Ocean Rig UDW Inc.
Form F-3ASR
March 19, 2018
As filed with the Securities and Exchange Commission on March 19, 2018.
Registration Statement No. 333-____________________

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM F-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

OCEAN RIG UDW INC.
(Exact name of registrant as specified in its charter)

Cayman Islands	N/A
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Ocean Rig UDW Inc. Ocean Rig Cayman Management Services SEZC Limited 3rd Floor Flagship Building Harbour Drive, Grand Cayman, Cayman Islands +1 345 327 9232 (Address and telephone number of Registrant's principal executive offices)	Seward & Kissel LLP Attention: Gary J. Wolfe, Esq. One Battery Park Plaza New York, New York 10004 (212) 574-1200 (Name, address and telephone number of agent for service)

Copies to:
Gary J. Wolfe, Esq.
Keith J. Billotti, Esq.
Seward & Kissel LLP
One Battery Park Plaza
New York, New York 10004
(212) 574-1200

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on the Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Primary Offering			
Common Shares, par value $0.01 per share			
Preferred Shares			
Debt Securities			
Guarantees(2)			
Warrants(3)			
Purchase Contracts(4)			
Rights(5)			
Units(6)			
Primary Offering Total	Indeterminate	Indeterminate	$0 (1)
Secondary Offering			
Class A Common Shares, par value $0.01	35,294,779 shares	$798,014,953.19(7)	$99,352.86 (8)
TOTAL		$798,014,953.19	$99,352.86

1. An indeterminate aggregate initial offering price or number of securities of each identified class is being registered as may from time to time be offered at indeterminate prices. Also includes such indeterminate amount of debt securities and number of common shares and preferred shares as may be issued upon conversion or exchange for any other debt securities or shares of preferred stock that provide for conversion or exchange into other securities. In connection with the securities offered hereby, the Registrant is deferring payment of all of the registration fees and will pay registration fees on a "pay-as-you-go" basis in accordance with Rule 456(b) and Rule 457(r).
2. The debt securities may be guaranteed pursuant to guarantees by the direct and indirect subsidiaries of Ocean Rig UDW Inc. No separate compensation will be received for the guarantees. Pursuant to Rule 457(n), no separate fees for the guarantees will be payable.
3. Registered hereunder are an indeterminate number of warrants as may from time to time be sold at indeterminate prices
4. Registered hereunder are an indeterminate number of purchase contracts as may from time to time be sold at indeterminate prices.
5. Registered hereunder are an indeterminate number of rights as may from time to time be sold at indeterminate prices.
6. Registered hereunder are an indeterminate number of units as may from time to time be sold at indeterminate prices. Units may consist of any combination of securities registered hereunder.
7.

Previously estimated, in connection with the unsold securities previously registered discussed below, solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended, based on the average of the high and low prices per share of the registrant's common shares as reported on the NASDAQ Global Select Market on September 25, 2017.

8. As noted in the paragraph below, pursuant to Rule 415(a)(6) under the Securities Act, this Registration Statement includes unsold securities that had been previously registered and for which the registration fee had previously been paid. Accordingly, the amount of the registration fee to be paid is reduced by $92,399.03 the amount of the registration fee applied to such unsold securities.

Pursuant to Rule 415(a)(6) under the Securities Act, the securities registered pursuant to this Registration Statement include unsold securities previously registered under the registration statement on Form F-1 with File No. 333-220668 dated September 27, 2017, as amended (the "Prior Registration Statement"). In connection with the registration of the unsold securities on the Prior Registration Statement, the Registrant paid a registration fee of $ $92,399.03, which continues to be applied to such securities and encompasses the total fee associated with this Registration Statement. Pursuant to Rule 415(a)(6), the Prior Registration Statement will be deemed terminated as of the date of effectiveness of this Registration Statement.

Prospectus

OCEAN RIG UDW INC.

Common Shares, Preferred Shares,

Debt Securities, Guarantees, Warrants, Purchase Contracts, Rights and Units

Through this prospectus, we may periodically offer:

(1) our common shares,
(2) our preferred shares,
(3) our debt securities, which may be guaranteed by one or more of our subsidiaries,
(4) our warrants,
(5) our purchase contracts,
(6) our rights, and
(7) our units.

In addition, the selling shareholders named herein, or their donees, pledgees, transferees or other successors in interest may sell in one or more offerings pursuant to this registration statement up to an aggregate of 35,294,779 of our common shares. The selling shareholders may sell shares in regular brokerage transactions, in transactions directly with market makers or investors, in privately negotiated transactions or through agents or underwriters they may select from time to time. The prices and terms of the securities that we or any selling shareholders or their donees, pledgees, transferees or other successors in interest will offer will be determined at the time of their offering and will be described in a supplement to this prospectus, if required. We will not receive any of the proceeds from the sale of securities by any selling shareholders or their donees, pledgees, transferees or other successors in interest.

Our common shares are currently listed on the NASDAQ Global Select Market under the symbol "ORIG." The last reported sale price of our common shares was $25.00 on March 16, 2018.

The securities issued under this prospectus may be offered directly or through underwriters, agents or dealers. The names of any underwriters, agents or dealers will be included in a supplement to this prospectus.

An investment in these securities involves a high degree of risk. See the section entitled "Risk Factors" beginning on page 8 of this prospectus, and other risk factors contained in the applicable prospectus supplement and in the documents incorporated by reference herein and therein.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 19, 2018.

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Unless otherwise indicated, all references to "dollars" and "$" in this prospectus are to U.S. Dollars, and the financial statements incorporated by reference herein are presented in U.S. dollars and have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. We have a fiscal year end of December 31. As used throughout this prospectus, the term "selling shareholder" refers to any selling shareholders who are named in a prospectus supplement and their donees, pledgees, transferees and other successors in interest.

This prospectus is part of a registration statement that we filed with the U.S. Securities and Exchange Commission, or the Commission, using a shelf registration process. Under the shelf registration process, we and the selling shareholders named in this prospectus may, from time to time, sell our common shares, preferred shares, debt securities (and related guarantees), warrants, purchase contracts rights and units may sell our common shares that are described in this prospectus in one or more offerings. This prospectus only provides you with a general description of the securities we or any selling shareholder may offer. Each time we or a selling shareholder offer securities, we will provide you with a prospectus supplement that will describe the specific amounts, prices and terms of the offered securities. We may file a prospectus supplement in the future that may also add, update or change the information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the prospectus supplement. Before purchasing any securities, you should read carefully both this prospectus and any prospectus supplement, together with the additional information described below.

This prospectus and any prospectus supplement are part of a registration statement we filed with the Commission and do not contain all the information in the registration statement. Forms of the indentures and other documents establishing the terms of the offered securities are filed as exhibits to the registration statement. Statements in this prospectus or any prospectus supplement about these documents are summaries and each statement is qualified in all respects by reference to the document to which it refers. You should refer to the actual documents for a more complete description of the relevant matters. For further information about us or the securities offered hereby, you should refer to the registration statement, which you can obtain from the Commission as described below under the section entitled "Where You Can Find Additional Information."

You should rely only on the information contained or incorporated by reference in this prospectus and in any prospectus supplement. We, any selling shareholder, and any underwriters have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus and the applicable supplement to this prospectus is accurate as of the date on its respective cover, and that any information incorporated by reference is accurate only as of the date of the document incorporated by reference, unless we indicate otherwise. Our business, financial condition, results of operations and prospects may have changed since those dates.

Other than in the United States, no action has been taken by us or any underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

PROSPECTUS SUMMARY

This summary provides an overview of our company and our business. This summary is not complete and does not contain all of the information you should consider before purchasing our securities. On September 22, 2017, we completed a financial restructuring of our company, pursuant to which, among other things, our aggregate outstanding indebtedness owed to third parties has been reduced from approximately $3.7 billion of principal (plus accrued interest) to $450 million. We refer to this as the "Restructuring", which is described more fully in our Annual Report on Form 20-F for the year ended December 31, 2017 which was filed with the Commission on March 15, 2018 and is incorporated by reference herein. You should carefully read this entire prospectus and our Annual Report on Form 20-F and the other documents to which this prospectus refers to fully understand the effects of the Restructuring (as defined herein). In particular, you should read the form of Second Amended and Restated Memorandum and Articles of Association of the Company incorporated by reference herein because these documents govern your rights as a shareholder of the Company following the Restructuring. You should carefully read all of the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement, including the sections titled "Risk Factors" and our financial statements and related notes contained herein and therein, before making an investment decision. As used throughout this prospectus, the terms "Company," "Ocean Rig UDW," "we," "our" and "us" refer to Ocean Rig UDW Inc. and its subsidiaries except where the context otherwise requires. Unless otherwise indicated, all references to "dollars" and "$" in this prospectus are to U.S. Dollars and the financial statements incorporated by reference herein are presented in U.S. dollars and have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. References to "real" or "R$" are to the official currency of Brazil, the real.

Our Company

We are an international offshore drilling contractor providing oilfield services for offshore oil and gas exploration, development and production drilling and specializing in the ultra-deepwater and harsh-environment segment of the offshore drilling industry. We seek to utilize our high-specification drilling units to the maximum extent of their technical capability and we believe that we have earned a reputation for operating performance excellence, customer service and safety.

We, through our wholly-owned subsidiaries, currently own two modern, fifth generation harsh weather ultra-deepwater semisubmersible offshore drilling units, the Leiv Eiriksson and the Eirik Raude, five sixth generation advanced capability ultra-deepwater drilling units, the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon and the Ocean Rig Mykonos, delivered in January 2011, March 2011, July 2011 and September 2011, respectively and the Ocean Rig Paros, acquired on April 28, 2016 through an auction, and four seventh generation drilling units, the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo, delivered in August 2013, December 2013, March 2014 and March 2015, respectively. The Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon the Ocean Rig Mykonos and the Ocean Rig Paros are "sister-ships" constructed to the same high-quality vessel design and specifications and are capable of drilling in water depths of 10,000 feet. The design of our seventh generation drilling units reflects additional enhancements that will enable the drilling units to drill in water depths of 12,000 feet. The Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena and the Ocean Rig Apollo, are "sister ships" constructed to the same high – quality drilling unit design and specifications. We believe that owning and operating "sister-ships" helps us maintain our cost efficient operations on a global basis through the shared inventory and use of spare parts and the ability of our offshore maritime crews to work seamlessly across all of our drilling units.

In addition, we have contracts to construct two seventh generation drilling units at a major shipyard in Korea, the Ocean Rig Santorini, and the Ocean Rig Crete. These newbuildings were previously scheduled for delivery in 2017 and 2018, respectively. As part of renegotiations, the delivery of the Ocean Rig Santorini and the Ocean Rig Crete -are currently scheduled in June 2018 and January 2019, respectively, certain installments were rescheduled and the total construction costs were increased to $694.8 million and $709.6 million, respectively. If we decide to go ahead with the construction of the two drilling unit newbuildings, the estimated remaining total construction payments, excluding financing costs, will amount to approximately $0.9 billion in aggregate. With respect to the Ocean Rig Santorini, our subsidiary that holds the shipbuilding contract for the Ocean Rig Santorini has received a notice of default in February 2018 for failure to pay an interim installment that was due on February 5, 2018, and is currently in commercial discussions with the shipyard to further postpone the delivery of the drilling unit and amend other terms of the shipbuilding contract. To date, our subsidiary has paid $309.4 million in installment payments under the shipbuilding contract. Under the contract, our subsidiary must pay the amount of installments in default plus accrued interest thereon at a rate of 6% per annum. Should our subsidiary that holds the shipbuilding contract and the shipyard fail to renegotiate terms while in default, the contract could be rescinded by the shipyard and all installment payments paid by us in the amount of $309.4 million to date could be forfeited.

We employ our drilling units primarily on a dayrate basis for periods of between one month and six years to drill wells for our customers, typically major oil companies, integrated oil and gas companies, state-owned national oil companies and independent oil and gas companies.

We believe that our drilling units, the Ocean Rig Corcovado, the Ocean Rig Olympia, the Ocean Rig Poseidon, the Ocean Rig Mykonos, the Ocean Rig Mylos, the Ocean Rig Skyros, the Ocean Rig Athena, the Ocean Rig Apollo and the Ocean Rig Paros, as well as our two seventh generation drilling units under construction, are among the most technologically advanced drilling units in the world. The S10000E design, used for our operating drilling units, was originally introduced in 1998 and has been widely accepted by customers. Among other technological enhancements, our drilling units are equipped with dual activity drilling technology, which involves two drilling systems using a single derrick that permits two drilling-related operations to take place simultaneously. We estimate this technology saves between 15% and 40% in drilling time, depending on the well parameters. Each of our sixth generation operating drilling units is capable of drilling 40,000 feet at water depths of 10,000 feet and our seventh generation drilling units have the capacity to drill 40,000 feet at water depths of 12,000 feet, while our fifth generation drilling units are capable of drilling 30,000 feet at water depths of 10,000 feet.

Our Fleet

Set forth below is summary information concerning our offshore drilling units as of March 12, 2018.

Drilling Unit	Year Built or Scheduled Delivery/ Generation	Water Depth to the Wellhead (ft)	Drilling Depth to the Oil Field (ft)	Customer	Expected Contract Expiration(1)	Dayrate (4)		Drilling Location
Operating Drilling Units								
Leiv Eiriksson	2001/5th	10,000	30,000	Lundin Norway AS	Q3 2018	$149,525		Norway
Ocean Rig Corcovado	2011/6th	10,000	40,000	Petroleo Brasileiro S.A.	Q2 2018	$495,000	(3)	Brazil
Ocean Rig Mykonos(5)	2011/6th	10,000	40,000	Petroleo Brasileiro S.A.	Q1 2018	$495,000	(3)	Brazil
Ocean Rig Skyros	2013/7th	12,000	40,000	Total E&P Angola	Q3 2021	$580,755		Angola
Ocean Rig Poseidon (6)	2011/6th	10,000	40,000	Tullow Namibia Ltd.	Q3/Q4 2018	$138,889		Namibia
Available for employment								
Ocean Rig Mylos (2)	2013/7th	12,000	40,000					
Eirik Raude (2)	2002/5th	10,000	30,000					
Ocean Rig Paros (2)	2011/6th	10,000	40,000					
Ocean Rig Olympia (2)	2011/6th	10,000	40,000					
Ocean Rig Apollo (2)	2015/7th	12,000	40,000					
Ocean Rig Athena (2)	2014/7th	12,000	40,000					

(1) Not including the exercise of any applicable options to extend the term of the contract and any notification received for the termination of contracts.

(2) These drilling units are cold stacked in Greece and are available for charter.

(3) Approximately 20% of the dayrates are service fees paid to us in Brazilian Real (R$). The day rate disclosed in this table is based on the March 12, 2018 exchange rate of R$3.25:$1.00. During the first and second quarter of 2015, the Ocean Rig Mykonos and the Ocean Rig Corcovado, respectively, commenced drilling operations under the new awarded contracts, which are extensions of the previous contracts from Petrobras, for drilling offshore Brazil. The term of each extension was for 1,095 excluding reimbursement by Petrobras for contract related equipment upgrades.

(4) These rates represent the current operating rates applicable under each contract. Depending on the contract, these rates may be escalated.

(5) The Ocean Rig Mykonos contract with Petrobras expires in March 2018 and is planned to transit to Las Palmas where it will remain in "ready-to-drill" state.

(6) On February 23, 2018, the Company signed a new drilling contract with Tullow Namibia Ltd., for a one-well drilling program plus options for drilling offshore Namibia. The contract is expected to commence in the third quarter of 2018 and to be performed by the Ocean Rig Poseidon.

Newbuilding Drilling Units

We have entered into contracts with a major shipyard in Korea for the construction of three seventh generation drilling units, which were previously scheduled for delivery in 2017, 2018 and 2019, respectively. As part of renegotiations, the Ocean Rig Santorini and the Ocean Rig Crete are currently scheduled for delivery in June 2018 and January 2019, respectively, and certain installments were rescheduled and the total construction costs were increased to $694,790 and $709,565, respectively. With respect to the Ocean Rig Amorgos, we had previously agreed to suspend its construction with an option, subject to our option, to bring it back into force within a period of 18 months after the date of the addendum, which option expired in February 2018. With respect to the Ocean Rig Santorini, our subsidiary that holds the shipbuilding contract for the Ocean Rig Santorini has received a notice of default in February 2018 for failure to pay an interim installment that was due on February 5, 2018, and is currently in commercial discussions with the shipyard to further postpone the delivery of the drilling unit and amend other terms of the shipbuilding contract. Should our subsidiary that holds the shipbuilding contract and the shipyard fail to renegotiate terms while in default, the contract could be rescinded by the shipyard and all installment payments paid by us in the amount of $309.4 million to date could be forfeited. In addition, if we are unable to fund the amounts due in connection with the delivery of the Ocean Rig Crete, the yard may rescind the shipyard contract and we would forfeit all amounts we have already paid to the yard in the amount of $156.9 million. As of December 31, 2016, the Company impaired the total advances and related costs provided to the yard for the Ocean Rig Amorgos. As of December 31, 2017, the Company determined that the full amount of the carrying value of the two drilling units under construction Ocean Rig Crete and Ocean Rig Santorini was not recoverable and, therefore, impaired their total advances and related costs provided to the yard. In connection with the three newbuilding agreements, we had made total payments of $542.9 million as of December 31, 2017. If we decide to go ahead with the construction of the two drilling unit newbuildings, the estimated remaining total construction payments, excluding financing costs, will amount to approximately $0.9 billion in aggregate.

Employment of Our Fleet

Employment of our Drilling Units

On January 12, 2018, Lundin Norway AS ("Lundin") declared their sixth option to extend the existing contract of the Leiv Eiriksson, which is now expected to have firm employment secured until August 2018. Should Lundin exercise its remaining six one-well options, the drilling unit could be employed until the second half of 2019. As of March 12, 2018, the dayrate is $149,525.

In May 2015, the Ocean Rig Corcovado commenced a three-year extension under the previous contract with Petrobras. The contract includes reimbursement by Petrobras for contract related equipment upgrades. As of March 12, 2018, the dayrate is $495,000, (including service fees of $94,552 based on the contracted rate in Real and the March 12, 2018 exchange rate of R$3:25:$1.00).

In March 2015, the Ocean Rig Mykonos commenced a three-year extension under the previous contract with Petrobras. The contract includes reimbursement by Petrobras for contract related equipment upgrades. As of March 12, 2018, the dayrate is $495,000, (including service fees of $94,552 based on the contracted rate in Real and the March 12, 2018 exchange rate of R$3:25:$1.00). The Ocean Rig Mykonos contract with Petrobras expires in March 2018 and is planned to transit to Las Palmas where it will remain in "ready-to-drill" state.

In October 2015, the Ocean Rig Skyros commenced its six year contract with Total E&P Angola for drilling operations offshore Angola. As of March 12, 2018, the dayrate is $580,755.

On February 23, 2018, the Ocean Rig Poseidon has signed a new drilling contract with Tullow Namibia Ltd., for a one-well drilling program plus options for drilling offshore West Africa. The contract is expected to commence in the third quarter of 2018.

The total contracted backlog under our drilling contracts for our drilling units, as of March 12, 2018, was $847.5 million. We calculate our contract backlog by multiplying the contractual dayrate under all of our employment contracts for which we have firm commitments, by the minimum expected number of days committed under such contracts (excluding any options to extend), assuming full earnings efficiency. There can be no assurance that the counterparties to such contracts will fulfill their obligations under the contracts. See the section of our annual report for the fiscal year ended December 31, 2017 entitled " Risk Factors—Risks Relating to Our Company—Our future contracted revenue for our fleet of drilling units may not be ultimately realized."

Unless otherwise stated, all references to dayrates included in this prospectus are exclusive of any applicable annual contract revenue adjustments, which generally result in the escalation of the dayrates payable under the drilling contracts.

Management of Our Drilling Units

Ocean Rig Management Inc., our wholly owned subsidiary, provides supervisory management services including onshore management to our operating drilling units and drilling units under construction, pursuant to separate management agreements entered/to be entered with each of the drilling unit – owning subsidiaries. Under the terms of these management agreements, Ocean Rig Management Inc., through its affiliates is responsible for, among other things, (i) assisting in construction contract technical negotiations and (ii) providing technical and operational management for the drilling units.

In addition, up to March 31, 2016 we had engaged Cardiff Drilling Inc, a company that may be deemed to be beneficially owned by our Chairman, Mr. George Economou, to provide us with consulting and other services with respect to the arrangement of employment for, and relating to the purchase and sale of, our drilling units. On March 31, 2016, we entered into a Management services agreement with TMS Offshore Services Ltd., a Company that may be deemed to be beneficially owned by Mr. Economou to provide certain management services related to our drilling units including but not limited to commercial, financing, legal and insurance services. This agreement is effective from January 1, 2016 and was amended effective January 1, 2017. On September 22, 2017, the Restructuring Effective Date, as part of the Restructuring, we and each of our drilling-unit-owning subsidiaries terminated the previous agreement with TMS Offshore and entered into the Management Services Agreement with TMS to provide certain management services related to our drilling units including but not limited to executive management, commercial, financing, accounting, reporting, information technology, legal, manning, insurance, catering and superintendency services. See "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions."

Recent and Other Developments

Restructuring

On March 23, 2017, we and certain of our subsidiaries, Drillships Financing Holding Inc., or DFH, Drillships Ocean Ventures Inc., or DOV, and Drill Rigs Holdings Inc., or DRH, which are collectively referred to as the Scheme Companies entered into a Restructuring Support Agreement (the "RSA"), with certain creditors of our then-outstanding consolidated indebtedness to implement a financial restructuring plan, (the "Restructuring") under Section 86 of the Companies Law (2016 Revision). Pursuant to the terms of the RSA, the Scheme Companies presented winding up petitions to the Grand Court of the Cayman Islands (the "Grand Court"), on March 24, 2017, and filed applications seeking the appointment of joint provisional liquidators (the "JPLs"), under section 104(3) of the Companies Law (2016) Revision. On March 27, 2017, following a hearing before the Grand Court, the JPLs were appointed in respect to each of the Scheme Companies.

The RSA proposed that the Restructuring of each of the Scheme Companies be effected by way of a scheme of arrangement under Cayman Islands law (the "Schemes"). The Schemes provided for substantial deleveraging of the Scheme Companies through an exchange by their creditors, or the Scheme Creditors, of approximately $3.7 billion principal amount of debt (plus accrued interest) for new equity of the Company, approximately $288 million in cash (excluding the early consent fee) and $450 million of new secured debt.

On March 27, 2017, the JPLs as "foreign representatives" of each of the Scheme Companies filed petitions with the U.S. Bankruptcy Court under Chapter 15 of the Bankruptcy Code seeking recognition of the provisional liquidation proceedings and the contemplated Schemes as "foreign main proceedings." On April 3, 2017, the U.S. Bankruptcy Court granted provisional relief extending the protections of the temporary restraining order pending a recognition hearing, which was held on August 16, 2017. Following the recognition hearing, the U.S. Bankruptcy Court granted an order granting recognition to the provisional liquidation proceedings and the Schemes, pursuant to the terms sought by the JPLs.

On July 20, 2017, the Grand Court gave permission to the Scheme Companies to convene meetings of the Scheme Creditors for the purpose of considering, and if found appropriate, approving the Schemes.

On August 11, 2017, the Scheme Meetings were held and each of the Schemes was approved by a majority, in number, of the Scheme Creditors holding at least 75% in value of claims present and voting at the respective Scheme Meeting. The Schemes were approved by Scheme Creditors holding over 97% of our then-outstanding indebtedness.

On August 22, 2017, the JPLs filed an application for an order of the U.S. Bankruptcy Court recognizing and giving full force and effect to the Schemes in the United States. Following the sanction of the Schemes by the Grand Court, a hearing was held before the U.S. Bankruptcy Court on September 20, 2017 to consider the relief requested in the JPLs' application. Shortly after the conclusion of this hearing, the U.S. Bankruptcy Court entered an order giving full force and effect to the Grand Court's orders, the Schemes, and all documents and other agreements related thereto.

On August 25, 2017, the U.S. Bankruptcy Court issued a memorandum opinion and an order granting recognition of the provisional liquidation and scheme of arrangement proceedings for us and our subsidiaries, DRH, DFH, and DOV pending in the Grand Court as foreign main proceedings, and of the JPLs as the foreign representatives of the Scheme Companies in the United States. If the Schemes were approved by the Cayman Court, the U.S. Bankruptcy Court would conduct a hearing on September 20, 2017, to consider the entry of an order giving full force and effect to the Schemes in the United States.

On September 15, 2017, following a hearing held between September 4, 2017 and September 6, 2017, the Grand Court issued orders sanctioning the Schemes. On September 21, 2017, canceled 22,222,222 of its treasury shares and 56,079,533 shares of the Company previously held by its subsidiary, Ocean Rig Investments Inc. On the same day, we effected a 1-for-9,200 reverse stock split of our then-outstanding common shares. Our common shares commenced trading on a split-adjusted basis on September 22, 2017. The reverse stock split reduced the number of our issued and outstanding common shares from 82,586,851 shares (including the aforementioned treasury shares and shares held by Ocean Rig Investments, Inc.) to approximately 8,975 shares and affected all issued and outstanding common shares. The number of our authorized common shares and the par value and other terms of our common shares were not affected by the reverse stock split. No fractional shares were issued in connection with the reverse stock split. Shareholders of record who would have otherwise been entitled to receive a fractional share as a result of the reverse stock split received a cash payment in lieu thereof. The reverse stock split was completed in connection with our Restructuring and in order to comply with NASDAQ's listing requirements and meet the minimum bid requirement for continued listing on NASDAQ's Global Select Market.

Successful Emergence from Restructuring

On September 22, 2017, which we refer to as the Restructuring Effective Date, the Restructuring took effect. Pursuant to the Schemes, on the Restructuring Effective Date, Scheme Creditors exchanged their existing claims against the respective Scheme Companies for cash, new debt and new equity issued by the Company, as outlined above. The existing claims were either transferred to our Company or released. In particular, Scheme Creditors or their nominees received shares equivalent to 90.68% of the post-Restructuring equity of our Company and aggregate cash consideration of $320.8 million (including the early consent fee) across all of the Schemes, and the Scheme Companies and certain subsidiaries entered into a new credit agreement with the DOV and DFH Scheme Creditors (the "New Credit Agreement"). The New Credit Agreement contains limited restrictive covenants that are customary for facilities of this type. The remaining 9.32% of post-Restructuring equity was issued to Prime Cap Shipping Inc., a company that may be deemed to be beneficially owned by the Company's Chairman and up to December 31, 2017, Chief Executive Officer, Mr. George Economou, pursuant to the management services agreement with TMS Offshore Services Ltd. as described below.

On September 26, 2017, we received formal notice from NASDAQ that we had demonstrated compliance with all applicable requirements for the continued listing of the Company's common shares on NASDAQ and confirmed that, as a result of its favorable determination, our common shares would continue to be listed on the Nasdaq Global Select Market.

On October 4, 2017, the Grand Court issued an order discharging the JPLs effective as of October 18, 2017.

Recent Developments

Effective January 1, 2018 our Board of Directors appointed Mr. Pankaj Khanna as President and Chief Executive Officer of the Company, Mr. Iraklis Sbarounis as Chief Financial Officer, Mr. David Cusiter as Chief Operations Officer and Mr. Anthony Kandylidis as Executive Vice Chairman of our Company.
During January 2018 and February 2018, we converted an aggregate of 349,711 Class B Common Shares, par value $0.01 (the "Class B Common Shares"), into 349,711 Class A Common Shares, par value $0.01 (the "Class A Common Shares"). Pursuant to our Second Amended and Restated Memorandum and Articles of Association each Class B Common Share is convertible once, at any time or from time to time, in each case, at the option of the respective holder, into a Class A Common Share at a one for one conversion ratio.
On January 12, 2018, Lundin Norway AS ("Lundin") declared its sixth option to extend the existing contract of the Leiv Eiriksson, which is now expected to have firm employment secured until August 2018. Should Lundin exercise its remaining six one-well options, the rig could be employed until the second half of 2019.
On February 7, 2018, the drilling rig Leiv Eiriksson commenced its shipyard stay at Olen, Norway where it will undergo certain enhancements related to its contract with Lundin, its intermediate survey and upgrade its BOP to 5-rams. The Leiv Eiriksson is expected to complete its yard stay by the end of the first quarter of 2018.

On February 23, 2018, the Company signed a new drilling contract with Tullow Namibia Ltd., for a one-well drilling program plus options for drilling offshore West Africa. The contract is expected to commence in the third quarter of 2018 and to be performed by the Ocean Rig Poseidon.

In February 2018, our subsidiary that holds the shipbuilding contract for the Ocean Rig Santorini has received a notice of default for failure to pay an interim installment that was due on February 5, 2018, and is currently in commercial discussions with the shipyard to further postpone the delivery of the drilling unit and amend other terms of the shipbuilding contract.

On March 5, 2018, we held our 2018 annual general meeting of shareholders.

Our drilling contract of the Ocean Rig Poseidon with Statoil, for a one-well drilling program offshore Tanzania, has been successfully completed. The Ocean Rig Poseidon is in Walvis Bay, where it will remain in "ready-to-drill" state and be actively marketed for employment until commencement of the new drilling contract with Tullow Namibia Ltd. in the third quarter of 2018.

Our drilling unit the Ocean Rig Mykonos, which is expected to complete her current drilling contract with Petrobras during March 2018, is planned to transit to Las Palmas, where it will remain in "ready-to-drill" state, and be actively marketed for employment. During the Ocean Rig Mykonos stay in Las Palmas, the unit will be fitted with a full Managed Pressure Drilling (MPD) package.

We are currently in discussions with Total E&P Angola Block 32 for the Ocean Rig Skyros contract to revise its commercial terms. These discussions may lead to no change to the contract, to a blend and extend arrangement, or termination according to the termination for convenience provisions of the contract.

The Offshore Drilling Industry

In recent years, the international drilling market has seen an increasing trend towards deep and ultra-deepwater oil and gas exploration. As shallow water resources mature, deep and ultra-deepwater regions are expected to play an increasing role in offshore oil and gas exploration and production. The floating rig fleet as of January, 2018 consisted of 263 units. An additional 43 units were under construction or on order as of January, 2018. Historically, an increase in supply has caused a decline in utilization and dayrates until drilling units are absorbed into the market. Accordingly, dayrates have been very cyclical. We believe that the largest undiscovered offshore reserves are mostly located in ultra-deepwater fields and primarily located in the "golden triangle" between West Africa, Brazil and the Gulf of Mexico, as well as in East Africa, Australia and Southeast Asia. The location of these large offshore reserves has resulted in more than 90% of the floating drilling unit, or floater, orderbook being represented by ultra-deepwater units. Furthermore, due to increased focus on technically challenging operations and the inherent risk of developing offshore fields in ultra-deepwater, particularly in light of the Deepwater Horizon accident in the Gulf of Mexico, in which we were not involved, oil companies have already begun to show a preference for modern units more capable of drilling in these challenging environments.

Risk Factors

We face a number of risks associated with our business and industry and must overcome a variety of challenges to utilize our strengths and implement our business strategy. These risks include, among others, changes in the offshore drilling market, including supply and demand, utilization rates, dayrates, customer drilling programs, and commodity prices; the effect of the Restructuring on us; increased costs of compliance with regulations affecting the offshore drilling industry; a downturn in the global economy; hazards inherent in the drilling industry and marine operations resulting in liability for personal injury or loss of life, damage to or destruction of property and equipment, pollution or environmental damage; inability to comply with loan covenants; inability to finance shipyard and other capital projects; and inability to successfully employ our drilling units.

This is not a comprehensive list of risks to which we are subject, and you should carefully consider all the information in this prospectus before investing in the securities offered by this prospectus. In particular, we urge you to carefully consider the risk factors set forth in the section of this prospectus entitled "Risk Factors" beginning on page 8.

Corporate Structure

Ocean Rig UDW Inc. is an exempted company incorporated with limited liability under the laws of the Cayman Islands. We were initially organized in the Republic of the Marshall Islands on December 10, 2007 under the name Primelead Shareholders Inc., as a subsidiary of DryShips Inc. (Nasdaq:DRYS), a company founded by our Chairman Mr. Economou, in which two of our directors, currently serve as directors. Following our partial spin off from DryShips to its existing shareholders, our shares commenced trading on the NASDAQ Global Select Market under the symbol "ORIG" on October 6, 2011. As of April 5, 2016, DryShips no longer holds any equity interests in our Company and no registrable securities under the registration rights agreement we entered into with DryShips on March 20, 2012 remain outstanding. As of April 14, 2016, we redomiciled from the Republic of the Marshall Islands to the Cayman Islands Each of our drilling units is owned by a separate wholly-owned vessel-owning subsidiary.
We maintain our principal executive offices at c/o Ocean Rig Cayman Management Services SEZC Limited, 3rd Floor Flagship Building, Harbour Drive, Grand Cayman, Cayman Islands. Our telephone number is +1 345 327 9232. Our website address is www.ocean-rig.com. Information contained on our website does not constitute part of this prospectus.

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks and the discussion of risks under the heading "Risk Factors" in our annual report on Form 20-F for the year ended December 31, 2017, filed with the Commission on March 15, 2018, and hereby incorporated by reference into this prospectus, along the section entitled "Risk Factors" in future annual reports that summarize the risks that may materially affect our business before making an investment in our securities. Please see the section in this prospectus entitled "Where You Can Find Additional Information—Information Incorporated by Reference." In addition, prospective U.S. Holders of our common shares (as such term is defined in the discussion of "Taxation" in our annual report on Form 20-F for the year ended December 31, 2017) should consider the significant U.S. tax consequences relating to the ownership of our common shares as discussed in the section of this prospectus entitled "Tax Considerations." Furthermore, you should also consider carefully the risks set forth under the heading "Risk Factors" in any prospectus supplement before investing in any securities offered by this prospectus. The occurrence of one or more of those risk factors could adversely impact our business, results of operations or financial condition.

CAUTIONARY STATEMENT REGARDING 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. 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 with such safe harbor legislation.

Certain statements in this prospectus and the documents we incorporate by reference in this prospectus constitute forward-looking statements which reflect our current views and assumptions with respect to future events and financial performance and are subject to risks and uncertainties. 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. The words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect" and similar expressions identify forward-looking statements.

The forward-looking statements in this prospectus and the documents incorporated by reference herein 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 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 we will achieve or accomplish the expectations, beliefs or projections described in such forward-looking statements.

In addition to these important factors and matters discussed elsewhere in this prospectus and the documents incorporated by reference herein, 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:

- our ability to operate our business following our Restructuring;
- 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 market outlook for our various geographical operating sectors and classes of drilling units;
- 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 and drillship 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;
- our new capital structure;
- continued borrowing availability under our debt agreements and compliance with the covenants contained therein;
- our ability to generate sufficient cash flow to service our existing debt and the incurrence of 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 important factors described under the heading "Risk Factors" and other risk factors described in the documents incorporated by reference in this prospectus.

We caution investors not to place undue reliance on these forward-looking statements.

All forward-looking statements made in this prospectus and the documents incorporated by reference herein are qualified by these cautionary statements. We expressly disclaim any obligation to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, changes in future operating results over time or otherwise.

Please note that "we," "us," "our," "Ocean Rig UDW" and "the Company," all refer to Ocean Rig UDW Inc. and its subsidiaries, unless the context otherwise requires.

SHARE HISTORY AND MARKETS

Since October 6, 2011, the primary trading market for our common shares has been the NASDAQ Global Select Market, on which our shares are listed under the symbol "ORIG." On September 19, 2011 our common shares began "when issued" trading and on October 6, 2011 commenced "regular way" trading on the NASDAQ Global Select Market. The secondary trading market for our common shares is the Norwegian OTC Market, on which our common shares have been trading since the pricing of a private offering on December 15, 2010. Currently only our Class A Common Shares trade on Nasdaq. Our Class B Common Shares are not publicly traded.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our unaudited ratio of earnings to fixed charges (or the dollar amount of the coverage deficiency in periods that earnings are inadequate to cover fixed charges) for each of the preceding five fiscal years. (1)

	Year Ended December 31, 2013	Year Ended December 31, 2014	Year Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2017
	(in thousands of US dollars)				
Earnings					
Pre-tax income/(loss) from continuing operations	$107,914	$337,626	$179,830	$(3,135,203)	$58,093
Add: Fixed charges	286,056	337,473	303,385	258,067	276,368
Less: Capitalized interest	(65,492)	(37,342)	(26,055)	(28,265)	(27,718)
Add: Current period amortization of interest capitalized in prior periods	3,596	6,879	8,232	8,444	3,784
Total Earnings/ (loss)	$332,074	$644,636	$465,392	$(2,896,957)	$310,527
Fixed Charges					
Interest expensed	$247,259	$294,478	$279,352	$237,027	$215,156
Amortization and write-off of debt issue cost and discount relating to convertible notes	38,797	42,995	24,033	21,040	61,212
Total Fixed Charges	$286,056	$337,473	$303,385	$258,067	$276,368
Ratio of Earnings to Fixed Charges	1.2	1.9	1.5	N/A	1.1
Dollar amount of the coverage deficiency in Earnings to Fixed Charges	N/A	N/A	N/A	2,896,957	N/A

(1) We have not issued any preferred shares as of the date of this prospectus, or during any periods covered by the above table.

CAPITALIZATION

The following table sets forth our cash position and consolidated capitalization as of December 31, 2017, on:

- on an actual basis;
- on an as adjusted basis to give effect to aggregate scheduled loan repayments of $35.0 million under our $462 million secured credit facility which we made subsequent to December 31, 2017;

	As of December 31, 2017 (in thousands of U.S. dollars)	
	Actual	As Adjusted (1)
Cash and cash equivalents	$736,114	$736,114
Restricted cash	46,967	12,132
Total Cash	783,081	748,246
Total debt, net of financing fees		
$450 million Senior Secured Credit Facility – Exit financing	450,000	450,000
$462 million Senior Secured Credit Facility	81,886	47,051
Deferred Financing Costs	(254)	(254)
Total debt, including current portion	531,632	496,797
Preferred shares, $0.01 par value; 100,000,000 shares authorized, at December 31, 2017, nil issued and outstanding at December 31, 2017.	—	—
Common shares, $0.01 par value; 1,800,000,000 shares (1,500,000,000 class A shares and 300,000,000 class B shares) authorized, at December 31, 2017, 91,567,982 (90,562,138 class A shares and 1,005,844 class B shares) at December 31, 2017	916	916
Additional paid-in capital	5,722,078	5,722,078
Accumulated other comprehensive Income	3,476	3,476
Accumulated deficit	(3,523,250)	(3,523,250)
Total shareholders' equity	2,203,220	2,203,220
Total capitalization	$2,734,852	$2,700,017

(1) There have been no significant changes to our capitalization since December 31, 2017, as so adjusted.

USE OF PROCEEDS

We intend to use net proceeds from the sale of securities as set forth in the applicable prospectus supplement.

The selling shareholders will receive all of the net proceeds from the sale of any common shares offered by them under the applicable prospectus supplement. See "Principal and Selling Shareholders." The selling shareholders will pay any underwriting discounts and commissions and expe:2px;">

Raw materials	$ 288,650	$ 363,195
Finished goods	149,055	941,921
	437,705	1,305,116
Reserve for obsolescence	(71,170)	(59,969)
	$ 366,535	$ 1,245,147

During the six months ended June 30, 2017, the Company recorded a non-cash inventory charge of $712,083, of which$708,204 is related to excess finished goods inventory of its legacy 125kW battery converter and its end-of-life IBC-30 battery converter and is reflected within the cost of product revenue line item of the statement of operations.

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Note 5 – Property and Equipment

Property and equipment, net consisted of the following:

	June 30, 2017	December 31, 2016
	(unaudited)	
Machinery and equipment	$890,264	$894,228
Building leasehold improvements	395,335	395,335
Furniture, fixtures, software and computers	215,993	228,011
	1,501,592	1,517,574
Accumulated depreciation and amortization	(750,454)	(581,088)
	$751,138	$936,486

Note 6 – Intangible Assets

Intangible assets, net consisted of the following:

	June 30, 2017	December 31, 2016
	(unaudited)	
Patents	$1,524,994	$1,556,204
Other intangible assets	732,175	470,870
	2,257,169	2,027,074
Accumulated amortization	(157,987)	(121,518)
	$2,099,182	$1,905,556

At June 30, 2017 and December 31, 2016, the Company had capitalized $554,216 and $678,410, respectively, for costs related to patents that have not been awarded.

In June 2017, a U.S. patent was issued associated with licensing agreements and the Company recorded an intangible asset and corresponding long-term liability for the estimated present value of future payments of $261,303. The Company is amortizing the capitalized costs over the remaining term of the agreements. For further discussion of the licensing agreements, see Note 8.

Amortization expense amounted to $18,594 and $36,469 for the three and six months ended June 30, 2017, respectively, and $15,705 and $29,067 for the three and six months ended June 30, 2016, respectively. Amortization expense for the succeeding five years and thereafter is approximately $45,000 (2017), $91,000 (2018-2021) and $1,136,000 (thereafter).

Note 7 – Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2017	December 31, 2016
	(unaudited)	
Accrued compensation	$423,819	$519,485
Warranty reserve	398,079	335,893

Other	358,384	293,751
	$1,180,282	$1,149,129

Note 8 – Commitments and Contingencies

Lease
The Company has entered into a lease for 14,782 square feet of office and laboratory space located in Austin, Texas. The triple net lease has a term of 48 months and commenced on June 1, 2014. The annual base rent in the first year of the lease was $154,324 and increases by $3,548 in each succeeding year of the lease. In addition, the Company is required to pay its proportionate share of operating costs for the building.

At June 30, 2017, the remaining annual base rent commitments under the lease are as follows:

Year Ended December 31,	Amount
2017	$82,484
2018	68,736
Total	$151,220

The Company incurred rent expense of $59,418 and $117,074 for the three and six months ended June 30, 2017, respectively, and $55,719 and $111,324 for the three and six months ended June 30, 2016, respectively.

License Agreement
In 2015, the Company entered into licensing agreements which expire on February 7, 2033. Per the agreements, the Company has an exclusive royalty-free license which enhances its intellectual property portfolio related to semiconductor power switches. The agreements include both fixed and variable payments. The variable payments are a function of the number of associated patent filings pending and patents issued under the agreements. The Company will pay $10,000 for each patent filing pending and $20,000 for each patent issued within 20 days of December 21, 2017 and each subsequent year of the agreement, up to a maximum of $100,000 per year (i.e. five issued patents).

In June 2017, a U.S. patent was issued associated with the agreements and the Company recorded an intangible asset and corresponding long-term liability for the estimated present value of future payments of $261,303. This long-term liability incurred in connection with the patent issuance is a non-cash investing activity with regard to the Company’s statements of cash flows. At June 30, 2017, two patents associated with the agreements had been issued and the estimated present value of future payments under the licensing agreement is $529,941, of which $40,000 is due within 20 days of December 21, 2017 and is included in accrued expenses in the Company's balance sheet. The Company is accruing interest for future payments related to the issued patents associated with the agreement.

Litigation
On May 17, 2017, the Company provided its prior contract manufacturer (CM) notice that it was in breach of the Master Supply Agreement (MSA) between the parties. On May 19, 2017, the Company received notice from CM that the Company was allegedly in breach of the MSA. On June 23, 2017, the Company received a Notice of Arbitration from CM alleging claims against the Company and demanding recovery for alleged damages. On July 13, 2017, the Company responded to CM with a Notice of Defense and Counterclaim. On August 2, 2017, CM provided their response to the Company's Notice of Defense and Counterclaim. The parties are in the process of appointing an arbitrator. At this time, the Company is unable to estimate the possible loss, if any, associated with this proceeding.

Note 9 — Equity

On March 3, 2017, the Company closed on a definitive securities purchase agreement, or Private Placement, to sell the Company’s common stock and preferred stock together with warrants to purchase shares of common stock. In the Private Placement, each share of common stock or preferred stock was sold together with a warrant to purchase one share of common stock at a collective price of $2.535. Investors purchased an aggregate of 5,220,826 shares of common stock and 708,430 shares of preferred stock together with warrants to purchase 5,929,256 shares of common stock in the Private Placement for aggregate gross proceeds of $15 million. Net cash proceeds were $13,657,331 after offering fees and expenses, including the placement agent fee of approximately $1.1 million. The Company expects to utilize net proceeds from the offering for working capital and general corporate purposes.

In February 2017, the Company's Board of Directors authorized Series A Convertible Preferred Stock consisting of 3,000,000 shares. Each share of the preferred stock has a par value of $0.001 and a stated value of $2.535 and is convertible at any time at the option of the holder into one share of common stock. The holder cannot convert the preferred stock to the extent its beneficial ownership would exceed 4.99% of the Company's common stock outstanding, subject to adjustment as provided in the Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock. The shares have no voting power, no liquidation preference or additional dividend entitlements. In the six months ended June 30, 2017, the Company issued 1,518,430 shares of the Company's Series A Convertible Preferred Stock.

Note 10 — Equity Incentive Plan

On May 17, 2013, the Company adopted the 2013 Equity Incentive Plan (the "Plan") and reserved shares of common stock for issuance under the Plan. The Plan is administered by the Compensation Committee of the Company's Board of Directors. At June 30, 2017, 708,953 shares of common stock were available for issuance under the Plan.

During the six months ended June 30, 2017, the Company granted 83,625 stock options to Board members and 84,100 stock options to employees under the Plan. The estimated fair value of these stock options, calculated using the Black-Scholes option valuation model, was $296,107, of which $84,368 was recognized during the six months ended June 30, 2017.

During the six months ended June 30, 2017, 96,000 performance stock units ("PSUs") were forfeited by employees as the continued service conditions were not achieved. The PSUs were initially granted in 2015 and, due to the forfeiture, the Company reversed $174,804 of stock-based compensation expense in the three months ended June 30, 2017.

During the six months ended June 30, 2017, 26,743 options to purchase shares of the Company's common stock were exercised resulting in net proceeds of $11,143.

A summary of the Company's stock option activity and related information is as follows:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Outstanding at December 31, 2016	1,385,204	$ 6.89	7.5
Granted	167,725	$ 2.99	
Exercised	(26,743)	$ 0.42	
Forfeited/Expired/Exchanged	(125,551)	$ 7.39	
Outstanding at June 30, 2017	1,400,635	$ 6.50	7.3
Exercisable at June 30, 2017	829,623	$ 6.55	6.9

At June 30, 2017, there was $1,739,406 of unrecognized compensation cost related to non-vested equity awards granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.8 years.

Note 11 — Warrants

In connection with the Private Placement, investors received warrants to purchase 5,929,256 shares of common stock. The warrants have an exercise price of $2.41 per share, are non-exercisable for the first six months and will expire three years from the date of issuance. The placement agent also received 237,170 warrants to purchase shares of common stock as part of its placement agent fee. The placement agent warrant has an exercise price of $2.89 per share, is non-exercisable for 12 months and has a three-year term. The warrants contain a provision to protect investors from potential future dilutive events, or a down-round provision. The Company estimated the fair value of the down-round provision by utilizing a Monte Carlo valuation model and determined the fair value associated with the down-round provision was immaterial.

A summary of the Company's common stock warrant activity and related information is as follows:

	Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
Outstanding at December 31, 2016	1,398,653	$ 4.57	2.5
Granted	6,166,426	$ 2.43	
Forfeited/Expired/Exchanged	(84,000)	$ 6.25	
Outstanding at June 30, 2017	7,481,079	$ 2.79	2.6

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION CONTAINED IN THIS REPORT

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "projects," "intends," "plans," "would," "should," "could," "may" or other similar expressions in this report. In particular, these include statements relating to future actions, prospective products, applications, customers, technologies, future performance or results of anticipated products, expenses, and financial results. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- our history of losses;
- our ability to achieve profitability;
- our limited operating history;
- our ability to successfully market and sell our products;
- the size and growth of markets for our current and future products;
- our expectations regarding the growth and expansion of our customer base;
- regulatory developments that may affect our business;
- our ability to successfully develop new technologies, including our bi-directional bipolar junction transistor, or B-TRAN™;
- our expectations regarding the completion of testing of new products under development and the timing of the introduction of those new products;
- the expected performance of new and existing products, including future products incorporating our B-TRAN™;
- the performance of third-party manufacturers who supply and manufacture our products;
- our expectations of the reliability of our products over the applicable warranty term and the future costs associated with warranty claims;
- our ability to cost effectively manage product life cycles, inclusive of product launches and end of product life situations;
- the rate and degree of market acceptance for our current and future products;
- our ability to successfully obtain certification for our products, including in new markets, and the timing of the receipt of any necessary certifications;
- our ability to successfully license our technology;
- our ability to obtain, maintain, defend and enforce intellectual property rights protecting our current and future products;
- our expectations regarding the decline in prices of battery energy storage systems;
- general economic conditions and events and the impact they may have on us and our potential customers;
- our ability to obtain adequate financing in the future, as and when we need it;
- our success at managing the risks involved in the foregoing items; and
- other factors discussed in this report.

The forward-looking statements are based upon management’s beliefs and assumptions and are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements included in this report. You should not place undue reliance on these forward-looking statements.

Unless otherwise stated or the context otherwise requires, the terms "Ideal Power," "we," "us," "our" and the "Company" refer to Ideal Power Inc.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q as well as our audited 2016 financial statements and related notes included in our Annual Report on Form 10-K. In addition to historical information, the discussion and analysis here and throughout this Form 10-Q contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited, to those set forth under "Risk Factors" in Part II, Item 1A of this report.

OVERVIEW

Ideal Power is located in Austin, Texas. We design, market and sell electrical power conversion products using our proprietary technology called Power Packet Switching Architecture™, or PPSA™. PPSA™ is a power conversion technology that improves upon existing power conversion technologies in key product metrics, such as size and weight while providing built-in isolation and bi-directional and multi-port capabilities. PPSA™ utilizes standardized hardware with application specific embedded software. Our products are designed to be used in both on-grid and off-grid applications. Our advanced technology is important to our business and we make significant investments in research and development and protection of our intellectual property. Our PPSA™ and bi-directional switch technologies are protected by a patent portfolio of 58 US and 13 foreign issued patents at June 30, 2017.

We sell our products primarily to systems integrators as part of larger turn-key systems which enable end users to manage their electricity consumption by reducing demand charges or fossil fuel consumption, integrating renewable energy sources and forming their own microgrid. Our products are made by contract manufacturers to our specifications, enabling us to scale production to meet demand on a cost-effective basis without requiring significant expenditures on manufacturing facilities and equipment. As our products establish a foothold in key power conversion markets, we may begin to focus on licensing our proprietary PPSA™-based product designs to OEMs to reach more markets and customers. We may seek to build a portfolio of relationships that generate license fees and royalties from OEMs for sales of their products which integrate PPSA™.

We were founded on May 17, 2007. To date, operations have been funded primarily through the sale of common stock and, prior to our initial public offering, the issuance of convertible debt. Total revenue generated from inception to date as of June 30, 2017 amounted to $12,494,885 with approximately a quarter of that revenue coming from government grants. We may pursue additional research and development grants, if and when available, for the purpose of developing new products and improving current products.

Our Technology

PPSA™ uses indirect power flow in which power flows through input switches and is temporarily stored in our proprietary AC link inductor. Our proprietary fast switching algorithms enable the transfer of quantum packets of power between ports in our system. As the AC link becomes charged, it disconnects from its input switches, resonates without being connected to either the input or output switches, and then reconnects to its output switches when it reaches the correct voltage and frequency for the application. PPSA™ is a power conversion technology that differentiates itself from traditional power conversion technology in key product metrics, such as size and weight while providing built-in isolation and bi-directional and multi-port capabilities. At June 30, 2017, we have been granted 36 US patents and seven foreign patents related to PPSA™.

Products

We have developed products commercializing PPSA™ and make these products available for sale both directly to customers and through distributors. We currently sell several power conversion systems, or PCS, utilizing our patented PPSA™ technology. These products are described as follows:

- The 30kW SunDial™ and the 30kW SunDial™ Plus, which are UL-1741 certified and are intended to be used for the commercial and industrial grid-tied solar and solar + storage market. The SunDial™ is a photovoltaic (PV) string inverter which is field upgradable through the addition of a drop-in second DC port to connect batteries to a solar PV array. The SunDial™ Plus includes the PV inverter and the second DC battery port in one package. The products operate in both 50Hz and 60Hz environments and include a built-in 6 string PV combiner and DC disconnects and are grid-tied, AC export only.

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- The 30kW Stabiliti™ series has two product offerings, two-port (AC-DC) and multi-port (AC-DC-DC) models, which are both UL-1741 certified. These products are intended to be used in the stand-alone storage and microgrid markets. They are bi-directional and operate in both grid-tied and grid-forming modes with near seamless transfer between operating modes. Grid-forming mode provides customers the ability to form and manage a microgrid which is also desirable for the solar + storage market. The products operate in both 50Hz and 60Hz environments.

Future Innovations

Bi-Directional Switches

Our existing products incorporate multiple insulated gate bipolar transistors, or IGBTs, which are power switches used in the process to convert power from one current form to another. IGBTs switch power in only one direction (DC to AC or AC to DC) and require the use of a blocking diode to prevent power from flowing back through the system. To enable our existing products to perform bi-directional power conversion, for each IGBT and diode used in our products, we must include a second IGBT and diode. These additional components have slight voltage drops that affect the electrical efficiency of our products and generate excess heat that must be dissipated. We have patented and are developing a new, highly efficient silicon switch called a bi-directional bipolar transistor, or B-TRAN™, that we believe will allow us to substitute one B-TRAN™ for two pairs of IGBTs and diodes used in our current products and is also a potential replacement for conventional power switches in certain segments of the broader power semiconductor market.

Based on third party device software simulations, we believe that the B-TRAN™ may significantly improve electrical efficiency in our power converters and that higher efficiency would substantially reduce the heat generated by the operation of our products. As a result, products incorporating our B-TRAN™ would require less space for heat dissipation which would allow us to increase power density, or power per pound, and reduce material costs.

In 2016, one of our semiconductor fabricators successfully tested single-sided B-TRAN™ silicon dies and the results were consistent with third party simulations that predict significant performance and efficiency improvements over conventional power switches such as SCRs, IGBTs and MOSFETs. Our current focus has shifted to de-risking the proof of concept phase of the B-TRAN development timeline, as this phase of development is taking longer than anticipated due to the complexity of manufacturing complicated, two-sided power semiconductor devices. To facilitate this, we have now engaged a second semiconductor fabricator, on a parallel path, to produce a simplified, easier to manufacture B-TRAN on an accelerated schedule for proof of concept and initial testing. The testing is intended to show key qualities of the B-TRAN over IGBTs including reduced losses, both switching and conduction losses, and increased speed. The next major milestone towards commercialization will be to complete, package and test prototype B-TRAN™ devices. The results of the testing and characterization of these prototype B-TRAN™ devices will be utilized to guide our further development and optimization efforts including potential changes in how the devices are manufactured or driven in an actual circuit.

We plan to first utilize the B-TRAN™ in our own power conversion products and then introduce it into the rapidly growing power semiconductor market, estimated to be $19 billion in 2017 according to research firm IHS Technology, or IHS, utilizing a licensing model. We believe our new B-TRAN™ technology may potentially address a significant portion of the power semiconductor market that currently relies on power semiconductor devices such as IGBTs. Potential addressable markets for B-TRAN™-based products include very low loss solid-state DC and AC contactors, electric vehicle drivetrains, variable frequency drives, solar PV inverters, bi-directional energy storage and microgrid power conversion systems, matrix converters and other power conversion products. At June 30, 2017, we have 22 US and six foreign issued patents covering the operation, control and manufacturing of the B-TRAN™ device.

EV Fast Chargers

Electric vehicles, or EVs, are emerging as a fast growth area of the overall automotive sector in the US and abroad. As EVs become a more significant section of the automotive market, the infrastructure to support them will need to be developed. Our PPSA™ technology can be a natural power conversion choice for system integrators looking for a highly efficient and compact system for an DC EV fast charger. In 2018, we expect to begin the development of products based on our existing product family to directly target this fast-growing market segment.

Business Strategy

Our business strategy is to promote and expand the uses of PPSA™ initially through product development and product sales. To bring our products to market, we will seek out best-in-class partners who will distribute, white-label or integrate our innovative products into higher value systems resulting in multiple strategic sales channels for our PPSA™-based products and product designs. Although our primary market is the United States, we expect to begin targeting markets outside the United States as early as 2018. As our products gain broader acceptance in the power conversion market, we intend to license our proprietary PPSA™-based product designs to OEMs within our target markets, as well as license our technologies for other markets which we do not plan to enter directly. The basis for this approach is the belief that OEMs may achieve higher product margins and gain more market share by providing PPSA™-based products, which are differentiated from the traditional product offerings in the industry, to their customers. We believe such strategic relationships with key OEM licensees would enable us to reap the benefits of PPSA™ and gain market share more quickly than by strictly manufacturing and distributing our products.

Target Markets

Currently, our primary markets are solar + storage and, to a lesser extent, microgrids. We also intend to be opportunistic with regards to the stand-alone storage market. Until recently, our primary market was the stand-alone storage market but we have shifted our strategic focus to solar + storage as that market leverages the mature and global solar market and the stand-alone storage market has been slow to develop.

Solar + Storage and Microgrid Markets

Solar PV has one of the lowest levelized costs of energy for new electrical generation capacity and we expect this to remain true in the near term. We expect distributed PV to continue to be a high growth business as system costs have fallen dramatically over the past several years. As such, the economics of generating PV for local consumption is expected to remain strong for several more years, especially given the investment tax credit, or ITC, extension passed by Congress and signed into law in 2015 for solar energy production. Our SunDial™ products were launched to directly address this market.

One shortcoming of distributed, behind-the-meter PV systems is that they require connection to the utility power grid in order to operate. For example, a business with PV on its roof will not, in most cases, benefit from the ability to generate power should the utility power grid go down. Another shortcoming of distributed PV systems is the instability they cause on the local power lines. Utility power grids were not designed to manage power inflow from the end of the lines. As such, distributed generation sources can lead to wide swings in line voltages when clouds pass and power output falls off, requiring the utility to ramp up its central power stations to make up for the shortfall in solar. We believe the proliferation of PV, its intermittency and the elimination of net metering in many states may drive growth in the solar + storage market.

Whether for emergency backup power or for baseload generation in remote locations with weak or no electric grids, microgrids are an emerging business case for solar paired with storage. A distributed PV system connected to a BESS that includes one of our Stabiliti™ multi-port PCS may enable a business to benefit from the ability to form and manage a local microgrid powered by the PV system and BESS even when the utility power grid is down. This capability is attractive to electricity consumers who need to power critical loads even in a blackout. Our Stabiliti™ PCS are also equipped to meet evolving utility requirements for low voltage ride-through and other key operating parameters, which may enable the PV and BESS it connects to the grid to help stabilize the utility power grid when voltage or frequency fluctuates due to imbalances in load and supply. In remote locations where there is no reliable electric grid, which may be as diverse as a military battlefield or remote tropical island resort, or in locations where local electric rates are high due to aging and inefficient generation technology, a trend towards self-generation microgrids is developing. These sites can use solar, batteries and other forms of generation all brought together by one or more of our Stabiliti™ PCS to form and manage a microgrid using maximum solar generation for lowest cost. As such, we believe our products may become increasingly attractive to co-locate BESS with distributed PV.

According to their research, IHS believes that systems will be deployed in two principal configurations. The present configuration is to have separate BESS and PV systems tied together through the AC wiring, which is supported by all of our current products. A second, emerging configuration will be to place the BESS and the PV system behind a single PCS with two DC inputs. Our Stabiliti™ and SunDial™ Plus were designed specifically to enable this configuration which we believe is the lower cost and more efficient configuration. A key unique feature of the SunDial™'s patented technology is its ability to be deployed first as a standard commercial PV inverter and later be upgraded in the field to bring storage into the PV system using the same inverter. We believe this is the only product in the market today to have this unique field-upgrade capability for pairing solar with storage in one inverter.

Also according to IHS, the global commercial PV industry is projected to grow to over 33GW annually by 2020. IHS further forecasts that these commercial systems will have a 2% storage attachment rate by 2020, providing for a nearly 700MW annual commercial solar + storage market. These new solar + storage markets include providing backup power during blackouts, improving grid stability in high penetration PV areas and reducing fossil fuel consumption in remote and off-grid microgrids.

Stand-Alone Storage Market

The stand-alone storage market is served by battery energy storage systems, or BESS. BESS are racks of batteries coupled with a system controller and a power conversion system, such as those manufactured by us, to enable electric power to be captured, stored, and used in conjunction with electric power grids. These systems can be large, megawatt-scale systems operated by utilities to better manage their system resources, or smaller kilowatt-scale systems used by businesses and designed to enable these businesses to manage their power use and mitigate utility imposed "peak demand charges", which are charges utilities levy on their business customers for delivery of power at peak usage times of the day, such as mid-afternoons in the summer. The growth of peak demand charges has been substantial over the past decade and now can make up 50% or more of a commercial utility bill in certain markets. This is a trend that may continue as more intermittent resources are added to the utility power grid causing grid instability. Utilities and aggregators of distributed generation resources are also expected to adopt BESS due to the proliferation of renewables and to take advantage of additional value streams such as energy arbitrage, frequency regulation and ancillary services, infrastructure upgrade deferral and locational capacity.

There are strong economic incentives available to commercial and industrial consumers in major US markets such as California and New York in the form of reduced demand charges for installing a BESS and reducing peak consumption. There is also strong regulatory support for such systems. For example, California has issued a mandate for over 1,800 megawatts of new energy storage to be installed by 2020. Although we believe the economic incentives and regulatory support are expected to accelerate growth in this market over coming years, to date the slow pace of realization of these economic incentives has actually hindered market growth.

We expect the cost of commercial and industrial BESS to continue to decline due primarily to lower battery costs and, as a result, expect significant expansion in the addressable market for these systems. We also believe the combination of lower BESS costs, third-party financing, increases in utility demand charges, and the entrance of large, established companies to the BESS space may contribute to accelerating market growth for the nascent stand-alone storage market.

Other Markets

Although our technology may be suitable for other vertical markets within the global power conversion market landscape, we do not currently offer products for sale directly to other power conversion markets such as the VFD, uninterruptible power supply, rail, wind or EV traction drive markets.

In addition to the markets discussed above, we may also have opportunities for market expansion into fast electric vehicle chargers in certain applications where our products’ compact size and multi-port capabilities can unlock value for the system integrator particularly in locations where battery storage is coupled with the charging system to eliminate demand charges or expand the charging systems response capabilities.

We plan to continue to monitor all power conversion markets for opportunities to create solutions for customers and unlock the broader value of our patented technology.

Critical Accounting Policies

There have been no significant changes during the six months ended June 30, 2017 to the critical accounting policies disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Results of Operations

Comparison of the three months ended June 30, 2017 to the three months ended June 30, 2016

Revenues. Revenues for the three months ended June 30, 2017 of $253,370 were $68,746, or 21%, lower than the $322,116 we earned in revenues for the three months ended June 30, 2016. Our revenue has been negatively impacted by a lack of growth in our initial target market of stand-alone storage. We have shifted our focus primarily to solar + storage as we believe this market is already transacting and meaningful revenue growth is achievable for us in this market in the near term.

Cost of Revenues. Cost of revenues increased for the three months ended June 30, 2017 to $764,609 compared to $298,937 for the three months ended June 30, 2016. The increase was primarily due to non-cash write-down of inventory of $358,988 and an unfavorable $98,457 adjustment to the Company's warranty accrual both related to our first generation products. By the end of the quarter, we had completed the transition from our legacy products, including both our first and second generation products, to our third generation SunDial™ and Stabiliti™ products.

Gross Profit (Loss). Gross loss for the three months ended June 30, 2017 was $511,239 compared to a gross profit of $23,179 for the three months ended June 30, 2016.

Research and Development Expenses. Research and development expenses decreased by $94,811, or 8%, to $1,108,368 in the three months ended June 30, 2017 from $1,203,179 in the three months ended June 30, 2016. The decrease was due primarily to the timing of costs associated with bi-directional power switch development. For the balance of the year, our PPSA™ research and development efforts will be focused on our SunDial™ and Stabilit™ products including firmware development for, and certification to, the new UL1741 SA (a new standard required in most US markets beginning in October 2017) and a further cost-reduced version of our SunDial™ and Stabiliti™ products with an improved form factor.

General and Administrative Expenses. General and administrative expenses increased by $288,756, or 33%, to $1,170,415 in the three months ended June 30, 2017 from $881,659 in the three months ended June 30, 2016. The increase was primarily due to higher non-cash patent impairments of $177,764 as we abandoned certain patent filings to focus on filings with the highest strategic value, as well as higher legal and consulting fees of $63,637.

Sales and Marketing Expenses. Sales and marketing expenses increased by $14,903, or 4%, to $427,336 in the three months ended June 30, 2017 from $412,433 in the three months ended June 30, 2016. Higher bad debt expense of $197,549 and placement costs of $63,116 were largely offset by lower stock-based compensation costs of $243,750 due to forfeitures. We have seen an increase in both our bad debt expense and days sales outstanding as many companies, including certain of our customers, are having difficulty securing financing or generating sufficient working capital due to the lack of growth in the stand-alone storage market.

Loss from Operations. Our loss from operations for the three months ended June 30, 2017 was $3,217,358 compared to $2,474,092 loss from operations for the three months ended June 30, 2016.

Interest Income, net. Net interest income was $7,034 for the three months ended June 30, 2017 compared to $6,615 for the three months ended June 30, 2016.

Net Loss. Our net loss for the three months ended June 30, 2017 was $3,210,324 as compared to a net loss of $2,467,477 for the three months ended June 30, 2016. The increase is attributable to higher non-cash charges associated with inventory write-downs, patent impairments and bad debt expense.

Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016

Revenues. Revenues for the six months ended June 30, 2017 of $529,040 were $289,720, or 35%, lower than the $818,760 we earned in revenues for the six months ended June 30, 2016. The decrease in revenue was driven by a contraction in the early market for stand-alone storage.

Cost of Revenues. Cost of revenues increased by $681,848, or 86%, to $1,475,539 for the six months ended June 30, 2017 compared to $793,691 for the six months ended June 30, 2016. The increase was due to non-cash write-down of inventory of $708,204 and an unfavorable $115,000 adjustment to the Company's warranty accrual both related to legacy products, partially offset by lower sales volumes.

Gross Profit (Loss). Gross loss for the six months ended June 30, 2017 was $946,499 compared to a gross profit of $25,069 for the six months ended June 30, 2016.

Research and Development Expenses. Research and development expenses decreased by $384,627, or 14%, to $2,298,537 in the six months ended June 30, 2017 from $2,683,164 in the six months ended June 30, 2016. The decrease was due primarily to the timing of costs associated with bi-directional power switch development.

General and Administrative Expenses. General and administrative expenses increased by $274,388, or 15%, to $2,076,378 in the six months ended June 30, 2017 from $1,801,990 in the six months ended June 30, 2016. The increase was primarily due to higher non-cash patent impairments of $153,570 as we abandoned certain patent filings to focus on filings with the highest strategic value, as well as higher legal and consulting fees of $69,998.

Sales and Marketing Expenses. Sales and marketing expenses increased by $143,906, or 17%, to $968,869 in the six months ended June 30, 2017 from $824,963 in the six months ended June 30, 2016. The increase was due primarily to the higher bad debt expense of $258,253, consulting costs of $69,640 and placement costs of $59,116, offset partially by lower stock-based compensation costs of $246,217 due to forfeitures.

Loss from Operations. Our loss from operations for the six months ended June 30, 2017 was $6,290,283 compared to $5,285,048 loss from operations for the six months ended June 30, 2016.

Interest Income, net. Net interest income was $11,575 for the six months ended June 30, 2017 compared to $15,224 for the six months ended June 30, 2016.

Net Loss. Our net loss for the six months ended June 30, 2017 was $6,278,708 as compared to a net loss of $5,269,824 for the six months ended June 30, 2016. The increase is attributable to higher non-cash charges associated with inventory write-downs, patent impairments and bad debt expense.

Liquidity and Capital Resources

We do not currently generate enough revenue to sustain our operations. We have funded our operations through the sale of common stock and, prior to our initial public offering, the issuance of convertible debt.

At June 30, 2017, we had cash and cash equivalents of $13,335,908. Our net working capital and long-term debt at June 30, 2017 were $12,767,355 and $0, respectively.

Operating activities in the six months ended June 30, 2017 resulted in cash outflows of $4,348,202, which were due primarily to the net loss for the period of $6,278,708, partly offset by non-cash items of $1,926,121, related primarily to inventory write-downs of $712,083, stock-based compensation of $498,006, bad debt expense of $273,727, depreciation and amortization of $224,926 and patent impairments of $202,343. Operating activities in the six months ended June 30, 2016 resulted in cash outflows of $5,005,375, which were due primarily to the net loss for the period of $5,269,824 and negative working capital changes of $761,209, partly offset by non-cash items of $1,025,658, related primarily to stock-based compensation of $763,326 and depreciation and amortization of $184,279.

Investing activities in the six months ended June 30, 2017 and 2016 resulted in cash outflows of $189,280 and $500,595, respectively, for the acquisition of fixed assets and intangible assets.

In the three months ended June 30, 2017, we implemented a cost reduction plan with the goal of reducing our cash outflows for operating and investing activities. This plan included the simplification of our product roadmap for the balance of 2017 to focus on our 30kW SunDial™ and Stabilti™ products for the solar + storage and microgrid markets and eliminate activities that did not present significant near-term revenue opportunities. In addition, we discontinued our legacy products, including our 125kW product, and postponed our development and certification efforts related to international markets and electric vehicle fast charging. We believe these changes will result in a reduced cash burn in advance of our expected revenue growth.

Financing activities in the six months ended June 30, 2017 resulted in cash inflows of $13,668,474 related primarily to our Private Placement net proceeds of $13,657,331. In the Private Placement, each share of common stock or preferred stock was sold together with a warrant to purchase one share of common stock at a collective price of $2.535. Investors purchased an aggregate of 5,220,826 shares of common stock and 708,430 shares of preferred stock together with warrants to purchase 5,929,256 shares of common stock in the Private Placement for aggregate gross proceeds of $15.0 million. Net cash proceeds are after offering fees and expenses, including the placement agent fee of $1.1 million. Financing activities in the six months ended June 30, 2017 and 2016 resulted in cash inflows of $11,143 and $35,536, respectively, from the exercise of stock options and warrants.

On December 1, 2014, we filed a Form S-3 shelf registration statement with the Securities and Exchange Commission. The registration statement allows us to offer up to an aggregate $75 million of common stock, preferred stock, warrants to purchase common stock or preferred stock or any combination thereof and provides us with the flexibility over three years to potentially raise additional equity in public or private offerings on commercial terms. At June 30, 2017, our availability under this registration statement is $58 million.

Off-Balance Sheet Transactions

We do not have any off-balance sheet transactions.

Trends, Events and Uncertainties

The early market for stand-alone storage has been, and continues to be, heavily dependent on California's Self Generation Incentive Program, or SGIP. The pace and deployment of the SGIP has been slow and, despite in excess of 800 projects being submitted in the first two program stages in 2016 and the first quarter of 2017, few projects have reached the reservation stage where funding has been approved for the specific projects.

Historically, most of our backlog has related to orders for the stand-alone storage market and this backlog has not translated into revenue at the pace we have expected due to the stagnation in stand-alone storage deployments in California. There is significant uncertainty around the pace and timing of growth in this market and we believe the customer representing a majority of our backlog over the last several quarters may have exited the system integration business for commercial and industrial stand-alone storage. This customer exit has had a material adverse impact on our backlog and we are currently evaluating whether we have any recourse against this customer for unfulfilled orders.

In addition, funding has been difficult to secure for many system integration companies in the stand-alone storage market. We are monitoring the financial health and payment history of our customers but a bankruptcy or market exit by any one or more of our customers could further materially and adversely impact our backlog and revenue in this market.

To address the uncertainty surrounding the stand-alone storage market, we have transitioned our focus to the solar + storage market. This market leverages the far larger, and more mature, global solar market and we believe our products solve key customer problems in this market such as demand management, backup power and critical load support that solar only solutions are not capable of addressing. In the next several quarters we expect our revenue growth to be driven by growth in the solar + storage market and, to a lesser extent, the microgrid market.

Other than as discussed above and elsewhere in this report, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company we are not required to provide this information.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer), has concluded that, as of June 30, 2017, our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no other material changes in our internal controls over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Limitations on the Effectiveness of Controls

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems' objectives are being met. Further, the design of any system of controls must reflect the fact that there are resource constraints, and the benefits of all controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance 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 error or mistake. Control systems 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 also based in part upon 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. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 17, 2017, we provided our prior contract manufacturer (CM) notice that it was in breach of the Master Supply Agreement (MSA) between the parties. On May 19, 2017, we received notice from CM that we were allegedly in breach of the MSA. On June 23, 2017, we received a Notice of Arbitration from CM alleging claims against us and demanding recovery for alleged damages. On July 13, 2017, we responded to CM with a Notice of Defense and Counterclaim. On August 2, 2017, CM provided their response to our Notice of Defense and Counterclaim. The parties are in the process of appointing an arbitrator. At this time, we are unable to estimate the possible loss, if any, associated with this proceeding.

ITEM 1A. RISK FACTORS

There are no material changes from the risk factors disclosed in our 2016 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 3, 2017, we closed on a definitive securities purchase agreement to sell to certain accredited investorsour common stock and preferred stock together with warrants to purchase shares of common stock, or the Private Placement. In the Private Placement, each share of common stock or preferred stock was sold together with a warrant to purchase one share of common stock at a collective price of $2.535. Investors purchased an aggregate of 5,220,826 shares of common stock and 708,430 shares of preferred stock together with warrants to purchase 5,929,256 shares of common stock in the Private Placement for aggregate gross proceeds of $15.0 million. The warrants have an exercise price of $2.41 per share, are non-exercisable for the first six months and will expire three years from the date of issuance. We filed a Registration Statement on Form S-3 covering the resale of the registrable securities on March 31, 2017 with the Commission which was declared effective on April 21, 2017.
Net cash proceeds were $13.7 million after offering fees and expenses, including the placement agent fee of $1.1 million. The placement agent also received 237,170 warrants to purchase shares of common stock as part of its

placement agent fee. The placement agent warrant has an exercise price of $2.89 per share, is non-exercisable for 12 months and has a three-year term. We expect to utilize net proceeds from the offering for working capital and general corporate purposes.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Document
10.1*†	Amendment No. 2 to Employment Agreement between the Company and R. Daniel Brdar dated June 5, 2017
10.2†	Separation and Release Agreement, dated June 2, 2017, between the Company and Ryan O'Keefe (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Commission on June 6, 2017)
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instant Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
10.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Filed herewith
** Furnished herewith
† Management contract or compensatory agreement

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SIGNATURES

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

Dated August 11, 2017 IDEAL POWER INC.

By: /s/ R. Daniel Brdar
R. Daniel Brdar
Chief Executive Officer

By: /s/ Timothy W. Burns
Timothy W. Burns
Chief Financial Officer

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