Eagle Bulk Shipping Inc.
Form 10-Q
May 15, 2014

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 March 31, 2014

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 incorporation or organization)	(I.R.S. Employer 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 ___ Non-accelerated Filer _ Smaller reporting company X

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

YES____ NO __**X**

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, 16,902,213 shares outstanding as of May 15, 2014.

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Part 1 : FINANCIAL INFORMATION

Item 1 : Financial Statements

EAGLE BULK SHIPPING INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2014	**December 31, 2013**
ASSETS:		
Current assets:		
Cash and cash equivalents	$19,827,606	$19,682,724
Accounts receivable, net	13,721,595	11,197,101
Prepaid expenses	7,818,159	5,501,081
Inventories	6,735,101	9,610,272
Investment	11,715,793	13,817,439
Other assets	4,495,176	2,122,574
Total current assets	64,313,430	61,931,191
Noncurrent assets:		
Vessels and vessel improvements, at cost, net of accumulated, depreciation of $407,926,586 and $389,545,066, respectively	1,621,173,848	1,639,555,368
Other fixed assets, net of accumulated amortization of $606,976 and $574,532, respectively	349,394	361,306
Restricted cash	66,243	66,243
Deferred drydock costs	4,033,139	3,826,685
Deferred financing costs	14,262,767	16,278,544
Other assets	1,323,515	1,394,964
Total noncurrent assets	1,641,208,906	1,661,483,110
Total assets	**$1,705,522,336**	**$1,723,414,301**
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	4,618,061	$6,422,306
Accrued interest	152,139	153,885
Other accrued liabilities	7,731,467	6,211,224
Unearned charter hire revenue	4,855,641	5,387,844
Term loans	1,129,478,741	1,129,478,741
Payment-in-kind loans	51,903,212	44,565,437
Total current liabilities	1,198,739,261	1,192,219,437
Total liabilities	1,198,739,261	1,192,219,437

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, 16,902,213 and 16,783,071 shares issued and outstanding, respectively	169,020	167,828
Additional paid-in capital	767,102,359	766,823,808
Retained earnings (net of accumulated dividends declared of $262,118,388 as of March 31, 2014 and December 31, 2013, respectively)	(258,386,658)	(235,796,772)
Accumulated other comprehensive loss	(2,101,646)	-
Total stockholders' equity	506,783,075	531,194,864
Total liabilities and stockholders' equity	**$1,705,522,336**	**$1,723,414,301**

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

EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended	
	March 31, 2014	March 31, 2013
Revenues, net of commissions	$45,795,391	$72,222,353
Voyage expenses	3,837,278	8,204,657
Vessel expenses	22,577,518	20,494,412
Depreciation and amortization	19,077,813	18,936,577
General and administrative expenses	3,122,933	3,116,337
Gain on time charter agreement termination	—	(3,331,692)
Total operating expenses	48,615,542	47,420,291
Operating income (loss)	(2,820,151)	24,802,062
Interest expense	19,773,619	20,539,035
Interest income	(3,884)	(64,170)
Other expense	—	2,952,927
Total other expense, net	19,769,735	23,427,792
Net income (loss)	$(22,589,886)	$1,374,270
Weighted average shares outstanding:		
Basic	17,080,190	16,966,070
Diluted	17,080,190	16,966,070
Per share amounts:		
Basic net income (loss)	$(1.32)	$0.08
Diluted net income (loss)	$(1.32)	$0.08

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

EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended	
	March 31, 2014	**March 31, 2013**
Net income (loss)	$(22,589,886)	$1,374,270
Other comprehensive income (loss):		
Change in unrealized loss on investment	(2,101,646)	(2,187,318)
Realized loss on investment	—	2,952,927
Net unrealized gain on derivatives	—	823,222
Total other comprehensive income (loss)	(2,101,646)	1,588,831
Comprehensive Income/(loss)	$(24,691,532)	$2,963,101

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

EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Common shares	**Common shares amount**	**Additional paid-in capital**	**Net Loss**	**Accumulated deficit**	**Other comprehensive income (loss)**	**Total stockholders' equity**
Balance at December 31, 2013	**16,783,071**	**$167,828**	**$766,823,808**		**$(235,796,772)**	—	$531,194,864
Net Loss	—	—	—	$(22,589,886)	(22,589,886)	—	(22,589,886)
Change in unrealized gain on investment	—	—	—	—	—	$(2,101,646)	(2,101,646)
Exercise of Warrants	119,142	1,192	(1,192)	—	—	—	—
Non-cash compensation	—	—	279,743	—	—	—	279,743
Balance at March 31, 2014	**16,902,213**	**$169,020**	**$767,102,359**		**$(258,386,658)**	**$(2,101,646)**	**$506,783,075**

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

EAGLE BULK SHIPPING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended	
	March 31, 2014	**March 31, 2013**
Cash flows from operating activities:		
Net income (loss)	$(22,589,886)	$1,374,270
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Items included in net income (loss) not affecting cash flows:		
Depreciation	18,413,964	18,515,090
Amortization of deferred drydocking costs	663,849	421,487
Amortization of deferred financing costs	2,015,777	2,075,338
Amortization of fair value below contract value of time charter acquired	—	(10,280,559)
Payment-in-kind interest on debt	7,337,775	7,174,028
Investment and other current asset	—	(4,925,953)
Realized loss from investment	—	2,952,927
Gain on time charter agreement termination	—	(3,331,692)
Non-cash compensation expense	279,743	1,955,391
Drydocking expenditures	(870,303)	(681,628)
Changes in operating assets and liabilities:		
Accounts receivable	(2,524,494)	(1,451,069)
Other assets	(2,301,153)	(724,321)
Prepaid expenses	(2,317,078)	(710,477)
Inventories	2,875,171	(636,185)
Accounts payable	(1,804,245)	(2,092,635)
Accrued interest	(1,746)	(1,383,205)
Accrued expenses	1,520,243	(3,429,333)
Deferred revenue	—	(3,766,412)
Unearned revenue	(532,203)	193,777
Net cash provided by operating activities	165,414	1,248,839
Cash flows from investing activities:		
Vessel improvements	—	(49,994)
Purchase of other fixed assets	(20,532)	—
Net cash used in investing activities	(20,532)	(49,994)
Cash flows from financing activities:		
Deferred financing costs	—	(48,000)
Net cash used in financing activities	—	(48,000)

Net increase in cash	144,882	1,150,845
Cash at beginning of period	19,682,724	18,119,968
Cash at end of period	$19,827,606	$19,270,813

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

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 dry bulk 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 or limited liability company interests of its subsidiaries. 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 March 31, 2014, 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 6.9 years.

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

	% of Consolidated Charter Revenue	
	Three Months Ended	
Charterer	**March 31, 2014**	**March 31, 2013**
Charterer A	-	44.5%
Charterer B	13.3%	11.9%
Charterer C	16.0%	-

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 2013 Annual Report on Form 10-K, filed with the SEC on March 31, 2014.

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.

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.

Liquidity

As further described in Note 4, the Fourth Amended and Restated Credit Facility (as defined in Note 4 and also referred to herein as the "Credit Agreement"), the Company has financial covenants that began in 2013 and become increasingly restrictive each quarter. The covenants are primarily driven by the calculation of EBITDA for the trailing twelve month periods, which is driven by charter hire rates. In order to remain in compliance with our covenants, charter hire rates must increase over time. However, charter hire rates have been volatile and were driven down during the recession. Despite relatively low charter hire rates in 2013, the Company met all of its covenants in 2013, other than the maximum leverage ratio at December 31, 2013. That ratio was exceeded primarily due to a recognized loss of $8.2 million on the Company's shares of Korea Lines Corporation ("KLC") during the fourth quarter of 2013, as further described below under "*Korean Line Corporation*". The Company also believes that it will fail to meet both the maximum leverage ratio covenant and the minimum interest coverage ratio covenant at their respective compliance measurement dates throughout each measurement date in 2014, including for the period ended March 31, 2014 and thereafter.

On March 19, 2014, the Company received waivers for the violation of the maximum leverage ratio covenant as of December 31, 2013 and the violation of the maximum leverage ratio and minimum interest coverage ratio covenants at March 31, 2014 (as amended, the "Waivers"). The Waivers expire on June 30, 2014 and do not cover prospective violations for any covenant measurement date or period after March 31, 2014.

Under the terms of the Waivers, the Lenders agreed to waive until June 30, 2014 certain potential events of default, subject to the Company's compliance with the terms, conditions and milestones as set forth in the Waiver. On April 15, 2014, the Company and the Lenders entered into Amendment No. 1 to the Waiver to facilitate continued discussions between the Company and its Lenders. Pursuant to the Amendment, the milestone requiring the Company and the Majority Lenders (as defined below) to (i) agree on terms of a restructuring of the obligations outstanding under the Credit Agreement (a "Restructuring") and (ii) execute a binding restructuring support agreement or similar agreement documenting such agreed-upon terms has been extended from April 15, 2014 to April 30, 2014.

On April 30, 2014, the Company and the Lenders entered into Amendment No. 2 to the Waiver to facilitate continued discussions between the Company and its Lenders. Pursuant to the Amendment, the milestone requiring the Company and the Majority Lenders to (i) agree on terms of a restructuring of the obligations outstanding under the Credit Agreement (a "Restructuring") and (ii) execute a binding restructuring support agreement or similar agreement documenting such agreed-upon terms has been extended from April 30, 2014 to May 15, 2014. To facilitate continuing discussions with the lenders, the Company expects to enter into a third amendment to the Waiver to extend the deadline to the above mentioned milestones until May 31, 2014.

The Waiver remains in effect on substantially the same terms and conditions, with certain modifications as set forth in the Amendment. The Waivers are subject to the Company's compliance with the terms, conditions and milestones as set forth in the Waivers, including, but not to limited to the following: (i) the Company must reach an agreement on or before May 15, 2014 with lenders, collectively holding more than 66.67% of the revolving and term loans outstanding under the Credit Agreement (the "Majority Lenders"), on the terms of the Restructuring and (ii) the Company and the Majority Lenders must execute a binding restructuring support agreement or similar agreement documenting such agreed-upon restructuring terms (a "Restructuring Support Agreement"), including milestones for the commencement, implementation and closing of the Restructuring. In addition, no event of default may occur under the Restructuring Support Agreement once agreed. Furthermore, no Event of Default (as defined in the Credit Agreement) may occur other than the potential events of default specifically waived pursuant to the Waiver and the terms of any Restructuring Support Agreement. There can be no assurance that the Company will be able to comply with such terms, conditions and milestones, particularly those that are outside of the Company's exclusive control. If the Company cannot comply with such terms and reach an agreement with the Majority Lenders in the time frames provided, our lenders could accelerate our indebtedness and foreclose their liens on our vessels, which causes us to conclude that there is substantial doubt about our ability to continue as a going concern.

The Company continues to have discussions with representatives of the Lenders pursuant to the Waivers. Although there can be no assurance that the Company will be able to reach an agreement with the Lenders regarding the terms of a Restructuring, it is expected that any Restructuring transaction would be costly to obtain and would be substantially dilutive to the Company's current shareholders, driving down price per outstanding share substantially.

As we would have been in default of the maximum leverage ratio at December 31, 2013 and with both the maximum leverage ratio covenant and the minimum interest coverage ratio covenant at March 31, 2014 in the absence of the receipt of a waiver and it is probable that without further waivers or modifications to the Credit Agreement that we will not be in compliance with the maximum leverage ratio and the minimum interest coverage ratio for periods on or after June 30, 2014, we have classified our debt as current at December 31, 2013 and March 31, 2014.

The Company's Credit Agreement is described further in Note 4 below.

Korea Line Corporation

Since January 2011, Korea Lines Corporation ("KLC"), one of our charterers, has been operating under protective receivership in Seoul, South Korea. Since the fourth quarter of 2011, KLC had not been performing in accordance with the $17,000 per vessel per day shortfall arrangement on 13 of our vessels. As a result we were not recording revenue associated with those amounts owed during prior year periods as collectability was not assured.

On January 3, 2013, a comprehensive termination agreement between the Company and KLC became effective, pursuant to which we agreed to accept $63.7 million on a non-interest bearing installment note and 1,224,094 common shares of KLC stock as compensation for the early termination of our 13 charters with KLC. Under the termination agreement, cash payments of $10.3 million were paid in the first quarter of 2013, and the balance of $53.4 million would have been paid in cash installments through 2021, with the majority of the payments to be paid in the last five years. The KLC stock certificates were issued on February 7, 2013 and were secured at the Korean Securities Depository for six months. On August 7, 2013, we took possession of the share certificates.

In the first quarter of 2013, as the settlement effectively terminated the charters with KLC, the Company released $3.5 million of bunker liabilities and an aggregate $13.7 million balance related to deferred revenue and to the unamortized fair value of charters below and above contract value. The Company valued the equity received from KLC at $5.9 million and the note receivable at $2.7 million. The Company recorded revenue associated with the termination of $32.8 million related to amounts previously owed but not recognized and a termination gain of $3.3 million.

On March 28, 2013, the Korean court approved an amendment to the KLC termination agreement after receiving a favorable vote from the concerned parties. The amendment included a 1 to 15 reduction to the number of KLC common shares outstanding at that date and also reduced our long-term receivable by 90%, substituting that portion of the commitment with 538,751 additional common shares of KLC to be issued to the Company at a date to be determined in the second quarter of 2013. We evaluated the fair value of the additional KLC common shares to be issued and the impact to our long-term receivable and determined that the aggregate value exceeded the carrying value of our long-term note receivable recorded in January of 2013; therefore, we did not have a loss on that transaction. Under our accounting policy, and in accordance with U.S. GAAP, any gain on that transaction should be recorded upon settlement. As 90% of the long-term note receivable was paid in equity in the second quarter of 2013, we reclassified that portion as a current asset in the “Investment” line of our balance sheet at March 31, 2013. We considered the March 28, 2013 decision by KLC to dilute the value of previously issued KLC shares to be a triggering event requiring the evaluation of whether a permanent decrease in value had occurred. We determined that a permanent decrease in value had occurred and as of March 31, 2013, we recognized the change in the fair value of our existing KLC shares as other-than-temporary and recorded in other expense a loss of approximately $3.0 million.

On May 9, 2013, the 538,751 additional KLC common shares were issued to the Company and are secured at the Korean Securities Depository. On November 11, 2013, we took possession of the share certificates. These shares replace the note receivable recorded pursuant to the January 3, 2013, termination agreement. The fair market value of the shares upon issuance was in excess of the fair value of the receivable and result a gain of $32.5 million in the second quarter of 2013.

KLC completed its financial reorganization by the middle of September 2013, and emerged from bankruptcy in October 2013. On October 28, 2013, we received early prepayment of $3.9 million to settle our long term receivable from KLC, which resulted in an additional gain on time charter agreement termination of $3.5 million recognized in

the third quarter of 2013 as the carrying value at September 30, 2013 was adjusted to reflect the elimination of credit risk.

As of December 31, 2013, the Company sold 58,128 of the KLC shares for a total consideration of $2.3 million and realized a loss of $0.4 million.

As of September 30, 2013 and December 31, 2013, the change in the fair value of our KLC investment was considered as other-than-temporary, and therefore the Company recorded a non-cash impairment loss of $7.3 million and $8.2 million in other expense in the third and fourth quarters of 2013, respectively.

The KLC stock held by the Company 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. As of March 31, 2014, the fair value of the remaining 566,529 KLC shares held by the Company was $11.7 million.

Note 2. New Accounting Pronouncements

In April 2014, the FASB issued an update Accounting Standards Update for Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, Presentation of Financial Statements, and Property Plant and Equipment. Under this new guidance only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. In addition, the new guidance expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. The new standard is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2014. The Company does not expect a material impact on the Company's consolidated financial statements as a result of the adoption of this standard.

Note 3. Vessels

Vessel and Vessel Improvements

At March, 2014, the Company's operating fleet consisted of 45 dry bulk vessels.

Vessel and vessel improvements:

Vessels and Vessel Improvements, at December 31, 2013	$1,639,555,368
Depreciation Expense	(18,381,520)
Vessels and Vessel Improvements, at March 31, 2014	$1,621,173,848

Note 4. Debt

Debt consists of the following:

	March 31, 2014	**December 31, 2013**
Term Loans	$1,129,478,741	$1,129,478,741
Payment-in-kind loans	51,903,212	44,565,437
Total debt	$1,181,381,953	$1,174,044,178

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 March 31, 2014 the outstanding amount of the term loan was $1,129,478,741, the amount of the PIK loans was $51,903,212 and no amount was drawn on the Liquidity Facility. In connection with the Fourth Amended and Restated Credit Agreement, the Company recorded $11,829,673 of deferred financing costs that are amortized over the life of the term loan, including amendment and professional fees.

In addition, the Fourth Amended and Restated Credit Agreement replaced the previously existing financial covenants and substituted them with new covenants, which requires 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, December 31, 2013, of 12.3:1, March 31, 2014 of 10.6:1, June 30, 2014 of 9.2:1, September 30, 2014 of 8.5:1, December 31, 2014 of 8.1:1, March 31, 2015 of 7.8:1, June 30, 2015 of 7.6:1, September 30, 2015 of 7.5:1, and December 31, 2015 of 7.3:1 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%, September 30, 2013, of 140%, December 31, 2013, of 160%, March 31, 2014 of 180%, June 30, 2014 of 200%, September 30, 2014 of 210%, December 31, 2014 of 220%, March 31, 2015 of 220%, June 30, 2015 of 220%, September 30, 2015 of 220%, and December 31, 2015 of 220% 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. Refer to Note 1 - General Information- Liquidity for further information regarding compliance with our covenants.

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.

On March 19, 2014, the Company received waivers for the violation of the maximum leverage ratio covenant as of December 31, 2013 and the violation of the maximum leverage ratio and minimum interest coverage ratio covenants at March 31, 2014 (as amended, the “Waivers”). The Waivers expire on June 30, 2014 and do not cover prospective violations for any covenant measurement date or period after March 31, 2014.

Under the terms of the Waivers, the Lenders agreed to waive until June 30, 2014 certain potential events of default, subject to the Company's compliance with the terms, conditions and milestones as set forth in the Waiver. On April 15, 2014, the Company and the Lenders entered into Amendment No. 1 to the Waiver to facilitate continued discussions between the Company and its Lenders. Pursuant to the Amendment, the milestone requiring the Company and the Majority Lenders (as defined below) to (i) agree on terms of a restructuring of the obligations outstanding under the Credit Agreement (a "Restructuring") and (ii) execute a binding restructuring support agreement or similar agreement documenting such agreed-upon terms has been extended from April 15, 2014 to April 30, 2014.

On April 30, 2014, the Company and the Lenders entered into Amendment No. 2 to the Waiver to facilitate continued discussions between the Company and its Lenders. Pursuant to the Amendment, the milestone requiring the Company and the Majority Lenders to (i) agree on terms of a restructuring of the obligations outstanding under the Credit Agreement (a "Restructuring") and (ii) execute a binding restructuring support agreement or similar agreement documenting such agreed-upon terms has been extended from April 30, 2014 to May 15, 2014. To facilitate continuing discussions with the lenders, the Company expects to enter into a third amendment to the Waiver to extend the deadline to the above mentioned milestones until May 31, 2014.

The Waiver remains in effect on substantially the same terms and conditions, with certain modifications as set forth in the Amendment. The Waivers are subject to the Company's compliance with the terms, conditions and milestones as set forth in the Waivers, including, but not to limited to the following: (i) the Company must reach an agreement on or before May 15, 2014 with lenders, collectively holding more than 66.67% of the revolving and term loans outstanding under the Credit Agreement (the "Majority Lenders"), on the terms of the Restructuring and (ii) the Company and the Majority Lenders must execute a binding restructuring support agreement or similar agreement documenting such agreed-upon restructuring terms (a "Restructuring Support Agreement"), including milestones for the commencement, implementation and closing of the Restructuring. In addition, no event of default may occur under the Restructuring Support Agreement once agreed. Furthermore, no Event of Default (as defined in the Credit Agreement) may occur other than the potential events of default specifically waived pursuant to the Waiver and the terms of any Restructuring Support Agreement. There can be no assurance that the Company will be able to comply with such terms, conditions and milestones, particularly those that are outside of the Company's exclusive control. If the Company cannot comply with such terms and reach an agreement with the Majority Lenders in the time frames provided, our lenders could accelerate our indebtedness and foreclose their liens on our vessels, which causes us to conclude that there is substantial doubt about our ability to continue as a going concern.

The Company continues to have discussions with representatives of the Lenders pursuant to the Waivers. Although there can be no assurance that the Company will be able to reach an agreement with the Lenders regarding the terms of a Restructuring, it is expected that any Restructuring transaction would be costly to obtain and would be substantially dilutive to the Company's current shareholders, driving down price per outstanding share substantially.

As we would have been in default of the maximum leverage ratio at December 31, 2013 and with both the maximum leverage ratio covenant and the minimum interest coverage ratio covenant at March 31, 2014 in the absence of the receipt of a waiver and it is probable that without further waivers or modifications to the Credit Agreement that we will not be in compliance with the maximum leverage ratio and the minimum interest coverage ratio for periods on or after June 30, 2014, we have classified our debt as current at December 31, 2013 and March 31, 2014. Refer to Note 1 – General Information- Liquidity for additional information.

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.

For the three months ended March 31, 2014, interest rates on the outstanding debt ranged from 3.73% to 3.61%, including a margin of 3.50% over LIBOR. The weighted average effective interest rate for the three months ended March 31, 2014, was 3.65%.

Interest Expense, inclusive of the PIK loans, consisted of**:**

	Three Months Ended	
	March 31, 2014	**March 31, 2013**
Loan Interest	$17,757,842	$18,463,697
Amortization of Deferred Financing Costs	2,015,777	2,075,338
Total Interest Expense	$19,773,619	$20,539,035

Interest paid, exclusive of the PIK loans, in the three-month periods ended March 31, 2014 and 2013 amounted to $10,421,812 and $12,672,875, respectively.

Note 5. Derivative Instruments and Fair Value Measurements

Interest-Rate Swaps

Historically, the Company 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 pays fixed rate interest and receives floating-rate interest amounts based on three-month LIBOR settings. The swaps are designated and qualify as cash flow hedges. As of March 31, 2014 and December 31, 2013, the Company did not have any open positions and no fair value for interest rate swaps is reflected in the accompany balance sheets.

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. As of March 31, 2014 and December 31, 2013, the Company did not have any open positions and no fair value for derivative instruments is reflected in the accompany balance sheets.

Tabular disclosure of derivatives location

No portion of the cash flow hedges shown below was ineffective during the period ended March 31, 2014. The effect of cash flow hedging relationships on the balance sheets as of March 31, 2014 and December 31, 2013, and the statement of operations for the periods ended March 31, 2014 and 2013 are as follows:

The effect of derivative instruments on statements of operations**:**

Effective Portion of Loss Reclassified from Accumulated Other Comprehensive Loss	
Location of Gain (Loss) Recognized	Three Months Ended March 31, 2014