Eagle Bulk Shipping Inc.
Form 10-Q
November 09, 2012

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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001–33831

EAGLE BULK SHIPPING INC.

(Exact name of Registrant as specified in its charter)

Republic of the Marshall Islands	98–0453513
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) Identification No.)

477 Madison Avenue

New York, New York 10022

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: **(212) 785–2500**

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO ¨

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

Large accelerated Filer ¨ Accelerated Filer x Non-accelerated Filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES £ NO S

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $0.01 per share, 15,771,496 shares outstanding as of November 9, 2012.

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Part 1 : FINANCIAL INFORMATION

Item 1 : Financial Statements

EAGLE BULK SHIPPING INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 18,559,137	$ 25,075,203
Accounts receivable, net	13,794,508	13,960,777
Prepaid expenses	3,261,234	3,969,905
Inventories	10,813,659	11,083,331
Investment	135,886	988,196
Fair value above contract value of time charters acquired	553,894	567,315
Fair value of derivative instruments	-	246,110
Total current assets	47,118,318	55,890,837
Noncurrent assets:		
Vessels and vessel improvements, at cost, net of accumulated depreciation of $295,815,545 and $239,568,767, respectively	1,733,192,789	1,789,381,046
Other fixed assets, net of accumulated amortization of $466,074 and $324,691, respectively	512,633	605,519
Restricted cash	276,056	670,418
Deferred drydock costs	2,526,709	3,303,363
Deferred financing costs	27,204,280	11,766,779
Fair value above contract value of time charters acquired	2,628,175	3,041,496
Other assets	507,637	2,597,270
Total noncurrent assets	1,766,848,279	1,811,365,891
Total assets	$ 1,813,966,597	$ 1,867,256,728
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,473,153	$ 10,642,831
Accrued interest	1,953,730	2,815,665
Other accrued liabilities	15,570,073	11,822,582
Current portion of long-term debt	—	32,094,006
Deferred revenue and fair value below contract value of time charters acquired	3,969,335	5,966,698
Unearned charter hire revenue	4,183,856	5,779,928
Total current liabilities	35,150,147	69,121,710
Noncurrent liabilities:		
Long-term debt	1,137,580,694	1,097,384,735
	14,614,056	17,088,464

Deferred revenue and fair value below contract value of time charters acquired		
Fair value of derivative instruments	4,498,027	9,486,116
Total noncurrent liabilities	1,156,692,777	1,123,959,315
Total liabilities	1,191,842,924	1,193,081,025
Commitment and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 25,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value, 100,000,000 shares authorized, 15,771,496* shares issued and outstanding	157,715	157,508
Additional paid-in capital	760,134,806	745,945,694
Retained earnings (net of dividends declared of $262,118,388 as of September 30, 2012 and December 31, 2011, respectively)	(132,851,614)	(62,474,486)
Accumulated other comprehensive loss	(5,317,234)	(9,453,013)
Total stockholders' equity	622,123,673	674,175,703
Total liabilities and stockholders' equity	$ 1,813,966,597	$ 1,867,256,728

* Adjusted to give effect to the 1 for 4 reverse stock split that became effective on May 22, 2012, see Note 1.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenues, net of commissions	$46,854,671	$ 80,323,369	$148,008,304	$243,421,532
Voyage expenses	6,480,233	11,995,164	20,370,857	35,941,960
Vessel expenses	21,246,653	22,000,678	67,557,977	62,763,849
Charter hire expenses	1,104,571	11,058,796	1,711,144	38,013,289
Depreciation and amortization	19,389,042	18,660,293	58,250,356	53,459,509
General and administrative expenses	6,497,598	8,283,432	26,551,478	30,218,614
Loss (gain) from sale of vessel	—	509,076	—	509,076
Total operating expenses	54,718,097	72,507,439	174,441,812	220,906,297
Operating income (loss)	(7,863,426)	7,815,930	(26,433,508)	22,515,235
Interest expense	21,981,186	12,390,455	44,995,438	35,399,362
Interest income	(7,252)	(35,796)	(23,443)	(122,930)
Other (Income) expense	—	1,333,482	(1,028,375)	359,573
Total other expense, net	21,973,934	13,688,141	43,943,620	35,636,005
Net loss	$(29,837,360)	$ (5,872,211)	$(70,377,128)	$(13,120,770)
Weighted average shares outstanding*:				
Basic	16,821,024	15,663,181	16,153,184	15,648,791
Diluted	16,821,024	15,663,181	16,153,184	15,648,791
Per share amounts:				
Basic net loss	$(1.77)	$ (0.37)	$(4.36)	$(0.84)
Diluted net loss	$(1.77)	$ (0.37)	$(4.36)	$(0.84)

* Adjusted to give effect to the 1 for 4 reverse stock split that became effective on May 22, 2012, see Note 1.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net loss	$(29,837,360)	$(5,872,211)	$(70,377,128)	$(13,120,770)
Other comprehensive income:				
Change in unrealized loss on investment	(91,468)	—	(852,310)	—
Net unrealized gain on derivatives	1,725,595	3,259,015	4,988,089	8,690,955
Total other comprehensive income	1,634,127	3,259,015	4,135,779	8,690,955
Comprehensive loss	$(28,203,233)	$(2,613,196)	$(66,241,349)	$(4,429,815)

The accompanying notes are an integral part of these Consolidated Financial Statements.

EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

	Common Shares	**Common Shares Amount**	**Additional Paid-In Capital**	Net Loss	**Accumulated Deficit**	Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2011	15,750,796*	$157,508*	$745,945,694*	—	$(62,474,486)	$(9,453,013)	$674,175,703
Net loss	—	—	—	(70,377,128)	(70,377,128)	—	(70,377,128)
Change in unrealized loss on investment	—	—	—	—	—	(852,310)	(852,310)
Net unrealized gain on derivatives	—	—	—	—	—	4,988,089	4,988,089
Vesting of restricted shares, net of shares withheld for employee tax	20,700	207	(65,345)	—	—	—	(65,138)
Issuance of warrants	—	—	7,241,743	—	—	—	7,241,743
Non-cash compensation	—	—	7,012,714	—	—	—	7,012,714
Balance at September 30, 2012	15,771,496	$157,715	$760,134,806		$(132,851,614)	$(5,317,234)	$622,123,673

* Adjusted to give effect to the 1 for 4 reverse stock split that became effective on May 22, 2012, see Note 1.

The accompanying notes are an integral part of these Consolidated Financial Statements.

EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30, 2012	September 30, 2011
Cash flows from operating activities:		
Net loss	$(70,377,128)	$(13,120,770)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Items included in net loss not affecting cash flows:		
Depreciation	56,388,161	51,014,334
Amortization of deferred drydocking costs	1,862,195	2,445,175
Amortization of deferred financing costs	4,428,572	3,014,720
Amortization of fair value below contract value of time charter acquired	(3,574,012)	(3,833,571)
Loss from sale of vessel	—	509,076
Payment-in-kind interest on debt	8,101,953	—
Unrealized gain from forward freight agreements, net	246,110	377,889
Allowance for accounts receivable	5,351,609	6,586,900
Non-cash compensation expense	7,012,714	6,958,931
Drydocking expenditures	(1,085,541)	(2,074,115)
Changes in operating assets and liabilities:		
Accounts receivable	(5,185,340)	(16,264,471)
Other assets	2,089,633	(2,528,419)
Prepaid expenses	708,671	(198,860)
Inventories	269,672	(5,087,644)
Accounts payable	(1,169,678)	3,309,380
Accrued interest	(861,935)	(2,495,987)
Accrued expenses	505,953	8,709,633
Deferred revenue	(471,017)	19,244
Unearned revenue	(1,596,072)	(233,646)
Net cash provided by operating activities	2,644,520	37,107,799
Cash flows from investing activities:		
Vessels and vessel improvements and advances for vessel construction	(58,521)	(155,686,543)
Purchase of other fixed assets	(48,497)	(342,932)
Proceeds from sale of vessel	—	22,511,226
Changes in restricted cash	394,362	(1,131,519)
Net cash provided by (used in) investing activities	287,344	(134,649,768)
Cash flows from financing activities:		
Repayment of bank debt	—	(21,875,735)
Changes in restricted cash	—	19,000,000
Deferred financing costs	(9,382,792)	—

Cash used to settle net share equity awards	(65,138)	(1,429,982)
Net cash used in financing activities	(9,447,930)	(4,305,717)
Net decrease in cash	(6,516,066)	(101,847,686)
Cash at beginning of period	25,075,203	129,121,680
Cash at end of period	$18,559,137	$27,273,994

The accompanying notes are an integral part of these Consolidated Financial Statements.

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EAGLE BULK SHIPPING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Presentation and General Information

The accompanying consolidated financial statements include the accounts of Eagle Bulk Shipping Inc. and its wholly-owned subsidiaries (collectively, the "Company", “we” or “our”). The Company is engaged in the ocean transportation of dry bulk cargoes worldwide through the ownership, chartering and operation of dry bulk vessels. The Company's fleet is comprised of Supramax and Handymax drybulk carriers and the Company operates its business in one business segment.

The Company is a holding company incorporated in 2005 under the laws of the Republic of the Marshall Islands and is the sole owner of all of the outstanding shares of its subsidiaries, which are incorporated in the Republic of the Marshall Islands. The primary activity of each of the subsidiaries, other than the Company’s management subsidiaries, is the ownership of a vessel. The operations of the vessels are managed by a wholly-owned subsidiary of the Company, Eagle Shipping International (USA) LLC, a Republic of the Marshall Islands limited liability company.

As of September 30, 2012, the Company owned and operated a modern fleet of 45 oceangoing vessels comprised of 43 Supramax and 2 Handymax vessels with a combined carrying capacity of 2,451,259 dwt and an average age of approximately five years. In 2011, the Company completed its Supramax vessel newbuilding program.

The following table represents certain information about the Company's charterers that individually accounted for more than 10% of the Company's gross time charter revenue during the periods indicated:

% of Consolidated Time Charter Revenue

	Three Months Ended				Nine Months Ended		
	September 30, 2012		September 30, 2011		September 30, 2012		September 30, 2011
Charterer							
Charterer A	28	%	-		26	%	-
Charterer B	-		10	%	-		-

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), and the rules and regulations of the Securities and Exchange Commission ("SEC") which apply to interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes normally included in consolidated financial statements prepared in conformity with U.S. GAAP. They should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2011 Annual Report on Form 10-K, filed with the SEC on March 15, 2012.

The accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring adjustments) that management considers necessary for a fair statement of its consolidated financial position and results of operations for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the entire year.

Effective as of the open of trading on May 22, 2012, the Company completed a 1 for 4 reverse stock split as previously approved by the Company's shareholders. Proportional adjustments were made to the Company's issued and outstanding common stock and to its common stock underlying stock options and other common stock-based equity grants outstanding immediately prior to the effectiveness of the reverse stock split. No fractional shares were issued in connection with the reverse stock split, as shareholders who would have otherwise held a fractional share of common stock received a cash payment in lieu of that fractional share. All references herein to common stock and per share data for all periods presented in these consolidated financial statements and notes thereto, have been retrospectively adjusted to reflect the reverse stock split.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates and assumptions of the Company are stock-based compensation, the useful lives of fixed assets and intangibles, depreciation and amortization, the allowances for bad debt, and the fair value of derivatives and warrants.

Note 2. New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance on fair value measurement and related disclosures. The new guidance clarified the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance is effective for reporting periods beginning after December 15, 2011, and will be applied prospectively. The adoption of this amendment in 2012 did not have a material effect on the presentation of the Company's consolidated financial statements.

In June 2011 and December 2011, FASB issued two Accounting Standard Updates ("ASUs"), which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The current option to report other comprehensive income and its components in the statement of stockholders' equity has been eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. The Company adopted these ASUs using two consecutive statements beginning January 1, 2012, for all periods presented.

In December 2011, FASB issued an Accounting Standards Update for balance sheet, which contains new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. Under U.S. GAAP, certain derivative and repurchase agreement arrangements are granted exceptions from the general off-setting model. The new disclosure requirement will provide financial statement users information regarding both gross and net exposures. This guidance is effective for annual and interim financial statements beginning on or after January 1, 2013. Retrospective application is required. The Company does not expect a material impact on the Company's consolidated financial statements as a result of the adoption of this standard.

In July 2012, the FASB released an Accounting Standards Update for Intangibles-Goodwill and Other, Testing Indefinite-Lived Intangible Assets for Impairment. The ASU gives companies the option to perform a qualitative assessment before calculating the fair value of the indefinite-lived intangible asset. Under the guidance, if this option is selected, a company is not required to calculate the fair value of the indefinite-lived intangible unless the entity determines it is more likely than not that its fair value is less than its carrying amount. The provisions are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, but early adoption is permitted. We have elected not to early adopt the provisions, but when adopted, we do not expect a material impact on the Company's consolidated financial statements.

Note 3. Vessels

Vessel and Vessel Improvements

At September 30, 2012, the Company's operating fleet consisted of 45 dry bulk vessels. The Company completed its newbuilding program in the fourth quarter of 2011.

Vessel and vessel improvements:

Vessels and Vessel Improvements, at December 31, 2011	$1,789,381,046
Purchase of Vessel Improvements	58,521
Depreciation Expense	(56,246,778)
Vessels and Vessel Improvements, at September 30, 2012	$1,733,192,789

Note 4. Debt

Debt consists of the following:

	September 30, 2012	December 31, 2011
Credit Facility	$ —	$ 1,129,478,741
Term loan	1,129,478,741	—
Payment-in-kind loan	8,101,953	—
Less: Current portion	—	(32,094,006)
Long-term debt	$ 1,137,580,694	$ 1,097,384,735

The Fourth Amended and Restated Credit Agreement

On June 20, 2012, the Company entered into a Fourth Amended and Restated Credit Agreement to its credit facility agreement, dated as of October 19, 2007, as amended up to the date thereof (the "Fourth Amended and Restated Credit Agreement"), which, among other things, (i) permanently waives any purported defaults or events of defaults that were the subject of a temporary waiver under the Sixth Amendatory and Commercial Framework Implementation Agreement (the "Sixth Amendment") to the Third Amended and Restated Credit Agreement dated October 19, 2007, including any alleged events of default arising from any purported breach of the minimum adjusted net worth covenant that occurred as a result of any failure to maintain the required adjusted net worth; (ii) converts the $1,129,478,741 outstanding under the revolving credit facility into a term loan; (iii) sets the maturity date as December 31, 2015, and, subject to the Company's satisfaction of certain conditions, including a collateral coverage ratio at December 31, 2015 of less than 80%, provides an option to the Company to further extend the maturity date by an additional 18 months to June 30, 2017 (the "Termination Date"); (iv) requires no mandatory repayments of principal until the Termination Date, other than a quarterly sweep of cash on hand in excess of $20,000,000 and upon the sale of vessels, additional financings or future equity raises by the Company. All amounts outstanding under the term loan will bear interest at LIBOR plus a margin that will include a payment-in-kind ("PIK") component. The initial cash margin of 3.50% and PIK margin of 2.50% can be reduced on the basis of reduced leverage and proceeds from future equity raises by the Company.

The Fourth Amended and Restated Credit Agreement also provides for a new Liquidity Facility in the aggregate amount of $20,000,000, which permits the purchase or sale of vessels within certain parameters, permits the management of third party vessels and provides that all capitalized interest will be evidenced in the form of PIK loans, which will mature on the Termination Date. On the Termination Date, the Company may elect to either (i) repay the PIK loans in cash; or (ii) convert the PIK loans into shares of cumulative convertible preferred stock, par value $10.00 per share. As of September 30, 2012 the outstanding amount of the term loan was $1,129,478,741, the amount of the PIK loans was $8,101,953 and no amount was drawn on the Liquidity Facility. In connection with the Fourth

Amended and Restated Credit Amendment, the Company recorded $12,624,330 of deferred financing costs that are amortized over the life of the term loan, including amendment and professional fees, of which 50% of the amendment fees were paid upon signing the Fourth Amended and Restated Credit Agreement, 25% of the amendment fees were paid during third quarter and the remaining 25% of the amendment fees is payable during the fourth quarter of 2012.

In addition, the Fourth Amended and Restated Credit Agreement replaces the previously existing financial covenants and substitutes them with new covenants, which shall require the Company to (i) maintain a maximum leverage ratio of the term loan indebtedness, excluding the PIK loans, to EBITDA (as defined in the Fourth Amended and Restated Credit Agreement) on a trailing four quarter basis, commencing in the quarterly period ending September 30, 2013, of 13.9:1, declining in intervals to 7.3:1 for the quarterly period ending December 31, 2015 and, should the Termination Date be extended under the Company’s option, further declining in intervals to 6.2:1 for the quarterly period ending March 31, 2017; (ii) maintain a minimum interest coverage ratio of EBITDA to cash interest expenses on a trailing four quarter basis, expressed as a percentage, commencing in the quarterly period ending June 30, 2013, of 130%, escalating in intervals to 220% for the quarterly period ending December 31, 2015 and, should the Termination Date be extended, further escalating in intervals to 230% for the quarterly period ending March 31, 2017; (iii) maintain free cash with the agent in one or more accounts in an amount equal to $500,000 per vessel owned directly or indirectly by the Company, provided that the unutilized amount of the liquidity facility shall be deemed to constitute free cash for these purposes; and (iv) maintain a maximum collateral coverage ratio, commencing in the quarterly period ending September 30, 2014, of 100% of the term loan indebtedness and any related swap exposure, declining in intervals to 80% for the quarterly period ending December 31, 2015 and, should the Termination Date be extended, further declining in intervals to 70% for the quarterly period ending March 31, 2017. The general decline in the dry bulk carrier charter market has resulted in lower charter rates for vessels in the dry bulk market. A continuation of these conditions, could impact our compliance with these loan covenants, once they are due.

In connection with the Fourth Amended and Restated Credit Agreement, the Company entered into a Warrant Agreement, dated June 20, 2012, pursuant to which the Company issued 3,148,584 warrants convertible on a cashless basis into shares of the Company's common stock, par value $0.01 (the "Warrant Shares"), at a strike price of $0.01 per share of common stock. One-third of the warrants are exercisable immediately, the next third of the warrants are exercisable when the price of the Company's common stock reaches $10.00 per share and the last third of the warrants are exercisable when the price of the Company's common stock reaches $12.00 per share. Unexercised warrants will expire on June 20, 2022. The Company determined the relative fair value of the Warrant Shares at $7.2 million using the Monte Carlo simulation which was performed, and the mean value was selected. The assumptions used in the Monte Carlo simulation were the underlying stock price of $2.98, risk-free rate of 1.64%, expected volatility of 79.3%, expected term of 10 years and expected dividend yield of 0%. The fair value of the warrants was recorded as deferred financing cost and amortized over of the life the term loan agreement.

Our obligations under the Fourth Amended and Restated Credit Agreement are secured by a first priority mortgage on each of the vessels in our fleet, and by a first assignment of all freights, earnings, insurances and requisition compensation relating to our vessels. The Fourth Amended and Restated Credit Agreement also limits our ability to create liens on our assets in favor of other parties.

Sixth Amendatory and Commercial Framework Implementation Agreement

On September 26, 2011, we entered into the Sixth Amendatory and Commercial Framework Implementation Agreement (the "Sixth Amendment") to the Third Amended and Restated Credit Agreement dated October 19, 2007, which has since been amended and restated in its entirety by the Fourth Amended and Restated Credit Agreement. Among other provisions, the Sixth Amendment had suspended the Company's compliance with certain covenants requirements until June 20, 2012.

For the nine months ended September 30, 2012, interest rates on the outstanding debt ranged from 2.72% to 8.73%, including a margin of 2.50% over LIBOR for the period up to June 19, 2012 and a margin of 3.50% over LIBOR thereafter. The weighted average effective interest rate was 3.78%.

Interest Expense, exclusive of capitalized interest, consists of**:**

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Loan Interest	$19,884,907	$ 11,294,145	$40,566,866	$ 32,384,642
Amortization of Deferred Financing Costs	2,096,279	1,096,310	4,428,572	3,014,720

Total Interest Expense	$21,981,186	$ 12,390,455	$44,995,438	$ 35,399,362

Interest paid, exclusive of capitalized interest, in the nine-month periods ended September 30, 2012 and 2011 amounted to $33,326,847 and $33,465,717, respectively.

Note 5. Derivative Instruments and Fair Value Measurements

Interest-Rate Swaps

The Company has entered into interest rate swaps to effectively convert a portion of its debt from a floating to a fixed-rate basis. Under these swap contracts, exclusive of applicable margins, the Company will pay fixed rate interest and receive floating-rate interest amounts based on three-month LIBOR settings. The swaps are designated and qualify as cash flow hedges. The following table summarizes the interest rate swaps in place as of September 30, 2012 and December 31, 2011.

Notional Amount Outstanding – September 30, 2012	Notional Amount Outstanding – December 31, 2011	Fixed Rate	Maturity
$ —	$ 36,752,038	5.225 %	08/2012
81,500,000	81,500,000	3.895 %	01/2013
84,800,000	84,800,000	3.900 %	09/2013
$ 166,300,000	$ 203,052,038		

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The Company records the fair value of the interest rate swaps as an asset or liability on its balance sheet. The effective portion of the swap is recorded in accumulated other comprehensive income. No portion of the cash flow hedges was ineffective during the period ended September 30, 2012. Accordingly, liabilities of $4,498,027 and $9,486,116 have been recorded in Fair value of derivative instruments in the Company's balance sheets as of September 30, 2012 and December 31, 2011, respectively.

Forward freight agreements, bunker swaps and freight derivatives

The Company trades in forward freight agreements ("FFAs"), bunker swaps and freight derivatives markets, with the objective of utilizing these markets as economic hedging instruments that reduce the risk of specific vessels to changes in the freight market and/or bunker costs. The Company's FFAs, bunker swaps and freight derivatives have not qualified for hedge accounting treatment.

The effect of cash flow hedging relationships on the balance sheets as of September 30, 2012 and December 31, 2011, and the statement of operations for the periods ended September 30, 2012 and 2011 are as follows:

The effect of designated derivative instruments on the consolidated balance sheets:

	Amount of Loss Recognized in AOCI on Derivative (Effective Portion)	
Derivatives designated for cash flow hedging relationships	September 30, 2012	December 31, 2011
Interest rate swaps	$ (4,498,027)	$ (9,486,116)
Total	$ (4,498,027)	$ (9,486,116)

The effect of non-designated derivative instruments on statements of operations**:**

Derivatives not designated as hedging instruments		Amount of Gain /(Loss)		Amount of Gain/(Loss)	
		Three Months Ended		Nine Months Ended	
	Location of Gain (Loss) Recognized	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011

FFAs, bunker swaps, freight and bunker derivatives	Other income	$ —	$ (1,333,482)	$ 1,028,375	$ (359,573)
Total		$ —	$ (1,333,482)	$ 1,028,375	$ (359,573)

Cash Collateral Disclosures

The Company does not offset fair value amounts recognized for derivatives by the right to reclaim cash collateral or the obligation to return cash collateral. The amount of collateral to be posted is defined by the terms of the respective master agreement executed with counterparties or exchanges and is required when agreed upon threshold limits are exceeded. At September 30, 2012, the Company's collateral related to its FFAs, bunker swaps and freight derivative transactions was zero. As of September 30, 2012, the Company had no outstanding amounts paid as collateral to derivative fair value positions.

Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash, cash equivalents and restricted cash—the carrying amounts reported in the consolidated balance sheet for interest-bearing deposits approximate their fair value due to their short-term nature thereof.

Debt—the carrying amounts of borrowings under the revolving credit agreement approximate their fair value, due to the variable interest rate nature thereof.

Interest rate swaps—the fair value of interest rate swaps (used for hedging purposes) is the estimated amount that the Company would receive or pay to terminate the swaps at the reporting date.

Forward freight agreements (FFAs)—the fair value of FFAs is determined based on quoted rates.

Freight and bunker derivative instruments—the fair value of freight and bunker derivative contracts is the estimated amount that the Company would receive or pay to terminate the option contracts at the reporting date.

Bunker swaps—the fair value of bunker swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the reporting date.

The Company defines fair value, establishes a framework for measuring fair value and provides disclosures about fair value measurements. The fair value hierarchy for disclosure of fair value measurements is as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Our Level 1 non-derivatives include cash, money-market accounts and restricted cash accounts.

Level 2 – Quoted prices for similar assets and liabilities in active markets or inputs that are observable. Our Level 2 non-derivatives include our term loan account.

Level 3 – Inputs that are unobservable (for example cash flow modeling inputs based on assumptions).

The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011, aggregated by the level in the fair value hierarchy within which those measurements fell:

	September 30, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Bunker swaps	—	—	—	$142,750	—	—
Bunker derivative instruments	—	—	—	—	$261,000	—
Liabilities:						
Interest rate swaps	—	$4,498,027	—	—	$9,486,116	—
Bunker swaps	—	—	—	$53,000	—	—
Bunker derivative instruments	—	—	—	—	$104,640	—

Note 6. Commitments and Contingencies

Legal Proceedings

The Company is involved in legal proceedings and may become involved in other legal matters arising in the ordinary course of its business. The Company evaluates these legal matters on a case-by-case basis to make a determination as to the impact, if any, on its business, liquidity, results of operations, financial condition or cash flows. The Company currently is party to the legal proceedings described below.

Shareholder Derivative Lawsuits

On June 13, 2011, a complaint against the Company's board of directors and a former director was filed in the United States District Court for the Southern District of New York alleging, among other things, that the directors breached their fiduciary duties of loyalty, good faith and care in connection with (i) director and officer compensation in the years 2008, 2009 and 2010; (ii) the Company's Management Agreement with Delphin Shipping LLC ("Delphin") (specifically, according to the complaint, alleging conflicts of interest between the Company's Chief Executive Officer, Delphin and the Company); and (iii) the adjournment of the Company's 2011 Annual Meeting of Shareholders. The complaint seeks rescission of director and officer compensation for those years as well as rescission of the Management Agreement, and seeks unspecified damages. This action is currently in discovery.

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On August 23, and August 30, 2011, respectively, two additional complaints were filed in the Supreme Court of the State of New York (New York County) against the Company's board of directors and a former director alleging substantially similar breaches of fiduciary duties as those alleged in the lawsuit filed on June 13, 2011. On January 10, 2012, a motion by the Company was granted, which stays these state court actions pending the outcome of the June 13, 2011 federal action.

On October 31, 2011, a complaint was filed in the United States District Court for the Southern District of New York by one of the plaintiffs in the June 13, 2011 federal action against the Company and its board of directors alleging deficiencies in the Company's proxy statement in connection with its special meeting of shareholders that was held on November 17, 2011. The Company revised its proxy statement prior to the meeting, causing plaintiffs to withdraw a request for injunctive relief in connection with their complaint. The Company served an answer in this action on March 19, 2012.

Korea Line Corporation

On January 25, 2011, Korea Line Corporation ("KLC"), one of our charterers, filed for protective receivership in Seoul, South Korea. On February 15, 2011, the Korean courts approved this request. The Company has temporarily taken back the employment of all affected chartered vessels and re-chartered them out on the spot and short-term time charter markets, pursuant to terms approved by the Korean court. Earnings during this interim period were used to offset the charter hire otherwise due from KLC.

On March 3, 2011, the Company reached a comprehensive agreement with the receivers of KLC regarding twelve time-chartered vessels impacted by KLC's decision to file for protective receivership, which was certified by the joint receivers on March 15, 2011. The main points of this agreement were:

Charter rates on ten vessels have been adjusted to $17,000 per vessel per day. Additionally, through December 31, 2015, the Company will receive all profits between $17,000 and $21,000 per vessel per day. During this period any additional profits above $21,000 per vessel per day are to be split equally between the Company and KLC.
After December 31, 2015, all profits above $17,000 per vessel per day are to be split equally until the conclusion of the charters which expire at the earliest on December 31, 2018.

For the twelve months commencing March 15, 2011, the Company was responsible for the chartering of these ten vessels, while KLC was responsible for any shortfall between the vessels' actual daily earnings and $17,000 per vessel per day. Any such shortfall was treated as a "claim for common benefit" under the Korean laws of corporate Rehabilitation, and is payable in full.
Time charter rates on two newbuildings still to be delivered to KLC at the time of the agreement were adjusted to $17,000 per vessel per day with the same profit-sharing arrangement as above. On May 20, 2011 and July 13, 2011 the Company took delivery of these two newbuilding vessels, and the Company has chartered them out on the spot

and short-term time charter markets. KLC will be responsible for any shortfall between the vessels' actual daily earnings and $17,000 per vessel per day. Any such shortfall shall be treated as a "claim for common benefit" under the Korean laws of corporate Rehabilitation, payable in full.

At the time of the agreement one vessel was not impacted, subject to the continued performance of the vessel's sub-charterer. The daily time charter rate on this vessel was to remain at $18,300 until January 2014, after which the rate would be $18,000 per day plus 50% of any profits above this rate until the earliest completion of the charter in December 2018. In October, 2011, due to the failure of the sub-charterer to perform, KLC terminated the sub-charter and the Company took over the employment of this vessel at to the same charter rate and terms mentioned above for the other ten vessels.

On April 1, 2011, the Company filed a claim for all unpaid amounts in respect of the employment of the eleven vessels that were under charter to KLC for the period up to February 15, 2011, and an agreement was reached with the KLC receivers as to the amount of the claim on September 20, 2011.

On October 14, 2011, following a vote by the interested creditors, the Korean court approved a Rehabilitation Plan, pursuant to which 37% of the Company’s claim in respect of the period up to February 15, 2011 will be paid in cash installments from 2012 through 2021. The majority of the cash payment installments will be paid in the last five years, and the remaining 63% of the said claim will be converted to KLC stock. On July 2, 2012 the Company took possession of the KLC stock. The KLC stock is designated as Available for sale and is reported at fair value, with unrealized gains and losses recorded in shareholders’ equity as a component of accumulated other comprehensive income. On September 30, 2012, KLC stock fair value was $135,886.

The Company evaluated the KLC matter to make a determination as to the impact, if any, on our business, liquidity, results of operations, financial condition and cash flows, and recorded an initial allowance for bad debt in the first quarter of 2011 of $6,586,900, which was updated in the fourth quarter of 2011 to reflect the settlement on November 24, 2011. Accordingly, in the fourth quarter of 2011, the Company adjusted the allowance to $1,811,320, which reflects our recovery of $1,269,070 and write off of $3,506,510. As of September 30, 2012, KLC is not performing in accordance with the $17,000 per vessel per day shortfall arrangement and KLC owes the Company approximately $30.2 million. That revenue does not meet the Company’s revenue recognition policy and is not included in the Company’s financial statements. The Company will recognize that revenue and any future revenue from KLC when collectability is assured.

Vessel Technical Management Contract

The Company has technical management agreements for certain of its vessels with independent technical managers. The Company paid average monthly technical management fees of $10,312 and $9,655 per vessel during the nine months ended September 30, 2012 and 2011, respectively.

Other commitments

On July 28, 2011, the Company entered into an agreement to charter-in a 37,000 dwt newbuilding Japanese vessel that is expected to be delivered between May and October 2014 for seven years with an option for an additional one year. The hire rate for the first to seventh year is $13,500 per day and $13,750 per day for the eighth year option. The Company has options to purchase the vessel starting at the end of the fifth year.

Note 7. Related Party Transactions

On August 4, 2009, the Company entered into a management agreement (the "Management Agreement") with Delphin Shipping LLC ("Delphin"), a Marshall Islands limited liability company affiliated with Kelso Investment Associates VII, KEP VI, LLC and the Company's Chief Executive Officer, Sophocles Zoullas. Delphin was formed for the purpose of acquiring and operating dry bulk and other vessels. Under the terms of the Management Agreement, the Company provides commercial and technical supervisory vessel management services to dry bulk vessels acquired by Delphin for a fixed monthly management fee based on a sliding scale. Pursuant to the terms of the Management Agreement, the Company has been granted an opportunity to acquire for its own account any dry bulk vessel that Delphin proposes to acquire. The Company has also been granted a right of first refusal on any dry bulk charter opportunity, other than a renewal of an existing charter for a Delphin-owned vessel, that the Company reasonably deems suitable for a Company-owned vessel. The Management Agreement also provides the Company a right of first offer on the sale of any dry bulk vessel by Delphin. The term of the Management Agreement is one year and is renewable for successive one year terms at the option of Delphin.

Pursuant to the Management Agreement, the Company contracted to provide commercial and technical supervisory management services for Delphin vessels for a monthly fee of $15,834 for the first 10 vessels, $11,667 for the second 10 vessels and $8,750 for the third 10 vessels. Construction of the first vessel commenced in December 2010. Total management fees for the period ended September 30, 2012 and 2011 amounted to $1,635,066 and $475,173 respectively. The advanced balance received from Delphin on account for the management of its vessels as of September 30, 2012 amounted to $133,929. The total reimbursable expenses for the periods ended September 30, 2012 and 2011 amounted to $267,410 and $475,173, respectively. The balance due from Delphin as of September 30, 2012 amounted to $23,115. The balance due mainly consists of management fees, administrative service fees and other reimbursable expenses.

Note 8. Earnings Per Common Share

The computation of basic net loss per share is based on the weighted average number of common shares outstanding during the period. Weighted average shares outstanding for the period ended September 30, 2012, includes the weighted average underlying Warrant Shares issuable upon exercise of the 1,049,528 warrants at the exercise price of $0.01 per share. In accordance with the accounting literature, the Company has given effect to the issuance of these warrants in computing basic net loss per share because the underlying shares are issuable for little or no cash consideration. Diluted net loss per share gives effect to stock options and restricted stock units using the treasury stock method, unless the impact is anti-dilutive. Diluted net loss per share as of September 30, 2012 does not include 614,458 restricted stock units and 1,908,371 stock options as their effect was anti-dilutive.

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net loss	$(29,837,360)	$(5,872,211)	$(70,377,128)	$(13,120,770)
Weighted Average Shares – Basic*	16,821,024	15,663,181	16,153,184	15,648,791
Dilutive effect of stock options and restricted stock units	—	—	—	—
Weighted Average Shares – Diluted*	16,821,024	15,663,181	16,153,184	15,648,791
Basic loss Per Share*	$(1.77)	$(0.37)	$(4.36)	$(0.84)
Diluted loss Per Share*	$(1.77)	$(0.37)	$(4.36)	$(0.84)

*Adjusted to give effect to the 1 for 4 reverse stock split that became effective on May 22, 2012, see Note 1.

Note 9. Stock Incentive Plans

Effective as of the opening of trading on May 22, 2012, the Company completed a 1 for 4 reverse stock split as previously approved by the Company's shareholders. Proportional adjustments were made to the Company's issued and outstanding common stock and to its common stock underlying stock options and other common stock-based equity grants outstanding immediately prior to the effectiveness of the reverse stock split to reflect the reverse stock split. No fractional shares were issued in connection with the reverse stock split, as shareholders who would have otherwise held a fractional share of common stock received a cash payment in lieu of that fractional share. All references herein to common stock and per share data have been retrospectively adjusted to reflect the reverse stock split.

2011 Equity Incentive Plan. In November 2011, our shareholders approved the 2011 Equity Incentive Plan (the “2011 Plan”) for the purpose of affording an incentive to eligible persons. The 2011 Equity Incentive Plan provides for the grant of equity based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, unrestricted stock, other equity based or equity related awards, and/or performance compensation awards based on or relating to the Company's common shares to eligible non-employee directors, officers, employees or consultants. The 2011 Plan is administered by a compensation committee or such other committee of the Company's board of directors. An aggregate of 5.9 million of the Company's common shares have been authorized for issuance under the 2011 Plan. The shares reserved for issuance under the 2011 Plan are not subject to adjustment in the event of a stock split commenced prior to the Company’s 2012 Annual General Meeting. However, the 2011 Plan was approved by shareholders subject to the Company’s confirmation in the proxy materials relating to the approval of the 2011 Plan that no options granted under the plan would, in the aggregate, exceed 10% of the Company’s issued and outstanding shares on a fully diluted basis on the date the options first become exercisable.

2009 Equity Incentive Plan. In May 2009, our shareholders approved the 2009 Equity Incentive Plan (the “2009 Plan”) for the purpose of affording an incentive to eligible persons. The 2009 Plan provides for the grant of equity based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, unrestricted stock, other equity based or equity related awards, and/or performance compensation awards based on or relating to the Company’s common shares to eligible non-employee directors, officers, employees or consultants. The 2009 Plan is administered by a compensation committee or such other committee of the Company’s board of directors. A maximum of 1.05 million of the Company’s common shares have been authorized for issuance under the 2009 Plan, which have been adjusted in accordance with the one-for-four reverse stock split effective on May 22, 2012.

The Company granted restricted stock units (“RSUs”) to members of its management which vest ratably between three to five years. As of September 30, 2012, RSUs covering a total of 614,458 of the Company’s shares are outstanding. These RSUs also entitle the participant to receive a dividend equivalent payment on the unvested portion of the underlying shares granted under the award, each time the Company pays a dividend to the Company’s shareholders. The dividend equivalent rights on the unvested RSUs are forfeited upon termination of employment. The Company is amortizing to non-cash compensation expense the fair value of the non-vested restricted stock at the grant date. For the three months ended September 30, 2012 and 2011, the amortization charge was $1,790,119 and $2,019,794, respectively. For the nine months ended September 30, 2012 and 2011, the amortization charge was $5,924,091 and $6,441,170, respectively. The remaining expense for each of the years ending 2012, 2013, and 2014 will be $2,020,389, $3,884,236, and $532,905, respectively.

On June 26, 2012, upon the Company's refinancing of its credit facility, the Company granted options, under the 2011 Plan, to certain members of the Company's senior management to purchase an aggregate of 1,580,000 of the Company's common shares. The options have an exercise price of $3.34 per share, vest in four equal annual installments beginning on the grant date, and expire ten years from the date of grant. For purposes of determining the non-cash compensation cost for the Company's stock option plans using the fair value method of ASC 718 "Compensation-Stock Compensation", the fair value of the options granted of $2,973,141 was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions used included a risk free interest rate of 0.75%, and an expected stock price volatility factor of 80%. For the nine months ended September 30, 2012 and 2011, the Company has recorded a non-cash compensation charge of $1,088,623 and $517,761, respectively. The remaining expense for each of the years ending 2012, 2013, 2014 and 2015 will be $340,672, $988,502, $432,310 and $123,032 respectively. As of September 30, 2012 and December 31, 2011, options covering 1,908,371 and 328,371, respectively, of the Company's common shares are outstanding with exercise prices ranging from $3.34 to $87.52 per share (the market prices at dates of grants). The options granted to the independent non-employee directors vested and became exercisable on the grant dates. The options granted to members of its management vest and become exercisable over three years. All options expire between five to ten years from the date of grant.

The non-cash compensation expenses recorded by the Company and included in General and Administrative Expenses are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Stock Option Plans	$340,671	$—	$1,088,623	$517,761
Restricted Stock Grants	1,790,119	2,019,794	5,924,091	6,441,170
Total Non-cash compensation expense	$2,130,790	$2,019,794	$7,012,714	$6,958,931

As of September 30, 2012, Dividend Equivalent Rights Awards ("DERs") equivalent to 143,500 of the Company's common shares are outstanding to its independent non-employee directors and members of its management. These DERs entitle the participant to receive a dividend equivalent payment each time the Company pays a dividend to the Company's shareholders. For the nine and three months ended September 30, 2012 and 2011, no compensation expenses were recorded.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following is a discussion of the Company's financial condition and results of operation for the three-month and nine-month periods ended September 30, 2012 and 2011. This section should be read in conjunction with the consolidated financial statements included elsewhere in this report and the notes to those financial statements.

This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995, and are intended to be covered by the safe harbor provided for under these sections. These statements may include words such as “believe,” “estimate,” “project,” “intend,” “expect,” “pla “anticipate,” and similar expressions in connection with any discussion of the timing or nature of future operating or financial performance or other events. Forward-looking statements reflect management's current expectations and observations with respect to future events and financial performance. Where we express an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, our forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results expressed, projected, or implied by those forward-looking statements. The principal factors that affect our financial position, results of operations and cash flows include charter market rates, which have declined significantly from historic highs, periods of charter hire, vessel operating expenses and voyage costs, which are incurred primarily in U.S. dollars, depreciation expenses, which are a function of the cost of our vessels, significant vessel improvement costs and our vessels' estimated useful lives, and financing costs related to our indebtedness. Our actual results may differ materially from those anticipated in these forward looking statements as a result of certain factors which could include the following: (i) changes in demand in the dry bulk market, including, without limitation, changes in production of, or demand for, commodities and bulk cargoes, generally or in particular regions; (ii) greater than anticipated levels of dry bulk vessel newbuilding orders or lower than anticipated rates of dry bulk vessel scrapping; (iii) changes in rules and regulations applicable to the dry bulk industry, including, witho