

EUROSEAS LTD.
Form 20-F
April 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

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

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 001-33283

EUROSEAS LTD.
(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

Marshall Islands
(Jurisdiction of incorporation or organization)

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4 Messogiou & Evropis Street, 151 24 Maroussi Greece
(Address of principal executive offices)

Tasos Aslidis, Tel: (908) 301-9091, euroseas@euroseas.gr, Euroseas Ltd. c/o Tasos Aslidis,
11 Canterbury Lane, Watchung, NJ 07069
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact
Person)

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

| Title of each class | Name of each exchange on which registered |
|---------------------------------|---|
| Common shares, \$0.03 par value | NASDAQ Global Select Market |

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report

45,723,255 common shares, \$0.03 par value

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

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

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

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

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

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

| | | |
|-------------------------|-----------------------|----------------------------------|
| Large accelerated filer | Accelerated filer | Non-accelerated filer |
| <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> |

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

- U.S. GAAP
- International Financial Reporting Standards as issued by the International Accounting Standards Board.
- Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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FORWARD-LOOKING STATEMENTS

Euroseas Ltd., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This annual report contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of our operations or our performance. Words such as "expects," "intends," "plans," "believes," "anticipates," "estimates," and variations of such words and similar expressions are intended to identify the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding:

- our future operating or financial results;
- future, pending or recent acquisitions, joint ventures, business strategy, areas of possible expansion, and expected capital spending or operating expenses;
- drybulk and container shipping industry trends, including charter rates and factors affecting vessel supply and demand;
- our financial condition and liquidity, including our ability to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities;
 - availability of crew, number of off-hire days, drydocking requirements and insurance costs;
 - our expectations about the availability of vessels to purchase or the useful lives of our vessels;
 - our expectations relating to dividend payments and our ability to make such payments;
- our ability to leverage to our advantage our manager's relationships and reputations in the drybulk and container shipping industry;
 - changes in seaborne and other transportation patterns;
 - changes in governmental rules and regulations or actions taken by regulatory authorities;
 - potential liability from future litigation;
 - global and regional political conditions;
 - acts of terrorism and other hostilities, including piracy; and
 - other factors discussed in the section titled "Risk Factors."

WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS CONTAINED IN THIS ANNUAL REPORT, EXCEPT AS REQUIRED BY LAW, OR THE DOCUMENTS TO WHICH WE REFER YOU IN THIS ANNUAL REPORT, TO REFLECT ANY CHANGE IN OUR EXPECTATIONS WITH RESPECT TO SUCH STATEMENTS OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY STATEMENT IS BASED.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

Please note: Throughout this report, all references to "we," "our," "us" and the "Company" refer to Euroseas Ltd. and its subsidiaries. We use the term deadweight ton, or dwt, in describing the size of vessels. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. We use the term twenty-foot equivalent unit, or teu, in describing the size of our containerhips in addition to dwt. Teu, expressed in number of containers, refers to the maximum number of twenty-foot long containers that can be placed on board. Unless otherwise indicated, all references to "dollars" and "\$" in this report are to, and amounts are presented in, U.S. dollars.

A. Selected Financial Data

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial and other data of Euroseas Ltd. for each of the five years in the five-year period ended December 31, 2013. The table should be read together with "Item 5. Operating and Financial Review and Prospects." Excluding fleet data, the selected consolidated financial data of Euroseas Ltd. is a summary of, is derived from, and is qualified by reference to, our audited consolidated financial statements and notes thereto, which have been prepared in accordance with U.S. generally accepted accounting principles, or "U.S. GAAP."

Our audited consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2011, 2012 and 2013 and the consolidated balance sheets at December 31, 2012 and 2013, together with the notes thereto, are included in "Item 18. Financial Statements" and should be read in their entirety.

See next page for table of Euroseas Ltd. – Summary of Selected Historical Financials.

Euroseas Ltd. – Summary of Selected Historical Financials
Year Ended December 31,

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---------------|---------------|---------------|---------------|---------------|
| Income Statement Data | | | | | |
| Voyage revenues | 66,215,669 | 54,422,489 | 64,129,511 | 54,921,697 | 40,850,051 |
| Related party revenue | - | - | 240,000 | 240,000 | 240,000 |
| Commissions | (2,433,776) | (1,944,473) | (2,972,967) | (2,673,703) | (1,936,381) |
| Net revenue | 63,781,893 | 52,478,016 | 61,396,544 | 52,487,994 | 39,153,670 |
| Voyage expenses | (1,510,551) | (1,596,569) | (777,902) | (1,329,668) | (1,537,898) |
| Vessel operating expenses | (23,763,480) | (21,507,192) | (26,249,339) | (25,075,139) | (25,191,250) |
| Drydocking expenses | (1,912,474) | (6,537,733) | (3,148,111) | (1,616,425) | (3,816,699) |
| Vessel depreciation(1) | (19,092,384) | (17,979,750) | (18,348,556) | (17,385,608) | (19,983,772) |
| Related party management fees | (5,074,297) | (4,892,006) | (5,810,095) | (4,984,098) | (4,891,024) |
| Other general and administration expenses | (3,640,534) | (3,026,941) | (2,986,507) | (3,661,426) | (3,542,619) |
| Impairment loss | - | - | - | - | (78,207,462) |
| Net loss on sale of vessels | (8,959,321) | - | - | (8,568,234) | (1,935,019) |
| Other operating income | - | 2,352,946 | 735,707 | 254,604 | - |
| Operating income / (loss) | 22,429 | (709,229) | 4,811,741 | (9,878,000) | (99,952,073) |
| Interest and other financing costs | (1,437,637) | (1,498,216) | (2,191,235) | (1,977,226) | (1,845,776) |
| Interest income | 1,123,317 | 538,820 | 248,892 | 484,886 | 387,292 |
| Equity loss in joint venture | - | (538,833) | (2,415) | (1,219,692) | (2,023,191) |
| Other (loss) / income | (15,335,613) | (4,398,392) | (1,750,994) | (608,709) | 8,921 |
| Net (loss) / income | (15,627,504) | (6,605,850) | 1,115,989 | (13,198,741) | (103,424,827) |
| Balance Sheet Data | | | | | |
| Current assets | 58,933,240 | 46,404,826 | 38,877,587 | 45,070,412 | 16,951,998 |
| Vessels, net | 257,270,824 | 255,412,434 | 237,063,878 | 206,934,746 | 105,463,737 |
| Deferred assets and other long term assets | 7,214,230 | 5,399,374 | 5,747,951 | 9,318,578 | 7,572,753 |
| Investment in joint venture | - | 14,461,167 | 14,458,752 | 16,989,061 | 21,215,870 |
| Total assets | 323,418,294 | 321,677,801 | 296,148,168 | 278,312,797 | 156,616,354 |
| Current liabilities including current portion of long term debt | 30,443,552 | 25,214,542 | 21,101,011 | 27,367,521 | 18,812,413 |
| Long term debt, including current portion | 71,515,000 | 88,385,000 | 74,913,000 | 61,581,000 | 45,644,000 |
| Total liabilities | 91,965,031 | 102,982,809 | 84,226,420 | 68,686,651 | 51,914,272 |
| Common shares outstanding | 30,849,711 | 31,002,211 | 31,167,211 | 45,319,605 | 45,723,255 |
| Share capital | 925,492 | 930,067 | 935,017 | 1,359,586 | 1,371,698 |
| Total shareholders' equity | 231,453,263 | 218,694,992 | 211,921,748 | 209,626,146 | 104,702,082 |
| Other Financial Data | | | | | |
| Net cash provided by operating activities | 7,837,660 | 12,748,989 | 17,317,673 | 8,513,106 | 4,031,889 |
| Net cash (used in) / provided by investing activities | (45,598,765) | (29,206,844) | 1,896,435 | (3,505,057) | (7,879,468) |
| Net cash provided by / (used in) financing activities | 4,894,463 | 9,746,824 | (22,282,763) | (2,837,952) | (18,127,144) |

Euroseas Ltd. – Summary of Selected Historical Financials (continued)

| | | | | | |
|---|------------|------------|------------|------------|------------|
| Earnings / (loss) per share, basic and diluted | (0.50) | (0.21) | 0.04 | (0.34) | (2.28) |
| Dividends declared | 10,779,609 | 6,848,536 | 8,457,722 | 4,437,984 | 2,067,570 |
| Cash dividends / return of capital, declared per common share | 0.35 | 0.22 | 0.27 | 0.125 | 0.045 |
| Weighted average number of shares outstanding during period, basic(4) | 31,379,516 | 31,636,633 | 31,794,381 | 38,950,100 | 45,442,841 |
| Weighted average number of shares outstanding during period, diluted(4) | 31,379,516 | 31,636,633 | 31,846,080 | 38,950,100 | 45,442,841 |

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------------|--------|--------|--------|--------|--------|
| Other Fleet Data (2) | | | | | |
| Number of vessels | 16.30 | 15.53 | 16.00 | 15.21 | 14.56 |
| Calendar days | 5,949 | 5,669 | 5,840 | 5,566 | 5,313 |
| Available days | 4,983 | 4,953 | 5,700 | 5,521 | 5,185 |
| Voyage days | 4,724 | 4,914 | 5,497 | 5,280 | 4,961 |
| Utilization Rate (percent) | 94.8 % | 99.2 % | 96.4 % | 95.6 % | 95.7 % |

| | (In U.S. dollars per day per vessel) | | | | |
|--|--------------------------------------|--------|--------|--------|-------|
| Average TCE rate (3) | 13,698 | 11,201 | 11,525 | 10,155 | 7,945 |
| Vessel Operating Expenses | 3,979 | 3,794 | 4,495 | 4,507 | 4,741 |
| Management Fees | 853 | 863 | 995 | 895 | 921 |
| G&A Expenses | 612 | 534 | 511 | 657 | 639 |
| Total Operating Expenses excluding drydocking expenses | 5,444 | 5,191 | 6,001 | 6,058 | 6,301 |
| Drydocking expenses | 321 | 1,153 | 539 | 290 | 718 |

(1) Effective October 1, 2013, the Company changed its estimate of the useful life of its containerships to 25 years from 30 years. The effect of this change of estimates added \$3.4 million to the Company's depreciation expenses during the fourth quarter of 2013, or, \$0.08 loss per share, basic and diluted. The depreciation expense for the year ended December 31, 2013, after the change in the estimated useful life of its containerships, amounted to \$19.98 million. The depreciation expense for the year before the change in the estimates would have been \$16.61 million.

(2) For the definition of calendar days, available days, voyage days and utilization rate see "Item 5.A-Operating Results".

(3) Time charter equivalent rate, or TCE rate, is determined by dividing voyage revenues less voyage expenses or time charter equivalent revenue, or TCE revenues, by the number of voyage days during the relevant time period. TCE revenues, a non-GAAP measure, provides additional meaningful information in conjunction with shipping revenues, the most directly comparable GAAP measure, because it assists Company management in making decisions regarding the deployment and use of its vessels and in evaluating the Company's financial performance. TCE revenues and TCE rate are also standard shipping industry performance measures used primarily to compare period-to-period changes in a shipping company's performance despite changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed between the periods (see also Item "5.A Operating Results").

Reconciliation of TCE revenues as reflected in the consolidated statement of operations and calculation of TCE rate follow:

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|--------------|--------------|------------|--------------|--------------|
| (In U.S. dollars, except for voyage days and TCE rates which are expressed in U.S. dollars per day) | | | | | |
| Voyage revenues | 66,215,669 | 54,422,489 | 64,129,511 | 54,921,697 | 40,850,051 |
| Loss of hire insurance income (*) | - | 2,214,179 | - | - | - |
| Voyage expenses | (1,510,551) | (1,596,569) | (777,902) | (1,329,668) | (1,537,898) |
| Time Charter Equivalent or TCE Revenues | 64,705,118 | 55,040,099 | 63,351,609 | 53,592,029 | 39,312,153 |
| Voyage days(*) | 4,724 | 4,914 | 5,497 | 5,280 | 4,961 |
| Average TCE rate(*) | 13,698 | 11,201 | 11,525 | 10,155 | 7,924 |

(*) Average TCE calculation for 2010 takes into account loss of hire insurance receipts for the period our vessel "Eleni P" was hijacked and held off the coast of Somalia. The loss of hire receipts are not included in "Voyage revenues" but rather in "Operating expenses" in the "Consolidated statement of operations". The period of hijacking (about 214 days) is included in "Voyage days".

(4) In June, 2012 the Company completed a shareholders' rights offering at a price of \$1.10 per share for 13,852,094 shares of common stock. The weighted average number of shares as well as the earnings / losses per share shown above have been adjusted retroactively to give effect to the shares associated with this rights offering.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Any investment in our common stock involves a high degree of risk. You should consider carefully the following factors, as well as the other information set forth in this annual report, before making an investment in our common stock. Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate to the securities market for, and ownership of, our common stock. Any of the described risks could

significantly and negatively affect our business, financial condition, operating results and common stock price. The following risk factors describe the material risks that are presently known to us.

5

Industry Risk Factors

The cyclical nature of the shipping industry may lead to volatile changes in freight rates, which may reduce our revenues and net income.

We are an independent shipping company that operates in the drybulk and container shipping industry. Our profitability is dependent upon the freight rates we are able to charge. The supply of, and demand for, shipping capacity strongly influences freight rates. The demand for shipping capacity is determined primarily by the demand for the type of commodities carried and the distance that those commodities must be moved by sea. The demand for commodities is affected by, among other things, world and regional economic and political conditions (including developments in international trade, fluctuations in industrial and agricultural production and armed conflicts), environmental concerns, weather patterns, and changes in seaborne and other transportation costs. The size of the existing fleet in a particular market, the number of new vessel deliveries, the scrapping of older vessels and the number of vessels out of active service (i.e., laid-up, drydocked, awaiting repairs or otherwise not available for hire), determines the supply of shipping capacity, which is measured by the amount of suitable tonnage available to carry cargo. The cyclical nature of the shipping industry may lead to volatile changes in freight rates, which may reduce our revenues and net income.

In addition to the prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to scrap prices, costs of bunkers and other operating costs, costs associated with classification society surveys, normal maintenance and insurance coverage, the efficiency and age profile of the existing fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These factors influencing the supply of and demand for shipping capacity are outside of our control, and we may not be able to correctly assess the nature, timing and degree of changes in industry conditions. Some of these factors may have a negative impact on our revenues and net income.

Our future profitability will be dependent on the level of charter rates in the international drybulk and container shipping industry.

During 2011, BDI (Baltic Drybulk Index, an index that reflects the average daily equivalent rate of renting a vessel and operating crew) ranged from a minimum of 1,043 to a maximum of 2,173 and closed the year at 1,738 as of December 31, 2011. During 2012, the BDI has continued its volatility, falling as low as 647, then gradually rising to 1162 in July 2012 before declining again, finally closing the year at 699. During 2013, the BDI started rising gradually from 699 to a peak of 2,125 in mid-October, then after a decline to 1,484, increased again to close the year at 2,247. This increase in the index was primarily due to more iron ore going to China. The year 2014 started with a decline at close to 1,100 by the end of January followed by a rebound to above 1,500 by March and retreat to about 1,250 by the beginning of April. The volatility in dry bulk charter rates are due to various factors affecting demand for and supply of vessels, including the lack of trade financing for purchases of commodities carried by sea, which may result in a significant decline in cargo shipments, trade disruptions caused by natural disasters, and increased newbuilding deliveries, especially in the Capesize and Panamax segment. There is no certainty that the dry bulk charter market will experience any recovery over the next months and the market could decline from its current level, especially, given the large number of scheduled newbuilding deliveries.

Containership rates, having reached historically low levels in 2009, recovered throughout 2010 and the beginning of 2011 (with an exception of a decline during December 2010) peaking in during April 2011. During the remainder of 2011, rates declined again finishing the year about 26% below their level as of December 31, 2010. During 2012, 2013 and the beginning of 2014 rates remained depressed at same low levels as of the end of 2011.

Rates in drybulk or containership markets are influenced by the balance of demand for and supply of vessels and may remain depressed or decline again in the future. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are unpredictable, and as a result so are the rates at which we can charter our vessels. In addition, we may not be able to successfully charter our vessels in the future or renew existing charters at rates sufficient to allow us to meet our obligations or to pay dividends to our shareholders.

Some of the factors that influence demand for vessel capacity include:

- supply of, and demand for, drybulk commodities and containerized cargo;
- changes in the exploration or production of energy resources, commodities, semi-finished and finished consumer and industrial products, and the resulting changes in the international pattern of trade;
- global and regional economic and political conditions, including armed conflicts and terrorist activities;
- embargoes and strikes;
- the location of regional and global exploration, production and manufacturing facilities;
- availability of credit to finance international trade;
- the location of consuming regions for energy resources, commodities, semi-finished and finished consumer and industrial products;
- the distance drybulk and containerized commodities are to be moved by sea;
- environmental and other regulatory developments;
- currency exchange rates;
- changes in global production and manufacturing distribution patterns of finished goods that utilize drybulk and other containerized commodities;
- changes in seaborne and other transportation patterns; and
- weather and other natural phenomena.

Some of the factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- the price of steel and other materials;
- port and canal congestion;
- changes in environmental and other regulations that may limit the useful life of vessels;
- vessel casualties;
- the number of vessels that are out of service; and
- changes in global commodity production.

We anticipate that the future demand for our drybulk and container vessels and the charter rates of the corresponding markets will be dependent upon economic recovery in the United States, Europe and Japan, among other economies, as well as continued economic growth in China, India and the overall world economy, seasonal and regional changes in demand and changes to the capacity of the world fleet. The capacity of the world fleet may increase and economic growth may not continue. Adverse economic, political, social or other developments could also have a material adverse effect on our business and results of operations.

An over-supply of drybulk carrier and containership capacity may lead to further reductions in charter hire rates and profitability and may require us to raise additional capital in order to remain compliant with our loan covenants and affect our ability to pay dividends in the future.

The market supply of drybulk carriers and containerships has been increasing, and the number of both drybulk vessels and containerships on order recently reached historic highs and remains high by historical standards. The drybulk vessel newbuilding deliveries peaked during 2012 despite a number of order cancellations and delivery delays and continue high in 2013. The containership newbuildings are also expected to continue being delivered in significant numbers over the next couple of years, although at a lower rate than in 2011. If the number of new ships delivered exceeds the number of vessels being scrapped and lost, vessel capacity will increase. An over-supply of drybulk carrier and containership capacity may result in a further reduction of charter hire rates. As reported by industry sources, the containership fleet has increased by 8.4% during 2011, by 6.1% during 2012 and by 5.4% during 2013,

while 2014 started with an increase around 2% compared to 2013. For instance, given that as of April 1 2014, as reported by industry sources, the capacity of the fully cellular worldwide container vessel fleet was approximately 17.3 million teu with approximately 3.7 million teu, or, about 21% of the present fleet capacity on order, the growing supply of container vessels may exceed future demand. Similarly, as of April 1, 2014, as reported by industry sources, the capacity of the worldwide drybulk fleet was approximately 733.6 million dwt with 157.8 million dwt, or, about 22% of the present fleet capacity was on order. If the supply of vessel capacity increases but the demand for vessel capacity does not increase correspondingly, charter rates and vessel values could materially decline.

If such a rate decline occurs upon the expiration or termination of our drybulk carriers' and containerships' current charters, when the charters of our vessels are currently scheduled to expire, we may only be able to re-charter those drybulk carriers and containerships at reduced or unprofitable rates or we may not be able to charter these vessels at all. Some of the containership charters we renewed or concluded during 2011, 2012, 2013 and 2014 were at unprofitable or marginally profitable rates and were entered into because they resulted in lower losses than would have resulted had we put the vessels in lay-up. If the current market conditions continue, our vessels, especially our containership carriers, will continue to face unprofitable or marginally profitable charter rates and, even, experience difficulties in securing employment. Any inability to enter into more profitable charters may require us to raise additional capital in order to remain compliant with our loan covenants and may also affect our ability to pay dividends in the future.

The market value of our vessels can fluctuate significantly, which may adversely affect our financial condition, cause us to breach financial covenants, result in the incurrence of a loss upon disposal of a vessel or increase the cost of acquiring additional vessels.

The value of our vessels may fluctuate, adversely affecting our earnings and liquidity and causing us to breach our secured credit agreements.

The fair market values of our vessels are related to prevailing freight charter rates. While the fair market value of vessels and the freight charter market have a very close relationship as the charter market moves from trough to peak, the time lag between the effect of charter rates on market values of ships can vary. A decrease in the market values of our vessels could limit the amount of funds that we can borrow or trigger certain financial covenants under our current or future credit facilities, and we may incur a loss if we sell vessels following a decline in their market value. Furthermore, a decrease in the market value of our vessels could require us to raise additional capital in order to remain compliant with our loan covenants, and could result in the loss of our vessels and adversely affect our earnings and financial condition.

The ocean-going container shipping industry is both cyclical and volatile in terms of charter hire rates and profitability. Containership charter rates peaked in 2005 and generally stayed strong until the middle of 2008, when the effects of the recent economic crisis began to affect the global container trade. Rates fell significantly, declining to below the late 2001 ten-year lows. In 2010 containership charter rates improved but remained below long-term averages, but that improvement was not sustainable and charter rates declined again in 2011 and remained low throughout 2012 and 2013. The factors affecting the supply and demand for containerships and bulk carriers and supply and demand for products shipped in containers or bulk carriers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The market value of our vessels may increase or decrease depending on the following factors:

- general economic and market conditions affecting the shipping industry in general;
- supply of drybulk and container vessels, including newbuildings;
- demand for drybulk and container vessels;
- types and sizes of vessels;
- scrap values;
- other modes of transportation;
- cost of newbuildings;
- technological advances;
- new regulatory requirements from governments or self-regulated organizations;
- competition from other shipping companies; and
- prevailing level of charter rates.

As vessels grow older, they generally decline in value. Due to the cyclical nature of the drybulk and container shipping industry, if for any reason we sell vessels at a time when prices have fallen, we could incur a loss and our business, results of operations, cash flow, financial condition and ability to pay dividends could be adversely affected.

In addition, we periodically re-evaluate the carrying amount and period over which long-lived assets are depreciated to determine if events have occurred that would require modification to such assets' carrying values or their useful lives. A determination that a vessel's estimated remaining useful life or fair value has declined below its carrying amount could result in an impairment charge against our earnings and a reduction in our shareholders' equity. Any change in the assessed market value of any of our vessels might also cause a violation of the covenants of each secured credit agreement, which, in turn, might restrict our cash and affect our liquidity. All of our credit agreements provide for a minimum security maintenance ratio. If the assessed market value of our vessels declines below certain thresholds, we will be deemed to have violated these covenants and may incur penalties for breach of our credit agreements. For example, these penalties could require us to prepay the shortfall between the assessed market value of our vessels and the value of such vessels required to be maintained pursuant to the secured credit agreement, or to provide additional security acceptable to the lenders in an amount at least equal to the amount of any shortfall. Furthermore, we may enter into future loans, which may include various other covenants, in addition to the vessel-related ones, that may ultimately depend on the assessed values of our vessels. Such covenants could include, but are not limited to, maximum fleet leverage covenants and minimum fair net worth covenants.

An economic slowdown in the Asia Pacific region could exacerbate the effect of any slowdowns in the economies of the United States and the European Union and debt problems of some European Union countries and could adversely affect the profitability of our business, financial condition and results of operations.

A significant number of the port calls made by our vessels involve the loading or discharging of raw materials and semi-finished products in ports in the Asia Pacific region. As a result of the credit and financial crisis at the end of 2008 and beginning of 2009 and the resulting world economic slowdown demand for the services of our vessels has declined. However, economic activity in the Asia Pacific region led by China quickly recovered, especially with regard to the import of bulk commodities. Any negative change in economic conditions in any Asia Pacific country, particularly in China, may have a significant adverse effect on our business, financial position and results of operations, as well as our future prospects. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product which has had a significant impact on shipping demand. Such growth may not be sustained and the Chinese economy and other Asian countries may experience contraction in the future. Moreover, any continued or renewed weakness in the economies of the United States of America, the European Union or certain Asian countries may adversely affect economic growth in China, India and elsewhere. Furthermore, sovereign debt problems in certain European Union countries like Greece, Portugal, Ireland, Italy and Spain, or delays in raising the debt ceiling, if necessary, in the United States may cause further unease and possibly disruption in the operations of financial institutions on which we depend on for our operations and hold deposits in, or changes in regulatory environment within which we operate (especially in Greece). Our business, financial position and results of operations, as well as our future prospects, will likely be materially and adversely affected by an economic downturn in any of these countries, particularly in China and Japan and, to some extent, India, and such downturns may exacerbate the effect of any slowdowns in the economies of the United States and the European Union.

Eurozone's potential inability to deal with the sovereign debt issues of some of its members could have a material adverse effect on the profitability of our business, financial condition and results of operations.

Despite the efforts of the European Council in 2011, 2012 and 2013 to implement a structured financial support mechanism for Eurozone countries experiencing financial difficulties, questions remain about the capability of a number of member countries to refinance their sovereign debt and meet their debt obligations. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the

European Stability Mechanism, or the ESM, which will be activated by mutual agreement to provide external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for our services. These potential developments, or market perceptions concerning these and related issues, could have a material adverse effect on our financial position, results of operations and cash flow.

Liner companies, which comprise the largest contingent of charterers of containerships, have been placed under significant financial pressure, thereby increasing our charter counterparty risk which may have a material adverse effect on our business, financial condition and results of operations.

The decline in global trade due to the economic slowdown has resulted in a significant decline in demand for the seaborne transportation of products in containers, including for exports from China to Europe and the United States. Consequently, the cargo volumes and, especially, freight rates achieved by liner companies, which charter containerships from ship owners like us, have declined, sharply in the second half of 2011, and continued to be weak throughout 2012 and 2013, especially for medium to smaller size containerships. Freight rates stabilized toward the end of 2012, remained at similar levels in 2013, continued to decline in early 2014 and currently remain below historical averages, adversely affecting their profitability. The financial challenges faced by liner companies, some of which announced efforts to obtain third party aid and restructure their obligations, including our charterers, has reduced demand for containership charters and may increase the likelihood of our customers being unable or unwilling to pay us contracted charter rates. The combination of the current surplus of containership capacity and the expected increase in the size of the world containership fleet over the next several years may make it difficult to secure substitute employment for our containerships if our counterparties fail to perform their obligations under the currently arranged time charters, and any new charter arrangements we are able to secure may be at lower rates.

The drybulk and containership industries are highly competitive, and we may be unable to compete successfully for charters with established companies or new entrants that may have greater resources and access to capital, which may have a material adverse effect on our business, prospects, financial condition, liquidity and results of operations.

The drybulk and containership industries are highly competitive, capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom may have greater resources and access to capital than we will have. Competition among vessel owners for the seaborne transportation of semi-finished and finished consumer and industrial products can be intense and depends on the charter rate, location, size, age, condition and the acceptability of the vessel and its operators to charterers. Due in part to the highly fragmented market, many of our competitors with greater resources and access to capital than we have could operate larger fleets than we may operate and thus be able to offer lower charter rates or higher quality vessels than we are able to offer. If this were to occur, we may be unable to retain or attract new charterers on attractive terms or at all, which may have a material adverse effect on our business, prospects, financial condition, liquidity and results of operations.

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

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five year State Plans are adopted by the Chinese government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through State Plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken, with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. The Chinese government may not continue to pursue a policy of

economic reform. The level of imports to and exports from China could be adversely affected by the nature of the economic reforms pursued by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could adversely affect our business, operating results, financial condition and cash flows.

We may become dependent on spot charters in the volatile shipping markets, which may result in decreased revenues and/or profitability.

Although a majority of our vessels are currently under time charters, in the future, we may have more of these vessels and/or any newly acquired vessels on spot charters. The spot market is highly competitive and rates within this market are subject to volatile fluctuations, while time charters provide income at pre-determined rates over more extended periods of time. If we decide to spot charter our vessels, we may not be able to keep all our vessels fully employed in these short-term markets. In addition, we may not be able to predict whether future spot rates will be sufficient to enable our vessels to be operated profitably. A significant decrease in charter rates has affected and could continue affecting the value of our fleet and could adversely affect our profitability and cash flows with the result that our ability to pay debt service to our lenders and dividends to our shareholders could be adversely affected.

The current state of global financial markets and current economic conditions may adversely impact our ability to obtain additional financing on acceptable terms which may hinder or prevent us from expanding our business.

Global financial markets and economic conditions have been, and continue to be, volatile. The current state of global financial markets and current economic conditions might adversely impact our ability to issue additional equity at prices which will not be dilutive to our existing shareholders or preclude us from issuing equity at all.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that additional financing will be available if needed and to the extent required, on acceptable terms or at all. If additional financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

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

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, the International Convention for the Prevention of Pollution from Ships, or MARPOL, the International Convention on Load Lines of 1966, the International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage, or Bunker Convention, the International Convention for the Safety of Life at Sea of 1974, or SOLAS, the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, the U.S. Oil Pollution Act of 1990, or OPA, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the U.S. Clean Water Act, the U.S. Clean Air Act, the U.S. Outer Continental Shelf Lands Act, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, and European Union regulations. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. Furthermore, the explosion of the Deepwater Horizon and the subsequent release of oil into the Gulf of Mexico, or other events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes. Thus we may also incur additional costs in order to comply with other existing and future regulatory obligations,

including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations.

Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Because such conventions, laws and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale price or useful life of our vessels. Additional conventions, laws and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. There can be no assurance that any such insurance we have arranged to cover certain environmental risks will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to pay dividends. We currently maintain, for each of our vessels, pollution liability coverage insurance of \$1.0 billion per incident. If the damages from a catastrophic spill exceeded our insurance coverage, it would severely and adversely affect our business, results of operations, cash flows, financial condition and ability to pay dividends.

Environmental requirements can also require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including clean up obligations and natural resource damages in the event that there is a release of bunkers or hazardous substances from our vessels or otherwise is connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of hazardous substances associated with our existing or historic operations. Violations of, or liabilities under, environmental requirements can result in substantial penalties, fines and others sanctions, including in certain instances, seizure or detention of our vessels.

We are subject to international safety regulations and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports.

The operation of our vessels is affected by the requirements set forth in the United Nations' International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance cove