

Eagle Bulk Shipping Inc.
Form 10-Q
May 10, 2018

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

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 March 31, 2018

OR

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

For the transition period from to

Commission File Number 001-33831

EAGLE BULK SHIPPING INC.

(Exact name of Registrant as specified in its charter)

Republic of the Marshall Islands

98-0453513

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

300 First Stamford Place, 5th floor

Stamford, Connecticut 06902

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (203) 276-8100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large accelerated filer Accelerated filer Emerging growth company

Non-Accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

YES NO

Number of shares of registrant's common stock outstanding as of May 8, 2018: 73,006,009

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

by a court. Yes No

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017</u>	<u>F-1</u>
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017</u>	<u>F-2</u>
<u>Condensed Consolidated Statements of Comprehensive Income/(Loss) for the three months ended March 31, 2018 and 2017</u>	<u>F-3</u>
<u>Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2018 and 2017</u>	<u>F-4</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017</u>	<u>F-5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>F-7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>1</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risks</u>	<u>11</u>
Item 4. <u>Controls and Procedures</u>	<u>11</u>
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>12</u>
Item 1A. <u>Risk Factors</u>	<u>12</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>12</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>12</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>12</u>
Item 5. <u>Other Information</u>	<u>12</u>
Item 6. <u>Exhibits</u>	<u>12</u>
<u>Signatures</u>	<u>13</u>

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the period ended March 31, 2018 (the "Quarterly Report on Form 10-Q") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995, and are intended to be covered by the safe harbor provided for under these sections. These statements may include words such as "believe," "estimate," "project," "intend," "expect," "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 declined significantly from historic highs, periods of charter hire, vessel operating expenses and voyage costs, which are incurred primarily in U.S. dollars, depreciation expenses, which are a function of the cost of our vessels, significant vessel improvement costs and our vessels' estimated useful lives, and financing costs related to our indebtedness. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors which could include the following: (i) changes in demand in the dry bulk market, including, without limitation, changes in production of, or demand for, commodities and bulk cargoes, generally or in particular regions; (ii) greater than anticipated levels of dry bulk vessel newbuilding orders or lower than anticipated rates of dry bulk vessel scrapping; (iii) changes in rules and regulations applicable to the dry bulk industry, including, 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 including without limitation the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"); (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 drydocking costs); (x) significant deteriorations in charter hire rates from current levels or the inability of the Company to achieve its cost-cutting measures; and (xi) the outcome of legal proceeding in which we are involved; and other factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC"). This discussion also includes statistical data regarding world dry bulk fleet and orderbook and fleet age. We generated some of this data internally, and some were obtained from independent industry publications and reports that we believe to be reliable sources. We have not independently verified this data nor sought the consent of any organizations to refer to their reports in this Quarterly Report on Form 10-Q. 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.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

EAGLE BULK SHIPPING INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017
(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS:		
Current assets:		
Cash and cash equivalents	\$57,897,634	\$56,251,044
Accounts receivable	13,976,108	17,246,540
Prepaid expenses	3,663,037	3,010,766
Short-term investment	—	4,500,000
Inventories	13,622,341	14,113,079
Vessels held for sale	19,670,950	9,316,095
Other current assets	1,577,556	785,027
Total current assets	110,407,626	105,222,551
Noncurrent assets:		
Vessels and vessel improvements, at cost, net of accumulated depreciation of \$105,608,055 and \$99,910,416, respectively	693,895,309	690,236,419
Advances for vessels purchase	—	2,201,773
Other fixed assets, net of accumulated amortization of \$387,759 and \$343,799, respectively	572,587	617,343
Restricted cash	74,917	74,917
Deferred drydock costs, net	9,654,102	9,749,751
Deferred financing costs - Super Senior Facility	285,342	190,000
Other assets	54,269	57,181
Total noncurrent assets	704,536,526	703,127,384
Total assets	\$814,944,152	\$808,349,935
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$9,015,305	\$7,470,844
Accrued interest	5,912,503	1,790,315
Other accrued liabilities	5,984,737	11,810,366
Fair value of derivatives	152,560	73,170
Unearned charter hire revenue	6,231,209	5,678,673
Current portion of long-term debt	11,875,142	4,000,000
Total current liabilities	39,171,456	30,823,368
Noncurrent liabilities:		
Norwegian Bond Debt, net of debt discount and debt issuance costs	190,160,155	189,950,329
New First Lien Facility, net of debt discount and debt issuance costs	54,436,463	63,758,185
Ultraco Debt Facility, net of debt discount and debt issuance costs	65,001,075	59,975,162
Other liabilities	158,033	177,846
Fair value below contract value of time charters acquired	2,329,537	2,500,012
Total noncurrent liabilities	312,085,263	316,361,534
Total liabilities	351,256,719	347,184,902
Commitments and contingencies		
Stockholders' equity:		

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

Preferred stock, \$0.01 par value, 25,000,000 shares authorized, none issued as of March 31, 2018 and December 31, 2017, respectively	—	—
Common stock, \$0.01 par value, 700,000,000 shares authorized, 70,515,018 and 70,394,307 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	705,151	703,944
Additional paid-in capital	890,881,460	887,625,902
Accumulated deficit	(427,899,178)	(427,164,813)
Total stockholders' equity	463,687,433	461,165,033
Total liabilities and stockholders' equity	\$814,944,152	\$808,349,935

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

F-1

EAGLE BULK SHIPPING INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2018 and 2017
(Unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Revenues, net	\$79,370,609	\$45,855,057
Voyage expenses	22,514,592	13,353,347
Vessel expenses	21,078,657	17,955,519
Charter hire expenses	10,268,064	3,873,332
Depreciation and amortization	9,276,415	7,492,808
General and administrative expenses	9,913,964	7,778,821
Gain on sale of vessel	—	(92,114)
Total operating expenses	73,051,692	50,361,713
Operating income/(loss)	6,318,917	(4,506,656)
Interest expense	6,261,069	6,445,031
Interest income	(95,276)	(189,798)
Other expense	100,379	306,559
Total other expense, net	6,266,172	6,561,792
Net income/(loss)	\$52,745	\$(11,068,448)
Weighted average shares outstanding:		
Basic	70,452,814	65,637,692
Diluted	71,531,864	65,637,692
Per share amounts:		
Basic income/(loss)	\$0.00	\$(0.17)
Diluted income/(loss)	\$0.00	\$(0.17)

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

EAGLE BULK SHIPPING INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income/(Loss)
for the Three Months Ended March 31, 2018 and 2017

(Unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income/(loss)	\$52,745	\$(11,068,448)
Comprehensive income/(loss)	\$52,745	\$(11,068,448)

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

F-3

EAGLE BULK SHIPPING INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity
For the Three Months Ended March 31, 2018 and 2017
(Unaudited)

	Common Stock	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2017	70,394,307	\$703,944	\$887,625,902	\$(427,164,813)	\$461,165,033
Cumulative effect of accounting change (Note 2) *	—	—	—	(787,110)	(787,110)
Net income	—	—	—	52,745	52,745
Issuance of shares due to vesting of restricted shares	120,711	1,207	(1,207)	—	—
Cash used to settle net share equity awards	—	—	(254,146)	—	(254,146)
Stock-based compensation	—	—	3,510,911	—	3,510,911
Balance at March 31, 2018	70,515,018	\$705,151	\$890,881,460	\$(427,899,178)	\$463,687,433

* The opening retained earnings has been adjusted on January 1, 2018 in connection with adoption of Accounting Standards Update 2014-09 ("ASC 606"). Please refer to Note 2 "Recently Adopted Accounting Pronouncements" to the condensed consolidated financial statements.

	Common Stock	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2017	48,106,827	\$481,069	\$783,369,698	\$(383,368,128)	\$400,482,639
Net loss	—	—	—	(11,068,448)	(11,068,448)
Issuance of shares for private placement	22,222,223	222,222	95,807,781	—	96,030,003
Stock-based compensation	—	—	2,170,700	—	2,170,700
Balance at March 31, 2017	70,329,050	\$703,291	\$881,348,179	\$(394,436,576)	\$487,614,894

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

EAGLE BULK SHIPPING INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017
(Unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Cash flows from operating activities:		
Net income/(loss)	\$52,745	\$(11,068,448)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Depreciation	8,073,353	6,510,735
Amortization of deferred drydocking costs	1,203,062	982,073
Amortization of debt issuance costs	490,095	1,444,963
Amortization of fair value below contract value of time charter acquired	(170,475)	(205,078)
Payment-in-kind interest on debt	—	2,334,893
Net unrealized loss on fair value of derivative instruments	208,235	293,007
Stock-based compensation expense	3,510,911	2,170,700
Drydocking expenditures	(1,107,414)	(25,807)
Gain on sale of vessel	—	(92,114)
Changes in operating assets and liabilities:		
Accounts receivable	3,270,432	(3,676,803)
Other current and non-current assets	(121,954)	(426,860)
Prepaid expenses	(652,271)	502,054
Inventories	490,738	2,148,742
Accounts payable	1,544,461	(249,235)
Accrued interest	4,122,188	(28,872)
Other accrued and other non-current liabilities	(5,009,784)	(3,738,154)
Unearned revenue	(1,031,082)	21,114,886
Net cash provided by/(used in) operating activities	14,873,240	(2,009,318)
Cash flows from investing activities:		
Purchase of vessels and vessel improvements	(19,841,536)	(7,297,323)
Advance paid for purchase of vessel	—	(10,320,000)
Proceeds from redemption of Short-term investment	4,500,000	—
Proceeds from sale of vessels	—	—