 60 day time charter agreements for the offshore support vessels Crescendo and Jubilee with two subsidiaries of DryShips Inc. to assist with the stacking of the Company's drilling units in Las Palmas.

TMS Tankers Ltd. /TMS Offshore Services Ltd.: During 2015 TMS Tankers Ltd., and TMS Offshore Services Ltd., entities beneficially owned by the Company's Chief Executive Officer, Mr. George Economou, charged the Company for various add-hoc ancillary services.

TMS Offshore Services Ltd.: On March 31, 2016 the Company signed a management services agreement with TMS Offshore Services Ltd. ("TMS"), a company affiliated with the Company's Chairman and CEO George Economou, to provide certain management services related to the Company's drilling units including but not limited to commercial, financing, legal and insurance services. Under the terms of this agreement, TMS will be compensated with a one-time set up fee of \$2,000, a fixed monthly fee of \$835 as well as certain variable fees including 1.00% on monies earned under drilling contracts, 0.75% on sale and purchase or M&A transactions and 0.20% on all financing transactions. Furthermore, the Company will reimburse TMS for all out-of-pocket expenses and travel expenses. The Company may terminate the agreement for convenience for a fee of \$150,000. This agreement will supersede the previous agreements with Vivid and Cardiff Drilling Inc., which will be cancelled at no cost to the Company.

## 4. Other Current Assets:

The amount of other current assets shown in the consolidated balance sheets is analyzed as follows:

	December 31, 2015	March 31, 2016
Inventories	\$ 18,088	\$ 21,943
Deferred mobilization expenses	43,825	28,075
Prepayments and advances	20,607	18,503
Other	2,013	303
	\$ 84,533	\$ 68,824

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## OCEAN RIG UDW INC.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the three-month periods ended March 31, 2015 and 2016  
(Expressed in thousands of U.S. Dollars)

## 5. Advances for drilling units under construction and related costs:

The amounts shown in the accompanying consolidated balance sheets include milestone payments under 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 of the consolidated financial statements for the year ended December 31, 2015.

The movement of the account during the three-month period ended March 31, 2016, was as follows:

Balance, December 31, 2015	\$394,852
Advances for drilling units under construction and related costs	18,652
Balance, March 31, 2016	\$413,504

The Company has advanced \$159,358 to the yard for the Ocean Rig Santorini, which is scheduled for delivery in 2017. The total project cost is estimated to be approximately \$679,470.

The Company has also advanced \$108,400 and \$76,600, respectively, to the yard for each of the new two drilling units under construction, the Ocean Rig Crete and the Ocean Rig Amorgos, which are scheduled for delivery in 2018 and in 2019 respectively. The total project cost for the construction of each drilling unit is estimated to be approximately \$743,000.

## 6. Drilling units, machinery and equipment, net:

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

	Cost	Accumulated Depreciation	Net Book Value
Balance December 31, 2015	\$7,258,995	\$(922,103 )	\$6,336,892
Additions	12,788	-	12,788
Depreciation	-	(85,302 )	(85,302 )
Balance March 31, 2016	\$7,271,783	(1,007,405 )	6,264,378

As of March 31, 2016, all of the Company's operating drilling units have been pledged as collateral to secure the Company's 6.50% senior secured notes due 2017 and term loan B facilities discussed in Note 8.

## OCEAN RIG UDW INC.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars)

## 7. Other non-current assets:

The amounts of other non-current assets shown in the accompanying consolidated balance sheets are analyzed as follows:

	December 31, 2015	March 31, 2016
Deferred mobilization expenses	\$ 23,992	\$ 10,538
Intangible assets, net	3,289	2,928
Prepaid investments	9,579	9,579
Total	\$ 36,860	\$ 23,045

## 8. Long-term Debt:

	December 31, 2015	March 31, 2016
\$1.3 billion Senior Secured Term Loan B Facility	\$ 1,283,750	\$ 1,280,500
\$1.9 billion Secured Term Loan B Facility	1,857,250	1,852,500
\$462 million Senior Secured Credit Facility	432,821	423,094
7.25% Senior Unsecured Notes	229,411	130,974
6.5% Senior Secured Notes	607,742	459,723
Less: Deferred financing costs	(82,506 )	(75,704 )
Total debt	4,328,468	4,071,087
Less: Current portion	(56,725 )	(201,250 )
Long-term portion	\$ 4,271,743	\$ 3,869,837

7.25% Senior Unsecured Notes due 2019

On March 26, 2014 the Company issued \$500,000 aggregate principal amount of 7.25% Senior Unsecured Notes due 2019 (the "7.25% Senior Unsecured Notes"), offered in a private placement, resulting in net proceeds of approximately \$493,625. The Senior Notes are unsecured obligations and rank senior in right of payment to any future subordinated indebtedness and equally in right of payment to all of its existing and future unsecured senior indebtedness.

OCEAN RIG UDW INC.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the three-month periods ended March 31, 2015 and 2016  
(Expressed in thousands of U.S. Dollars)

8. Long-term Debt (continued):

The 7.25% Senior Unsecured Notes are not guaranteed by any of the Company's subsidiaries. Upon a change of control, which would occur if 50% or more of the Company's shares are acquired by any person or group other than DryShips or its affiliates, the noteholders will have an option to require the Company to purchase all outstanding notes at a redemption price of 101% of the principal amount thereof plus accrued and unpaid interest to the date of purchase. The contractual semi-annual coupon interest rate is 7.25% per year.

As of March 31, 2016, a Company's wholly owned subsidiary has purchased in the open market an aggregate principal amount of \$369,026 of these notes and the outstanding balance reported above, of \$130,974, is net of the notes repurchased in the open market.

During the three-months period ended March 31, 2016, the purchase of the notes, resulted in a gain of \$57,160 and are included in "Gain from repurchase of senior notes" in the accompanying consolidated statement of operations.

6.50% Senior Secured Notes due 2017

On September 20, 2012, the Company's wholly owned subsidiary Drill Rigs Holdings Inc. (the "Issuer"), issued \$800,000 aggregate principal amount of 6.50% Senior Secured Notes due 2017 (the "Drill Rigs Senior Notes") offered in a private offering, resulting in net proceeds of approximately \$781,965. The Drill Rigs Senior Notes are secured obligations and rank senior in right of payment to any future subordinated indebtedness and equally in right of payment to all of its existing and future unsecured senior indebtedness.

The Drill Rigs Senior Notes are fully and unconditionally guaranteed by the Company and certain of its existing and future subsidiaries of the Issuer and are secured by certain assets of, and by a pledge of the stock of, the Issuer and the subsidiaries of the Issuer. The contractual semi-annual coupon interest rate is 6.5% on the Drill Rigs Senior Notes.

Upon a change of control, which occurs if 50% or more of the Company's shares are acquired by any person or group other than DryShips or its affiliates, the Issuer will be required to make an offer to repurchase the Drill Rigs Senior Notes at a price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest thereon to the date of repurchase.

As of March 31, 2016, a Company's wholly owned subsidiary has purchased in the open market an aggregate principal amount of \$340,277 of these notes and the outstanding balance reported above, of \$459,723, is net of the notes repurchased in the open market.

During the three-months period ended March 31, 2016, the purchase of the notes, resulted in a gain of \$67,841 and are included in "Gain from repurchase of senior notes" in the accompanying consolidated statement of operations.

\$1.3 billion Senior Secured Term Loan B Facility

On July 25, 2014, the Company's wholly owned subsidiary, Drillships Ocean Ventures Inc., entered into a \$1.3 billion Senior Secured Term Loan B ("New Term Loan B") facility to repay the \$1.35 billion Senior Secured Credit Facility, which had an outstanding loan balance of approximately \$1.3 billion on that date. The New Term Loan B facility which is secured primarily by first priority mortgages on the vessels, the Ocean Rig Mylos, the Ocean Rig Skyros and the Ocean Rig Athena, bears interest at a fixed rate, and matures on July 25, 2021.

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OCEAN RIG UDW INC.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the three-month periods ended March 31, 2015 and 2016  
(Expressed in thousands of U.S. Dollars)

8. Long-term Debt (continued):

\$1.9 billion Secured Term Loan B Facility

On July 12, 2013, the Company, through its wholly-owned subsidiaries, Drillships Financing Holding Inc. ("DFHI") and Drillships Projects Inc., entered into a \$1,800,000 senior secured term loan facility, comprised of tranche B-1 term loans in an aggregate principal amount equal to \$975,000 ("Tranche B-1 Term Loans") and tranche B-2 term loans in an aggregate principal amount equal to \$825,000 ("Tranche B-2 Term Loans" and, together with the Tranche B-1 Term Loans, the "Term Loans"), with respective maturity dates in the first quarter of 2021, subject to adjustment to the third quarter of 2020 in certain circumstances, and the third quarter of 2016. The Term Loans are initially guaranteed by the Company and certain existing and future subsidiaries of DFHI and are secured by certain assets of, and by a pledge of the stock of, DFHI and the subsidiary guarantors. On July 26, 2013, the Company through its wholly-owned subsidiaries DFHI and Drillships Projects Inc. entered into an incremental amendment to the \$1,800,000 senior term loan for additional tranche B-1 term loans in an aggregate principal amount of \$100,000.

On February 7, 2014, the Company refinanced its then existing short-term Tranche B-2 Term Loans with a fungible add-on to its existing long-term Tranche B-1 Term Loans. As a result of this refinancing, the total \$1.9 billion of Tranche B-1 Term Loans will mature no earlier than the third quarter of 2020.

\$462 million Senior Secured Credit Facility

On February 13, 2015, the Company's wholly owned subsidiary, Drillship Alonissos Shareholders Inc., entered into a secured term loan facility agreement with a syndicate of lenders and DNB Bank ASA, as facility agent and security agent, for up to \$475,000 to partially finance the construction costs of the Ocean Rig Apollo. This facility has a 5 year term and bears interest at LIBOR plus a margin. On March 3, 2015, the Company drew down an amount of \$462,000 under this facility and pledged restricted cash of \$15,000, as of March 31, 2016, associated with the respective loan. On February 11, 2016, the charterer for the Ocean Rig Apollo sent to the Company a notice of termination for convenience of the drilling contract. Under the \$462,000 Senior Secured Credit Facility, the Company was required to find a new Satisfactory Drilling Contract (as defined in the loan agreement) by May 21, 2016. The Company has not yet entered into a new drilling contract for the Ocean Rig Apollo and therefore the Company is required to make a mandatory prepayment of approximately \$145,894 by August 22, 2016.

The Company's outstanding debt is secured by, among other things, first priority mortgages over the Company's operating drilling units, corporate guarantees, first priority assignments of all freights, earnings, insurances and requisition compensation relating to such drilling units and a pledge of the shares of capital stock of certain of the Company's subsidiaries.

Certain of the Company's debt instruments contain financial covenants, minimum coverage ratio requirements and minimum liquidity and working capital requirements and restrict, without the bank's prior consent, the Company's and its subsidiaries ability to, among other things, pay dividends, change the management and ownership of its drilling units, incur additional indebtedness, incur and create liens on its assets, and change in the general nature of the Company's business and require that the Company maintain an established place of business in the United States or



the United Kingdom.

Total interest and debt amortization cost incurred on long-term debt for the three month periods ended March 31, 2015 and 2016, amounted to \$73,362 and \$66,993, respectively, of which \$8,850 and \$6,047, respectively, were capitalized as part of the cost of the drilling units under construction. Total interest incurred and amortization of debt issuance cost on long-term debt, net of capitalized interest, are included in "Interest and finance costs" in the accompanying unaudited interim condensed consolidated statements of operations.

The Company's weighted average interest rates on the above bank loans and notes were 6.50% and 6.12%, as of March 31, 2015 and 2016, respectively.

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## OCEAN RIG UDW INC.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars)

## 8. Long-term Debt (continued):

The annual principal payments required to be made after March 31, 2016, including balloon payments, totaling \$4,146,791 due through July 2021, are as follows:

March 31, 2017	216,800
March 31, 2018	530,628
March 31, 2019	70,905
March 31, 2020	323,458
March 31, 2021 and thereafter	3,005,000
Total principal payments	4,146,791
Less: Deferred financing costs	(75,704 )
Total debt	\$4,071,087

## 9. Financial Instruments and Fair Value Measurements:

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 also enters from time to time into foreign currency forward contracts in order to manage risks associated with fluctuations in foreign currencies. All of the Company's derivative transactions are entered into for risk management purposes.

As of March 31, 2016, the Company had outstanding seven interest rate swap agreements, of \$1.5 billion notional amount, maturing from April 2016 through November 2017.

The Company recognizes all derivative instruments as either assets or liabilities at fair value on its consolidated balance sheets.

Tabular disclosure of financial instruments is as follows:

## Fair Values of Derivative Instruments in the Balance Sheet:

Derivatives not designated as Hedging Instruments	Balance Sheet Location	December 31, 2015 Fair value	March 31, 2016 Fair value
Interest rate swaps	Financial Instruments non-current assets	\$ 3,494	\$ 334
Interest rate swaps	Financial Instruments current liabilities	(8,931 )	(7,558 )
Interest rate swaps		(2,743 )	(2,110 )

	Financial Instruments non-current liabilities		
Total derivatives		\$ (8,180 )	\$ (9,334 )

During the three-month periods ended March 31, 2015 and 2016, the losses transferred from accumulated other comprehensive loss in the accompanying unaudited interim condensed consolidated statements of operations were \$258 and \$258, respectively. The estimated net amount of existing losses at March 31, 2016, that will be reclassified into earnings within the next twelve months relating to previously designated cash flow hedges is \$1,035.

## OCEAN RIG UDW INC.

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## 9. Financial Instruments and Fair Value Measurements (continued):

The effects of derivative instruments not designated or qualifying as hedging instruments on the unaudited interim condensed consolidated statements of operations is as follows:

Derivatives not designated as hedging instruments	Location of Loss Recognized	Amount of Loss	
		Three-month period ended March 31, 2015	Three-month period ended March 31, 2016
Interest rate swaps	Loss on interest rate swaps, net	(8,191 )	(5,067)
Total		\$ (8,191 )	\$ (5,067)

The carrying amounts of cash and cash equivalents, restricted cash, trade accounts receivable, and accounts payable and other current assets and liabilities reported in the consolidated balance sheets approximate their respective fair values because of the short-term nature of these accounts. The fair value of 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 credit facilities. The carrying value approximates the fair market value for 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 7.25% Senior Unsecured Notes, the Drill Rigs Senior Notes and the Term Loan B Facilities have a fixed rate and their estimated fair values are determined through Level 2 inputs of the fair value hierarchy (quoted price in the over-the-counter market). The \$462 million Senior Secured Credit Facility, has a floating rate on LIBOR and its' carrying value is approximately the same as its' fair market value.

The estimated fair value of the above 7.25% Senior Unsecured Notes, Drill Rigs Senior Notes, \$1.9 billion Secured Term Loan B Facility and \$1.3 billion Senior Secured Term Loan B Facility at December 31, 2015, is approximately \$100,367, \$357,431, \$427,168 and 628,242, respectively. For the aforementioned senior notes and term loans their carrying value net of finance fees as at December 31, 2015, is \$226,655, \$601,845, \$ 1,814,746 and \$ 1,257,484, respectively.

The estimated fair value of the above 7.25% Senior Unsecured Notes and 6.5% Senior Secured as at March 31, 2016, is approximately \$75,965, \$278,132, respectively. The estimated fair value of the above \$1.9 billion Secured Term Loan B Facility and \$ 1.3 billion Senior Secured Term Loan B Facility is \$650,691 and \$557,018, respectively. For the aforementioned senior notes and term loans their carrying value net of finance fees as at March 31, 2016, is \$129,508, \$455,863, \$1,812,074 and \$1,255,276, respectively.

The guidance for fair value measurement applies to all assets and liabilities that are being measured and reported on a fair value basis. This guidance 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.

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## OCEAN RIG UDW INC.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
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## 9. Financial Instruments and Fair Value Measurements (continued):

Fair value measurements are classified based upon inputs used to develop the measurement under the following hierarchy:

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.

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

	March 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Interest rate swaps-asset position	\$334	-	334	\$ -
Interest rate swaps-liability position	(9,668)	-	(9,668 )	-
Total	\$(9,334)	-	(9,334 )	\$ -

## 10. Common Stock and Additional Paid-in Capital:

## General

The Company's authorized capital stock consisted of 1,000,000,000 common shares and 500,000,000 preferred shares par value \$0.01 per share.

All Company's common stock has equal voting rights and participates equally in dividend distribution.

## Dividends:

In March 2015, the Company paid dividends of \$0.19 per common share to its shareholders of record as of March 10, 2015, with respect to the quarter ended December 31, 2014.



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10. Common Stock and Additional Paid-in Capital (continued):

Issuance of common shares

On June 8, 2015, the Company successfully completed the offering of 28,571,428 shares of its common stock, par value \$0.01 per share, at a price of \$7.00 per share, resulting in proceeds of \$194,134, after deducting placement fees. As part of the offering, Mr. George Economou, the Company's Chairman, President and Chief Executive Officer, purchased \$10,000, or 1,428,571 shares, of common stock in the offering at the public offering price.

Treasury stock

During the year ended December 31, 2015, the Company exchanged the \$120,000 Exchangeable Promissory Note for an aggregate amount of 22,222,222 of the Company's shares owned by Dryships (Note 3). These shares were not retired and are held as treasury stock.

On April 5, 2016, the Company's unrestricted subsidiary, Ocean Rig Investments Inc., purchased 56,079,533 shares of the Company's common stock previously held by Dryships (Note 15). These shares were not retired and are treated as treasury stock for accounting purposes under U.S. GAAP. The Company is incorporated in the Cayman Islands. Under Cayman Islands law, shares of a parent company held by a subsidiary company are not characterized as treasury shares, are entitled to vote and be counted in determining the total number of outstanding shares in the Company.

Restricted stock awards

On March 21, 2012, the Company's Board of Directors approved the 2012 Equity Incentive Plan (the "Plan") and reserved a total of 2,000,000 common shares. 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.

The Company's Compensation Committee approved the grant of the following restricted stock awards. The shares for these awards vest over a period of three years and the stock-based compensation is being recognized to expenses over the vesting period and is based on the fair value of the Ocean Rig shares on the grant date of each award.

On March 31, 2014, the grant of 161,200 shares with fair value of \$17.79 to employees of Ocean Rig;

On August 19, 2014, the grant of 150,000 shares with fair value of \$18.37 to Azara;

On November 4, 2014, the grant of 45,450 shares with fair value of \$12.60 to employees of Ocean Rig;

On December 30, 2014, the grant of 300,000 shares with fair value of \$9.46 to Azara;



On April 29, 2015, the grant of 173,200 shares with fair value of \$7.24 to employees of Ocean Rig;

On August 5, 2015, the grant of 13,502 shares with fair value of \$3.19 to employees of Ocean Rig.

As of March 31, 2016, 608,881 shares have vested, while 237,576 shares were forfeited due to employees' resignations.

A summary of the status of Ocean Rig's non-vested shares as of March 31, 2016 and the movement during the three month period then ended, is presented below.

	Number of non-vested shares	Weighted average grant date fair value per non vested shares
Balance December 31, 2015	405,298	10.80
Forfeited	(2,000 )	3.19
Balance March 31, 2016	403,298	10.83

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## OCEAN RIG UDW INC.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2015 and 2016

(Expressed in thousands of U.S. Dollars)

## 10. Common Stock and Additional Paid-in Capital (continued):

As of December 31, 2015 and March 31, 2016, there was \$2,299 and \$1,836 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted by the Company, respectively. That cost is expected to be recognized over a period of 2 years. The amounts of \$1,103 and \$457 represent the stock based compensation expense for each period accordingly and are recorded in "General and administrative expenses", in the accompanying unaudited interim condensed consolidated statements of operations for the periods ended March 31, 2015 and 2016, respectively.

## 11. Income Taxes:

Ocean Rig 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 the Company operates have taxation regimes with varying nominal rates, deductions, credits and other tax attributes. Consequently, there is not an expected relationship between the provision for/or benefit from income taxes and income or loss before income taxes.

## 12. Interest and Finance Costs:

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

	Three-month period ended March 31,	
	2015	2016
Interest costs on long-term debt, including amortization of financing costs	\$73,362	\$66,993
Discount on receivable from drilling contract	-	(1,094)
Capitalized borrowing costs	(8,850)	(6,047)
Commissions, commitment fees and other financial expenses	547	414
Total	\$65,059	\$60,266

## 13. Earnings per share:

	Three-month period ended March 31,					
	2015	2016	2015	2016		
	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)	\$41,141	-	-	\$288,024	-	-

Less: Non-vested common stock dividends declared and undistributed earnings	(130 ) -			(835 ) -		-
Basic and diluted EPS Income/ (loss) attributable to common stockholders	\$41,011	131,992,529	0.31	\$287,189	138,653,520	2.07

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 for the three-month periods ended March 31, 2015 and 2016. For the three-month period ended March 31, 2015 and 2016, non-vested participating restricted common stock were not included in the computation of diluted earnings per share because the effect is anti-dilutive.

OCEAN RIG UDW INC.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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14. Commitments and Contingencies:

14.1 Legal proceedings:

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

As part of the Company's normal course of operations, the Company's customer may disagree on amounts due to the Company under the provision of the contracts which are normally settled through negotiations with the customer. Disputed amounts are normally reflected in revenues at such time as the Company reaches agreement with the customer on the amounts due.

OCR Falklands Drilling Inc., a subsidiary of the Company, commenced arbitration proceedings against Premier Oil Plc. and Noble Energy Falklands Ltd. for terminating the contract on February 12, 2016, for the drilling unit Eirik Raude.

On March 7, 2016, two of the Company's subsidiaries commenced arbitration proceedings against Total E&P Angola for the termination of the contract with the drilling unit Ocean Rig Olympia.

The Company is not a party to any material litigation where claims or counterclaims have been filed against the Company other than routine legal proceedings incidental to its business.

14.2 Purchase Obligations:

The following table sets forth the Company's contractual purchase obligations as of March 31, 2016.

	2017	2018	2019	Total
Drilling unit building contracts	\$313,153	743,737	495,800	\$1,552,690
Total obligations	\$313,153	743,737	495,800	\$1,552,690

15. Subsequent Events:

15.1 On April 5, 2016, the Company's unrestricted subsidiary, Ocean Rig Investments Inc., purchased 56,079,533 shares of the Company's common stock previously held by DryShips. After this transaction, DryShips, no longer holds any equity interest in the Company.

15.2 On April 14, 2016, the corporate domicile of the Company moved from the Republic of the Marshall Islands to the Cayman Islands.

15.3 On April 25, 2016, the Company acquired the 6th generation ultra-deepwater drilling unit Cerrado, being sold through an auction, for a purchase price of \$65,000. The drilling unit was built in 2011 to similar design specifications to the Company's existing 6th generation drilling units and was renamed as Ocean Rig Paros.

15.4 On May 17, 2016, Mr. Anthony Kandyldis was appointed as the Company's President.

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