

Edgar Filing: Eagle Bulk Shipping Inc. - Form 10-Q

Eagle Bulk Shipping Inc.  
Form 10-Q  
August 10, 2006

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

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FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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Commission File Number 000-51366

EAGLE BULK SHIPPING INC.

(Exact name of Registrant as specified in its charter)

Republic of the Marshall Islands  
(State or other jurisdiction of  
incorporation or organization)

98-0453513  
(I.R.S. Employer  
Identification No.)

477 Madison Avenue  
New York, New York 10022  
Registrant's Address

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  NO

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

Large accelerated Filer  Accelerated Filer  Non-accelerated Filer

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

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YES  NO

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

Common Stock, par value \$0.01 per share 35,900,000 shares outstanding as of August 9, 2006.

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Part 1 : FINANCIAL INFORMATION  
Item 1 : Financial Statements

EAGLE BULK SHIPPING INC.  
CONSOLIDATED BALANCE SHEETS

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	June 30, 2006	December 31, 2005
	-----	-----
	(Unaudited)	
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash .....	\$54,547,756	\$24,526,528
Accounts Receivable .....	458,916	281,094
Prepaid Charter Revenue .....	5,983,000	8,508,000
Prepaid Expenses .....	1,679,846	513,145
	-----	-----
Total Current Assets .....	62,669,518	33,828,767
<b>Fixed Assets:</b>		
Advances for Vessel Acquisitions .....	6,900,000	--
Vessels and Vessel Improvements, at cost, net of Accumulated Depreciation of \$19,831,383 at June 30, 2006 and \$10,384,247 at December 31, 2005 .....	444,134,474	417,581,610
Restricted Cash .....	6,624,616	6,624,616
Deferred Drydock Costs, net of Accumulated Amortization of \$338,087 at June 30, 2006, and \$27,980 at December 31, 2005 .....	1,548,068	393,702
Deferred Financing Costs, net of Accumulated Amortization of \$164,290 at June 30, 2006 and \$98,065 at December 31, 2005 .....	1,203,514	1,268,209
Other Assets .....	6,027,014	2,647,077
	-----	-----
Total Assets .....	\$529,107,204	\$462,343,981
	=====	=====
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts Payable .....	\$4,368,281	\$1,861,145
Accrued Interest .....	624,412	514,631
Other Accrued Liabilities .....	594,275	424,669
Deferred Revenue .....	491,500	1,306,000
Unearned Charter Hire Revenue .....	2,590,937	2,444,522
	-----	-----
Total Current Liabilities .....	8,669,405	6,550,967
Long-term Debt .....	182,400,000	140,000,000
	-----	-----
Total Liabilities .....	191,069,405	146,550,967
<b>Commitment and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred Stock, \$.01 par value, 25,000,000 shares authorized, none issued .....	--	--
Common stock, \$.01 par value, 100,000,000 shares authorized, 35,900,000 shares issued and outstanding as of June 30, 2006 and 33,150,000 shares issued and outstanding as of December 31, 2005, respectively .....	359,000	331,500
Additional Paid-In Capital .....	354,945,648	320,822,037
Retained Earnings (net of cumulative Dividends declared of \$50,131,500 at June 30, 2006 and \$14,661,000 at December 31, 2005) .....	(23,293,863)	(8,007,600)
Accumulated Other Comprehensive Income .....	6,027,014	2,647,077
	-----	-----
Total Stockholders' Equity .....	338,037,799	315,793,014
	-----	-----

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Total Liabilities and Stockholders' Equity ..... \$529,107,204 \$462,343,981  
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The accompanying notes are an integral part of these  
Consolidated Financial Statements.

EAGLE BULK SHIPPING INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months ended June 30, 2006	Three Months ended June 30, 2005	Six Months ended June 30, 2006	Pe January (ince June
	-----	-----	-----	-----
Revenues, net of commissions .....	\$ 24,105,383	\$ 10,615,879	\$ 47,895,435	\$1
Vessel Expenses .....	4,919,422	3,066,188	9,624,419	
Depreciation and Amortization .....	4,937,661	2,020,572	9,757,243	
General and Administrative Expenses ...	1,114,024	663,034	2,099,503	
Management and Other Fees to Affiliates	--	6,175,046	--	
Non-cash Compensation Expense .....	1,938,970	7,640,847	2,691,656	
Total Operating Expenses .....	12,910,077	19,565,687	24,172,821	2
Operating Income/(Loss) .....	11,195,306	(8,949,808)	23,722,614	(
Interest Expense .....	2,117,322	3,233,596	4,183,673	
Interest Income .....	(313,752)	(94,860)	(645,296)	
Net Interest Expense .....	1,803,570	3,138,736	3,538,377	
Net Income/(Loss) .....	\$ 9,391,736	\$ (12,088,544)	\$ 20,184,237	\$ (1
	=====	=====	=====	=====
Weighted Average Shares Outstanding :				
Basic .....	33,180,220	13,857,692	33,165,193	1
Diluted .....	33,180,898	13,857,692	33,165,246	1
Per Share Amounts:				
Basic Net Income/(Loss) .....	\$0.28	\$ (0.87)	\$0.61	
Diluted Net Income/(Loss) .....	\$0.28	\$ (0.87)	\$0.61	
Cash dividends declared and paid .....	\$0.50	--	\$1.07	

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

EAGLE BULK SHIPPING INC.

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CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY  
FOR THE SIX-MONTHS ENDED JUNE 30, 2006

	Shares	Common Shares	Additional Paid-In Capital	Retained Earnings Net Income	Cash Dividends
Balance at December 31, 2005	33,150,000	\$331,500	\$320,822,037	\$6,653,400	\$(14,661,000)
Comprehensive Income :					
Net Income .....	--	--	--	20,184,237	--
Net Unrealized gains on derivatives .....	--	--	--	--	--
Comprehensive Income .....	--	--	--	--	--
Issuance of Common Stock, net of issuance costs ...	2,750,000	27,500	31,431,955	--	--
Cash Dividends .....	--	--	--	--	(35,470,500)
Non-cash Compensation .....	--	--	2,691,656	--	--
Balance at June 30, 2006 ...	35,900,000	\$359,000	\$354,945,648	\$26,837,637	\$(50,131,500)

	Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2005	\$2,647,077	\$315,793,014
Comprehensive Income :		
Net Income .....	--	20,184,237
Net Unrealized gains on derivatives .....	3,379,937	3,379,937
Comprehensive Income .....	--	23,564,174
Issuance of Common Stock, net of issuance costs ...	--	31,459,455
Cash Dividends .....	--	(35,470,500)
Non-cash Compensation .....	--	2,691,656
Balance at June 30, 2006 ...	\$6,027,014	\$338,037,799

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

EAGLE BULK SHIPPING INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS

Six Months  
Period from  
January 26, 2005

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	ended June 30, 2006 -----	(inception) to June 30, 2005 -----
Cash Flows from Operating Activities		
Net Income .....	\$20,184,237	\$(12,894,757)
Adjustments to Reconcile Net Income (Loss) to Net Cash provided by (used in) Operating Activities: Items included in net income not affecting cash flows:		
Depreciation .....	9,447,136	2,020,572
Amortization of Deferred Drydocking Costs .....	310,107	--
Amortization of Deferred Financing Costs .....	66,225	1,130,713
Amortization of Prepaid and Deferred Charter Revenue ....	1,710,500	205,000
Non-cash Compensation Expense .....	2,691,656	7,640,847
Changes in Operating Assets and Liabilities:		
Accounts Receivable .....	(177,822)	(22,034)
Prepaid Revenue .....	--	(1,489,000)
Prepaid Expenses .....	(1,166,701)	(186,373)
Accounts Payable .....	966,591	1,823,761
Accrued Interest .....	109,781	430,984
Accrued Expenses .....	169,606	235,775
Deferred Revenue .....	--	914,000
Drydocking Expenditures .....	(1,464,473)	--
Unearned Charter Hire Revenue .....	146,415	1,790,082
	-----	-----
Net Cash Provided by/(Used in) Operating Activities ...	32,993,258	(1,599,570)
Cash Flows from Investing Activities		
Advances for Vessel Deposits .....	(6,900,000)	(7,018,100)
Advances for Vessel Improvements .....	--	(640,000)
Purchase of Vessels .....	(36,000,000)	(294,583,793)
	-----	-----
Net Cash Used in Investing Activities .....	(42,900,000)	(302,241,893)
Cash Flows from Financing Activities		
Capital Contribution .....	--	40,843,662
Issuance of Common Stock .....	33,000,000	201,600,000
Equity Issuance Costs .....	--	(13,949,161)
Bank Borrowings .....	42,400,000	214,450,000
Repayment of Bank Debt .....	--	(125,950,000)
Increase in Restricted Cash .....	--	(4,000,000)
Deferred Financing Costs .....	(1,530)	(1,381,215)
Borrowings from Eagle Ventures LLC .....	--	58,730,434
Repayment of Eagle Ventures LLC Note .....	--	(58,730,434)
Cash Dividends .....	(35,470,500)	--
	-----	-----
Net Cash Provided by Financing Activities .....	39,927,970	311,613,286
Net Increase in Cash .....	30,021,228	10,970,963
Cash at Beginning of Period .....	24,526,528	--
	-----	-----
Cash at End of Period .....	\$54,547,756 =====	\$10,970,963 =====
Supplemental Cash Flow Information:		
Cash paid during the period for Interest (including Fees)	\$4,007,482	\$1,671,899

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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

### Note 1. Basis of Presentation and General Information

The accompanying unaudited interim consolidated financial statements include the accounts of Eagle Bulk Shipping Inc. and its wholly-owned subsidiaries (collectively, the "Company"). The Company is engaged in the ocean transportation of dry bulk cargoes worldwide through the ownership and operation of dry bulk vessels. The Company's fleet is comprised of Handymax bulk carriers, focused on the Supramax sub-class, and the Company operates its business in one business segment.

The Company is a holding company incorporated on March 23, 2005, under the laws of the Republic of the Marshall Islands. Following incorporation, the Company merged with Eagle Holdings LLC, a Marshall Islands limited liability company formed on January 26, 2005, and became a wholly-owned subsidiary of Eagle Ventures LLC, a Marshall Islands limited liability company. Eagle Ventures LLC is owned by Kelso Investments Associates VII, L.P. and KEP VI, LLC, both affiliates of Kelso & Company, L.P. ("Kelso"), members of management, a director, and outside investors. The merger was accounted for as a reorganization of entities under common control. Eagle Ventures LLC currently owns approximately 34.6% of the Company's outstanding common stock. Eagle Ventures LLC is 85.9% owned by affiliates of Kelso.

The Company is the sole owner of all of the outstanding shares of the Marshall Island incorporated wholly-owned subsidiaries listed below. The primary activity of each of these subsidiaries is the ownership of a vessel.

Company	Owner of Vessel	dwt.	Built	Vessel Acquired
Cardinal Shipping LLC.....	Cardinal	55,362	2004	April 18, 2005
Condor Shipping LLC.....	Condor	50,206	2001	April 29, 2005
Falcon Shipping LLC.....	Falcon	50,206	2001	April 21, 2005
Griffon Shipping LLC.....	Griffon	46,635	1995	June 1, 2005
Harrier Shipping LLC.....	Harrier	50,206	2001	April 19, 2005
Hawk Shipping LLC.....	Hawk I	50,206	2001	April 26, 2005
Heron Shipping LLC.....	Heron	52,827	2001	December 1, 2005
Kite Shipping LLC.....	Kite	47,195	1997	May 9, 2005
Merlin Shipping LLC.....	Merlin	50,296	2001	October 26, 2005
Osprey Shipping LLC.....	Osprey I	50,206	2002	August 31, 2005
Peregrine Shipping LLC.....	Peregrine	50,913	2001	June 30, 2005
Shikra Shipping LLC.....	Shikra	41,096	1984	April 29, 2005
Sparrow Shipping LLC.....	Sparrow	48,225	2000	July 19, 2005
New Acquisitions				
Kestrel Shipping LLC.....	Kestrel I	50,209	2004	June 30, 2006
Tern Shipping LLC.....	Tern	50,209	2003	July 3, 2006
Jaeger Shipping LLC.....	Jaeger	52,265	2004	July 7, 2006

The commercial and strategic management of the Company is carried out by a wholly-owned subsidiary of the Company, Eagle Shipping International (USA) LLC, a Marshall Islands limited liability company.

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The following table represents certain information about the Company's revenue earning charters:

Vessel	Delivered to Charterer	Time Charter Expiration(1)	Daily Time Charter Hire Rate
Cardinal.....	April 19, 2005	March 2007 to June 2007	\$26,500
Condor.....	April 30, 2005	November 2006 to March 2007	\$24,000
Falcon.....	April 22, 2005	February 2008 to June 2008	\$20,950
Griffon .....	February 17, 2006	January 2007 to March 2007	\$13,550
Harrier.....	April 21, 2005	March 2007 to June 2007	\$23,750
Hawk I.....	April 28, 2005	March 2007 to June 2007	\$23,750
Heron.....	December 11, 2005	November 2007 to February 2008	\$24,000
Kite(2).....	April 17, 2006	March 2007 to May 2007	\$14,750
Merlin.....	October 26, 2005	October 2007 to December 2007	\$24,000
Osprey I(3)....	August 31, 2005	July 2008 to November 2008	\$21,000
Peregrine.....	July 1, 2005	October 2006 to January 2007	\$24,000
Shikra.....	April 30, 2005	July 2006 to November 2006	\$22,000
Sparrow.....	July 20, 2005	November 2006 to February 2007	\$22,500
Kestrel I(4)...	July 1, 2006	December 2007 to April 2008	\$18,750
Tern(5).....	July 3, 2006	December 2007 to April 2008	\$19,000
Jaeger.....	July 7, 2006	April 2007 to June 2007	\$18,550

- (1) The date range provided represents the earliest and latest date on which the charterer may redeliver the vessel to the Company upon the termination of the charter.
- (2) The initial charter on the KITE at a daily charter rate of \$25,000 ended in April 2006.
- (3) The charterer of the OSPREY I has an option to extend the charter period by up to 26 months at a daily time charter rate of \$25,000.
- (4) The charterer of the KESTREL I has an option to extend the charter period by 11 to 13 months at a daily time charter rate of \$20,000 per day.
- (5) The charterer of the TERN has an option to extend the charter period by 11 to 13 months at a daily time charter rate of \$20,500 per day.

The Company began vessel operations in April 2005. The following table represents certain information about the Company's charterers which individually accounted for more than 10% of the Company's gross time charter revenue during the periods indicated:

Charterer	Three-months ended June 30, 2006	Three-months ended June 30, 2005	Six-months ended June 30, 2006	Period from January 26, 2005 (inception) to June 30, 2005
Charterer A ....	16.7%	--	15.8%	--
Charterer B ....	16.6%	27.9%	16.1%	27.9%
Charterer C ....	14.1%	11.2%	15.2%	11.2%
Charterer D ....	14.0%	16.5%	12.4%	16.5%
Charterer E ....	--	12.9%	--	12.9%
Charterer F ....	--	12.2%	--	12.2%



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The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, and the rules and regulations of the SEC which apply to interim financial statements. Accordingly, they do not include all of the information and footnotes normally included in consolidated financial statements prepared in conformity with accounting principles in the United States. They should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2005 Annual Report on Form 10-K.

The accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring adjustments) that management considers necessary for a fair presentation 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.

### Note 2. Vessels

#### Advances for Vessel Acquisitions

During the three-month period ended June 30, 2006, the Company through its subsidiaries entered into purchase contracts for three Supramax dry bulk vessels, KESTREL I, TERN and JAEGER from an unaffiliated owner for an aggregate contracted price of \$105,000,000. The KESTREL I was delivered on June 30, 2006 and the Company has made deposits in the amount of \$6,900,000, representing 10% of the purchase price for the TERN and JAEGER vessels which were to be delivered subsequent to June 30, 2006. These deposits are recorded in Advances for Vessel Acquisitions in the Company's financials statements as of June 30, 2006. At June 30, 2006, the unpaid balance of the purchase price for the two remaining vessels was \$62,100,000.

#### Vessel and Vessel Improvements

At June 30, 2006, the Company's fleet consisted of a total of 14 dry bulk vessels acquired at a total cost of \$463,144,953. These costs consist of the contracted purchase price of \$470,877,903, \$359,550 in additional costs relating to the acquisition of the vessels, and adjustments of \$8,092,500 in net prepaid charter revenue relating to the assumption of time charters associated with certain of the acquired vessels. The Company has also capitalized \$820,904 of costs relating to vessel improvements.

Vessel and vessel improvement costs have been depreciated from the date of their acquisition through their remaining estimated useful life. Depreciation expense for the three-month and six-month periods ended June 30, 2006 were \$4,749,665 and \$9,447,136 respectively.

### Note 3. Long-Term Debt

At June 30, 2006, the Company's debt consisted of \$182,400,000 in borrowings under a revolving credit facility. During the three-month period ended June 30, 2006, the Company borrowed a total of \$42,400,000 from its revolving credit facility which was used to partly fund the acquisition of the KESTREL I and place deposits representing 10% of the purchase price for the TERN and JAEGER.

The revolving credit facility has a facility limit of \$330,000,000 and a term of ten years. At June 30, 2006, the Company had a remaining undrawn capacity of \$147,600,000 available to borrow for future acquisitions of dry bulk vessels. The credit facility bears interest at the London Interbank Offered Rate (LIBOR) plus a margin of 0.95%. The Company must also pay a fee of 0.4% per

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annum on the unused portion of the revolving credit facility on a quarterly basis.

For the three-month period ended June 30, 2006, interest rates applicable on the Company's debt ranged from 5.17% to 6.29%, including the margin. The weighted average effective interest rate was 5.30%. For the six-month period ended June 30, 2006, interest rates applicable on the Company's debt ranged from 5.17% to 6.29%, including the margin. The weighted average effective interest rate was 5.28%.

Interest Expense consists of:

	Three-months ended June 30, 2006	Three-months ended June 30, 2005	Six-months ended June 30, 2006	Pe January (ince June
Loan Interest .....	\$1,893,185	\$1,353,306	\$3,734,475	\$
Commitment Fees .....	190,862	141,355	382,973	
Eagle Ventures Note Interest .....	--	608,222	--	
Amortization of Deferred Financing Costs .....	33,275	1,130,713	66,225	
Total Interest Expense .....	<u>\$2,117,322</u>	<u>\$3,233,596</u>	<u>\$4,183,673</u>	<u>\$</u>

### 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. The swaps are designated and qualify as cash flow hedges. Interest rate swap contracts for notional amounts of \$100,000,000 and \$30,000,000 were entered into in 2005. These contracts mature in September 2010. Exclusive of a margin of 0.95%, the Company will pay 4.22% and 4.54% fixed-rate interest, respectively, and receive floating-rate interest amounts based on three-month LIBOR settings. The Company records the fair value of the interest rate swap as an asset or liability on the balance sheet. The effective portion of the swap is recorded in accumulated other comprehensive income. At June 30, 2006 and December 31, 2005, the Company recorded an asset of \$6,027,014 and \$2,647,077, respectively, which is included in Other Assets in the accompanying balance sheet.

### Note 4. Related Party Transactions

The Company did not incur any related party expenses in the three-month or six-month periods ended June 30, 2006.

The Company had a financial advisory agreement dated February 1, 2005 with Kelso. Under the terms of the agreement the Company was to pay Kelso annual fees of up to \$500,000. The agreement had also provided for Kelso to be paid fees in connection with other services. In 2005, the Company terminated certain of its obligations under this agreement, including its obligation to pay the annual fees of \$500,000, for a one-time payment of \$1,000,000. The Company recorded an expense of \$6,175,046 in the period ended June 30, 2005 for fees incurred under such agreement.....

### Note 5. Commitments and Contingencies

Vessel Technical Management Contract

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The Company entered into technical management agreements for each of its vessels with V. Ships Management Ltd., an independent technical manager. V. Ships is paid a technical management fee of \$8,583 per vessel per month.

### Operating Lease

In December 2005, the Company entered into a lease for office space. The lease is secured by a Letter of Credit backed by cash collateral of \$124,616 which amount is recorded under Restricted Cash. The Letter of Credit amounts decline to zero at the conclusion of the lease.

### Note 6. Earnings Per Common Share

The computation of earnings per share is based on the weighted average number of common shares outstanding during the period. In the three-month period ended March 31, 2006, the Company granted 56,666 shares of the Company's stock in options under the 2005 Stock Incentive Plan (see Note 9). Diluted net income per share gives effect to the aforementioned stock options.

	Three months ended June 30, 2006 -----	Three months ended June 30, 2005 -----	Six Months ended June 30, 2006 -----	Period January 26, (inception June 30, -----
Net Income/(Loss) .....	\$9,391,736	\$(12,088,544)	\$20,184,237	\$(12,894,000)
Weighted Average Shares - Basic	33,180,220	13,857,692	33,165,193	13,396,000
Incremental Shares using treasury stock method .....	678	--	53	
Weighted Average Shares - Diluted	33,180,898	13,857,692	33,165,246	13,396,000
Basic Earnings Per Share .....	\$0.28	\$(0.87)	\$0.61	\$(0.87)
Diluted Earnings Per Share .....	\$0.28	\$(0.87)	\$0.61	\$(0.87)

### Note 7. Non-cash Compensation

For the three-months ended June 30, 2006 the Company recorded a non-cash, non-dilutive compensation charge of \$1,938,970 which relates to profits interests awarded to members of the Company's management by the Company's principal shareholder Eagle Ventures LLC. For the six-months ended June 30, 2006 the Company recorded a non-cash compensation charge of \$2,691,656. This amount includes \$2,644,623 in non-cash, non-dilutive charges relating to profits interests awarded to members of the Company's management by the Company's principal shareholder Eagle Ventures LLC, and a non-cash amount of \$47,033 which relates to the fair value of the stock options granted to certain directors of the Company under the 2005 Stock Incentive Plan on the date of grant (see Note 9).

These profits interests will dilute only the interests of owners of Eagle Ventures LLC, and will not dilute the direct holders of the Company's common stock. The non-cash compensation charge is being recorded as an expense over the estimated service period in accordance with SFAS No. 123(R). The non-cash compensation charges will be based on the fair value of the profits interests which will be "marked to market" at the end of each reporting period. The impact of any changes in the estimated fair value of the profits interests will be recorded as a change in estimate cumulative to the date of change. The impact on the amortization of the compensation charge of any changes to the estimated

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vesting periods for the performance related profits interests will be adjusted prospectively as a change in estimate.

### Note 8. Capital Stock

#### Dividends

The Company's current policy is to declare quarterly dividends to stockholders in February, April, July and October. Payment of dividends is limited by the terms of certain agreements to which the Company and its subsidiaries are party. The Company's revolving credit facility permits it to pay quarterly dividends in amounts up to its quarterly earnings before extraordinary or exceptional items, interest, taxes, depreciation and amortization (Credit Agreement EBITDA), less the aggregate amount of interest incurred and net amounts payable under interest rate hedging agreements during the relevant period and an agreed upon reserve for dry-docking for the period, provided that there is not a default or breach of loan covenant under the credit facility and the payment of the dividends would not result in a default or breach of a loan covenant. Depending on market conditions in the dry bulk shipping industry and acquisition opportunities that may arise, the Company may be required to obtain additional debt or equity financing which could affect its dividend policy. However, any determination to pay dividends in the future will be at the discretion of the Board of Directors and will depend upon the Company's results of operations, financial condition, capital restrictions, covenants and other factors deemed relevant by the Board of Directors.

On April 18, 2006 the Company's Board of Directors declared a cash dividend for the first quarter of 2006 of \$0.50 per share which was paid on May 3, 2006 to all shareholders of record as of April 28, 2006. The aggregate amount of this cash dividend was \$16,575,000.

On July 18, 2006 the Company's Board of Directors declared a cash dividend for the second quarter of 2006 of \$0.50 per share, based on 35,900,000 shares of common stock outstanding, payable on August 3, 2006 to all shareholders of record as of July 28, 2006. The aggregate amount of the cash dividend paid to the Company's shareholders on August 3, 2006 was \$17,950,000.

#### Sale of Common Stock

On June 28, 2006 the Company sold 2,750,000 shares of its common stock to certain institutional investors in a private placement at \$12.00 per share, pursuant to a securities purchase agreement dated June 22, 2006, raising gross proceeds of \$33,000,000 before deduction of fees and expenses of \$1,540,545. The Company used the proceeds from the offering to fund a portion of the acquisition of three vessels KESTREL I, TERN and JAEGER.

### Note 9. 2005 Stock Incentive Plan

The Company adopted the 2005 Stock Incentive Plan for the purpose of affording an incentive to eligible persons. The 2005 Stock Incentive Plan provides for the grant of equity-based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses, dividend equivalents and other awards based on or relating to the Company's common stock to eligible non-employee directors, selected officers and other employees and independent contractors. The plan is administered by a committee of the Company's Board of Directors.

An aggregate of 2.6 million shares of the Company's common stock has been authorized for issuance under the plan. As of December 31, 2005, no grants had been made under the plan. On March 17, 2006, the Company granted options to purchase 56,666 shares of the Company's common stock to its independent non-employee directors. These options vested and became exercisable on the grant

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date at an exercise price of \$13.23 per share. All options expire ten years from the date of grant. As of June 30, 2006, no other grants have been made under the plan.

For purposes of determining compensation cost for the Company's stock option plans using the fair value method of FAS 123(R), the fair values of the options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 5%, dividend yield of 14%, expected stock price volatility factor of 0.33.

On March 17, 2006, the Company also granted a Dividend Equivalent Rights Award to its independent non-employee directors equivalent to 62,964 shares of the Company's common stock. This award entitles the participant to receive a Dividend Equivalent payment each time the Company pays a dividend to the Company's stockholders. The amount of the Dividend Equivalent payment is equal to the number of Dividend Equivalent Rights multiplied by the amount of the per share dividend paid by the Company on its stock on the date the dividend is paid. In the three-month period ended June 30, 2006, the Company has recorded \$31,482 as compensation expense for the Dividend Equivalent payments relating to the dividend paid to shareholders on May 3, 2006.

### Note 10. Subsequent Events

#### Vessel Deliveries

On July 3, 2006 and July 7, 2006, respectively, the Company took delivery of the TERN, a 2003 built 50,209 dwt. Supramax class dry bulk vessel, and the JAEGER, a 2004 built 52,265 dwt. Supramax class dry bulk vessel. The Company funded the balance of the purchase price of \$62,100,000 for the two vessels with a combination of proceeds from cash on hand and additional borrowings of \$32,400,000 from its revolving credit facility.

#### Credit Facility

On July 6, 2006, the Company received a commitment from its sole lender, the Royal Bank of Scotland plc, to increase and amend its revolving credit facility to \$450 million from \$330 million. The entire \$450 million facility will be available for a period of six years from July 30, 2006, compared to four years remaining in the commitment period of the Company's existing facility. There are no principal repayment obligations during this initial six-year period. Over the remaining four years, the facility will reduce in semi-annual amounts of \$25,000,000 with a final reduction of \$250,000,000 occurring simultaneously with the last semi-annual reduction.

The amended facility will bear interest at the rate of 0.75% to 0.85% over LIBOR (decreased from 0.95% over LIBOR under its existing facility), depending upon the amount of debt drawn as a percentage of the value of the Company's vessels. The Company will pay a commitment fee of 0.25% per annum (decreased from 0.40% under its existing facility) on the undrawn amount of the amended facility.

### 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 six-month periods ended June 30, 2006. This section should be read in conjunction with the consolidated financial statements included elsewhere in this report and the notes to those financial statements.

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This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended 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," "plan," "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 recently increased to historic highs, and 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 new building orders or lower than anticipated rates of dry bulk vessel scrapping; (iii) changes in rules and regulations applicable to the dry bulk industry, including, without limitation, legislation adopted by international bodies or organizations such as the International Maritime Organization and the European Union or by individual countries; (iv) actions taken by regulatory authorities; (v) changes in trading patterns significantly impacting overall dry bulk tonnage requirements; (vi) changes in the typical seasonal variations in dry bulk charter rates; (vii) changes in the cost of other modes of bulk commodity transportation; (viii) changes in general domestic and international political conditions; (ix) changes in the condition of the Company's vessels or applicable maintenance or regulatory standards (which may affect, among other things, our anticipated dry docking costs); (x) and other factors listed from time to time in our filings with the Securities and Exchange Commission, including, without limitation, our Registration Statement on Form S-1 filed with the Securities and Exchange Commission. This discussion also includes statistical data regarding world dry bulk fleet and orderbook and fleet age. We generated some of these data internally, and some were obtained from independent industry publications and reports that we believe to be reliable sources. We have not independently verified these data nor sought the consent of any organizations to refer to their reports in this annual report. We disclaim any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

### Overview

We are Eagle Bulk Shipping Inc., a Marshall Islands corporation headquartered in New York City. We are the largest U.S. based owner of Handymax dry bulk vessels. Handymax dry bulk vessels range in size from 35,000 to 60,000 deadweight tons, or dwt, and transport a broad range of major and minor bulk cargoes, including iron ore, coal, grain, cement and fertilizer, along worldwide shipping routes. As of June 30, 2006, we owned and operated a modern fleet of 14 Handymax dry bulk vessels that we have purchased from unrelated third parties, and we acquired two additional Handymax vessels from an unrelated third party in July 2006.

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We are focused on maintaining a high quality fleet that is concentrated primarily in one vessel type - Handymax dry bulk carriers and its sub-category of Supramax vessels which are Handymax vessels ranging in size from 50,000 to 60,000 dwt. With the delivery of the two additional vessels in July, twelve of the 16 vessels in our fleet are classed as Supramax dry bulk vessels. These vessels have the cargo loading and unloading flexibility of on-board cranes while offering cargo carrying capacities approaching that of Panamax dry bulk vessels, which range in size from 60,000 to 100,000 dwt and must rely on port facilities to load and offload their cargoes. We believe that the cargo handling flexibility and cargo carrying capacity of the Supramax class vessels make them attractive to potential charterers. The 16 vessels in our fleet have a combined carrying capacity of 796,663 dwt and an average age of only five and a half years as compared to an average age for the world Handymax dry bulk fleet of over 15 years.

Each of our vessels is owned by us through a separate wholly owned Marshall Islands limited liability company.

We maintain our principal executive offices at 477 Madison Avenue, New York, New York 10022. Our telephone number at that address is (212) 785-2500. Our website address is [www.eagleships.com](http://www.eagleships.com). Information contained on our website does not constitute part of this quarterly report.

Our financial performance since inception is based on the following key elements of our business strategy:

- (1) concentration in one vessel category: Handymax dry bulk vessels, which offer size, operational and geographical advantages (over Panamax and Capesize vessels),
- (2) our strategy is to charter our vessels primarily pursuant to one- to three-year time charters to allow us to take advantage of the stable cash flow and high utilization rates that are associated with medium to long-term time charters. Reliance on the spot market contributes to fluctuations in revenue, cash flow, and net income. On the other hand, time charters provide a shipping company with a predictable level of revenues. We have entered into time charters for all of our vessels which range in length from one to three years and provide for fixed semi-monthly payments in advance. This strategy is effective in strong and weak dry bulk markets, giving us security and predictability of cashflows when we look at the volatility of the shipping markets,
- (3) maintain high quality vessels and improve standards of operation through improved environmental procedures, crew training and maintenance and repair procedures, and
- (4) maintain a balance between purchasing vessels as market conditions and opportunities arise and maintaining prudent financial ratios (e.g. leverage ratio).

### Our Fleet

The following table presents certain information concerning our fleet as of June 30, 2006.

Vessel	Year Built	Dwt	Time Charter Employment Expiration(1)
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SUPRAMAX:

Condor (2).....	2001	50,296	November 2006 to March 2007
Falcon (2).....	2001	50,296	February 2008 to June 2008
Harrier (2).....	2001	50,296	March 2007 to June 2007
Hawk I (2).....	2001	50,296	March 2007 to June 2007
Merlin (2).....	2001	50,296	October 2007 to December 2007
Osprey I (2) (4) .....	2002	50,206	July 2008 to November 2008
Cardinal (3).....	2004	55,408	March 2007 to June 2007
Peregrine (3).....	2001	50,913	October 2006 to January 2007
Heron .....	2001	52,827	December 2007 to February 2008
Kestrel (5).....	2004	50,209	December 2007 to April 2008

HANDYMAX:

Sparrow (3).....	2000	48,220	November 2006 to February 2007
Kite .....	1997	47,195	March 2007 to May 2007
Griffon.....	1995	46,635	January 2007 to February 2007
Shikra.....	1984	41,096	August 2006 to November 2006

- 
- (1) The date range provided represents the earliest and latest date on which the charterers may redeliver the vessel to us upon the termination of the charter.
  - (2) These vessels are sister ships.
  - (3) These vessels are similar ships built at the same shipyard.
  - (4) The charterer of the OSPREY I has an option to extend the charter period by up to 26 month.
  - (5) The KESTREL I was acquired on June 30, 2006. The charterer of the KESTREL I has an option to extend the charter period by 11 to 13 months.

New Acquisitions

Subsequent to the three-month period ended June 30, 2006, we have acquired two additional Supramax class Handymax vessels which were delivered to us in July 2006. Upon their deliveries to us, each vessel commenced time charters as tabulated below:

-----

Vessel	Year Built	Dwt	Vessel Acquired	Time Charter
				Employment Expiration(1)
Tern (2)..	2003	50,209	July 3, 2006	December 2007 to April 2008
Jaeger....	2004	52,265	July 7, 2006	April 2007 to June 2007

-----

- (1) The date range provided represents the earliest and latest date on which the charterers may redeliver the vessel to us upon the termination of the charter.
- (2) The charterer of the TERN has an option to extend the charter period by 11 to 13 months.

Fleet Management

The management of our fleet includes the following functions:

- o Strategic management. We locate, obtain financing and insurance for, purchase and sell vessels.



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- o Commercial management. We obtain employment for our vessels and manage our relationships with charterers.
- o Technical management. The technical manager performs day-to-day operations and maintenance of our vessels.

### Commercial and Strategic Management

We carry out the commercial and strategic management of our fleet through our wholly owned subsidiary, Eagle Shipping International (USA) LLC, a Marshall Islands limited liability company that maintains its principal executive offices in New York City. Our office staff, either directly or through this subsidiary, provides the following services:

- o commercial operations and technical supervision;
- o safety monitoring;
- o vessel acquisition; and
- o financial, accounting and information technology services.

We currently have a total of seven shore based personnel, including our senior management team.

### Technical Management

The technical management of our fleet is provided by our technical manager, V.Ships, an unaffiliated third party, that we believe is the world's largest provider of independent ship management and related services. We review the performance of V.Ships on an annual basis and may add or change technical managers.

Technical management includes managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory and classification society compliance, supervising the maintenance and general efficiency of vessels, arranging our hire of qualified officers and crew, arranging and supervising drydocking and repairs, purchasing supplies, spare parts and new equipment for vessels, appointing supervisors and technical consultants and providing technical support. V.Ships also manages and processes all crew insurance claims. Our technical manager maintains records of all costs and expenditures incurred in connection with its services that are available for our review on a daily basis. Our technical manager is a member of Marine Contracting Association Limited (MARCAS), an association that arranges bulk purchasing for its members, which enables us to benefit from economies of scale.

We currently crew our vessels with Ukrainian officers and seamen supplied by V.Ships in its capacity as technical manager. These officers and seamen are employees of our wholly owned vessel owning subsidiaries while aboard our vessels. We currently employ a total of 298 officers and seamen on the 14 vessels in our operating fleet. Our technical manager handles each seaman's training, travel, and payroll and ensures that all our seamen have the qualifications and licenses required to comply with international regulations and shipping conventions. Additionally, our seafaring employees perform most commissioning work and assist in supervising work at shipyards and drydock facilities. We typically man our vessels with more crew members than are required by the country of the vessel's flag in order to allow for the performance of routine maintenance duties. All of our crew members are subject to and are paid commensurate with international collective bargaining agreements and, therefore, we do not anticipate any labor disruptions. No international collective bargaining agreements to which we are a party are set to expire

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within two years.

For the three-month and six month periods ended June 30, 2006, we paid our technical manager a fee of \$8,583 per vessel per month, plus actual costs incurred by our vessels.

### Competition

We compete with a large number of international fleets. The international shipping industry is highly competitive and fragmented with many market participants. There are approximately 6,100 drybulk carriers aggregating approximately 350 million dwt, and the ownership of these vessels is divided among approximately 1,400 mainly private independent dry bulk vessel owners with no one shipping group owning or controlling more than 5.0% of the world dry bulk fleet. We primarily compete with other owners of dry bulk vessels in the Handymax class that are mainly privately owned fleets.

Competition in the ocean shipping industry varies primarily according to the nature of the contractual relationship as well as with respect to the kind of commodity being shipped. Our business will fluctuate in line with the main patterns of trade of dry bulk cargoes and varies according to changes in the supply and demand for these items. Competition in virtually all bulk trades is intense and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an owner and operator. Increasingly, major customers are demonstrating a preference for modern vessels based on concerns about the environmental and operational risks associated with older vessels. Consequently, owners of large modern fleets have gained a competitive advantage over owners of older fleets.

As in the spot market, the time charter market is price sensitive and also depends on our ability to demonstrate the high quality of our vessels and operations to chartering customers. However, because of the longer term commitment, customers entering time charters are more concerned about their exposure and image from chartering vessels that do not comply with environmental regulations or that will be forced out of service for extensive maintenance and repairs. Consequently, in the time charter market, factors such as the age and quality of a vessel and the reputation of the owner and operator tend to be more significant than in the spot market in competing for business.

### Value of Assets and Cash Requirements

The replacement costs of comparable new vessels may be above or below the book value of our fleet. The market value of our fleet may be below book value when market conditions are weak and exceed book value when markets are strong. In common with other shipowners, we may consider asset redeployment which at times may include the sale of vessels at less than their book value.

The Company's results of operations and cash flow may be significantly affected by future charter markets.

### Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our interim consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

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Critical accounting policies are those that reflect significant judgments of uncertainties and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies, because they generally involve a comparatively higher degree of judgment in their application.

### Revenue Recognition

We currently generate all of our revenue from time charters. Time charters are for a specific period of time at a specific rate per day or month, and are generally not as complex or as subjective as voyage charters. If we had a vessel on a voyage charter, or a charter in the spot market, we would agree to provide a vessel for the transport of specific goods between specific ports in return for the payment of an agreed upon freight per ton of cargo or, alternatively, for a specified total amount. All operating costs would be for our account.

### Vessel Lives and Impairment

The carrying value of each of our vessels represents its original cost at the time it was delivered or purchased less depreciation. We depreciate our dry bulk vessels on a straight-line basis over their estimated useful lives, estimated to be 28 years from date of initial delivery from the shipyard to the original owner. Depreciation is based on cost less the estimated residual salvage value. Salvage, or scrap, value is based upon a vessel's lightweight tonnage ("lwt") multiplied by a scrap rate. We use a scrap rate of \$150 per lwt, which we believe is common in the dry bulk shipping industry, to compute each vessel's salvage value. An increase in the useful life of a dry bulk vessel or in its salvage value would have the effect of decreasing the annual depreciation charge and extending it into later periods. A decrease in the useful life of a dry bulk vessel or in its salvage value would have the effect of increasing the annual depreciation charge. However, when regulations place limitations over the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted to end at the date such regulations become effective. The estimated scrap value is used in the computation of depreciation expense and recoverability of the carrying value of each vessel when evaluating for impairment of vessels. Management's estimates for salvage values may differ from actual results.

The carrying values of the Company's vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Historically, both charter rates and vessel values tend to be cyclical. We evaluate the carrying amounts and periods over which long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, we review certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. We determine undiscounted projected net operating cash flow for each vessel and compare it to the vessel carrying value. This assessment is made at the individual vessel level since separately identifiable cash flow information for each vessel is available. In developing estimates of future cash flows, the Company must make assumptions about future charter rates, ship operating expenses, and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective. In the event that an impairment were to occur, we would determine the fair value of the related asset and record a charge to operations calculated by comparing the asset's carrying value to the estimated fair value. We estimate fair value primarily through the use of third party valuations performed on an individual vessel basis.

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### Deferred Drydock Cost

There are three methods that are used by the shipping industry to account for drydockings; first is the prepaid method where drydock costs are capitalized when incurred and amortized over the period to the next scheduled drydock; second, is the accrual method where the estimated cost of the next scheduled drydock is accrued over the period preceding such drydock, and lastly; expensing drydocking costs in the period it is incurred. We use the prepaid method of accounting for drydock expenses. Under the prepaid method, drydock expenses are capitalized and amortized on a straight-line basis until the next drydock, which we estimate to be a period of two to three years. We believe the prepaid method better matches costs with revenue and minimizes any significant changes in estimates associated with the accrual method, including the disposal of vessels before a drydock which has been accrued before it is performed. We use judgment when estimating the period between drydocks performed, which can result in adjustments to the estimated amortization of drydock expense. If the vessel is disposed of before the next drydock, the remaining balance in prepaid drydock is written-off to the gain or loss upon disposal of vessels in the period when contracted. We expect that our vessels will be required to be drydocked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are operating. Costs capitalized as part of the drydocking include actual costs incurred at the drydock yard and parts and supplies used in making such repairs.

### Vessel Acquisitions

Where we identify any intangible assets or liabilities associated with the acquisition of a vessel, we record all identified tangible and intangible assets or liabilities at fair value. Fair value is determined by reference to market data and the amount of expected future cash flows. We value any asset or liability arising from the market value of the time charters assumed when an acquired vessel is delivered to us.

Where we have assumed an existing charter obligation or enter into a time charter with the existing charterer in connection with the purchase of a vessel at charter rates that are less than market charter rates, we record a liability in Deferred Revenues based on the difference between the assumed charter rate and the market charter rate for an equivalent vessel. Conversely, where we assume an existing charter obligation or enter into a time charter with the existing charterer in connection with the purchase of a vessel at charter rates that are above market charter rates, we record an asset in Prepaid Charter Revenue, based on the difference between the market charter rate and the contracted charter rate for an equivalent vessel. This determination is made at the time the vessel is delivered to us, and such assets and liabilities are amortized to revenue over the remaining period of the charter. The determination of the fair value of acquired assets and assumed liabilities requires us to make significant assumptions and estimates of many variables including market charter rates, expected future charter rates, future vessel operation expenses, the level of utilization of our vessels and our weighted average cost of capital. The use of different assumptions could result in a material change in the fair value of these items, which could have a material impact on our financial position and results of operations. In the event that the market charter rates relating to the acquired vessels are lower than the contracted charter rates at the time of their respective deliveries to us, our net earnings for the remainder of the terms of the charters may be adversely affected although our cash flows will not be so affected.

### Factors Affecting Our Results of Operations

We believe that the important measures for analyzing future trends in our results of operations consist of the following:

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- o Ownership days: We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.
- o Available days: We define available days as the number of our ownership days less the aggregate number of days that our vessels are off-hire due to vessel familiarization upon acquisition, scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.
- o Operating days: We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.
- o Fleet utilization: We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning.

### Voyage and Time Charter Revenue

Shipping revenues are highly sensitive to patterns of supply and demand for vessels of the size and design configurations owned and operated by a Company and the trades in which those vessels operate. In the drybulk sector of the shipping industry, rates for the transportation of drybulk cargoes such as ores, grains, steel, fertilizers, and similar commodities, are determined by market forces such as the supply and demand for such commodities, the distance that cargoes must be transported, and the number of vessels expected to be available at the time such cargoes need to be transported. The demand for shipments then is significantly affected by the state of the economy globally and in discrete geographical areas. The number of vessels is affected by newbuilding deliveries and by the removal of existing vessels from service, principally because of scrapping.

Our revenues are driven primarily by the number of vessels in our fleet, the number of days during which our vessels operate and the amount of the daily charter hire rates that our vessels earn under charters, which, in turn, are affected by a number of factors, including:

- o the duration of our charters;
- o our decisions relating to vessel acquisitions and disposals;
- o the amount of time that we spend positioning our vessels;
- o the amount of time that our vessels spend in dry-dock undergoing repairs;
- o maintenance and upgrade work;

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- o the age, condition and specifications of our vessels;
- o levels of supply and demand in the dry bulk shipping industry; and
- o other factors affecting spot market charter rates for dry bulk carriers.

As is common in the shipping industry, we pay commissions ranging from 1.25% to 6.25% of the total daily charter hire rate of each charter to unaffiliated ship brokers and in-house brokers associated with the charterers, depending on the number of brokers involved with arranging the charter.

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the cost of spares and consumable stores, tonnage taxes, other miscellaneous expenses, and technical management fees.

Insurance expense varies with overall insurance market conditions as well as the insured's loss record, level of insurance and desired coverage. The main vessel insurance expenses include Protection and Indemnity ("P & I") insurance (i.e. liability insurance) costs, and hull and machinery insurance (i.e. asset insurance) costs. Certain other insurances, such as basic war risk premiums based on voyages into designated war risk areas are often for the account of the charterers.

With regard to vessel operating expenses, we have entered into technical management agreements for each of our vessels with V. Ships Management Ltd, our independent technical manager. In conjunction with our management, V. Ships has established an operating expense budget for each vessel and performs the technical management of our vessels. All deviations from the budgeted amounts are for our account.

Technical management services include managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory and classification society compliance, supervising the maintenance and general efficiency of vessels, arranging the hire of qualified officers and crew, arranging dry-docking and repairs, purchasing stores, supplies, spare parts and new equipment, appointing supervisors and technical consultants and providing technical support.

Our vessel operating expenses, which generally represent costs under the vessel operating budgets, cost of insurance and vessel registry and other regulatory fees, will increase with the enlargement of our fleet. Other factors beyond our control, some of which may affect the shipping industry in general, may also cause these expenses to increase, including, for instance, developments relating to market prices for insurance and petroleum-based lubricants and supplies.

### Voyage Expenses

To the extent that we employ our vessels on voyage charters, we will incur expenses that include port and canal charges, bunker (fuel oil) expenses and commissions, as these expenses are borne by the vessel owner on voyage charters. Port and canal charges and bunker expenses primarily increase in periods during which vessels are employed on voyage charters because these expenses are for the account of the vessels. Currently all our vessels are employed under time charters that require the charterer to bear all of those expenses, hence we expect that any port and canal charges and bunker expenses, if incurred, will represent a relatively minor portion of our vessels' overall expenses.

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Results of Operations for the three-month periods ended June 30, 2006 and June 30, 2005 and six-months ended June 30, 2006 and the period from January 26, 2005 (inception) to June 30, 2005

### Fleet Data

Fleet utilization was steady for the three-month periods ending June 30, 2006 and June 30, 2005 respectively even as fleet days increased by 141% in the three-month period from a year before due to increase in fleet size.

	Three months ended June 30, 2006 -----	Three months ended June 30, 2005 -----	Six Months ended June 30, 2006 -----	Period from January 26, (inception) to June 30, 2005 -----
Ownership Days.....	1,183	490	2,353	490
Available Days.....	1,183	479	2,309	479
Operating Days.....	1,181	477	2,297	477
Fleet Utilization.....	99.9%	99.6%	99.5%	99.6%

### Revenues

Net revenues, for the three-month period ended June 30, 2006, of \$24,105,383 includes billed time charter revenues of \$26,199,776 and deductions for brokerage commissions of \$1,320,894 and \$773,500 in amortization of net prepaid and deferred charter revenue. Net revenues for the three-month period ended June 30, 2006 were 127% greater than net revenues for the three-month period ended June 30, 2005, primarily due to a larger fleet size as reflected by increased operating days. Net revenue, for the same three-month period ended June 30, 2005, was \$10,615,879 which included time charter revenues of \$11,486,411 and deductions for brokerage commissions of \$665,532 and \$205,000 in amortization of net prepaid and deferred charter revenue.

Net revenues, for the six-month period ended June 30, 2006, of \$47,895,435 includes billed time charter revenues of \$52,247,893 and deductions for brokerage commissions of \$2,641,958 and \$1,710,500 in amortization of net prepaid and deferred charter revenue. Net revenue, for the period from January 26, 2005 (inception) to June 30, 2005, was \$11,486,411 which included billed time charter revenues of \$10,615,879 and deductions for brokerage commissions of \$665,532 and \$205,000 in amortization of net prepaid and deferred charter revenue. Net revenues for the six-month period ended June 30, 2006 were greater than net revenues for the period from January 26, 2005 (inception) to June 30, 2005 primarily due to a larger fleet size and to reflect the shorter operating period in 2005 as operations commenced only in April 2005.

### Vessel Expenses

For the three-month period ended June 30, 2006, total vessel expenses incurred amounted to \$4,919,422. These expenses included \$4,584,922 in vessel operating costs and \$334,500 in technical management fees. Total vessel expenses for the three-month period ended June 30, 2006 were higher than the same three-month period ended June 30, 2005 due to the increase in fleet size and corresponding increase in vessel ownership days. Total vessel expenses for the three-month period ended June 30, 2005 were \$3,066,188.

For the six-month period ended June 30, 2006, total vessel expenses incurred amounted to \$9,624,419. These expenses included \$8,954,919 in vessel operating costs and \$669,500 in technical management fees. Total vessel expenses

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for the six-month period ended June 30, 2006 were higher than the period from January 26, 2005 (inception) to June 30, 2005 due to the increase in fleet size and the increase in vessel ownership days. Total vessel expenses for the period from January 26, 2005 (inception) to June 30, 2005 were \$3,115,399.

### Depreciation and Amortization

For the three-month period ended June 30, 2006, total depreciation and amortization expense was \$4,937,661 of which amount, \$4,749,665 relates to depreciation and \$187,996 relates to the amortization of deferred drydocking costs. Depreciation expenses increased from the corresponding three-month period ended June 30, 2005 due to the growth in our fleet. Total depreciation expenses for the three-month period ended June 30, 2005 was \$2,020,572.

Amortization of deferred financing costs for the three-month period ended June 30, 2006 is included in interest expense. These costs of \$33,275 relate to the amortization of financing costs associated with our revolving credit facility. Amortization of deferred financing costs for the corresponding three-month period ended June 30, 2005 was \$1,130,713 which related to the financing costs associated with the then existing term loan.

For the six-month period ended June 30, 2006, total depreciation and amortization expense was \$9,757,243 of which amount, \$9,447,136 relates to depreciation and \$310,107 relates to the amortization of deferred drydocking costs. Depreciation expenses increased from the corresponding period from January 26, 2005 (inception) to June 30, 2005 due to the growth in our fleet. Total depreciation expense for the period from January 26, 2005 (inception) to June 30, 2005 was \$2,020,572.

Amortization of deferred financing costs for the six-month period ended June 30, 2006 is included in interest expense. These costs of \$66,225 relate to the amortization of financing costs associated with our revolving credit facility. Amortization of deferred financing costs for the corresponding period from January 26, 2005 (inception) to June 30, 2005 was \$1,130,713 which related to the financing costs associated with the then existing term loan.

### General and Administrative Expenses

General and Administrative Expenses for the three-month periods ended June 30, 2006 and 2005 were \$1,114,024 and \$663,034 respectively. The increase in such expenses was primarily due to increase in recurring administrative costs as our fleet expanded. Our general and administrative expenses include recurring administrative costs and non-recurring formation and advisory costs. Recurring costs include our onshore vessel administration related expenses such as legal and professional expenses and administrative and other expenses including payroll and expenses relating to our executive officers and office staff, office rent and expenses, directors fees and compensations, and directors and officers insurance. For the three-month period ended June 30, 2006, all of our general and administrative costs were recurring in nature. For the corresponding three-month period ended June 30, 2005, recurring administrative costs amounted to \$363,327. We did not incur any non-recurring costs in the three-months ended June 30, 2006. For the corresponding three-month period ended June 30, 2005, non-recurring costs amounted to \$299,707. We expect general and administrative expenses to increase as our fleet expands.

General and Administrative Expenses for the six-month period ended June 30, 2006 and period from January 26, 2005 (inception) to June 30, 2005 were \$2,099,503 and \$1,420,036, respectively. The increase in such expenses was primarily due to increase in recurring administrative costs as our fleet expanded. For the six-month period ended June 30, 2006, all of our general and administrative costs were recurring in nature. For the corresponding period from January 26, 2005 (inception) to June 30, 2005, recurring administrative costs



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amounted to \$609,769. We did not incur any non-recurring costs in the six-months ended June 30, 2006. For the corresponding period from January 26, 2005 (inception) to June 30, 2005, non-recurring costs amounted to \$810,267.

### Financial Advisory Fees

We did not incur any related party expenses in the three-month or six-month periods ended June 30, 2006.

The Company had a financial advisory agreement dated February 1, 2005 with Kelso. Under the terms of the agreement the Company was to pay Kelso annual fees of up to \$500,000. The agreement also provided for Kelso to be paid fees in connection with other services. In 2005, the Company terminated certain of its obligations under this agreement, including its obligation to pay the annual fees of \$500,000, for a one-time payment of \$1,000,000. The Company recorded an expense of \$6,175,046 in the three-month period ended June 30, 2005 and in the period from January 26, 2005 (inception) to June 30, 2005 for fees under the agreement.

### Non-Cash Compensation Expense

For the three-month periods ended June 30, 2006 and 2005, the Company recorded non-cash compensation charges of \$1,938,970 and \$7,640,847, respectively. For the six-month period ended June 30, 2006 and the period from January 26, 2005 (inception) to June 30, 2005 the Company recorded non-cash compensation charges of \$2,691,656 and \$7,640,847, respectively. The expense for the six-month period ended June 30, 2006 includes \$2,644,623 in non-cash, non-dilutive charges relating to profits interests awarded to members of the Company's management by the Company's principal shareholder Eagle Ventures LLC, and a non-cash amount of \$47,033 which relates to the fair value of the stock options granted on March 17, 2006 to certain directors of the Company under the 2005 Stock Incentive Plan.

These non-cash, non-dilutive charges relate to profits interests awarded to members of the Company's management by the Company's principal shareholder Eagle Ventures LLC. These profits interests will dilute only the interests of the owners of Eagle Ventures LLC, and will not dilute the direct holders of the Company's common stock. The non-cash compensation charge is being recorded as an expense over the estimated service period in accordance with SFAS No. 123(R). The non-cash compensation charges will be based on the fair value of the profits interests which will be "marked to market" at the end of each reporting period. The impact of any changes in the estimated fair value of the profits interests will be recorded as a change in estimate cumulative to the date of change. The impact on the amortization of the compensation charge of any changes to the estimated vesting periods for the performance related profits interests will be adjusted prospectively as a change in estimate. The Company's Financial Statements for the year ended December 31, 2005 on Form 10-K includes a more detailed description of these profits interests.

### Interest and Finance Costs

Interest expense for the three-month period ended June 30, 2006, of \$2,117,322 includes loan interest of \$1,893,185 incurred on our borrowings from our revolving credit facility, commitment fees of \$190,862 incurred on the unused portion of the revolving credit facility, and costs of \$33,275 relating to the amortization of financing costs associated with our revolving credit facility.

Interest expense for the three-month period ended June 30, 2005, was \$3,233,596. These costs included loan interest costs of \$1,353,306, commitment fees of \$141,355, amortization charges of \$1,130,713 relating to financing costs associated with the then existing term loan and the revolving credit facility,

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and \$608,222 in interest costs associated with a Note from Eagle Ventures.

Interest expense for the six-month period ended June 30, 2006, of \$4,183,673 includes loan interest of \$3,734,475 incurred on our borrowings from our revolving credit facility, commitment fees of \$382,973 incurred on the unused portion of the revolving credit facility, and costs of \$66,225 relating to the amortization of financing costs associated with our revolving credit facility.

Interest expense for the previous period from January 26, 2005 (inception) to June 30, 2005, was \$3,233,596. These costs included loan interest costs of \$1,353,306, commitment fees of \$141,355, amortization charges of \$1,130,713 relating to financing costs associated with the then existing term loan and the revolving credit facility, and \$608,222 in interest costs associated with a Note from Eagle Ventures.

Our interest expense will increase as we increase our debt to finance vessel acquisitions for our fleet growth.

### Interest Rate Swaps

We have entered into interest rate swaps to effectively convert a portion of our debt from a floating to a fixed-rate basis. The swaps are designated and qualify as cash flow hedges. Interest rate swap contracts for notional amounts of \$100,000,000 and \$30,000,000 were entered into in 2005. These contracts mature in September 2010. Exclusive of a margin of 0.95%, the Company will pay fixed-rate interest of 4.22% and 4.54% respectively, and receive floating-rate interest amounts based on three month LIBOR settings (for a term equal to the swaps' reset periods). We record the fair value of the interest rate swap as an asset or liability in our financial statements. The effective portion of the swap is recorded in accumulated other comprehensive income. Accordingly, at June 30, 2006, we recorded an asset of \$6,027,014 which is included in Other Assets in the accompanying balance sheet. We did not have any swap instruments in place in the corresponding three-month period ended June 30, 2005.

### EBITDA

EBITDA represents operating earnings before extraordinary items, depreciation and amortization, interest expense, and income taxes, if any. EBITDA is included because it is used by certain investors to measure a company's financial performance. EBITDA is not an item recognized by GAAP and should not be considered a substitute for net income, cash flow from operating activities and other operations or cash flow statement data prepared in accordance with accounting principles generally accepted in the United States or as a measure of profitability or liquidity. EBITDA is presented to provide additional information with respect to the Company's ability to satisfy its obligations including debt service, capital expenditures, and working capital requirements. While EBITDA is frequently used as a measure of operating results and the ability to meet debt service requirements, the definition of EBITDA used here may not be comparable to that used by other companies due to differences in methods of calculation.

Our revolving credit facility permits us to pay dividends in amounts up to our earnings before extraordinary or exceptional items, interest, taxes, depreciation and amortization (Credit Agreement EBITDA), less the aggregate amount of interest incurred and net amounts payable under interest rate hedging agreements during the relevant period and an agreed upon reserve for dry-docking. Therefore, we believe that this non-GAAP measure is important for our investors as it reflects our ability to pay dividends. The following table is a reconciliation of net income, as reflected in the consolidated statements of operations, to the Credit Agreement EBITDA for the three-month periods ended June 30, 2006 and 2005 and for the six-month period ended June 30, 2006 and the

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period from January 26, 2005 (inception) to June 30, 2005 respectively:

	Three months ended June 30, 2006 -----	Three months ended June 30, 2005 -----	Six Months ended June 30, 2006 -----
Net Income .....	\$9,391,736	\$(12,088,544)	\$20,184,237
Interest Expense .....	2,117,322	3,233,596	4,183,673
Depreciation and Amortization .....	4,937,661	2,020,572	9,757,243
Amortization of Prepaid and Deferred Revenue	773,500	205,000	1,710,500
	-----	-----	-----
EBITDA .....	17,220,219	(6,629,376)	35,835,653
Adjustments for Exceptional Items:			
Management and Other Fees to Affiliates(1) .	--	6,175,046	--
Non-cash Compensation Expense(2) .....	1,938,970	7,640,847	2,691,656
	-----	-----	-----
Credit Agreement EBITDA .....	\$19,159,189	\$7,186,517	\$38,527,309
	=====	=====	=====

(1) One-time charge

(2) Management's participation in profits interests in Eagle Ventures LLC and Options Expense

(see Notes to our financial statements)

### Effects of Inflation

We do not believe that inflation has had or is likely, in the foreseeable future, to have a significant impact on vessel operating expenses, drydocking expenses or general and administrative expenses.

### Liquidity and Capital Resources

Net cash provided by operating activities during the six-month period ended June 30, 2006, was \$32,993,258 compared to \$1,559,570 during the same period from inception on January 26, 2005 to June 30, 2005. This increase was primarily due to cash generated from the operation of a fleet of 13 vessels for 2,297 operating days in the review period for 2006 compared to 477 operating days from 9 vessels during the corresponding review period in 2005.

Net cash used in investing activities during the six-month period ended June 30, 2006, was \$42,900,000 as the Company acquired its fourteenth vessel, KESTREL I, a Supramax class vessel and placed deposits for two additional Supramax class vessels, TERN and JAEGER, which were delivered in July 2006. Net cash used in investing activities during the corresponding period from inception on January 26, 2005 to June 30, 2005 was \$302,241,893 as the Company acquired its nine initial vessels and placed deposits for two additional vessels .

Net cash provided by financing activities during the six-month period ended June 30, 2006, was \$39,927,970 as the Company borrowed \$42,400,000 from its revolving credit facility, raised \$33,000,000 from a private placement of its common stock, and paid \$35,470,500 in dividends. Net cash provided by investing activities during the corresponding period from inception on January 26, 2005 to June 30, 2005 was \$311,613,286 primarily consisting of net proceeds of \$186,529,290 from the initial public offering, capital contributions of \$40,843,662 and net borrowings of \$88,500,000 from its credit facilities.

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As of June 30, 2006, our cash balance was \$54,547,756 compared to a cash balance of \$24,526,528 at December 31, 2005. In addition, \$6,500,000 in cash deposits are maintained with our lender for loan compliance purposes and this amount is recorded in Restricted Cash in our financial statements as of June 30, 2006 and December 31, 2005. Also recorded in Restricted Cash is an amount of \$124,616 which is collateralizing a letter of credit relating to our office lease.

We have a \$330,000,000 long-term revolving credit facility which we entered into in July 2005, of which \$147,600,000 was unused as of June 30, 2006. Under the terms of the revolving credit agreement, the facility will be available in full for five years, and there are no principal repayment obligations for the first five years. Over the remaining period of five years, the amount available under the facility will reduce in semi-annual amounts of \$20,500,000 with a final reduction of \$125,000,000 occurring simultaneously with the last semi-annual reduction. The revolving credit agreement also provides us with the ability to borrow up to \$10,000,000 for working capital purposes. (See section entitled "Revolving Credit Facility" for subsequent changes to the credit facility).

We anticipate that our current financial resources, together with cash generated from operations and, if necessary, borrowings under our revolving credit facility will be sufficient to fund the operations of our fleet, including our working capital requirements, for at least the next 12 months.

It is our intention to fund our future acquisition related capital requirements initially through borrowings under our revolving credit facility and to repay all or a portion of such borrowings from time to time with the net proceeds of equity issuances. We believe that funds will be available to support our growth strategy, which involves the acquisition of additional vessels, and will allow us to pay dividends to our stockholders as contemplated by our dividend policy.

### Dividends

Our policy is to declare quarterly dividends to stockholders in February, April, July and October in amounts that are substantially equal to our available cash from operations during the previous quarter less any cash reserves for drydocking and working capital.

Our revolving credit facility permits us to pay quarterly dividends in amounts up to our quarterly earnings before extraordinary or exceptional items, interest, taxes, depreciation and amortization (Credit Agreement EBITDA), less the aggregate amount of interest incurred and net amounts payable under interest rate hedging agreements during the relevant period and an agreed upon reserve for drydocking for the period, provided that there is not a default or breach of loan covenant under the credit facility and the payment of the dividends would not result in a default or breach of a loan covenant. Depending on market conditions in the dry bulk shipping industry and acquisition opportunities that may arise, we may be required to obtain additional debt or equity financing which could affect our dividend policy.

On April 14, 2006 the Company's Board of Directors declared a cash dividend for the first quarter of 2006 of \$0.50 per share, based on 33,150,000 shares of common stock outstanding, payable on May 3, 2006 to all shareholders of record as of April 28, 2006. The aggregate amount of the cash dividend paid to the Company's shareholders on May 3, 2006 was \$16,575,000.

On July 18, 2006 the Company's Board of Directors declared a cash dividend for the second quarter of 2006 of \$0.50 per share, based on 35,900,000 shares of common stock outstanding, payable on August 3, 2006 to all shareholders of

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record as of July 28, 2006. The aggregate amount of the cash dividend paid to the Company's shareholders on August 3, 2006 was \$17,950,000. Since the Company did not own the newly acquired vessels and receive the benefit of their revenues for the full quarter (the Kestrel I delivered on June 30, 2006, the Tern on July 3, 2006 and the Jaeger on July 7, 2006), it funded approximately \$1,375,000 of this dividend from excess working capital.

### Sale of Common Stock

On June 28, 2006 the Company sold 2,750,000 shares of its common stock to certain institutional investors in a private placement at \$12.00 per share, pursuant to a securities purchase agreement dated June 22, 2006, raising gross proceeds of \$33,000,000 before deduction of fees and expenses of \$1,540,545. The Company used the proceeds from the offering to fund a portion of the acquisition of three vessels KESTREL I, TERN and JAEGER.

### Revolving Credit Facility

At June 30, 2006, the Company's debt consisted of \$182,400,000 in borrowings under our 10-year \$330,000,000 revolving credit facility which we entered into in July 2005. During the three-month period ended June 30, 2006, the Company borrowed a total of \$42,400,000 from its revolving credit facility which was used to partly fund the acquisition of the KESTREL I and place deposits representing 10% of the purchase price of \$69,000,000 for the TERN and JAEGER.

The revolving credit facility has a facility limit of \$330,000,000 and a term of ten years. The Company's Financial Statements for the year ended December 31, 2005 on Form 10-K includes a more detailed description of the revolving credit facility. At June 30, 2006, the Company had a remaining undrawn capacity of \$147,600,000 available to fund future acquisitions of dry bulk vessels. The credit facility bears interest at the London Interbank Offered Rate (LIBOR) plus a margin of 0.95%. The Company incurs a fee of 0.4% per annum on the unused portion of the revolving credit facility on a quarterly basis.

For the three-month period ended June 30, 2006, interest rates applicable on the Company's debt ranged from 5.17% to 6.29%, including the margin. The weighted average effective interest rate was 5.30%. For the six-month period ended June 30, 2006, interest rates applicable on the Company's debt ranged from 5.17% to 6.29%, including the margin. The weighted average effective interest rate was 5.28%.

Subsequent to the quarter ended June 30, 2006, on July 3, 2006 and July 7, 2006, respectively, the Company took delivery of two Supramax class vessels, TERN and JAEGER. The Company funded the balance of the purchase price of \$62,100,000 for the two vessels with a combination of proceeds from cash on hand and additional borrowings of \$32,400,000 from its revolving credit facility. Following the completion of these acquisitions the Company's borrowings under the revolving credit facility stood at \$214,800,000.

On July 6, 2006, the Company received a commitment from its current lender to increase and amend its 10-year revolving credit facility to \$450,000,000 from \$330,000,000. The entire \$450,000,000 facility will be available for a period of six years from July 31, 2006, compared to four years remaining in the commitment period of the Company's existing facility. There are no principal repayment obligations during this initial six-year period. Over the remaining four years, the facility will reduce in semi-annual amounts of \$25,000,000 with a final reduction of \$250,000,000 occurring simultaneously with the last semi-annual reduction.

We are permitted to borrow up to \$15,000,000 (increased from \$10,000,000 under its existing facility) at any one time for working capital purposes during

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an initial period of 18 months from the first draw down date, after which time our ability to borrow amounts for working capital purposes is subject to review and reapproval on an annual basis.

The amended facility will bear interest at the rate of 0.75% to 0.85% over LIBOR (decreased from 0.95% over LIBOR under its existing facility), depending upon the amount of debt drawn as a percentage of the value of the Company's vessels. The Company will pay a commitment fee of 0.25% per annum (decreased from 0.40% under its existing facility) on the undrawn amount of the amended facility. We have incurred an arrangement fee of \$900,000 to be paid to our lender in connection with the amended credit facility.

Our ability to borrow amounts under the amended revolving credit facility will be subject to the satisfaction of certain customary conditions precedent and compliance with terms and conditions included in the loan documents. In connection with vessel acquisitions, amounts borrowed may not exceed 75% of the value of the vessels securing our obligations under the credit facility. Our ability to borrow such amounts, in each case, is subject to our lender's approval of the vessel acquisition. Our lender's approval will be based on the lender's satisfaction of our ability to raise additional capital through equity issuances in amounts acceptable to our lender and the proposed employment of the vessel to be acquired.

Our obligations under the amended revolving credit facility are secured by a first priority mortgage on each of the vessels in our fleet and such other vessels that we may from time to time include with the approval of our lender, and by a first assignment of all freights, earnings, insurances and requisition compensation relating to our vessels. The facility also limits our ability to create liens on our assets in favor of other parties. We may grant additional securities from time to time in the future.

The revolving credit facility, as amended, contains financial covenants requiring us, among other things, to ensure that:

- o the aggregate market value of the vessels in our fleet that secure our obligations under the revolving credit facility, as determined by an independent shipbroker on a charter free basis, at all times exceeds 125% of the aggregate principal amount of debt outstanding under the new credit facility and the notional or actual cost of terminating any related hedging arrangements;
- o to the extent our debt during any accounting period is less than \$250,000,000, our total assets minus our debt will not be less than \$100,000,000; to the extent our debt during any accounting period is greater than \$250,000,000, our total assets minus our debt will not be less than \$150,000,000;
- o our EBITDA, as defined in the credit agreement, will at all times be not less than 2x the aggregate amount of interest incurred and net amounts payable under interest rate hedging arrangements during the relevant period; and
- o we maintain with the lender \$400,000 per vessel in addition to an amount adequate to meet anticipated capital expenditures for the vessel over a 12 month period.

For the purposes of the revolving credit facility, our "total assets" includes our tangible fixed assets and our current assets, as set forth in our consolidated financial statements, except that the value of any vessels in our fleet that secure our obligations under the facility are measured by their fair market value rather than their carrying value on our consolidated balance sheet.

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The revolving credit facility permits us to pay dividends in amounts up to our earnings before extraordinary or exceptional items, interest, taxes, depreciation and amortization (EBITDA), less the aggregate amount of interest incurred and net amounts payable under interest rate hedging agreements during the relevant period and an agreed upon reserve for dry-docking, provided that there is not a default or breach of loan covenant under the credit facility and the payment of the dividends would not result in a default or breach of a loan covenant.

### Contractual Obligations

The following table sets forth our expected contractual obligations and their maturity dates as of June 30, 2006:

	Within One Year	One to Three Years	Three to Five Years	More than Five years	Total
	(in thousands of U.S. dollars)				
Vessel Purchase(1) .....	\$62,100	\$--	\$--	\$--	\$62,100
Bank Loans .....	--	--	--	182,400	182,400
Interest and borrowing fees(2) .....	7,592	21,904	21,956	50,661	102,113
Office lease .....	143	511	544	69	1,267
Total .....	\$69,835	\$22,415	\$22,500	\$233,130	\$347,880
	=====	=====	=====	=====	=====

- (1) The total purchase price of the two vessels delivered subsequent to June 30, 2006 was \$69,000,000 of which we had paid \$6,900,000 as of June 30, 2006. Subsequent to June 30, 2006 we took delivery of these vessels and paid the balance of the purchase price with a combination of bank debt and cash on hand.
- (2) The Company is a party to floating-to-fixed interest rate swaps covering notional amounts of \$100,000,000 and \$30,000,000 at June 30, 2006 that effectively convert the Company's interest rate exposure from a floating rate based on LIBOR to a fixed rate of 4.22% and 4.54% respectively, plus a margin of 0.95%. The interest obligations for floating rate debt (\$52,400,000 as of June 30, 2006) have been estimated based on the fixed rates stated in related floating-to-fixed interest rate swaps, where applicable, or the LIBOR rate at June 30, 2006.

### Capital Expenditures

Our capital expenditures relate to purchase of vessels and capital improvements to our vessels which are expected to enhance the revenue earning capabilities of these vessels. In addition to acquisitions that we may undertake in future periods, other major capital expenditures include funding the Company's maintenance program of regularly scheduled drydocking necessary to preserve the quality of our vessels as well as to comply with international shipping standards and environmental laws and regulations. Although the Company has some flexibility regarding the timing of its dry docking, the costs are relatively predictable. Management anticipates that vessels are to be drydocked every two and a half years. Funding of these requirements is anticipated to be met with cash from operations. We anticipate that this process of recertification will require us to reposition these vessels from a discharge port to shipyard facilities, which will reduce our available days and operating days during that period.

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During the three-month period ended June 30, 2006, we did not drydock any vessels. In the six-month period ended June 30, 2006, we have spent \$1,464,473 on vessel drydockings and this amount is amortized to expense on a straight-line basis over the period through the date the next drydocking is scheduled to occur. The following table represents certain information about the estimated costs for anticipated vessel drydockings in the remainder of 2006 and calendar 2007 along with the anticipated off-hire days:

Quarter Ending	Off-hire Days(1)	Projected Costs(2)
September 30, 2006.....	15	\$0.35 million
December 31, 2006.....	15	\$0.35 million
March 31, 2007.....	30	\$0.70 million
June 30, 2007.....	--	--
September 30, 2007.....	30	\$0.70 million
December 31, 2007.....	15	\$0.35 million

(1) Actual duration of drydocking will vary based on the condition of the vessel, yard schedules and other factors.

(2) Actual costs will vary based on various factors, including where the drydockings are actually performed.

### Contracted Time Charter Revenue

We have time charter contracts currently for all our vessels. The contracted time charter revenue schedule, as shown below, reduces future contracted revenue for any estimated off-hire days relating to dry-docks.

The following table represents certain information about the Company's revenue earning charters:

Vessel	Delivered to Charterer	Time Charter Expiration(1)	Daily Time Charter Hire Rate
Cardinal	April 19, 2005	March 2007 to June 2007	\$26,500
Condor	April 30, 2005	November 2006 to March 2007	\$24,000
Falcon	April 22, 2005	February 2008 to June 2008	\$20,950
Griffon	February 17, 2006	January 2007 to February 2007	\$13,550
Harrier	April 21, 2005	March 2007 to June 2007	\$23,750
Hawk I	April 28, 2005	March 2007 to June 2007	\$23,750
Kite(2)	April 17, 2006	March 2007 to May 2007	\$14,750
Osprey I(3)	September 1, 2005	May 2008 to September 2008	\$21,000
Peregrine(4)	July 1, 2005	October 2006 to January 2007	\$24,000
Shikra(5)	April 30, 2005	August 2006 to November 2006	\$22,000
Sparrow	July 20, 2005	November 2006 to Feb 2007	\$22,500
Merlin	October 26, 2005	October 2007 to December 2007	\$24,000
Heron	December 11, 2005	December 2007 to February 2008	\$24,000
Kestrel I(6)	July 1, 2006	December 2007 to April 2008	\$18,750
Tern(7)	July 3, 2006	December 2007 to April 2008	\$19,000
Jaeger	July 7, 2006	April 2007 to June 2007	\$18,550

(1) The date range provided represents the earliest and latest date on which the charterer may redeliver the vessel to the Company upon the termination of the charter.



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- (2) The initial charter on the KITE at a daily charter rate of \$25,000 ended in April 2006.
- (3) The charterer of the OSPREY I has an option to extend the charter period by up to 26 months at a daily time charter rate of \$25,000.
- (4) Upon conclusion of the current charter, the PEREGRINE commences a new time charter at \$20,500 per day for 24 to 26 months.
- (5) Upon conclusion of the current charter, the SHIKRA commences a new time charter at \$14,800 per day for 11 to 13 months.
- (6) The charterer of the KESTREL I has an option to extend the charter period by 11 to 13 months at a daily time charter rate of \$20,000 per day.
- (7) The charterer of the TERN has an option to extend the charter period by 11 to 13 months at a daily time charter rate of \$20,500 per day.

### Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

### Interest Rate Risk

There have been no material changes from the "Interest Rate Risk" previously disclosed in our Form 10-K for the year ended December 31, 2005.

### Currency and Exchange Rates

The shipping industry's functional currency is the U.S. dollar. The Company generates all of its revenues in U.S. dollars. The majority of the Company's operating expenses and the entirety of its management expenses are in U.S. dollars. The Company does not intend to use financial derivatives to mitigate the risk of exchange rate fluctuations.

## Item 4. Controls and Procedures

### Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

### Internal Control Over Financial Reporting

We evaluated our internal control over financial reporting, (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934), and there have been no changes in our internal control over financial reporting that occurred during the second quarter of 2006 that materially affected, or are reasonably likely to materially affect, our internal control over financial

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reporting.

### PART II: OTHER INFORMATION

#### Item 1 - Legal Proceedings

We are not aware of any legal proceedings or claims to which we or our subsidiaries are party or of which our property is subject. From time to time in the future, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. Those claims, even if lacking merit, could result in the expenditure by us of significant financial and managerial resources.

#### Item 1A - Risk Factors

There have been no material changes from the "Risk Factors" previously disclosed in our Form 10-K for the year ended December 31, 2005.

#### Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

On March 17, 2006, the Company granted 56,666 shares of the Company's stock in options to its independent non-employee directors. These options vested and became exercisable on the grant date at an exercise price of \$13.23 per share. All options expire ten years from the date of grant.

On June 28, 2006, the Company issued an aggregate of 2,750,000 shares of its common stock, par value \$0.01, to certain institutional investors pursuant to a securities purchase agreement dated June 22, 2006, for an aggregate purchase price of \$33,000,000, or \$12.00 per share of common stock. The shares of common stock were sold pursuant to an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder.

The offering incurred costs of \$1,540,545 in fees and expenses and the balance of the proceeds was used to fund a portion of the acquisition of three vessels, KESTREL I, TERN and JAEGER.

#### Item 3 - Defaults upon Senior Securities

None

#### Item 4 - Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of the Company was held on May 24, 2006. At the meeting the matters described below were approved by the shareholders.

The following nominees for the office of director were elected for terms expiring at the 2009 Annual Meeting of Shareholders, by the following votes:

	For	Withheld
Sophocles N. Zoullas	29,694,737	1,361,117
Michael B. Goldberg	30,935,453	120,401

The following persons continue as directors:

Joseph Cianciolo  
Michael Mitchell  
David B. Hiley

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Frank J. Loverro  
Douglas P. Haensel

The ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm to audit the financial statements of the Company and its subsidiaries for the fiscal year ending December 31, 2006, was approved by the following number of stockholder votes for, against, and abstained

For: 30,933,643                      Against: 70,514                      Abstained: 51,697

### Item 5 - Other Information

On March 17, 2006, the Company granted 56,666 shares of the Company's stock in options to its independent non-employee directors. These options vested and became exercisable on the grant date at an exercise price of \$13.23 per share. All options expire ten years from the date of grant. As of March 31, 2006, no other grants have been made under the plan. Also on March 17, 2006, the Company granted a Dividend Equivalent Rights award to its independent non-employee directors equivalent to 62,964 shares of the Company's common stock. This award entitles the participant to receive a Dividend Equivalent payment each time the Company pays a dividend to the Company's stockholders. The amount of the Dividend Equivalent payment is equal to the number of Dividend Equivalent Rights multiplied by the amount of the per share dividend paid by the Company on its stock on the date the dividend is paid.

### Item 6 - Exhibits

#### EXHIBIT INDEX

- 3.1 Amended and Restated Articles of Incorporation of the Company\*
- 3.2 Amended and Restated Bylaws of the Company\*
- 4.1 Form of Share Certificate of the Company\*
- 10.1 Form of Registration Rights Agreement\*
- 10.2 Form of Management Agreement\*
- 10.3 Amended and Restated Form of Credit Agreement\*\*
- 10.4 Eagle Bulk Shipping Inc. 2005 Stock Incentive Plan\*
- 10.5 Employment Agreement for Mr. Sophocles N. Zoullas\*
- 10.6 Form of Fourth Amended and Restated Limited Liability Company Agreement of Eagle Ventures LLC\*\*\*
- 31.1 Rule 13a-14(d) / 15d-14(a)\_Certification of CEO
- 31.2 Rule 13a-14(d) / 15d-14(a)\_Certification of CFO
- 32.1 Section 1350 Certification of CEO
- 32.2 Section 1350 Certification of CFO

\* Incorporated by reference to the Registration Statement on Form S-1, Registration No. 333-123817.

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\*\* Incorporated by reference to the Report on Form 8-K filed on July 31, 2006.

\*\*\* Incorporated by reference to the Registrant's annual report on Form 10-K for the period ending December 31, 2005 filed on March 14, 2006.

This quarterly report on Form 10-Q for the three month period ended June 30, 2006 is incorporated by reference into the Company's Registration Statements on Form S-3, filed on July 11, 2006 (Registration No. 333-135708) and July 19, 2006 (333-135866).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EAGLE BULK SHIPPING INC.

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(REGISTRANT)

Date: August 9, 2006

By: /s/ Sophocles N. Zoullas

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Sophocles N. Zoullas  
Chairman of the Board and  
Chief Executive Officer

Date: August 9, 2006

By: /s/ Alan S. Ginsberg

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Alan S. Ginsberg  
Chief Financial Officer  
and Treasurer

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