



ANNUAL REPORT

SB 2013

SB
LISTED
NYSE



COMPANY PROFILE



181,400 Built 2014 Japan

Safe Bulkers, Inc. is an international provider of marine drybulk transportation services, transporting bulk cargoes, particularly coal, grain and iron ore, along world-wide shipping routes for some of the world's largest consumers of such services. We are listed on the New York Stock Exchange and trade under the symbol "SB".

We are a successor to a business that first invested in shipping in 1958 and has been involved in the drybulk sector uninterrupted for decades since.

As of February 25, 2014, the Company's operational fleet was comprised of 30 drybulk vessels with an aggregate carrying capacity of 2,786,600 dwt and an average age of 5.4 years, making ours one of the world's youngest fleets of Panamax, Kamsarmax, Post-Panamax and Capesize class vessels. The Company has also contracted for eight additional drybulk newbuilds with deliveries scheduled through 2016.

We invest in eco-design newbuild vessels, with advanced technological specifications, aiming to renew and expand our fleet. Currently, we have substantial exposure in the spot market.

As of February 25, 2014, the open days of the Company's fleet was 64% of fleet anticipated ownership days for the remainder of 2014, 86% for 2015 and 89% for 2016, including vessels which are scheduled to be delivered to us in the future.

We have paid dividends to our stockholders each quarter since our initial public offering in 2008, including an aggregate amount of \$16.5 million over the four quarters of 2013 in dividends for our common shares and of \$1.2 million over the last two quarters of 2013 in dividends for our preferred shares. We also recently declared a dividend of \$0.06 per common share, which is scheduled to be paid on March 17, 2014, to our shareholders of record as of March 10, 2014.

We currently intend to use a portion of our free cash to pay dividends to our shareholders. The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things: (a) our earnings, financial condition and cash requirements and available sources of liquidity, (b) decisions in relation to our growth strategies, (c) provisions of Marshall Islands and Liberian law governing the payment of dividends, (d) restrictive covenants in our existing and future debt instruments and (e) global financial conditions. Dividends might be reduced or not be paid by us. Our ability to pay dividends may be limited by the amount of cash we can generate from operations following the payment of fees, expenses, dividends of Series B Preferred Shares and the establishment of any reserves, as well as additional factors unrelated to our profitability.

We invest in eco-design newbuild vessels, with advanced technological specifications, aiming to renew and expand our fleet. Currently, we have substantial exposure in the spot market.



CHAIRMAN'S LETTER



Polys Hajioannou is our Chief Executive Officer and has been Chairman of our board of directors since 2008.

Fellow Shareholders,

During 2013, we operated in a weak market environment, which improved considerably towards the last few months of the year. As the global economy recovers, we expect demand for transportation of drybulk commodities to improve. The over-supply of vessels still influences the shipping markets; however, the rate of fleet growth is expected to decline the next couple of years. Our expectation is that a market featuring declining supply and strengthening demand supported from the growth of global economy, especially in China and India, will improve prospects for the dry-bulk market and our profitability.

Having the majority of our fleet in the spot market, and substantial growth contracted in the low part of the shipping cycle at attractive prices, we are well positioned to capture the upside momentum. Our recent eco-design newbuilds have already started delivering ahead of our competitors and have found warm welcome from our clients. We continue to be focused on expanding but at the same time renewing our fleet with eco-design vessels.

Our additional offerings this year have substantially increased our stockholder base, offering a more liquid opportunity to invest alongside our management. The equity raised supported our balance sheet and acquisition program.

We won our previously announced arbitration in relation to the cancelled capesize vessel Hull No.J0131 and we are in the process of seeking to collect the advances paid of \$31.8 million along with 5% accrued interest from the refund guarantor.

During 2013, we gradually deleveraged our company reaching a net debt per vessel ratio of about \$11 million at year end, complying with our financial covenants and reducing our interest expense.

We reduced considerably our counterparty risk by accepting early redeliveries and receiving substantial cash compensation.

Our lean operations contributed to our earnings. Our daily operating expenses, together with our daily general and administrative expenses, including management fees, remain among the lowest in the industry. In 2013 they were reduced to a total of \$5,490 from \$5,765, per vessel per day, in 2012.

Our fleet as of February 25, 2014 consisted of 30 vessels with an average age of 5.4 years, and is expected to reach 38 vessels by 2016. Our open days were 64% of fleet anticipated ownership days for the remainder of 2014, 86% for 2015 and 89% for 2016. Our fleet utilization for 2013 was 99% and our time charter equivalent rate was \$18,297.

During 2013, we reported net income of \$83.3 million and EPS of \$1.05.

Our strong financial performance during 2013, lifted by an improving charter market towards the end of 2013, supported an increased quarterly dividend of \$0.06 per share.

The goal of our management team is to create value for our shareholders through our active asset management, chartering, operations and financial policies, allowing us to reward our investors with meaningful and regular payouts.

With these words, we are proud to present our 2013 Annual Report, which provides detailed information about our business and financial performance.

Polys Hajioannou
Chief Executive Officer and Chairman of the Board



OPERATIONAL HIGHLIGHTS



1



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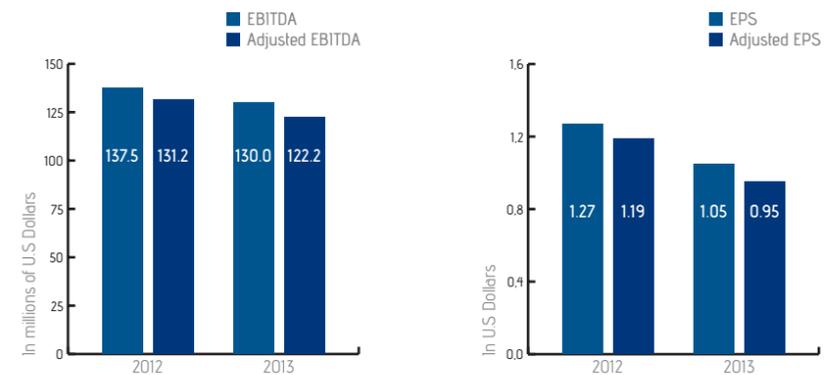
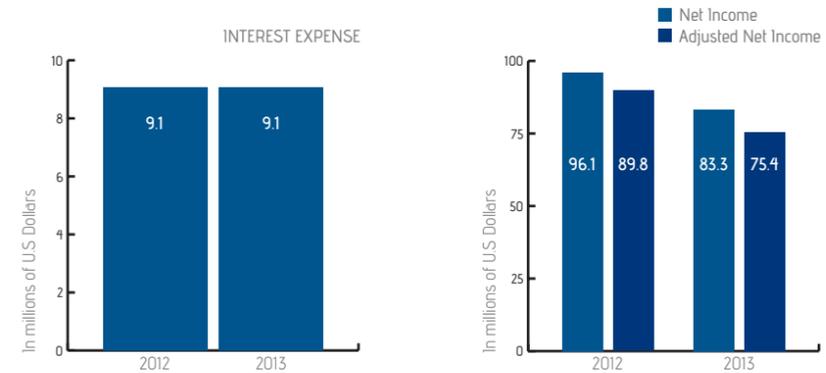
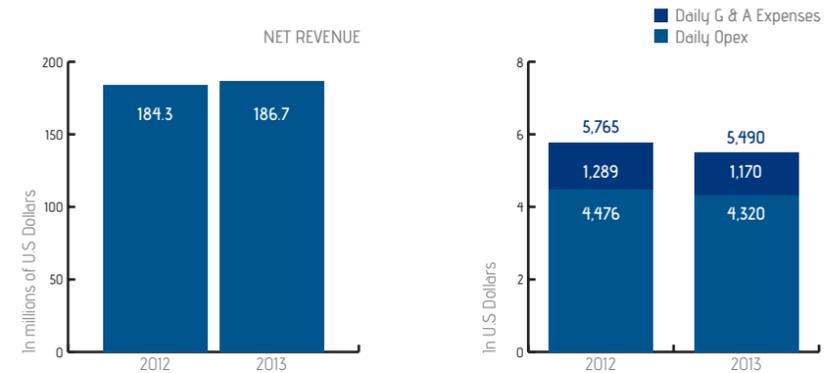
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Our newbuild deliveries
 1. M/V Zoe, 2013, Japanese Panamax, DWT 75,000
 2. M/V Lake Despina, 2014, Japanese Capesize, DWT 181,400
 3. M/V Kypros Land, 2014, Japanese Panamax, DWT 77,100
 4. Naming Ceremony of M/V Lake Despina

FINANCIAL HIGHLIGHTS^(*)



[*] Definitions: EBITDA represents net income before net interest expense, income tax expense, depreciation and amortization. Adjusted net income, Adjusted EPS and Adjusted EBITDA represent, respectively, Net Income, EPS and EBITDA before early re-delivery income/(cost) and gain/(loss) on derivatives and foreign currency. EBITDA, adjusted EBITDA, adjusted net income and adjusted EPS are not recognized measurements under US GAAP. EPS and Adjusted EPS for the twelve month periods ended December 31, 2013 and 2012 was calculated on a weighted average number of shares of 77,495,029 and 75,468,465, respectively. Daily vessel operating expenses include the costs for crewing, insurance, lubricants, spare parts, provisions, stores, repairs, maintenance, statutory and classification expense, drydocking, intermediate and special surveys, tonnage taxes and other miscellaneous items. Daily vessel operating expenses are calculated by dividing vessel operating expenses by ownership days for the relevant period. Daily general and administrative expenses ("Daily G & A Expenses") include daily management fees and the costs in relation to our operation as a public company. Daily G & A Expenses are calculated by dividing general and administrative expenses by ownership days for the relevant period.



FLEET PROFILE

Vessel Name	DWT	Year Built	Country of Construction
Panamax			
Maria	76,000	2003	Japan
Koulitsa	76,900	2003	Japan
Paraskevi	74,300	2003	Japan
Vassos	76,000	2004	Japan
Katerina	76,000	2004	Japan
Maritsa	76,000	2005	Japan
Efrossini	75,000	2012	Japan
Zoe	75,000	2013	Japan
Kypros Land	77,100	2014	Japan
Kamsarmax			
Pedhoulas Merchant	82,300	2006	Japan
Pedhoulas Trader	82,300	2006	Japan
Pedhoulas Leader	82,300	2007	Japan
Pedhoulas Commander	83,700	2008	Japan
Pedhoulas Builder	81,600	2012	China
Pedhoulas Fighter	81,600	2012	China
Pedhoulas Farmer	81,600	2012	China
Post-Panamax			
Stalo	87,000	2006	Japan
Marina	87,000	2006	Japan
Xenia	87,000	2006	Japan
Sophia	87,000	2007	Japan
Eleni	87,000	2008	Japan
Martine	87,000	2009	Japan
Andreas K	92,000	2009	South Korea
Panajiota K	92,000	2010	South Korea
Venus Heritage	95,800	2010	Japan
Venus History	95,800	2011	Japan
Venus Horizon	95,800	2012	Japan
Capesize			
Kanaris	178,100	2010	China
Pelopidas	176,000	2011	China
Lake Despina	181,400	2014	Japan
Total Current Fleet	2,786,600		

ORDERBOOK

Vessel Name	DWT	Expected Delivery Date	Country of Construction
Panamax			
TBN*	76,600	1H 2014	Japan
TBN*	77,000	2H 2014	Japan
TBN*	77,000	1H 2015	Japan
TBN*	76,500	1H 2015	Japan
TBN*	77,000	2H 2015	Japan
TBN*	77,000	1H 2016	Japan
Post-Panamax			
TBN*	84,000	2H 2015	Japan
TBN*	84,000	2H 2015	Japan
Total Orderbook	629,100		

*To be Named



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

FORM 20-F

(Mark One)

- Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934
- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2013
- Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
- Shell Company Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-34077

SAFE BULKERS, INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of the Marshall Islands

(Jurisdiction of incorporation or organization)

Apt. D11,
Les Acanthes
6, Avenue des Citronniers
MC98000 Monaco

(Address of principal executive office)

30-32 Avenue Karamanli
16673 Voula
Athens, Greece

(Address of representation office in Greece)

Dr. Loukas Barmparis
President
30-32 Avenue Karamanli
16673 Voula
Athens, Greece

Telephone : +30 2 111 888 400

Facsimile : +30 2 111 878 500

(Name, Address, Telephone Number and Facsimile Number of Company contact person)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value per share	New York Stock Exchange
Preferred stock purchase rights	New York Stock Exchange
Series B Cumulative Redeemable Perpetual Preferred Shares, \$0.01 par value per share	New York Stock Exchange

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. As of December 31, 2013, there were 83,436,484 shares of the registrant's common stock outstanding and 1,600,000 shares of Series B Cumulative Redeemable Perpetual Preferred Shares, \$0.01 par value per share outstanding.

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

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

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 (§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, 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 which basis of accounting the registrant has used to prepare the financial statements included in this filing.

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

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. **Item 17** **Item 18**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** **No**



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ABOUT THIS REPORT

In this annual report, "Safe Bulkers," "the Company," "we," "us" and "our" are sometimes used for convenience where references are made to Safe Bulkers, Inc. and its subsidiaries (as well as the predecessors of the foregoing). These expressions are also used where no useful purpose is served by identifying the particular company or companies. Our affiliated management company, Safety Management Overseas S.A., a company incorporated under the laws of the Republic of Panama, is sometimes referred to in this annual report as "Safety Management" or our "Manager."

FORWARD-LOOKING STATEMENTS

All statements in this annual report that are not statements of historical fact are "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. The disclosure and analysis set forth in this annual report includes assumptions, expectations, projections, intentions and beliefs about future events in a number of places, particularly in relation to our operations, cash flows, financial position, plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These statements are intended as forward-looking statements. In some cases, predictive, future-tense or forward-looking words such as "believe," "intend," "anticipate," "estimate," "project," "forecast," "plan," "potential," "may," "should," and "expect" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. In addition, we and our representatives may from time to time make other oral or written statements which are forward-looking statements, including in our periodic reports that we file with the Securities and Exchange Commission ("SEC"), other information sent to our security holders, and other written materials.

Forward-looking statements include, but are not limited to, such matters as:

- future operating or financial results and future revenues and expenses;
- future, pending or recent acquisitions, business strategy, areas of possible expansion and expected capital spending or operating expenses;
- availability of key employees, crew, length and number of off-hire days, drydocking requirements and fuel and insurance costs;
- general market conditions and shipping industry trends, including charter rates, vessel values and factors affecting supply and demand;
- our financial condition and liquidity, including our ability to make required payments under our credit facilities, comply with our loan covenants and obtain additional financing in the future to fund capital expenditures, acquisitions and other corporate activities;
- the overall health and condition of the U.S. and global financial markets, including the value of the U.S. dollar relative to other currencies;
- our expectations about availability of vessels to purchase, the time that it may take to construct and deliver new vessels or the useful lives of our vessels;
- our continued ability to enter into period time charters with our customers and secure profitable employment for our vessels in the spot market;
- our expectations relating to dividend payments and ability to make such payments;
- our ability to leverage our Manager's relationships and reputation within the drybulk shipping industry to our advantage;
- our anticipated general and administrative expenses;
- environmental and regulatory conditions, including changes in laws and regulations or actions taken by regulatory authorities;
- risks inherent in vessel operation, including terrorism, piracy and discharge of pollutants;
- potential liability from future litigation; and
- other factors discussed in "Item 3. Key Information - D. Risk Factors" of this annual report.

We caution that the forward-looking statements included in this annual report represent our estimates and assumptions only as of the date of this annual report and are not intended to give any assurance as to future results. Assumptions, expectations, projections, intentions and beliefs about future events may, and often do, vary from actual results and these differences can



be material. The reasons for this include the risks, uncertainties and factors described under "Item 3. Key Information - D. Risk Factors." As a result, the forward-looking events discussed in this annual report might not occur and our actual results may differ materially from those anticipated in the forward-looking statements. Accordingly, you should not unduly rely on any forward-looking statements.

We undertake no obligation to update or revise any forward-looking statements contained in this annual report, whether as a result of new information, future events, a change in our views or expectations or otherwise. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

(i) Selected Financial Data

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

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

	Year Ended December 31				
	2009	2010	2011	2012	2013
	(In thousands of U.S. dollars except share data)				
STATEMENT OF INCOME					
Revenues	\$ 168,400	\$ 159,698	\$ 172,036	\$ 187,557	\$ 191,520
Commissions	(3,794)	(2,678)	(3,128)	(3,261)	(4,799)
Net revenues	164,606	157,020	168,908	184,296	186,721
Voyage expenses	(577)	(610)	(1,987)	(7,286)	(10,207)
Vessel operating expenses	(19,628)	(23,128)	(26,066)	(34,540)	(41,964)
Depreciation	(13,893)	(19,673)	(23,637)	(32,250)	(37,394)
General and administrative expenses					
Management fee to related party	(4,436)	(4,880)	(6,026)	(7,726)	(8,379)
Public company expenses	(2,610)	(2,138)	(2,463)	(2,220)	(2,981)
Early redelivery income	74,951	132	207	11,677	7,050
Loss on asset purchase cancellations	(20,699)	-	-	-	-
Gain on sale of assets	-	15,199	-	-	-
Operating income	177,714	121,922	108,936	111,951	92,846
Interest expense	(10,342)	(6,423)	(5,250)	(9,072)	(9,086)
Other finance costs	(442)	(330)	(1,055)	(1,268)	(1,032)
Interest income	2,164	2,627	1,046	1,122	1,008
(Loss)/Gain on derivatives	(4,416)	(8,164)	(12,491)	(5,384)	813
Foreign currency gain/(loss)	838	281	(799)	(3)	(40)
Amortization and write-off of deferred finance charges	(106)	(266)	(653)	(1,226)	(1,252)
Net income	\$ 165,410	\$ 109,647	\$ 89,734	\$ 96,120	\$ 83,257
Earnings per share, basic and diluted	\$ 3.03	\$ 1.73	\$ 1.29	\$ 1.27	\$ 1.05
Cash dividends declared per common share	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.50	0.21
Cash dividends declared per preferred share	-	-	-	-	\$ 0.77222
Weighted average number of common shares outstanding, basic and diluted	54,510,587	63,300,466	69,463,093	75,468,465	77,495,029



	Year Ended December 31,				
	2009	2010	2011	2012	2013
	(In thousands of U.S. dollars except share data)				
OTHER FINANCIAL DATA					
Net cash provided by operating activities	\$ 211,338	\$ 118,147	\$ 107,189	\$ 105,065	\$ 100,594
Net cash used in investing activities	(191,863)	(131,709)	(125,889)	(158,145)	(100,344)
Net cash (used in)/provided by financing activities	(28,742)	60,136	(18,514)	127,683	(38,303)
Net (decrease)/increase in cash and cash equivalents	(9,267)	46,574	(37,214)	74,603	(38,053)

	Year Ended December 31,				
	2009	2010	2011	2012	2013
	(In thousands of U.S. dollars except share data)				
BALANCE SHEET DATA					
Total current assets	\$ 105,648	\$ 104,276	\$ 37,959	\$ 171,829	\$ 173,185
Total fixed assets	467,513	640,258	777,663	849,903	931,499
Other non-current assets	55,563	60,838	61,649	60,482	7,532
Total assets	628,724	805,372	877,271	1,082,214	1,112,216
Total current liabilities	65,551	52,983	51,673	47,493	57,304
Derivative liabilities-Long-term	15,510	9,787	10,130	8,978	3,270
Long-term debt, net of current portion	420,994	467,070	465,805	596,468	473,110
Unearned revenue-Long-term	29,450	31,399	17,821	3,419	196
Total shareholders' equity	97,219	244,133	331,842	425,856	578,336
Total liabilities and shareholders' equity	628,724	805,372	877,271	1,082,214	1,112,216

(ii) Capitalization and Indebtedness

Not applicable.

(iii) Reasons for the Offer and Use of Proceeds

Not applicable.

(iv) Risk Factors

SOME OF THE FOLLOWING RISKS RELATE PRINCIPALLY TO THE INDUSTRY IN WHICH WE OPERATE AND OUR BUSINESS IN GENERAL. OTHER RISKS RELATE PRINCIPALLY TO THE SECURITIES MARKET AND OWNERSHIP OF OUR COMMON STOCK AND Series B Cumulative Redeemable Perpetual Preferred Shares ("SERIES B PREFERRED SHARES"), INCLUDING THE TAX CONSEQUENCES OF OWNERSHIP OF OUR COMMON STOCK AND SERIES B PREFERRED SHARES. THE OCCURRENCE OF ANY OF THE EVENTS DESCRIBED IN THIS SECTION COULD SIGNIFICANTLY AND NEGATIVELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR OPERATING RESULTS OR THE TRADING PRICE OF OUR COMMON STOCK AND OUR SERIES B PREFERRED SHARES.

Risks Inherent in Our Industry and Our Business

The international drybulk shipping industry is cyclical and volatile, and charter rates are significantly lower than their highs in the middle of 2008; these factors may lead to further reductions and volatility in our charter rates, vessel values and results of operations.

The drybulk shipping industry is cyclical with attendant volatility in charter rates, vessel values and profitability. Because we charter some of our vessels pursuant to short-term time charters, and we expect that the number of vessels in our fleet that we charter pursuant to short-term time charters will increase during 2014 as period time charters contracted during past periods expire, we are exposed to changes in spot market and short-term time charter rates for drybulk carriers and such changes may affect our earnings and the value of our drybulk carriers at any given time. The spot market is highly competitive and volatile, while period time charter contracts of longer duration provide income at pre-determined rates over more extended periods of time. We may be unable to keep our vessels fully employed in these short-term markets. Charter rates available in the spot market may be insufficient to enable our vessels to be operated profitably. A significant decrease in charter rates would affect asset values and adversely affect our profitability, cash flows and ability to pay dividends.

During 2013, the Baltic Dry Index, or "BDI," remained volatile, reaching a low of 698 on January 2, 2013 and a high of 2,337 on December 12, 2013.

As of February 25, 2014, 12 of our 30 drybulk vessels were deployed or scheduled to be deployed on period time charters of more than three months remaining term. In addition, we have contracted to acquire eight newbuild vessels scheduled to be delivered through 2016, seven of which do not currently have contracted charters. As more vessels become available for employment, we may have difficulty entering into additional multi-year, fixed-rate time charters for our vessels, and as a result, our cash flows may be subject to instability in the long-term. We may be required to enter into additional variable rate charters, as opposed to contracts based on fixed rates, which could result in a decrease in our cash flows and net income in periods when the market for drybulk shipping is depressed. If low charter rates in the drybulk market prevail during periods when we must replace our existing charters, it will have an adverse effect on our revenues, profitability, cash flows and our ability to comply with the financial covenants in our loan and credit facilities.

The factors affecting the supply and demand for drybulk vessels are outside of our control and are difficult to predict with confidence. As a result, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for vessel capacity include:

- demand for and production of drybulk products;
- global and regional economic and political conditions;
- environmental and other regulatory developments;
- the distance drybulk cargoes are to be moved by sea; and
- changes in seaborne and other transportation patterns.

Factors that influence the supply of vessel capacity include:

- the size of the newbuilding orderbook;
- the number of newbuild deliveries, which among other factors relates to the ability of shipyards to deliver newbuilds by contracted delivery dates and the ability of purchasers to finance such newbuilds;
- the scrapping rate of older vessels;
- port and canal congestion;
- the number of vessels that are in or out of service, including due to vessel casualties; and
- changes in environmental and other regulations that may limit the useful lives of vessels.

We anticipate that the future demand for our drybulk vessels and, in turn, drybulk charter rates, will be dependent, among other things, upon economic growth in the world's developing economies, seasonal and regional changes in demand, changes in the capacity of the global drybulk vessel fleet and the sources and supply of drybulk cargo to be transported by sea. A decline in demand for commodities transported in drybulk vessels or an increase in supply of drybulk vessels could cause a significant decline in charter rates, which could materially adversely affect our business, financial condition and results of operations.

A negative change in global economic or regulatory conditions, especially in the Asian region, which includes countries like China, Japan or India, could reduce drybulk trade and demand, which could reduce charter rates and have a material adverse effect on our business, financial condition and results of operations.

We expect that a significant number of the port calls made by our vessels will involve the loading or discharging of raw materials in ports in the Asian region, particularly China, Japan and India. As a result, a negative change in economic or regulatory conditions in any Asian country, particularly China, Japan or, to some extent, India, can have a material adverse effect on our business, financial position and results of operations, as well as our future prospects, by reducing demand and, as a result, charter rates and affecting our ability to charter our vessels. If economic growth declines in China, Japan, India and other major countries in the Asian region, or if the regulatory environment in these countries changes adversely for our industry, we may face decreases in such drybulk trade and demand. Moreover, a slowdown in the United States economy or the economies of countries within the European Union will likely adversely affect economic growth in China, Japan, India and other major countries in the Asian region. Such an economic downturn in any of these countries could have a material adverse effect on our business, financial condition and results of operations.

An oversupply of drybulk vessel capacity may lead to reductions in charter rates and profitability.

The market supply of drybulk vessels has been increasing, and the number of drybulk vessels on order as of December 31, 2013, was approximately 21.4% for Panamax class vessels, 12.6% for Post-Panamax class vessels and 20.0% for Capesize class vessels of the then-existing global drybulk fleet in terms of deadweight tons ("dwt"), with the majority of new deliveries expected mainly during 2014 and 2015. As a result, the drybulk fleet continues to grow. An oversupply of drybulk vessel capacity



will likely result in a reduction of charter hire rates. We will be exposed to changes in charter rates with respect to our existing fleet and our remaining newbuilds and secondhand vessels, depending on the ultimate growth of the global drybulk fleet. If we cannot enter into period time charters on acceptable terms, we may have to secure charters in the spot market, where charter rates are more volatile and revenues are, therefore, less predictable, or we may not be able to charter our vessels at all. In our current fleet, 19 vessels will be available for employment in the first half of 2014. Additionally we have not yet arranged charters for our two remaining newbuild vessels scheduled to be delivered to us during 2014. A material increase in the net supply of drybulk vessel capacity without corresponding growth in drybulk vessel demand could have a material adverse effect on our fleet utilization and our charter rates generally, and could, accordingly, materially adversely affect our business, financial condition and results of operations.

The market values of our vessels may decrease, which could cause us to breach covenants in our credit and loan facilities, and could have a material adverse effect on our business, financial condition and results of operations.

Our credit and loan facilities, which are secured by mortgages on our vessels, require us to comply with collateral coverage ratios and satisfy certain financial and other covenants, including those that are affected by the market value of our vessels. The market value of drybulk vessels has generally experienced a steady decrease. The market prices for secondhand and newbuild drybulk vessels in the recent past have declined from higher to lower levels within a short period of time. The market value of our vessels fluctuates depending on a number of factors, including:

- general economic and market conditions affecting the shipping industry;
- prevailing level of charter rates;
- competition from other shipping companies;
- configurations, sizes and ages of vessels;
- cost of newbuilds;
- governmental or other regulations; and
- technological advances.

We were in compliance with our covenants as of December 31, 2012 and December 31, 2013. If the market value of our vessels or newbuilds declines upon their delivery to us, we may breach some of the covenants contained in our credit and loan facilities. If we do breach such covenants and we are unable to remedy or our lenders refuse to waive the relevant breach, our lenders could accelerate our indebtedness and foreclose on the vessels in our fleet securing those loan and credit facilities. As a result of cross-default provisions contained in our loan and credit facility agreements, this could in turn lead to additional defaults under our loan agreements and the consequent acceleration of the indebtedness thereunder and the commencement of similar foreclosure proceedings by other lenders. If our indebtedness were accelerated in full or in part, it would be difficult for us to refinance our debt or obtain additional financing and we could lose our vessels if our lenders foreclose their liens, which would adversely affect our ability to continue our business.

The international drybulk shipping industry is highly competitive, and we may not be able to compete successfully for charters with new entrants or established companies with greater resources.

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of which have substantially greater resources than we do. Competition for the transportation of drybulk cargo by sea is intense and depends on price, customer relationships, operating expertise, professional reputation and size, age, location and condition of the vessel. Due in part to the highly fragmented market, additional competitors with greater resources could enter the drybulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates than we are able to offer, which could have a material adverse effect on our fleet utilization and, accordingly, our profitability.

Increases in crew costs may adversely affect our profits.

Crew costs are a significant expense for us under our charters. There is a limited supply of well-qualified crew. We generally bear crewing costs under our charters. Increases in crew costs may adversely affect our profitability.

We are subject to regulation and liability under environmental laws that could require significant expenditures and affect our cash flow and net income.

Our business and the operation of our vessels are regulated under international conventions, national, state and local laws and regulations in force in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration, in order to protect against potential environmental impacts. Government regulation of vessels, particularly in the area of environmental requirements, can be expected to become more stringent in the future and could require us to incur significant

capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. For example, various jurisdictions that do not already regulate management of ballast waters are considering regulating the management of ballast waters to prevent the introduction of non-indigenous species that are considered invasive. Such regulations could, if implemented, require us to make changes to the ballast water management plans we currently have in place and to install new equipment on board. Various jurisdictions are also regulating or considering the regulation of emissions of sulfur oxides, nitrogen oxides and greenhouse gases from vessels. Additional conventions, laws and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our business, financial condition and results of operations. Because such conventions, laws and regulations are often revised, or the required additional measures for compliance are still under development, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale prices or useful lives of our vessels. We are also required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates and financial assurances with respect to our operations.

These requirements can also affect the resale prices or useful lives of our vessels or require reductions in cargo capacity, ship modifications or operational changes or restrictions. Failure to comply with these requirements could lead to decreased availability of or more costly insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations and claims for natural resource, personal injury and property damages in the event that there is a release of petroleum or other hazardous materials from our vessels or otherwise in connection with our operations. Violations of, or liabilities under, environmental regulations can result in substantial penalties, fines and other sanctions, including, in certain instances, seizure or detention of our vessels. Events of this nature would have a material adverse effect on our business, financial condition and results of operations.

The operation of our vessels is affected by the requirements set forth in the United Nations' International Maritime Organization's International Management Code for the Safe Operation of Ships and for Pollution Prevention, or "ISM Code." Under the ISM Code we are required to develop and maintain an extensive Safety Management System ("SMS") that includes the adoption of a safety and environmental protection policy. Failure to comply with the ISM Code may subject us to increased liability, invalidate existing insurance or decrease available insurance coverage for the affected vessels and result in a denial of access to, or detention in, certain ports. Currently, each of the vessels in our current fleet is ISM Code-certified. If we fail to maintain ISM Code certification for our vessels, we may also breach covenants in certain of our credit and loan facilities that require that our vessels be ISM Code-certified. If we breach such covenants due to failure to maintain ISM Code certification and are unable to remedy the relevant breach, our lenders could accelerate our indebtedness and foreclose on the vessels in our fleet securing those credit facilities.

Increased inspection procedures, tighter import and export controls and survey requirements could increase costs and disrupt our business.

International shipping is subject to various security and customs inspections and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of the contents of our vessels, delays in the loading, offloading or delivery and the levying of customs duties, fines and other penalties against us.

It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo impractical. Any such changes or developments may have a material adverse effect on our business, financial condition and results of operations.

The hull and machinery of every commercial vessel must be certified as safe and seaworthy in accordance with applicable rules and regulations, and accordingly vessels must undergo regular surveys. If any vessel does not maintain its class and/or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable and we would be in violation of certain covenants in our credit and loan facilities. This would also negatively impact our revenues.

Our vessels are exposed to operational risks, including terrorism and piracy, that may not be adequately covered by our insurance.

The operation of any vessel includes risks such as weather conditions, mechanical failure, collision, fire, contact with floating objects, cargo or property loss or damage and business interruption due to political circumstances in foreign countries, piracy, terrorist attacks, armed hostilities and labor strikes. Such occurrences could result in death or injury to persons, loss, damage or destruction of property or environmental damage, delays in the delivery of cargo, loss of revenues from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates and damage to



our reputation and customer relationships generally. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea, the Gulf of Aden and parts of Indian Ocean and West Africa. If these attacks and other disruptions result in areas where our vessels are deployed being characterized by insurers as “war risk” zones or Joint War Committee “war, strikes, terrorism and related perils” listed areas, as parts of Indian Ocean currently is, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult or impossible to obtain. In addition, there is always the possibility of a marine disaster, including oil spills and other environmental damage. Although our vessels carry a relatively small amount of the oil used for fuel (“bunkers”), a spill of oil from one of our vessels or losses as a result of fire or explosion could be catastrophic under certain circumstances.

We may not be adequately insured against all risks, and our insurers may not pay particular claims. With respect to war risks insurance, which we usually obtain for certain of our vessels making port calls in designated war zone areas, such insurance may not be obtained prior to one of our vessels entering into an actual war zone, which could result in that vessel not being insured. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Under the terms of our credit facilities, we will be subject to restrictions on the use of any proceeds we may receive from claims under our insurance policies. Furthermore, in the future, we may not be able to maintain or obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs in the event of a claim or decrease any recovery in the event of a loss. If the damages from a catastrophic oil spill or other marine disaster exceeded our insurance coverage, the payment of those damages could have a material adverse effect on our business and could possibly result in our insolvency.

In general, we do not carry loss of hire insurance. Occasionally, we may decide to carry loss of hire insurance when our vessels are trading in areas where a history of piracy has been reported. Loss of hire insurance covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking or unscheduled repairs due to damage to the vessel. Accordingly, any loss of a vessel or any extended period of vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

The operation of drybulk vessels has certain unique operational risks; failure to adequately maintain our vessels could have a material adverse effect on our business, financial condition and results of operations.

With a drybulk vessel, the cargo itself and its interaction with the vessel may create operational risks. By their nature, drybulk cargoes are often heavy, dense and easily shifted, and they may react badly to water exposure. In addition, drybulk vessels are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach while at sea. Breaches of a drybulk vessel's hull may lead to the flooding of the vessel's holds. If a drybulk vessel suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads, leading to the loss of a vessel. If we do not adequately maintain our vessels, we may be unable to prevent these events. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

Maritime claimants could arrest one or more of our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel, or other assets of the relevant vessel-owning company, for unsatisfied debts, claims or damages. In many jurisdictions, a claimant may seek to obtain security for its claim by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels, or other assets of the relevant vessel-owning company or companies, could cause us to default on a charter, breach covenants in certain of our credit facilities, interrupt our cash flow and require us to pay large sums of money to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the “sister ship” theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any “associated” vessel, which is any vessel owned or controlled by the same owner. Claimants could attempt to assert “sister ship” liability against one vessel in our fleet for claims relating to another of our vessels.

Governments could requisition our vessels during a period of war or emergency, resulting in a loss of earnings.

A government could requisition one or more of our vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes its owner, while requisition for hire occurs when a government takes control of a vessel

and effectively becomes its charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Even if we would be entitled to compensation in the event of a requisition of one or more of our vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of our vessels may cause us to breach covenants in certain of our credit facilities, and could have a material adverse effect on our business, financial condition and results of operations.

Changes in fuel prices may adversely affect our profits.

Upon redelivery of vessels at the end of a time charter, we may be obligated to repurchase bunkers on board at prevailing market prices, which could be materially higher than fuel prices at the inception of the charter period. In addition, although we rarely deploy our vessels on voyage charters, fuel is a significant, if not the largest, expense that we would incur with respect to vessels operating on voyage charter. As a result, an increase in the price of fuel may adversely affect our profitability. The price and supply of fuel is volatile and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations.

Seasonal fluctuations in industry demand could have a material adverse effect on our business, financial condition and results of operations and the amount of available cash with which we can pay dividends.

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter rates. This seasonality may result in quarter-to-quarter volatility in our results of operations, which could affect the amount of dividends, if any, that we pay to our stockholders from quarter to quarter. The market for marine drybulk transportation services is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. This seasonality could have a material adverse effect on our business, financial condition and results of operations.

Charterers may renegotiate or default on period time charters, which could reduce our revenues and have a material adverse effect on our business, financial condition and results of operations.

The ability and willingness of each of our counterparties to perform its obligations under a period time charter agreement with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the drybulk shipping industry and the overall financial condition of the counterparties. If we enter into period time charters with charterers when charter rates are high and charter rates subsequently fall significantly, charterers may seek to renegotiate financial terms or may default on their obligations. Additionally, charterers may attempt to bring claims against us based on vessel performance or cargo loading or unloading operations, seeking to renegotiate financial terms or avoid payments. Also, our charterers may experience financial difficulties due to prevailing economic conditions or for other reasons, and as a result may default on their obligations. In recent years the industry has experienced numerous incidents of charterers renegotiating their charters or defaulting on their obligations thereunder. We have agreed to certain early redeliveries at the request of charterers. See “Operating and Financial Review and Prospects.” If a charterer defaults on a charter, we will, to the extent commercially reasonable, seek the remedies available to us, which may include arbitration or litigation to enforce the contract, although such efforts may not be successful. Should a charterer default on a period time charter, we may have to enter into a charter at a lower charter rate, which would reduce our revenues. If we cannot enter into a new period time charter, we may have to secure a charter in the spot market, where charter rates are volatile and revenues are less predictable. It is also possible that we would be unable to secure a charter at all, which would also reduce our revenues, and could have a material adverse effect on our business, financial condition, results of operations, loan and credit facility covenants and cash flows.

We depend upon a limited number of customers for a large part of our revenues and the loss of one or more of these customers could have a material adverse effect on our business, financial condition and results of operations.

We expect to derive a significant part of our revenues from a limited number of customers. During the year ended December 31, 2013, approximately 45.7% of our revenues were derived from two charterers, namely Daiichi Chuo Kisen Kaisha (“Daiichi”) and Kawasaki Kisen Kaisha, with each one accounting for more than 10% of total revenues. We could lose a customer for many different reasons, including:

- failures of the customer to make charter payments because of its financial inability, disagreements with us or otherwise;
- the customer's termination of its charters because of our non-performance, including serious deficiencies with the vessels we provide to that customer or prolonged periods of off-hire; or
- in certain cases, a prolonged force majeure event affecting the customer, including damage to or destruction of relevant production facilities, war or political unrest, prevents us from performing services for that customer.



If we lose a key customer, we may be unable to obtain period time charters on comparable terms with charterers of comparable standing or may have increased exposure to the volatile spot market, which is highly competitive and subject to significant price fluctuations. We would not receive any revenues from such a vessel while it remained unchartered, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition, insure it and service any indebtedness secured by such vessel. The loss of any of our key customers, a decline in payments under our charters or the failure of a key customer to perform under its charters with us could have a material adverse effect on our business, financial condition and results of operations.

We may have difficulty properly managing our planned growth through acquisitions of additional vessels.

We intend to grow our business through the acquisition of our eight contracted newbuild vessels scheduled to be delivered through 2016. We may contract additional newbuild vessels or make selective acquisitions of additional secondhand vessels. Our future growth will primarily depend on our ability to locate and acquire suitable vessels, enlarge our customer base, operate and supervise any newbuilds we may order and obtain required debt or equity financing on acceptable terms.

A delay in the delivery to us of any such vessel, or the failure of the shipyard to deliver a vessel at all, could cause us to breach our obligations under a related charter and could adversely affect our earnings. In addition, the delivery of any of these vessels with substantial defects could have similar consequences.

A shipyard could fail to deliver a newbuild on time or at all because of:

- work stoppages or other hostilities, political or economic disturbances that disrupt the operations of the shipyard;
- quality or engineering problems;
- bankruptcy or other financial crisis of the shipyard;
- a backlog of orders at the shipyard;
- disputes between the Company and the shipyard regarding contractual obligations;
- weather interference or catastrophic events, such as major earthquakes or fires;
- our requests for changes to the original vessel specifications; or
- shortages of or delays in the receipt of necessary construction materials, such as steel, or equipment, such as main engines, electricity generators and propellers.

A third-party seller could fail to deliver a secondhand vessel on time or at all because of:

- bankruptcy or other financial crisis of the third-party seller;
- quality or engineering problems;
- disputes between the Company and the third-party seller regarding contractual obligations; or
- weather interference or catastrophic events, such as major earthquakes or fires.

In addition, we may seek to terminate a vessel acquisition contract due to market conditions, financing limitations or other reasons. The outcome of contract termination negotiations may require us to forego deposits on construction or acquisition, as applicable, and pay additional cancellation fees. In addition, where we have already arranged a future charter with respect to the terminated contract, we may incur liabilities to such charter counterparty depending on the terms of such charter.

During periods in which charter rates are high, vessel values generally are high as well, and it may be difficult to consummate vessel acquisitions or enter into newbuild contracts at favorable prices. During periods when charter rates are low, we may be unable to fund the acquisition of vessels, whether through lending or cash on hand. For these reasons, we may be unable to execute our growth plans or avoid significant expenses and losses in connection with our future growth efforts.

As we expand our business, we will need to improve or expand our operations and financial systems, staff and crew; if we cannot improve these systems or recruit suitable employees, our performance may be adversely affected.

Our current operating and financial systems may not be adequate as we implement our plan to expand the size of our fleet, and our Manager's attempts to improve those systems may be ineffective. In addition, as we expand our fleet, we will have to rely on our Manager to recruit additional seafarers and shoreside administrative and management personnel. Our Manager may not be able to continue to hire suitable employees or a sufficient number of employees as we expand our fleet. If our Manager's unaffiliated crewing agents encounter business or financial difficulties, we may not be able to adequately staff our vessels. We may also have to increase our customer base to provide continued employment for most of our new vessels. If we are unable to operate our financial system, our Manager is unable to operate our operations systems effectively or to recruit suitable employees in sufficient numbers or we are unable to increase our customer base as we expand our fleet, our performance may be adversely affected.

Unless we set aside reserves for vessel replacement, at the end of a vessel's useful life, our revenue will decline, which would adversely affect our cash flows and income.

As of February 25, 2014, the vessels in our current fleet had an average age of 5.4 years. Unless we maintain cash reserves for vessel replacement, we may be unable to replace the vessels in our fleet upon the expiration of their useful lives. We estimate the useful life of our vessels to be 25 years from the date of initial delivery from the shipyard. Our cash flows and income are dependent on the revenues we earn by chartering our vessels to customers. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our business, financial condition and results of operations will be materially adversely affected. Any reserves set aside for vessel replacement would not be available for other cash needs or dividends.

If we are unable to obtain additional secured indebtedness, we may default on our commitments relating to our contracted newbuilds, and we may not be able to finance our future fleet expansion program, which would have a material adverse effect on our business, financial condition and results of operations.

The net remaining unpaid balance of the contract prices for our eight newbuild vessels was \$201.2 million as of February 25, 2014. We anticipate that our primary sources of funds to satisfy these commitments will be from existing cash and time deposits, operating cash surplus and available borrowings under our existing credit facilities and our floating rate note facility. As of February 25, 2014, the Company has no existing vessels unencumbered and a \$50 million long-term floating rate note facility, which matures in 2014, against which additional loans can be drawn, as well as \$49.9 million in cash and restricted cash, \$71.1 million available under existing revolving credit facilities and \$86 million available under new loan and credit facilities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering, including the actual or perceived credit quality of our charterers and the market value of our fleet, as well as by adverse market conditions resulting from, among other things, general economic conditions, weakness in the financial markets and contingencies and uncertainties that are beyond our control. To the extent that we are unable to enter into new credit facilities and obtain such additional secured indebtedness on terms acceptable to us, we will need to find alternative financing. If we are unable to find alternative financing, we will not be capable of funding all of our commitments for capital expenditures relating to our contracted newbuilds. A failure to fulfill our commitments generally results in a forfeiture of the advance we paid to the shipyard or the third-party seller with respect to the contracted newbuild vessels and a write-off of expenses capitalized. In addition, we may also be liable for other damages for breach of contract. Examples of such liabilities could include payments to the shipyard or the third-party seller for the difference between the forfeited advance and the amount that remains to be paid by us if the shipyard or the third-party seller cannot locate a third-party buyer that is willing to pay an amount equal to the difference or compensatory payments by us to charter parties with whom we have entered into charters with respect to such vessels. Such events, if they occurred, would adversely affect our business, financial condition and results of operation.

The aging of our fleet and our acquisitions of secondhand vessels may result in increased operating costs in the future, which could adversely affect our ability to operate our vessels profitably.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. As of February 25, 2014, the average age of the vessels in our current fleet was 5.4 years. As our vessels age, they may become less fuel efficient and more costly to maintain and will not be as advanced as more recently constructed vessels due to improvements in design and engine technology. Rates for cargo insurance, paid by charterers, also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which our vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

In recent years we have taken delivery of some secondhand vessels. We may encounter higher operating and maintenance costs due to the age and condition of those vessels. Secondhand vessels may also develop unexpected mechanical and operational problems despite adherence to regular survey schedules and proper maintenance. We cannot obtain the same knowledge about the condition of a secondhand vessel compared to a newbuild through the performed inspection prior to the purchase of such secondhand vessel nor about the cost of any required (or anticipated) repairs that we would have had if this vessel had been built for and operated exclusively by us. We will have the benefit of warranties on newly constructed vessels; we may not receive the benefit of warranties on secondhand vessels.

Because we generate substantially all of our revenues in U.S. dollars but incur a material portion of our expenses in other currencies, and may, in the future, also incur a material portion of our indebtedness and our capital expenditure requirements in other currencies, exchange rate fluctuations could have a material adverse effect on our business, financial condition and results of operations.



We generate substantially all of our revenues in U.S. dollars, but in 2013 we incurred approximately 32.28% of our vessel operating expenses in currencies other than the U.S. dollar, of which 66.33% was denominated in euro amounts. Although as of December 31, 2013, all of our indebtedness and the vast majority of the amounts due under our newbuild contracts were denominated in U.S. Dollars, we have also entered into shipbuilding contracts whereby part of the contract price is payable in Japanese yen. In addition, certain of our existing credit facilities allow us to convert the outstanding loan amount or any part thereof into currencies other than the U.S. dollar. Also, in the future, we may enter into new credit facilities or newbuild contracts that are denominated in or permit conversion into currencies other than the U.S. dollar. The use of different currencies could lead to fluctuations in our net income due to changes in the value of the U.S. dollar relative to other currencies, in particular the euro and the Japanese yen. We have not hedged our currency exposure, and, as a result, our results of operations and financial condition, denominated in U.S. dollars, and our ability to pay dividends, could suffer.

Restrictive covenants in our existing credit facilities impose, and any future credit facilities will impose, financial and other restrictions on us, and any breach of these covenants could result in the acceleration of our indebtedness and foreclosure on our vessels.

Our existing credit facilities impose, and any future credit facility will impose, operating and financial restrictions on us. These restrictions in our existing credit facilities generally limit our ability to, among other things, and subject to exceptions set forth in such credit facility:

- pay dividends if an event of default has occurred and is continuing or would occur as a result of the payment of such dividend;
- enter into certain long-term charters;
- incur additional indebtedness, including through the issuance of guarantees;
- change the flag, class or management of the vessel mortgaged under such facility or terminate or materially amend the management agreement relating to such vessel;
- create liens on their assets;
- make loans;
- make investments;
- make capital expenditures;
- undergo a change in ownership or control or permit a change in ownership and control of our Manager;
- sell the vessel mortgaged under such facility; and
- permit our chief executive officer to change.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours, and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may limit our ability to pay dividends to our stockholders, finance our future operations or pursue business opportunities.

Certain of our existing credit facilities require our subsidiaries to maintain financial ratios and satisfy financial covenants. Depending on the credit facility, certain of our subsidiaries are subject to financial ratios and covenants requiring that these subsidiaries:

- ensure that the market value of the vessel mortgaged under the applicable credit facility, determined in accordance with the terms of that facility, does not fall below 100% to 120%, as applicable, of the outstanding amount of the loan;
- ensure that outstanding amounts in currencies other than the U.S. dollar do not exceed 100% or 110%, as applicable, of the U.S. dollar equivalent amount specified in the relevant credit agreement for the applicable period by, if necessary, providing cash collateral security in an amount necessary for the outstanding amounts to meet this threshold;
- maintain a cash collateral deposit or minimum cash balance per vessel with the respective lender; and
- ensure that we comply with certain financial covenants under the guarantees described below.

In addition, under guarantees we have entered into with respect to certain of our subsidiaries' existing credit facilities, we are subject to financial covenants. Depending on the guarantee, these financial covenants include the following:

- our total liabilities (on a consolidated basis, including those of our subsidiaries) divided by our total consolidated assets (based on the market value of all vessels owned by our subsidiaries, and the book value of all other assets, on an adjusted basis as set out in the relevant guarantee) must not exceed 80% or 85% (depending on the relevant guarantee);
- the ratio of our aggregate debt to EBITDA must not at any time exceed 5.5:1 on a trailing 12 months' basis or the ratio of our aggregate debt after deducting cash to EBITDA must not at any time exceed 6.5:1 or 8.5:1 on a trailing 12 months' basis. EBITDA is not a recognized measurement under US GAAP and represents net income before net interest expense, income tax expense, depreciation and amortization.

- our consolidated net worth (consolidated total assets less consolidated total liabilities) must not at any time be less than \$150.0 million, as adjusted to reflect, among other things, the market value of our vessels as set out in the relevant guarantee;
- maintenance of minimum free liquidity of \$500,000 on deposit with the relevant lender; and
- payment of dividends is subject to no event of default having occurred.

In connection with these guarantees, we have also undertaken to ensure that a minimum of 51% of our shares shall remain directly or indirectly beneficially owned by the Hajioannou family for the duration of the relevant credit facilities.

A failure to meet our payment and other obligations or to maintain compliance with the applicable financial covenants could lead to defaults under our secured credit facilities. Our lenders could then accelerate our indebtedness and foreclose on the vessels in our fleet securing those credit facilities. The loss of these vessels would have a material adverse effect on our business, financial condition, and results of operations.

The declaration and payment of dividends will always be subject to the discretion of our board of directors and will depend on a number of factors. Our board of directors may not declare dividends in the future.

The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things: (i) our earnings, financial condition and cash requirements and available sources of liquidity, (ii) decisions in relation to our growth strategies, (iii) provisions of Marshall Islands and Liberian law governing the payment of dividends, (iv) restrictive covenants in our existing and future debt instruments, and (v) global financial conditions. Dividends might be reduced or not be paid in the future.

There may be a high degree of variability from period to period in the amount of cash, if any, that is available for the payment of dividends based upon, among other things:

- the rates we obtain from our charters as well as the rates obtained upon the expiration of our existing charters;
- the level of our operating costs;
- the level of our general and administrative costs;
- the number of unscheduled off-hire days and the timing of, and number of days required for, scheduled drydocking of our ships;
- vessel acquisitions and related financings;
- restrictions in our loan and credit facilities and in any future debt facilities;
- prevailing global and regional economic and political conditions;
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business;
- the amount of cash reserves established by our board of directors; and
- restrictions under Marshall Islands and Liberian law.

We may incur expenses or liabilities or be subject to other circumstances in the future that reduce or eliminate the amount of cash that we have available for distribution as dividends, if any. Our growth strategy contemplates that we will finance the acquisition of our newbuilds or selective acquisitions of additional vessels in addition to our contracted newbuilds through a combination of our operating cash flow and debt financing or equity financing. If financing is not available to us on acceptable terms, our board of directors may decide to finance or refinance such acquisitions with a greater percentage of cash from operations to the extent available, which would reduce or even eliminate the amount of cash available for the payment of dividends. We may also enter into other agreements that will restrict our ability to pay dividends.

Under the terms of certain of our existing credit facilities, we are not permitted to pay dividends if an event of default has occurred and is continuing or would occur as a result of the payment of such dividend. We expect that any future credit facilities will also have restrictions on the payment of dividends. In addition, cash dividends on our common stock are subject to the priority of dividends on our 1,600,000 outstanding shares of Series B Preferred Shares issued June 2013.

The laws of the Republic of Liberia and of the Republic of the Marshall Islands, where our vessel-owning subsidiaries are incorporated, generally prohibit the payment of dividends other than from surplus or net profits, or while a company is insolvent or would be rendered insolvent by the payment of such a dividend. Our subsidiaries may not have sufficient funds, surplus or net profits to make distributions to us. In addition, under guarantees we have entered into with respect to certain of our subsidiaries' existing credit facilities, we are subject to financial and other covenants, which may limit our ability to pay dividends. We also may not have sufficient surplus or net profits in the future to pay dividends.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which will be affected by non-cash items. We may incur other expenses or liabilities that could reduce or eliminate the cash available for distribution as dividends. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

**We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to make dividend payments.**

We are a holding company and our subsidiaries, which are all wholly-owned by us, conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our wholly-owned subsidiaries, cash and cash equivalents and long-term investment held by us. As a result, our ability to make dividend payments depends on our subsidiaries and their ability to distribute funds to us. The ability of a subsidiary to make these distributions could be affected by a claim or other action by a third party, including a creditor, and the laws of the Republic of Liberia and of the Republic of the Marshall Islands, where our vessel-owning subsidiaries are incorporated, which regulate the payment of dividends by companies. If we are unable to obtain funds from our subsidiaries, our board of directors may exercise its discretion not to declare or pay dividends.

We depend on our Manager to operate our business and our business could be harmed if our Manager failed to perform its services satisfactorily.

Pursuant to our management agreement, as amended, (the "Management Agreement") our Manager provides us with technical, administrative and commercial services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance, financial services and office space). Our operational success depends significantly upon our Manager's satisfactory performance of these services. Our business would be harmed if our Manager failed to perform these services satisfactorily. In addition, if the Management Agreement were to be terminated or if its terms were to be altered, our business could be adversely affected, as we may not be able to immediately replace such services, and even if replacement services were immediately available, the terms offered could be less favorable than those under our Management Agreement.

Our ability to compete for and enter into charters and to expand our relationships with our existing charterers will depend largely on our relationship with our Manager and its reputation and relationships in the shipping industry. If our Manager suffers material damage to its reputation or relationships, it may harm our ability to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms;
- maintain satisfactory relationships with our charterers and suppliers; and
- successfully execute our business strategies.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, financial condition and results of operations.

Although we may have rights against our Manager if it defaults on its obligations to us, investors in us will have no recourse against our Manager.

Our Manager is permitted to provide certain management services to affiliates and third parties under the specific restrictions of our Management Agreement. Although our Manager is required to provide preferential treatment to our vessels with respect to chartering arrangements under the Management Agreement, our Manager's time and attention may be diverted from the management of our vessels in such circumstances.

Further, we will need to seek approval from our lenders to change our Manager.

Management fees are payable to our Manager regardless of our profitability, which could have a material adverse effect on our business, financial condition and results of operations.

Pursuant to our Management Agreement, we pay our Manager a fixed fee of \$700 per day per vessel for providing commercial, technical and administrative services (subject to adjustment for compensation expenses payable by us) and a variable fee of 1.25% on gross freight, charter hire, ballast bonus and demurrage. In addition, we pay our Manager certain commissions and fees with respect to vessel purchases, sales and newbuilds. The management fees do not cover expenses such as voyage expenses, vessel operating expenses, maintenance expenses, crewing costs, insurance premiums, commissions and certain public company expenses such as directors' and officers' liability insurance, legal and accounting fees and other similar public company expenses, which are reimbursed by us. The management fees can be adjusted annually on May 29 of each year, the anniversary of our entry into the Management Agreement. The management fees are payable whether or not our vessels are employed, and regardless of our profitability, and we have no ability to require our Manager to reduce the management fees if our profitability decreases, which could have a material adverse effect on our business, financial condition and results of operations.

Our Manager is a privately held company, and there is little or no publicly available information about it; an investor could have little advance warning of problems affecting our Manager that could have a material adverse effect on us.

The ability of our Manager to continue providing services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair our Manager's financial strength. Because our Manager is privately held, it is unlikely that information about its financial strength would become public or available to us prior to any default by our Manager under the Management Agreement. As a result, our investors might have little advance warning of problems that affect our Manager, even though those problems could have a material adverse effect on us.

Our chief executive officer also controls our Manager, which could create conflicts of interest between us and our Manager.

Our chief executive officer, Polys Hajjioannou, controls our Manager. The Hajjioannou family (including Polys Hajjioannou) owns approximately 56.84% of our outstanding common stock. These relationships could create conflicts of interest between us, on the one hand, and our Manager, on the other hand. These conflicts may arise in connection with the chartering, purchase, sale and operation of the vessels in our fleet versus vessels owned or chartered-in by other companies affiliated with our Manager or our chief executive officer. To the extent we elect not to exercise our right of first refusal with respect to any drybulk vessel that may be acquired by companies affiliated with our chief executive officer, such companies could acquire and operate such drybulk vessels in competition with us. In addition, although under our Management Agreement our Manager will be required to first provide us any chartering opportunities in the drybulk sector, our Manager is not prohibited from giving preferential treatment in other areas of its management to vessels that are beneficially owned by related parties. These conflicts of interest may have an adverse effect on our business, financial condition and results of operations.

Our business depends upon certain employees who may not necessarily continue to work for us; if such employees were no longer to be affiliated with us, our business, financial condition and results of operation could suffer.

Our future success depends, to a significant extent, upon our chief executive officer, Polys Hajjioannou, and certain other members of our senior management and of our Manager. Polys Hajjioannou has substantial experience in the drybulk shipping industry and for 27 years has worked with us, our Manager and its predecessor. He and other members of our senior management and of our Manager manage our business and their performance is crucial to the execution of our business strategies and to the growth and development of our business. If these individuals were no longer to be affiliated with us or our Manager, or if we were to otherwise cease to receive advisory services from them, we may be unable to recruit other employees with equivalent talent and experience, and our business and financial condition could suffer. We do not maintain, and do not intend to maintain, "key man" life insurance on any of our executive officers.

The provisions in our restrictive covenant arrangement with our chief executive officer restricting his ability to compete with us, like restrictive covenants generally, may not be enforceable.

Our chief executive officer, Polys Hajjioannou, has entered into a restrictive covenant agreement with us under which he is precluded during the term of his service with us as executive and director and for one year thereafter precluded, subject to certain exceptions. Courts generally do not favor the enforcement of such restrictions, particularly when they involve individuals and could be construed as infringing on such individuals ability to be employed or to earn a livelihood. Our ability to enforce these restrictions, should it ever become necessary, will depend upon the circumstances that exist at the time enforcement is sought. A court may not enforce the restrictions as written by way of an injunction and we may not necessarily be able to establish a case for damages as a result of a violation of the restrictive covenants.

Our vessels call on ports located in Iran and Syria, which are identified by the United States government as state sponsors of terrorism and are subject to United States economic sanctions, which could be viewed negatively by investors and adversely affect the trading price of our common stock and Series B Preferred Shares.

From time to time, vessels in our fleet have called and/or may call on ports located in countries identified by the United States government as state sponsors of terrorism and subject to United States economic sanctions. From January 1, 2005 through December 31, 2011, vessels in our fleet made 20 calls on ports in Iran and three calls on ports in Syria out of a total of 2,327 calls on worldwide ports. From January 1, 2012 through December 31, 2013, vessels in our fleet did not make any calls on ports in Iran or Syria. Iran and Syria are identified by the United States government as state sponsors of terrorism. Although these designations and controls do not prevent our vessels from making calls on ports in these countries, potential investors could view such port calls negatively, which could adversely affect our reputation and the market for our common stock. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Additionally, the United States government imposes economic sanctions that may be applied in certain circumstances



to non-United States entities conducting transactions involving targeted countries and their governments. United States sanctions have been imposed on Iran and Syria, among other countries in which our vessels may make port calls. On January 2, 2013, President Obama signed the National Defense Authorization Act for Fiscal Year 2013 (the "NDAA"), which, among other things, expands U.S. sanctions on non-U.S. business with Iran. In particular, Section 1244 of the NDAA targets, among other businesses, those determined, after July 1, 2013, to be part of the shipping sector of Iran and those providing goods or services in support of any activity or transaction on behalf of or for the benefit of, among others, persons determined to be part of the shipping sector of Iran or certain Iranian persons designated by the U.S. Department of the Treasury, Office of Foreign Assets Control ("OFAC"). Section 1244 also includes a humanitarian exception that prohibits the imposition of sanctions with respect to any person for conducting or facilitating a transaction for the sale of agricultural commodities, food, medicine, or medical devices to Iran or the provision of humanitarian assistance to the people of Iran.

Our policy going forward is for our vessels to avoid making calls on ports in Iran or Syria unless the charterer provides information certifying that its cargo is licensed by OFAC.

We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law; therefore, you may have more difficulty protecting your interests than stockholders of a U.S. corporation.

Our corporate affairs are governed by our articles of incorporation, our bylaws and by the Marshall Islands Business Corporations Act, or the "BCA." The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the laws of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. The rights of stockholders of companies incorporated in the Republic of the Marshall Islands may differ from the rights of stockholders of companies incorporated in the United States. While the BCA provides that it is to be interpreted according to the laws of the State of Delaware and other states with substantially similar legislative provisions, there have been few, if any, court cases interpreting the BCA in the Republic of the Marshall Islands and we cannot predict whether Marshall Islands courts would reach the same conclusions as United States courts. Thus, you may have more difficulty in protecting your interests in the face of actions by our management, directors or controlling stockholders than would stockholders of a corporation incorporated in a United States jurisdiction which has developed a more substantial body of case law in the corporate law area.

It may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are incorporated under the laws of the Republic of the Marshall Islands, and our Manager's business is operated primarily from their offices in Athens, Greece. In addition, a majority of our directors and officers are or will be nonresidents of the United States, and all of our assets and a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States if you believe that your rights have been infringed under the securities laws or otherwise. You may also have difficulty enforcing, both within and outside of the United States, judgments you may obtain in the United States courts against us or these persons in any action, including actions based upon the civil liability provisions of United States federal or state securities laws. There is also substantial doubt that the courts of the Republic of the Marshall Islands or Greece would enter judgments in original actions brought in those courts predicated on United States federal or state securities laws.

We are involved in an ongoing arbitration dispute, which, if determined adversely to us, could cause us to incur a significant financial loss, harm our reputation and/or have a material effect on us.

We are involved in an ongoing arbitration dispute in London, England, with Zhoushan Jinhaiwan Shipyard Co., Ltd. (the "Shipyard"). We had entered into an agreement with the Shipyard for the construction, sale and delivery by the Shipyard to us of one 180,000 DWT Capesize class newbuild vessel (Hull No. J0131) in exchange for USD \$53 million. In December 2012, after having paid \$31.8 million in advances during construction, we exercised our termination right under the agreement due to the Shipyard's excessive construction delays and delivered demands to each of the Shipyard and the refund guarantor, The Export Import Bank of China (a bank rated Aa3 by Moody's Investor Services), pursuant to the agreement and the refund guarantees, respectively, for a refund of the full amount of advances paid, with interest. In response, in January 2013, the Company received a notice of arbitration, and arbitration proceedings with the Shipyard were initiated in London, England. The Shipyard alleged that the Company's termination constituted a breach of the agreement and argued that the Company was not entitled to a refund of the advances paid or interest. In September, 2013 a hearing was held in London with respect to certain preliminary issues related to the case. In January 2014, an appealable arbitration award in favor of the Company was issued, which provided that the Company had lawfully cancelled the shipbuilding contract and ordered the Shipyard to refund to the Company the full

amount of the advances paid, with interest. In February 2014, the Company served to the relevant refund guarantor, the arbitration award. The appeal period for the award lapsed on or about February 24, 2014. The Company is and will continue vigorously pursuing the refund under the arbitration award. However, legal proceedings are inherently uncertain and the Company cannot provide assurance that it will be refunded according to the award terms or at all.

We are not otherwise involved in any legal proceedings which may have, or have had, a significant effect on our business, financial position, results of operations or liquidity, nor are we aware of any other proceedings that are pending or threatened which may have a significant effect on our business, financial position, results of operations or liquidity.

The nature of our business exposes us to the risk of lawsuits for damages or penalties relating to, among other things, personal injury, property casualty and environmental contamination. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. However, such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

Risks Relating to Our Common Stock and Series B Preferred Shares

The Hajioannou family controls the outcome of matters on which our stockholders are entitled to vote and its interests may be different from yours.

The Hajioannou family (including our chief executive officer, Polys Hajioannou), owns approximately 56.84% of our outstanding common stock. The Hajioannou family is able to control the outcome of matters on which our stockholders are entitled to vote, including the election of our entire board of directors and other significant corporate actions. The interests of the Hajioannou family may be different from yours.

We are a "controlled company" under the New York Stock Exchange rules, and as such we are entitled to exemption from certain New York Stock Exchange corporate governance standards, and you may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

We are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by another company or group is a "controlled company" and may elect not to comply with certain New York Stock Exchange corporate governance requirements, including: (a) the requirement that a majority of the board of directors consist of independent directors, (b) the requirement that the nominating committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities, (c) the requirement that the compensation committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities and (d) the requirement of an annual performance evaluation of the corporate governance, nominating and compensation committees. We may utilize these exemptions. As a result, non-independent directors, including members of our management who also serve on our board of directors, will comprise the majority of our board of directors and may serve on the corporate governance, nominating and compensation committee of our board of directors which, among other things, reviews the compensation of certain members of our management and resolves governance issues regarding our company. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Future sales of our common stock could cause the market price of our common stock to decline and our existing stockholders may experience significant dilution.

We may issue additional shares of our common stock in the future and our stockholders may elect to sell large numbers of shares held by them from time to time.

In April 2011, we issued and sold 5,000,000 shares of common stock in a public offering. The gross proceeds of the April 2011 public offering were \$42 million. In March 2012, we issued and sold 5,750,000 shares of common stock in a public offering. The gross proceeds of the March 2012 public offering were approximately \$37.4 million. In November 2013, we issued and sold 5,750,000 shares of common stock in a public offering. Concurrently with this public offering, we issued and sold 1,000,000 shares of common stock to Bellapais Maritime Inc., an entity associated with our chief executive officer, Polys Hajioannou, in a private placement. The gross proceeds of the November 2013 public offering and private placement were \$50.2 million.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, may depress the market price for our common stock. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.



Our existing stockholders may also experience significant dilution in the future as a result of any future offering.

We also entered into a registration rights agreement in connection with our initial public offering with Vorini Holdings Inc., one of our principal stockholders, pursuant to which we have granted it and certain of its transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act of 1933, as amended (the "Securities Act"), shares of our common stock held by them. Under the registration rights agreement, Vorini Holdings Inc. and certain of its transferees have the right to request us to register the sale of shares held by them on their behalf and may require us to make available shelf registration statements permitting sales of shares into the market from time to time over an extended period. In addition, those persons have the ability to exercise certain piggyback registration rights in connection with registered offerings initiated by us. Registration of such shares under the Securities Act would, except for shares purchased by affiliates, result in such shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of such registration.

Anti-takeover provisions in our organizational documents could make it difficult for our stockholders to replace or remove our current board of directors and together with our adoption of a stockholder rights plan could have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of the shares of our common stock.

Several provisions of our articles of incorporation and bylaws could make it difficult for our stockholders to change the composition of our board of directors in any one year, preventing them from changing the composition of our management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable. These provisions:

- authorize our board of directors to issue "blank check" preferred stock without stockholder approval;
- provide for a classified board of directors with staggered, three-year terms;
- prohibit cumulative voting in the election of directors;
- authorize the removal of directors only for cause;
- prohibit stockholder action by written consent unless the written consent is signed by all stockholders entitled to vote on the action;
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and
- provide that special meetings of our stockholders may only be called by the chairman of our board of directors, chief executive officer or a majority of our board of directors.

We have adopted a stockholder rights plan pursuant to which our board of directors may cause the substantial dilution of the holdings of any person that attempts to acquire us without the approval of our board of directors.

These anti-takeover provisions, including the provisions of our prospective stockholder rights plan, could substantially impede the ability of public stockholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

We may not have sufficient cash from our operations to enable us to pay dividends on or to redeem our Series B Preferred Shares following the payment of expenses and the establishment of any reserves.

We pay quarterly dividends on our Series B Preferred Shares only from funds legally available for such purpose when, as and if declared by our board of directors. We may not have sufficient cash available each quarter to pay dividends. In addition, we may have insufficient cash available to redeem our Series B Preferred Shares. The amount of dividends we can pay or use to redeem Series B Preferred Shares depends upon the amount of cash we generate from our operations, which may fluctuate.

The amount of cash we have available for dividends on or to redeem our Series B Preferred Shares will not depend solely on our profitability.

The actual amount of cash we will have available for dividends or to redeem our Series B Preferred Shares will depend on many factors, including the following:

- changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;
- restrictions under our existing or future credit facilities or any future debt securities, including existing restrictions under our existing credit facilities on our ability to pay dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default and restrictions on our ability to redeem securities;
- the amount of any cash reserves established by our board of directors; and
- restrictions under Marshall Islands law, which generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which will be affected by noncash items, and our board of directors in its discretion may elect not to declare any dividends. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

The Series B Preferred Shares represent perpetual equity interests.

The Series B Preferred Shares represent perpetual equity interests in us and, unlike our indebtedness, will not give rise to a claim for payment of a principal amount at a particular date. As a result, holders of the Series B Preferred Shares may be required to bear the financial risks of an investment in the Series B Preferred Shares for an indefinite period of time. In addition, the Series B Preferred Shares rank junior to all our indebtedness and other liabilities, and to any other senior securities we may issue in the future with respect to assets available to satisfy claims against us.

Our Series B Preferred Shares are subordinate to our debt, and your interests could be diluted by the issuance of additional preferred shares, including additional Series B Preferred Shares, and by other transactions.

Our Series B Preferred Shares are subordinate to all of our existing and future indebtedness. As of December 31, 2013, we had aggregate debt outstanding of \$508.3 million, of which \$35.2 million was payable within the next 12 months. Our existing indebtedness restricts, and our future indebtedness may include restrictions on, our ability to pay dividends on or redeem preferred shares. Our articles of incorporation currently authorize the issuance of up to 20,000,000 shares of blank check preferred stock, par value \$0.01 per share, of which, as of December 31, 2013, 1,600,000 shares of Series B Preferred Shares were issued and outstanding. Of this blank check preferred stock, 1,000,000 shares have been designated Series A Participating Preferred Stock in connection with our adoption of a stockholder rights plan as described under "Item 10. Additional Information-B. Memorandum and Articles of Association-Stockholder Rights Plan". The issuance of additional preferred shares on a parity with or senior to the Series B Preferred Shares would dilute the interests of holders of our Series B Preferred Shares, and any issuance of preferred shares senior to our Series B Preferred Shares or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on our Series B Preferred Shares.

Holders of Series B Preferred Shares have extremely limited voting rights.

The voting rights of holders of Series B Preferred Shares are extremely limited. Our common shares are the only class or series of our shares carrying full voting rights. Holders of Series B Preferred Shares have no voting rights other than the ability, subject to certain exceptions, to elect one director if dividends for six quarterly dividend periods (whether or not consecutive) payable on our Series B Preferred Shares are in arrears and certain other limited protective voting rights.

Our ability to pay dividends on and to redeem our Series B Preferred Shares is limited by the requirements of Marshall Islands law, the laws of the Republic of Liberia and existing and future agreements.

The laws of the Republic of Liberia and of the Republic of the Marshall Islands, where our vessel-owning subsidiaries are incorporated, generally prohibit the payment of dividends other than from surplus or net profits, or while a company is insolvent or would be rendered insolvent by the payment of such a dividend. Our subsidiaries may not have sufficient funds, surplus or net profits to make distributions to us. In addition, under guarantees we have entered into with respect to certain of our subsidiaries' existing credit facilities, we are subject to financial and other covenants, which may limit our ability to pay dividends and redeem the Series B Preferred Shares. These and future agreements may limit our ability to pay dividends on and to redeem the Series B Preferred Shares. We also may not have sufficient surplus or net profits in the future to pay dividends.

Tax Risks

In addition to the following risk factors, you should read "Item 10. Additional Information-E. Tax Considerations-Marshall Islands Tax Considerations," "Item 10. Additional Information-E. Tax Considerations-Liberian Tax Considerations," and "Item 10. Additional Information -E. Tax Considerations-United States Federal Income Tax Considerations" for a more complete discussion of expected material Marshall Islands, Liberian and United States federal income tax consequences of owning and disposing of our common stock and Series B Preferred Shares.

We may earn shipping income that will be subject to United States income tax, thereby reducing our cash available for distributions to you.

Under United States tax rules, 50% of our gross income attributable to shipping that begins or ends in the United States will be subject to a 4% United States federal income tax (without allowance for deductions). The amount of this income may fluctuate, and we will not qualify for any exemption from this United States tax. Many of our charters contain provisions that obligate the



charterers to reimburse us for this 4% United States tax. To the extent we are not reimbursed by our charterers, the 4% United States tax will decrease our cash that is available for dividends.

For a more complete discussion, see the section entitled “Item 10. Additional Information—Tax Considerations—E. United States Federal Income Tax Considerations—Taxation of Our Shipping Income.”

United States tax authorities could treat us as a “passive foreign investment company,” which could have adverse United States federal income tax consequences to United States holders.

A non-United States corporation will be treated as a “passive foreign investment company,” or PFIC, for United States federal income tax purposes if either (a) at least 75% of its gross income for any taxable year consists of certain types of “passive income” or (b) at least 50% of the average value of the corporation’s assets produce or are held for the production of those types of “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute “passive income.” United States stockholders of a PFIC are subject to a disadvantageous United States federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC. In particular, United States holders who are individuals would not be eligible for preferential tax rates otherwise applicable to qualified dividends.

Based on our current operations and anticipated future operations, we believe that it is more likely than not that we currently will not be treated as a PFIC. In this regard, we intend to treat gross income we derive or are deemed to derive from our period time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our period time chartering activities should not constitute “passive income,” and that the assets we own and operate in connection with the production of that income should not constitute passive assets.

There are legal uncertainties involved in this determination. A recent case decided by the United States Court of Appeals for the Fifth Circuit held that, contrary to the position of the United States Internal Revenue Service, or the “IRS,” in that case, and for purposes of a different set of rules under the Internal Revenue Code of 1986, or the “Code,” income received under a period time charter of vessels should be treated as rental income rather than services income. If the reasoning of this case were extended to the PFIC context, the gross income we derive or are deemed to derive from our period time chartering activities would be treated as rental income, and we would probably be a PFIC. In recent guidance, however, the IRS stated that it disagreed with the holding in the Fifth Circuit case, and specified that income from period time charters should be treated as services income. In light of these authorities, the IRS or a United States court may not accept the position that we are not a PFIC, and there is a risk that the IRS or a United States court could determine that we are a PFIC. Moreover, we may constitute a PFIC for a future taxable year if there were to be changes in our assets, income or operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our United States stockholders will face adverse United States tax consequences. See “Item 10. Additional Information—E. Tax Considerations—United States Federal Income Tax Considerations—United States Federal Income Taxation of United States Holders” for a more comprehensive discussion of the United States federal income tax consequences to United States stockholders if we are treated as a PFIC.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Safe Bulkers, Inc. was incorporated in the Republic of the Marshall Islands on December 11, 2007, under the Marshall Islands Business Corporations Act, for the purpose of acquiring ownership of various subsidiaries that either owned or were scheduled to own vessels. We are controlled by the Hajioannou family, which has a long history of operating and investing in the international shipping industry, including a long history of vessel ownership. Vassos Hajioannou, the late father of Polys Hajioannou, our chief executive officer, first invested in shipping in 1958. Polys Hajioannou has been actively involved in the industry since 1987, when he joined the predecessor of Safety Management.

Over the past 19 years under the leadership of Polys Hajioannou, we have renewed our fleet by selling eleven drybulk vessels during periods of what we viewed as favorable secondhand market conditions and contracting to acquire 47 drybulk newbuilds and four drybulk secondhand vessels. Also under his leadership, we have expanded the classes of drybulk vessels in our fleet and the aggregate carrying capacity of our fleet has grown from 887,900 deadweight tons prior to our initial public offering in May 28, 2008 to 2,786,600 dwt currently. Information on our capital expenditure requirements are discussed below in ‘ITEM 4B. Liquidity and Capital Resources’. The quality and size of our current fleet, together with our long-term relationships with several of our charter customers, are, we believe, the results of our long-term strategy of maintaining a young, high quality fleet, our broad knowledge of the drybulk industry and our strong management team. In addition to benefiting from the experience and leadership of Polys Hajioannou, we also benefit from the expertise of our Manager which, along with its predecessor, has specialized in drybulk shipping since 1965, providing services to over 46 drybulk vessels. In June 2008, we completed an initial public offering of our common stock in the United States and our common stock began trading on the New York Stock Exchange. Our principal executive office is located at Apt. D11, Les Acanthes, 6, Avenue des Citronniers MC 98 000 Monaco. Our representation office in Greece is at 30-32 Avenue Karamanli, 16673 Voula, Athens, Greece. Our registered address in the Republic of the Marshall Islands is Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Republic of the Marshall Islands MH96960. The name of our registered agent at such address is The Trust Company of the Marshall Islands, Inc.

B. Business Overview

We are an international provider of marine drybulk transportation services, transporting bulk cargoes, particularly coal, grain and iron ore, along worldwide shipping routes for some of the world’s largest consumers of marine drybulk transportation services. As of February 25, 2014, we had a fleet of 30 drybulk vessels, with an aggregate carrying capacity of 2,786,600 dwt and an average age of 5.4 years, making us one of the world’s youngest fleets of Panamax, Kamsarmax, Post-Panamax and Capesize class vessels. Our fleet is expected to grow through 2016 as the result of the delivery of eight further contracted newbuild vessels, comprised of six Panamax class vessels and two Post-Panamax class vessels. Upon delivery of the last of our contracted newbuilds, assuming we do not acquire any additional vessels or dispose of any of our vessels, our fleet will be comprised of 38 vessels, having an aggregate carrying capacity of 3,415,700 dwt.

We employ our vessels on both period time charters and spot time charters, according to our assessment of market conditions, with some of the world’s largest consumers of marine drybulk transportation services. The vessels we deploy on period time charters provide us with relatively stable cash flow and high utilization rates, while the vessels we deploy in the spot market allow us to maintain our flexibility in low charter market conditions.

General

As of February 25, 2014 our fleet comprised 30 vessels, of which nine are Panamax class vessels, seven are Kamsarmax class vessels, 11 are Post-Panamax class vessels and three are Capesize class vessels, with an aggregate carrying capacity of 2,786,600 dwt and an average age of 5.4 years. Assuming delivery of the last of our contracted vessels in 2016, our fleet will be comprised of 15 Panamax class vessels, seven Kamsarmax class vessels, 13 Post-Panamax class vessels and three Capesize class vessels, and the aggregate carrying capacity of our 38 vessels will be 3,415,700 dwt. As of February 25, 2014, the average remaining duration of the charters for our existing fleet was 1.44 years.

The majority of vessels in our fleet have sister ships with similar specifications in our existing or newbuild fleet. We believe using sister ships provides cost savings because it facilitates efficient inventory management and allows for the substitution of sister ships to fulfill our period time charter obligations.

Our Fleet and Newbuilds

The table below presents additional information with respect to our drybulk vessel fleet, including our newbuilds, and its deployment as of February 25, 2014.

Vessel Name	Dwt	Year Built ⁽¹⁾	Country of Construction	Charter Type	Charter Rate ⁽²⁾	Commissions ⁽³⁾	Charter Period ⁽⁴⁾	Sister Ship ⁽⁵⁾
CURRENT FLEET								
Panamax								
Maria	76,000	2003	Japan	Period	\$12,750	5.00%	Nov. 2013 – Mar. 2014	A
Koulitsa	76,900	2003	Japan	Period	\$13,000	5.00%	Feb. 2014 – May. 2014	
Paraskevi	74,300	2003	Japan	Period	\$8,650	4.75%	Aug. 2013 – Jul. 2014	
Vassos	76,000	2004	Japan	Period ⁽⁶⁾	\$10,000 BPI + 6%	5.00%	Feb. 2014 – Apr. 2014 Apr. 2014 – Sep. 2014	A
Katerina	76,000	2004	Japan	Spot	\$9,750	5.00%	Jan. 2014 – Apr. 2014	A
Maritsa	76,000	2005	Japan	Period	\$8,000	1.25%	Jan. 2013 – Jan. 2015	A
Efrossini	75,000	2012	Japan	Spot	\$16,000	3.75%	Jan. 2014 – Mar. 2014	B
Zoe	75,000	2013	Japan	Period	\$10,000	5.00%	Nov. 2013 – May. 2014	B
Kypros Land	77,100	2014	Japan	Spot	\$14,000	5.00%	Jan. 2014 – Mar. 2014	H
Kamsarmax								
Pedhoulas Merchant	82,300	2006	Japan	Period ⁽⁷⁾	BPI + 9.5%	3.75%	Jul. 2013 – Jun. 2015	C
Pedhoulas Trader	82,300	2006	Japan	Period ⁽⁸⁾	BPI + 6.5%	3.50%	Aug. 2013 – Aug. 2015	C
Pedhoulas Leader	82,300	2007	Japan	Period	\$13,250	4.75%	Jun. 2012 – May. 2014	C
Pedhoulas Commander	83,700	2008	Japan	Period	\$10,750	4.75%	Sep. 2013 – Jul. 2014	
Pedhoulas Builder	81,600	2012	China	Period	\$8,450	4.75%	Oct. 2012 – Apr. 2014	D
Pedhoulas Fighter	81,600	2012	China	Period	\$11,500	4.75%	Sep. 2013 – Jun. 2014	D
Pedhoulas Farmer	81,600	2012	China	Period	\$8,000	4.75%	Sep. 2012 – Mar. 2014	D
Post-Panamax								
Stalo	87,000	2006	Japan					E
Marina	87,000	2006	Japan	Spot	\$12,500	5.00%	Jan. 2014 – Mar. 2014	E
Xenia	87,000	2006	Japan	Spot	\$14,000	5.00%	Jan. 2014 – Mar. 2014	E
Sophia	87,000	2007	Japan	Period ⁽⁹⁾	\$12,400 BPI +18%	3.75%	Dec. 2013 – May. 2014 Jun. 2014 – Aug. 2014	E
Eleni	87,000	2008	Japan	Spot	\$17,000	5.00%	Jan. 2014 – May. 2014	E
Martine	87,000	2009	Japan					E
Andreas K	92,000	2009	South Korea	Period	\$13,500	5.00%	Feb. 2014 – Apr. 2014	F
Panayiota K	92,000	2010	South Korea	Period	\$12,750	5.00%	Sep. 2013 – Apr. 2014	F
Venus Heritage	95,800	2010	Japan	Spot	\$13,950	3.75%	Feb. 2014 – Mar. 2014	G
Venus History	95,800	2011	Japan	Spot	\$17,350	5.00%	Feb. 2014 – Apr. 2014	G
Venus Horizon	95,800	2012	Japan	Period	\$13,000	5.00%	Oct. 2013 – Jul. 2014	G
Capesize								
Kanaris	178,100	2010	China	Period	\$25,928	2.50%	Sep. 2011 – Jun. 2031	
Pelopidas	176,000	2011	China	Period	\$38,000	1.00%	Feb. 2012 – Dec. 2021	
Lake Despina	181,400	2014	Japan	Period ⁽¹⁰⁾	\$23,100 \$24,810	1.25%	Jan. 2014 – Jul. 2016 Jul. 2016 – Jan. 2024	
Subtotal	2,786,600							
NEW BUILDS								
Panamax								
Hull No. 1660	76,600	1H 2014	Japan					H
Hull No. 821	77,000	2H 2014	Japan					I
Hull No. 822	77,000	1H 2015	Japan					I
Hull No. 1689	76,500	1H 2015	Japan	Period	\$15,800 \$15,000		May 2015 – May 2020 May 2020 – May 2025	
Hull No. 827	77,000	2H 2015	Japan					I
Hull No. 828	77,000	1H 2016	Japan					I
Post-Panamax								
Hull No. 1685	84,000	2H 2015	Japan					J
Hull No. 1686	84,000	2H 2015	Japan					J
Subtotal	629,100							
TOTAL	3,415,700							

(1) For newbuilds, the dates shown reflect the expected delivery dates.

(2) Quoted charter rates are gross charter rates. Gross charter rates are inclusive of commissions. Net charter rates are charter rates after the payment of commissions. Charter agreements may provide for additional payments, namely ballast bonus, to compensate for vessel repositioning.

(3) Commissions reflect payments made to third-party brokers or our charterers, and do not include the 1.25% fee payable on gross freight, charter hire, ballast bonus and demurrage to our Manager pursuant to our vessel management agreements with our Manager.

(4) The start dates listed reflect either actual start dates or, in the case of contracted charters that had not commenced as of February 25, 2014, scheduled start dates. Actual start dates and redelivery dates may differ from the scheduled start and redelivery dates depending on the terms of the charter and market conditions.

(5) Each vessel with the same letter is a "sister ship" of each other vessel that has the same letter, and under certain of our charter contracts, may be substituted with its "sister ships."

(6) A period time charter at a gross daily charter rate of \$10,000 for the period until April 2014, followed by a gross daily charter rate linked to the Baltic Panamax Index ("BPI") plus a premium of 6%.

(7) A period time charter at a gross daily charter rate linked to the BPI plus a premium of 9.5%.

(8) A period time charter at a gross daily charter rate linked to the BPI plus a premium of 6.5%.

(9) A period time charter at a gross daily charter rate of \$12,400 for the period until May 2014, followed by a gross daily charter rate linked to the BPI plus a premium of 18%.

(10) A period time charter of ten years at a gross daily charter rate of \$23,100 for the first two and a half years and of \$24,810 for the remaining period. The charter agreement grants the charterer the option to extend the period time charter for an additional twelve months at a time, at a gross daily charter rate of \$26,330, less 1.25% total commissions, which option may be exercised by the charterer a maximum of two times. The charter agreement also grants the charterer an option to purchase the vessel at any time beginning at the end of the seventh year of the period time charter period, at a price of \$39 million less 1.00% commission, decreasing thereafter on a pro-rated basis by \$1.5 million per year. The Company holds a right of first refusal to buy back the vessel in the event that the charterer exercises its option to purchase the vessel and subsequently offers to sell such vessel to a third party.

From the beginning of 1995 through February 25, 2014, we have taken delivery of 36 newbuilds and four secondhand vessels. As of February 25, 2014, we were contracted to take delivery of eight Japanese-built newbuild vessels, comprised of six Panamax class vessels and two Post-Panamax class vessels. As of February 25, 2014, our remaining capital expenditure requirements were \$201.2 million, of which \$54.2 million is payable in 2014, \$125.5 million in 2015 and \$21.5 million in 2016.

Chartering of Our Fleet

Our vessels are used to transport bulk cargoes, particularly coal, grain and iron ore, along worldwide shipping routes. We may employ our vessels in time charters or in voyage charters.

A time charter is a contract to charter a vessel for a fixed period of time at a set daily rate and can last from a few days up to several years, where the vessel performs one or more voyages between load port(s) and discharge port(s). Based on the duration of vessel's employment, a time charter can be either a long-term, or period, time charter with duration of more than three months, or a short-term, or spot, time charter with duration of up to three months. Under our time charters, the charterer pays for most voyage expenses, such as port, canal and fuel costs, agents' fees, extra war risks insurance and any other expenses related to the cargoes, and we pay for vessel operating expenses, which include, among other costs, costs for crewing, provisions, stores, lubricants, insurance, maintenance and repairs, tonnage taxes, drydocking and intermediate and special surveys. During 2013, all of our vessels were employed under time charter contracts.

Voyage charters are generally contracts to carry a specific cargo from a load port to a discharge port, including positioning the vessel at the load port. Under a voyage charter, the charterer pays an agreed upon total amount or on a per cargo ton basis, and we pay for both vessel operating expenses and voyage expenses. We infrequently enter into voyage charters. Voyage charters together with spot time charterers are referred to in our industry as employment in the spot market.

We intend to employ our vessels on both period time charters and spot time charters, according to our assessment of market conditions, with some of the world's largest consumers of marine drybulk transportation services. The vessels we deploy on period time charters provide us with relatively stable cash flow and high utilization rates, while the vessels we deploy in the spot market allow us to maintain our flexibility in low charter market conditions.

Our Customers

Since 2005 our customers have included over 30 national, regional and international companies, including Bunge, Cargill, Daiichi, Intermare Transport G.m.b.H., Eastern Energy Pte. Ltd., NYK, NS United Kaiun Kaisha, Kawasaki Kisen Kaisha, Oldendorff Carriers, ArcelorMittal or their affiliates. During 2013, two of our charterers, Daiichi and Kawasaki Kisen Kaisha, accounted for 45.7% of our revenues, with each one accounting for more than 10% of total revenues. During 2012, two of our charterers accounted for 62.9% of our revenues, namely Daiichi and Kawasaki Kisen Kaisha, with each one accounting for more than 10% of total revenues. During 2011, two of our charterers accounted for 66.1% of our revenues, namely Daiichi and Kawasaki Kisen Kaisha, with each one accounting for more than 10% of total revenues. We seek to charter our vessels primarily to charterers who intend to use our vessels without sub-chartering them to third parties. A prospective charterer's financial condition and reliability are also important factors in negotiating employment for our vessels.



Management of Our Fleet

We have a management agreement pursuant to which our Manager provides us with technical, administrative, commercial and certain other services for an initial term of two years with automatic one-year renewals for an additional eight years, during which the management fees can be adjusted every year upon agreement between us and our Manager. The management agreement can be terminated if we provide notice of non-renewal 12 months prior to the end of the then-current term. The initial two year term expired on May 28, 2010. We have not provided notice of termination to our Manager. Our arrangements with our Manager and its performance are reviewed by our board of directors. Our chief executive officer, president, chief financial officer and chief operating officer, collectively referred to in this annual report as our “executive officers,” provide strategic management for our company and also supervise the management of our day-to-day operations by our Manager. Our Manager reports to us and our board of directors through our executive officers.

In return for providing such services our Manager receives a fixed management fee of \$700 per day per vessel. In return for chartering services rendered to us, our Manager also receives a variable fee of 1.25% on all freight, charter hire, ballast bonus and demurrage for each vessel. Our Manager also receives a sales fee of 1.0% based on the contract price of any vessel sold by it on our behalf, and an acquisition fee of 1.0% based on the contract price of any vessel bought by it on our behalf, including the acquisition of each of our contracted newbuilds. We also pay our Manager a supervision fee of \$550,000 per newbuild, of which 50% is payable upon the signing of the relevant supervision agreement, and 50% upon successful completion of the sea trials of each newbuild, which we capitalize, for the on-premises supervision by selected engineers and others on the Manager’s staff of newbuilds we have agreed to acquire pursuant to shipbuilding contracts, memoranda of agreement, or otherwise. Pursuant to the terms of management agreement, the Manager provides to us executive officers at no cost. To the extent that the Manager does not provide executive officers to us but instead such executive officers are employed by us directly, the management fee payable by us to the Manager shall be reduced by an amount equal to the aggregate costs of compensation and benefits and other incidental costs borne by us as a result of such employment.

Our Manager has agreed that, during the term of our management agreement and for a period of one year following its termination, our Manager will not provide management services to, or with respect to, any drybulk vessels other than (a) on our behalf or (b) with respect to drybulk vessels that are owned or operated by companies affiliated with our chief executive officer, his children or his brother Nicolaos Hadjiannou, and drybulk vessels that are acquired, invested in or controlled by companies affiliated with our chief executive officer, his children or Nicolaos Hadjiannou subject in each case to compliance with, or waivers of, the restrictive covenant agreements entered into between us and such companies. Our Manager has also agreed that if one of our drybulk vessels and a drybulk vessel owned or operated by any such company are both available and meet the criteria for a charter being arranged by our Manager, our drybulk vessel will receive such charter.

Competition

We operate in highly competitive markets that are based primarily on supply and demand. Our business fluctuates in line with the main patterns of trade of the major drybulk cargoes and varies according to changes in the supply and demand for these items. We believe we differentiate ourselves from our competition by providing young, modern vessels with advanced designs and technological specifications. As of February 25, 2014 our fleet had an average age of 5.4 years compared to an industry average of approximately 9.3 years. Upon delivery of our contracted newbuilds vessel, the majority of our fleet will have been built in Japanese shipyards, which we believe provides us with an advantage in attracting large, well-established customers, including Japanese customers.

The drybulk sector is characterized by relatively low barriers to entry, and ownership of drybulk vessels is highly fragmented. In general, we compete with other owners of Panamax class or larger drybulk vessels for charters based upon price, customer relationships, operating expertise, professional reputation and size, age, location and condition of the vessel.

Crewing and Shore Employees

Our management team consists of our chief executive officer, president, chief financial officer and chief operating officer. We directly employ five officers including our legal representative in Greece, our president, chief financial officer and chief operating officer. Our Manager is responsible for the technical management of our fleet and therefore also handles the recruiting, either directly or through crewing agents, of the senior officers and all other crew members for our vessels. As of December 31, 2013, approximately 566 people served on board the vessels in our fleet, and our Manager employed approximately 54 people on shore.

Permits and Authorizations

We are required by various governmental and other agencies to obtain certain permits, licenses, certificates and financial assurances with respect to each of our vessels. The kinds of permits, licenses, certificates and financial assurances required by

governmental and other agencies depend upon several factors, including the commodity being transported, the waters in which the vessel operates, the nationality of the vessel’s crew and the type and age of the vessel. All permits, licenses, certificates and financial assurances currently required to operate our vessels have been obtained. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of doing business.

Risk of Loss and Liability Insurance

General

The operation of our fleet involves risks such as mechanical failure, collision, property loss, cargo loss or damage as well as personal injury, illness and loss of life. In addition, the operation of any oceangoing vessel is subject to the inherent possibility of marine disaster, including oil spills and other environmental mishaps, the risk of piracy and the liabilities arising from owning and operating vessels in international trade. The U.S. Oil Pollution Act of 1990 (“OPA 90”), which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for vessel owners and operators trading in the United States market.

Our Manager is responsible for arranging insurance for all our vessels on terms specified in our Management Agreement, which we believe are in line with standard industry practice. In accordance with our Management Agreement, our Manager procures and maintains hull and machinery insurance, war risks insurance, freight, demurrage and defense coverage and protection and indemnity coverage with mutual assurance associations. Due to our low incident rate and the young age of our fleet, we are generally able to procure relatively low rates for all types of insurance.

While our insurance coverage for our drybulk vessel fleet is in amounts that we believe to be prudent to protect us against normal risks involved in the conduct of our business and consistent with standard industry practice, our Manager may not be able to maintain this level of coverage throughout a vessel’s useful life. Furthermore, all risks may not be adequately insured against, any particular claim may not be paid and adequate insurance coverage may not always be obtainable at reasonable rates.

Hull and machinery insurance

Our marine hull and machinery insurance covers risks of partial loss or actual or constructive total loss from collision, fire, grounding, engine breakdown and other insured risks up to an agreed amount per vessel. Our vessels will each be covered up to at least their fair market value after meeting certain deductibles per incident per vessel. We also maintain increased value coverage for each of our vessels. Under this increased value coverage, in the event of the total loss of a vessel, we are entitled to recover amounts in excess of the total loss amount recoverable under our hull and machinery policy.

Protection and indemnity insurance

Protection and indemnity insurance is a form of mutual indemnity insurance provided by mutual marine protection and indemnity associations, or “P&I Associations,” formed by vessel owners to provide protection from large financial loss to one club member by contribution towards that loss by all members.

Protection and indemnity insurance covers our third-party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses of injury or death of crew members, passengers and other third parties, loss or damage to cargo, claims arising from collisions with other vessels, damage to other third party property, pollution arising from oil or other substances, and salvage, towing and other related costs, including wreck removal. Our coverage, except for pollution, will be unlimited. Furthermore, within this aggregate limit, club coverage is also limited to the amount of the member’s legal liability.

Our protection and indemnity insurance coverage for pollution is limited to \$1.0 billion per vessel per incident. Our protection and indemnity insurance coverage in respect of passengers is limited to \$2.0 billion and in respect of passengers and seamen is limited to \$3.0 billion per vessel per incident. The 13 P&I Associations that comprise the International Group of P&I Clubs (the “International Group”) insure approximately 90% of the world’s commercial blue-water tonnage and have entered into a pooling agreement to reinsure each P&I Association’s liabilities. As a member of a P&I Association that is a member of the International Group, we are subject to calls payable to the P&I Association based on the International Group’s claim records, as well as the claim records of all other members of the individual associations.

Although the P&I Associations compete with each other for business, they have found it beneficial to mutualise their larger

risks among themselves through the International Group. This is known as the “Pool.” This pooling is regulated by a contractual agreement which defines the risks that are to be covered and how claims falling on the Pool are to be shared among the participants in the International Group. The Pool provides a mechanism for sharing all claims in excess of \$9.0 million up to \$70.0 million. For claims in excess of \$70.0 million, the International Group purchases reinsurance from the commercial market of up to \$3.07 billion per vessel per incident, comprising of reinsurance of up to \$2.0 billion per vessel per incident in excess of \$70.0 million insured by the Pool and an additional \$1.0 billion in excess of the aforesaid \$2.07 billion in respect of overspill protection per vessel per incident.

War risks insurance

Our war risk insurance covers risks of partial loss or actual or constructive total loss from confiscations, seizure, capture, vandalism, sabotage and other war related risks and is limited to each vessel’s Hull and Machinery and IV insured value plus \$400.0 million per vessel per incident in respect of conflicts risks and P&I liabilities, including crew.

Inspection by Classification Societies

Every oceangoing vessel must be “classed” by a classification society. The classification society certifies that the vessel is “in class,” signifying that the vessel has been built and maintained in accordance with the rules and regulations of the classification society. In addition, each vessel must comply with all applicable laws, rules and regulations of the vessel’s country of registry, or “flag state,” as well as the international conventions of which that flag state is a member. A vessel’s compliance with international conventions and corresponding laws and ordinances of its flag state can be confirmed by the applicable flag state, port state control or, upon application or by official order, the classification society, acting on behalf of the authorities concerned.

The classification society also undertakes, upon request, other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case or to the regulations of the country concerned.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years. The maintenance of class, regular and extraordinary surveys of a vessel’s hull and machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

- **Annual Surveys.** For oceangoing vessels, annual surveys are conducted for their hulls and machinery, including the electrical plants, and for any special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.
- **Intermediate Surveys.** Extended annual surveys are referred to as “intermediate surveys” and typically are conducted on the occasion of the second or third annual survey after commissioning and after each class renewal.
- **Class Renewal / Special Surveys.** Class renewal surveys, also known as “special surveys,” are more extensive than intermediate surveys and are carried out at the end of each five-year period. During the special survey the vessel is thoroughly examined, including thickness-gauging to determine any diminution in the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. It may be expensive to have steel renewals pass a special survey if the vessel is aged or experiences excessive wear and tear. A vessel owner has the option of arranging with the classification society for the vessel’s machinery to be on a continuous survey cycle, according to which all machinery would be surveyed within a five-year cycle. At an owner’s application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class.

Vessels are drydocked during intermediate and special surveys for repairs of their underwater parts. If “in water survey” notation is assigned by class, as is the case for our vessels, the vessel owner has the option of carrying out an underwater inspection of the vessel in lieu of drydocking, subject to certain conditions. In the event that an “in water survey” notation is assigned as part of a particular intermediate survey, drydocking would be required for the following special survey thereby generally achieving a higher utilization for the relevant vessel. Drydocking can be undertaken as part of a special survey if the drydocking occurs within 15 months prior to the special survey deadline. The following table lists the dates by which we expect to carry out the next drydockings and special surveys for the vessels in our current drybulk vessel fleet:

Vessel Name	Drydocking	Special Survey
Maria	January 2016	April 2018
Vassos	October 2016	February 2019
Katerina	May 2014	May 2014
Maritsa	January 2015	January 2015
Efrossini	February 2016	February 2017
Koulitsa	April 2016	April 2018
Paraskevi	January 2016	January 2018
Pedhoulas Merchant	October 2015	March 2016
Pedhoulas Trader	October 2015	May 2016
Pedhoulas Leader	November 2015	February 2017
Pedhoulas Builder	May 2016	May 2017
Pedhoulas Fighter	August 2016	August 2017
Pedhoulas Farmer	September 2016	September 2017
Stalo	September 2015	January 2016
Marina	August 2015	January 2016
Sophia	June 2016	June 2017
Eleni	January 2017	November 2018
Martine	February 2014	February 2014
Andreas K	August 2014	August 2014
Kanaris	June 2014	March 2015
Panayiota K	December 2014	April 2015
Venus Heritage	April 2015	December 2015
Venus History	September 2015	September 2016
Venus Horizon	February 2016	February 2017
Pelopidas	November 2015	November 2016
Pedhoulas Commander	May 2017	May 2018
Zoe	July 2018	July 2018
Xenia	July 2016	Aug 2016
Lake Despina	January 2018	January 2019
Kypros Land	February 2018	February 2019

Following an incident or a scheduled survey, if any defects are found, the classification surveyor will issue a “recommendation or condition of class” which must be rectified by the vessel owner within the prescribed time limits.

In general, insurance underwriters make it a condition for insurance coverage that a vessel be certified as “in class” by a classification society which is a member of the International Association of Classification Societies (“IACS”). All of our vessels are certified as being “in class” by either Lloyd’s Register of Shipping or the American Bureau of Shipping, each of which is a member of IACS.

Environmental and Other Regulations

General

Government regulation significantly affects the ownership and operation of our vessels. Our vessels are subject to international conventions and national, state and local laws and regulations in force in international waters and the countries in which they operate or are registered, including environmental protection requirements governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and the management of other contamination, air emissions, water discharges and ballast water. These laws and regulations include the International Convention for Prevention of Pollution from Ships, the International Convention for Safety of Life at Sea (“SOLAS”) and implementing regulations adopted by the International Maritime Organization (“IMO”), the European Union (“EU”) and other international, national and local regulatory bodies. They also include laws and regulations in the jurisdictions where our vessels travel and in the ports where our vessels call. In the U.S., the requirements include OPA 90, the U.S. Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), the U.S. Clean Water Act (“CWA”) and U.S. Clean Air Act (“CAA”). Compliance with these environmental protection requirements can impose significant cost and expense, including the cost of vessel modifications and implementation of certain



operating procedures. Our fleet is young and modern and complies with all current requirements and we do not anticipate incurring significant vessel modification expenditures in the current or subsequent fiscal year to comply with such requirements. Under our Management Agreement, our Manager has assumed technical management responsibility for our fleet, including compliance with all applicable government and other regulations. If the Management Agreement with our Manager terminates, we would attempt to hire another party to assume this responsibility. In the event of termination, we might be unable to hire another party to perform these and other services for the present fee structure and related costs. However, due to the nature of our relationship with our Manager, we do not expect our Management Agreement to be terminated early.

A variety of governmental and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (such as the U.S. Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry), charterers and terminal operators. Certain of these entities require us to obtain permits, licenses, financial assurances and certificates for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or result in the temporary suspension of the operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the drybulk shipping industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with U.S. and international regulations. We believe that the operation of our vessels is in substantial compliance with all environmental laws and regulations applicable to us as of the date of this annual report. However, because such laws and regulations are subject to frequent change and may impose increasingly stricter requirements, such future requirements could limit our ability to do business, increase our operating costs, force the early retirement of our vessels and/or affect their resale value, all of which could have a material adverse effect on our financial condition and results of operations. However, we believe that because our fleet is young and modern, we will not be exposed to the same level of risk faced by owners of older, less modern vessels.

The International Maritime Organization

Our vessels are subject to standards imposed by the IMO, the United Nations agency for maritime safety and the prevention of pollution by ships. The IMO has adopted regulations to reduce pollution in international waters, both from accidents and routine operations, and has negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. For example, Annex III of the International Convention for the Prevention of Pollution from Ships ("MARPOL") regulates the transportation of marine pollutants and imposes standards on packing, marking, labeling, documentation, stowage, quantity limitations and pollution prevention. These requirements have been expanded by the International Maritime Dangerous Goods Code, which imposes additional standards for all aspects of the transportation of dangerous goods and marine pollutants by sea.

In 1997, the IMO adopted Annex VI to MARPOL to address air pollution from vessels. Annex VI became effective in 2005, and sets limits on sulfur oxide and nitrogen oxide emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of marine fuels and allows for the establishment of Emission Control Areas ("ECAs") with more stringent controls on sulfur emissions. An ECA for North America took effect in 2012 and an ECA for the Caribbean will take effect in 2014. In 2008, the IMO Marine Environment Protection Committee adopted amendments to Annex VI regarding particulate matter, nitrogen oxides and sulfur oxide emissions. These amendments, which entered into force in 2010, are designed to reduce air pollution from vessels by, among other things, (i) implementing a progressive reduction of sulfur oxide emissions from ships; and (ii) establishing new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. In addition, the European Union has established separate limitations on the sulfur content of marine fuels, and some European Union countries may be declared Emission Control Areas in the future, pursuant to Annex VI and its amendments. We have obtained International Air Pollution Prevention Certificates for all our vessels, and believe that maintaining compliance with the existing and known future Annex VI requirements will not have an adverse financial impact on the operation of our vessels. However, additional or new requirements, conventions, laws or regulations, including the adoption of additional ECAs, or other new or more stringent emissions requirements adopted by the IMO, the European Union, the United States or individual states, or other jurisdictions in which we operate, could require vessel modifications or otherwise increase the costs of our operations.

The IMO adopted vessel energy efficient requirements, which took effect in January 2013. The requirements impose energy efficiency design on new vessels and require energy efficiency management plans for existing vessels. These requirements have not had and we do not expect they will have a material effect on our operations.

The IMO adopted new guidelines in 2012 under the revised Annex V to MARPOL, which prohibit discharge of garbage into the open sea, with certain exceptions, and require vessels to dispose of garbage at port garbage reception facilities.

These guidelines became effective in January 2013. These requirements have not had and we do not expect they will have a material effect on our operations.

In 2001, the IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the "Bunker Convention," which imposes strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention also requires registered owners of ships over 1,000 gross tons to maintain insurance in specified amounts to cover their liability for relevant pollution damage. The Bunker Convention became effective on November 21, 2008. The IMO recently adopted a requirement that vessels traveling through the Antarctic region (waters south of latitude 60 degrees south) must use lower density fuel. We do not expect this requirement to affect our operations, which do not involve Antarctic travel.

The operation of our vessels is also affected by the requirements set forth in the IMO's International Safety Management ("ISM") Code. The ISM Code requires vessel owners or any other person, such as a manager or bareboat charterer, who has assumed responsibility for the operation of a vessel from the vessel owner and on assuming such responsibility has agreed to take over all the duties and responsibilities imposed by the ISM Code, to develop and maintain an extensive SMS that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The ISM Code requires that vessel operators obtain a "Safety Management Certificate" for each vessel they operate from the government of the vessel's flag state. The certificate verifies that the vessel operates in compliance with its approved SMS. Currently, our Manager has the requisite documents of compliance and safety management certificates for each of the vessels in our fleet for which the certificates are required by the IMO. Our Manager is required to renew these documents of compliance and safety management certificates every five years. Compliance is externally verified on an annual basis for the Manager and between the second and third years for each vessel by the applicable flag state.

Although all our vessels are currently ISM Code-certified, such certification may not be maintained by all our vessels at all times. Non compliance with the ISM Code may subject such party to increased liability, invalidate existing insurance or decrease available insurance coverage for the affected vessels and result in a denial of access to, or detention in, certain ports. For example, the U.S. Coast Guard and EU authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and EU ports.

The Maritime Labour Convention

The International Labour Organization's Maritime Labour Convention was adopted in 2006 ("MLC 2006"). The basic aims of the MLC 2006 are to ensure comprehensive worldwide protection of the rights of seafarers (the Convention is sometimes called the Seafarers' Bill of Rights) and, to establish a level playing field for countries and ship owners committed to providing decent working and living conditions for seafarers, protecting them from unfair competition on the part of substandard ships. The Convention was ratified on August 20, 2012, and all our vessels had been certified by August 2013, as required. We do not expect that the MLC 2006 requirements will have a material effect on our operations.

The U.S. Oil Pollution Act of 1990

The OPA 90 established an extensive regulatory and liability regime for the protection of the environment from oil spills and cleanup of oil spills. OPA 90 applies to discharges of any oil from a vessel, including discharges of fuel and lubricants. OPA 90 affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in U.S. waters, which includes the United States' territorial sea and its two hundred nautical mile exclusive economic zone. While our vessels do not carry oil as cargo, they do carry lubricants and fuel oil, or "bunkers," which subjects our vessels to the requirements of OPA 90.

Under OPA 90, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the discharge of pollutants results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges, or threatened discharges, of pollutants from their vessels, including bunkers.

OPA 90 preserves the right to recover damages under other existing laws, including maritime tort law.

Effective July 31, 2009, the U.S. Coast Guard adopted regulations that adjust the limits of liability of responsible parties under OPA 90 to the greater of \$1,000 per gross ton or \$854,400 per non-tank vessel and established a procedure for adjusting the limits for inflation every three years. These limits of liability do not apply if an incident was directly caused by violation of applicable U.S. safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities. As a result of the oil spill in the Gulf of Mexico resulting from the explosion of the Deepwater Horizon drilling rig, bills have been introduced in the U.S. Congress to increase the limits of OPA liability for all vessels, including tanker vessels.



All owners and operators of vessels over 300 gross tons are required to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet their potential aggregate liabilities under OPA 90 and CERCLA, which is discussed below. An owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum liability under OPA 90 and CERCLA. We have complied with these requirements by providing a financial guarantee evidencing sufficient self-insurance. We have satisfied these requirements and obtained a U.S. Coast Guard certificate of financial responsibility for all of our vessels.

The U.S. Coast Guard's regulations concerning certificates of financial responsibility provide, in accordance with OPA 90, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility and that the insurer or guarantor may only assert limited defenses. Certain organizations that had typically provided certificates of financial responsibility under pre-OPA 90 laws, including the major protection and indemnity organizations, have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses. This requirement may limit the availability of coverage required by the U.S. Coast Guard and could increase our costs of obtaining this insurance for our fleet, as well as the costs of our competitors that also require such coverage.

We currently maintain, for each of our vessels, oil pollution liability coverage insurance in the amount of \$1.0 billion per incident. Although our vessels carry a relatively small amount of bunkers, a spill of oil from one of our vessels could be catastrophic under certain circumstances. We also carry hull and machinery protection and indemnity insurance to cover the risks of fire and explosion. Losses as a result of fire or explosion could be catastrophic under some conditions. While we believe that our existing insurance coverage is adequate, not all risks can be insured and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates. If the damages from a catastrophic spill exceed our insurance coverage, the payment of those damages could have a severe, adverse effect on us and could possibly result in our insolvency.

OPA 90 requires the owner or operator of any non-tank vessel of 400 gross tons or more that carries oil of any kind as a fuel for main propulsion, including bunkers, to prepare and submit a response plan for each vessel. These vessel response plans include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or substantial threat of such a discharge of ore from the vessel due to operational activities or casualties. All of our vessels have U.S. Coast Guard-approved response plans.

OPA 90 specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states which have enacted such legislation have not yet issued implementing regulations defining vessels owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call.

The U.S. Comprehensive Environmental Response, Compensation, and Liability Act

CERCLA applies to spills or releases of hazardous substances other than petroleum or petroleum products, whether on land or at sea. CERCLA imposes joint and several liability, without regard to fault, on the owner or operator of a ship, vehicle or facility from which there has been a release, and on other specified parties. Liability under CERCLA is generally limited to the greater of \$300 per gross ton or \$0.5 million per vessel carrying non-hazardous substances (\$5.0 million for vessels carrying hazardous substances), unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations, in which case liability is unlimited. As described above, owners and operators of vessels must establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet their potential liabilities under CERCLA.

The U.S. Clean Water Act

The CWA prohibits the discharge of oil or hazardous substances in navigable waters and imposes strict liability in the form of penalties for any unauthorized discharges. It also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under the more recently enacted OPA 90 and CERCLA, discussed above. The U.S. Environmental Protection Agency ("EPA") regulates the discharge in U.S. ports of ballast water and other substances incidental to the normal operation of vessels. Under EPA regulations, commercial vessels greater than 79 feet in length are required to obtain coverage under the National Pollutant Discharge Elimination System ("NPDES") Vessel General Permit, or "VGP," to discharge ballast water and other wastewater into U.S. waters by submitting a Notice of Intent, or "NOI." The VGP requires vessel owners and operators to comply with a range of best management practices and reporting and other requirements for a number of incidental discharge types and incorporates current U.S. Coast Guard requirements for ballast water management, as well as supplemental ballast water requirements. We have submitted NOIs for our vessels operating in U.S. waters and anticipate incurring costs to meet the requirements of the VGP. In addition, various states have enacted legislation restricting ballast water discharges and the introduction of non-indigenous species considered to be invasive. These and any similar ballast water discharge restrictions enacted in the future could increase the costs of operating in the relevant waters.

The EPA finalized the 2013 VGP in March 2013 which became effective in December 2013. The 2013 VGP requires most vessels to meet numeric ballast water discharge limits on a staggered schedule based on the first dry docking after January 1, 2014, or January 1, 2016 (depending on vessel ballast capacity). The 2013 VGP also imposes more strict technology-based limits in the form of best management practices for discharges related to oil-to-sea interfaces and requires routine inspections, monitoring, reporting, and recordkeeping. The 2013 VGP also requires vessel modifications and the installation of ballast treatment equipment which will significantly increase the cost of investments to comply with such requirements.

U.S. Air Emission Requirements

In 2008, the U.S. ratified the amended Annex VI to the MARPOL Convention, addressing air pollution from ships, which went into effect in 2009. In December 2009, the EPA announced its intention to publish final amendments to the emission standards for new marine diesel engines installed on ships flagged or registered in the United States that are consistent with standards required under recent amendments to Annex VI of MARPOL. The new regulations include near-term standards that began in 2011 for newly built engines requiring more efficient use of engine technologies in use today and long-term standards beginning in 2016 requiring an 80 percent reduction in nitrogen oxide emissions below current standards. The CAA also requires states to adopt State Implementation Plans, or "SIPs," designed to attain air quality standards. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. In addition, some individual states, including California, have attempted to regulate vessel emissions within state waters. The California Air Resources Board recently adopted Ocean-Going Vessel ("OGV") fuel content regulations that would apply to all vessels sailing within 24 nautical miles off the California coast and whose itineraries call for them to enter California ports, terminal facilities or estuarine waters. Changes to the OGV rule in 2012 included more stringent sulfur limits on marine gas oil used by commercial vessels in California waters. We do expect current U.S. requirements to have a significant effect on our operations for certain of our vessels.

New or more stringent air emission regulations which may be adopted could require significant capital expenditures to retrofit vessels and could otherwise increase our investment and operating costs.

Other environmental initiatives

The EU adopted legislation that (1) requires member states to refuse access to their ports by certain substandard vessels, according to vessel type, flag and number of previous detentions; (2) obliges member states to inspect at least 25% of vessels using their ports annually and increase surveillance of vessels posing a high risk to maritime safety or the marine environment; (3) provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies; and (4) requires member states to impose criminal sanctions for certain pollution events, such as the unauthorized discharge of tank washings. It is also considering legislation that will affect the operation of vessels and the liability of owners for oil pollution. While we do not believe that the costs associated with our compliance with these adopted and proposed EU initiatives will be material, it is difficult to predict what additional legislation, if any, may be promulgated by the EU or any other country or authority.

The U.S. National Invasive Species Act ("NISA") was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by vessels in foreign ports. Under NISA, the U.S. Coast Guard adopted regulations in July 2004 imposing mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters. These requirements can be met by performing mid-ocean ballast exchange, by retaining ballast water on board the vessel or by using environmentally sound alternative ballast water management methods approved by the U.S. Coast Guard. Mid-ocean ballast exchange is the primary method for compliance with the U.S.

Coast Guard regulations, since holding ballast water can prevent vessels from performing cargo operations and alternative methods are still under development. In 2012, the U.S. Coast Guard finalized amendments to its ballast water management regulations that impose stricter discharge limits for allowable concentrations of various invasive species and include approval process requirements for ballast water management systems. The regulations require ships calling at U.S. ports to treat ballast water, and regularly remove hull fouling. In particular, it is required for existing vessels to be equipped with approved ballast water treatment systems by their first dry-docking after January 2016 and for newbuilds with a keel laying date after December 2013 to be equipped upon their delivery. These regulations require modifications and installation of ballast water treatment equipment to our current vessels that call in U.S. ports, resulting in significant capital expenditures and an increase in our operational costs to call in U.S. ports.

Several U.S. states, such as California, adopted more stringent legislation or regulations relating to the permitting and management of ballast water discharges compared to EPA regulations. These requirements do not currently impact our operational costs, as such technologies are not currently available. However if a decision is made to comply with such requirements, we could incur additional investment during the installation of any such ballast water treatment plants.



In 2004, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments (the "BWM Convention"). The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. As of January 2014, the BWM Convention had been adopted by 38 states, representing approximately 30.38% of the world's tonnage. Each vessel in our current fleet has been issued a BWM plan Statement of Compliance by the classification society with respect to the applicable IMO regulations and guidelines.

If mid-ocean ballast exchange is made mandatory at the international level or if additional ballast water treatment requirements or options are instituted, significant capital expenditures to retrofit vessels and install ballast treatment equipment will be needed and our operating costs could increase.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change entered into force. Pursuant to the Protocol, adopting countries are required to implement national programs to reduce emissions of certain gases, generally referred to as greenhouse gases, which are suspected of contributing to global warming. Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol. However, a new treaty may be adopted in the future that includes restrictions on shipping emissions. International and multinational bodies or individual countries also may adopt their own climate change regulatory initiatives. The IMO recently announced its intention to develop reduction measures for greenhouse gases from international shipping. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from vessels. In the United States, the EPA is considering a 2007 petition from the California Attorney General and a coalition of environmental groups to regulate greenhouse gas emissions from ocean-going vessels under the Clean Air Act. These or other developments may result in regulations relating to the control of greenhouse gas emissions. Any passage of climate control legislation or other regulatory initiatives in the jurisdictions where we operate could result in financial impacts on our operations that we cannot predict with certainty at this time.

Vessel security regulations

Several initiatives have been introduced in recent years intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002 (the "MTSA") came into effect. To implement certain portions of the MTSA, the U.S. Coast Guard issued regulations in July 2003 requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. This new chapter came into effect in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security Code, or "ISPS Code." Among the various requirements are:

- on-board installation of automatic information systems to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid "International Ship Security Certificate" that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the IMO, SOLAS and the ISPS Code, and we have approved ISPS certificates and plans on board all our vessels, which have been certified by the applicable flag state.

Seasonality

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter rates. This seasonality may result in quarter-to-quarter volatility in our results of operations. The market for marine drybulk transportation services is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. This seasonality could materially affect our business, financial condition, results of operations and ability to pay dividends.

C. Organizational Structure

Safe Bulkers, Inc. is a holding company with 39 subsidiaries, 24 of which are incorporated in Liberia, and 15 in the Republic of

the Marshall Islands. Our subsidiaries are wholly-owned by us. A list of our subsidiaries as of February 25, 2014 is set forth in Exhibit 8.1 to this annual report.

D. Property, Plant and Equipment

We have no freehold or material leasehold interest in any real property. We occupy office space at Apt. D11, Les Acanthes, 6, Avenue des Citronniers, MC98000 Monaco, where our principal executive office is established. We have also established a representation office in Greece at 30-32 Avenue Karamanli, 16673 Voula, Athens, Greece. Other than our vessels, we do not have any material property. Our vessels are subject to priority mortgages, which secure our obligations under our various credit facilities. For further details regarding our credit facilities, refer to "Item 5. Operating and Financial Review and Prospects - B. Liquidity and Capital Resources - Credit Facilities."

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this annual report. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Item 3. Key Information-D. Risk Factors" and elsewhere in this annual report, our actual results may differ materially from those anticipated in these forward-looking statements. Please see the section "Forward-Looking Statements" at the beginning of this annual report.

Overview

Our business is to provide international marine drybulk transportation services by operating vessels in the drybulk sector of the shipping industry. As of February 25, 2014 our fleet consisted of 30 drybulk vessels, and we had contracts for an additional eight newbuild vessels, with an aggregate capacity of 3,415,700 dwt. We deploy our vessels on a mix of period time and spot time charters according to our assessment of market conditions, adjusting the mix of these charters to take advantage of the relatively stable cash flow and high utilization rates associated with period time charters, or to profit from attractive spot time charter rates during periods of strong charter market conditions, or to maintain employment flexibility that the spot market offers during periods of weak time charter market conditions. As of February 25, 2014, 20 out of 30 vessels in our fleet were employed on period time charters and the remainder on spot time charters. We believe our customers, some of which have been chartering our vessels for over 24 years, enter into period time and spot time charters with us because of the quality of our young and modern vessels and our record of safe and efficient operations.

The average number of vessels in our fleet for the years ended December 31, 2011, 2012 and 2013 was 16.4, 21.1 and 26.6 respectively.

After delivery of our contracted newbuild vessels, our drybulk fleet will consist of 38 vessels and will have an aggregate carrying capacity of 3,415,700 dwt, assuming we do not acquire any additional vessels or dispose of any of our vessels.

Our Manager

Our operations are managed by our Manager, Safety Management Overseas S.A., under the supervision of our executive officers and our board of directors. Under our Management Agreement, our Manager provides us with technical, administrative and commercial services for an initial term that expired on May 28, 2010, with automatic one-year renewals for an additional eight years, at our option. Our Manager is controlled by Polys Hajioannou.

A. Operating Results

Our operating results are largely driven by the following factors:

- **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.
- **Available days.** We define available days (also referred to as voyage days) as the total number of days in a period during which each vessel in our fleet was in our possession net of off-hire days associated with scheduled maintenance, which includes major repairs, drydockings, vessel upgrades or special or intermediate surveys. Available days are used to measure the number of days in a period during which vessels should be capable of generating revenues.



- **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, excluding scheduled maintenance. Operating days are used to measure the aggregate number of days in a period during which vessels actually generate revenues.
- **Fleet utilization.** We calculate fleet utilization by dividing the number of our operating days during a period by the number of our ownership days during that period. Fleet utilization is used to measure a company's ability to efficiently find suitable employment for its vessels and minimize the number of days that its vessels are off-hire for reasons such as scheduled repairs, vessel upgrades, drydockings or special surveys. During the three years ended December 31, 2013, our average annual fleet utilization rate was approximately 99.19%. However, an increase in annual off-hire days could reduce our operating days, and therefore, our fleet utilization.
- **Time charter equivalent rates.** We define time charter equivalent rates, or "TCE rates," as our charter revenues less commissions and voyage expenses during a period divided by the number of our available days during the period. TCE rate is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on period time charters and spot time charters with daily earnings generated by vessels on voyage charters, because charter rates for vessels on voyage charters are generally not expressed in per day amounts, while charter rates for vessels on period time charters and spot time charters generally are expressed in such amounts. We have only rarely employed our vessels on voyage charters and, as a result, generally our TCE rates approximate our time charter rates.

The following table reflects our time charter revenues, commissions, voyage expenses, time charter equivalent revenue, available days and time charter equivalent rate for the periods indicated:

	Year Ended December 31,		
	2011	2012	2013
	(In thousands of U.S. dollars except available days and time charter equivalent rate)		
Time charter revenues	\$ 172,036	\$ 187,557	\$ 191,520
Less commissions	3,128	3,261	4,799
Less voyage expenses	1,987	7,286	10,207
Time charter equivalent revenue	\$ 166,921	\$ 177,010	\$ 176,514
Available days	5,976	7,703	9,647
Time charter equivalent rate	\$ 27,932	\$ 22,979	\$ 18,297

- **Daily vessel operating expenses.** We define daily vessel operating expenses to include the costs for crewing, insurance, lubricants, spare parts, provisions, stores, repairs, maintenance, statutory and classification expense, drydocking, intermediate and special surveys, tonnage taxes and other miscellaneous items. Daily vessel operating expenses are calculated by dividing vessel operating expenses by ownership days for the relevant period. Our ability to control our fixed and variable expenses, including our daily vessel operating expenses, also affects our financial results. In addition, factors beyond our control, such as developments relating to market premiums for insurance and the value of the U.S. dollar compared to currencies in which certain of our expenses, including certain crew wages, are denominated can cause our vessel operating expenses to increase.
- **Daily general and administrative expenses.** We define daily general and administrative expenses to include daily management fees and daily public company expenses as defined below. Daily vessel general and administrative expenses are calculated by dividing general and administrative expenses by ownership days for the relevant period.
- **Daily management fees.** We define daily management fees to include the fixed and the variable fees payable to our Manager. Daily management fees are calculated by dividing management fees by ownership days for the relevant period.
- **Daily public company expenses.** We define daily public company expenses to include expenses incurred related to our operation as a public company such as professional fees, compensation paid to our directors and officers, listing fees and other miscellaneous expenses. Daily public company expenses are calculated by dividing public company expenses by ownership days for the relevant period.

The following table reflects our ownership days, available days, operating days, fleet utilization, TCE rates, daily vessel operating expenses, daily general and administrative expenses and daily management fees for the periods indicated:

	Year Ended December 31,		
	2011	2012	2013
Ownership days	5,992	7,716	9,713
Available days	5,976	7,703	9,647
Operating days	5,962	7,654	9,615
Fleet utilization	99.50 %	99.20 %	98.99 %
TCE rates	\$ 27,932	\$ 22,979	\$ 18,297
Daily vessel operating expenses	\$ 4,350	\$ 4,476	\$ 4,320
Daily general and administrative expenses(1)	\$ 1,417	\$ 1,289	\$ 1,170
Daily management fees	\$ 1,006	\$ 1,001	\$ 863
Daily public company expenses	\$ 411	\$ 288	\$ 307

(1) Aggregate of daily management fees and daily public company expenses.

Revenues

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 daily charter rates that our vessels earn under our charters, which, in turn, are affected by a number of factors, including:

- levels of demand and supply in the drybulk shipping industry;
- the age, condition and specifications of our vessels;
- the duration of our charters;
- our decisions relating to vessel acquisitions and disposals;
- the amount of time that we spend positioning our vessels;
- the availability of our vessels, which is related to the amount of time that our vessels spend in drydock undergoing repairs and the
- amount of time required to perform necessary maintenance or upgrade work; and
- other factors affecting charter rates for drybulk vessels.

Revenue is recognized as earned on a straight-line basis over the charter period in respect of charter agreements that provide for varying rates. The difference between the revenue recognized and the actual charter rate is recorded either as unearned revenue or accrued revenue (see "Unearned Revenue / Accrued Revenue" below). Commissions (address and brokerage), regardless of charter type, are always charged to us and are deferred and amortized over the related charter period and are presented as a separate line item in revenues to arrive at net revenues in the accompanying consolidated statements of income.

Revenues from our period time charters comprised 92.0%, 88.1% and 87.3% respectively, of our charter revenues for the years ended December 31, 2011, 2012 and 2013. The revenues from our spot time charters comprised 8.0%, 11.9% and 12.7%, respectively, of our charter revenues for the years ended December 31, 2011, 2012 and 2013.

Unearned Revenue / Accrued Revenue

Unearned revenue as of December 31, 2013 includes: (i) cash received prior to the balance sheet date relating to services to be rendered after the balance sheet date amounting to \$3.0 million as of December 31, 2013 and (ii) deferred revenue resulting from straight-line revenue recognition in respect of charter agreements that provide for variable charter rates amounting to \$10.3 million, all of which will be recognized as revenue during the period from January 1, 2014 until January 10, 2015.

Unearned revenue as of December 31, 2012 includes: (i) cash received prior to the balance sheet date relating to services to be rendered after the balance sheet date amounting to \$3.9 million as of December 31, 2012 and (ii) deferred revenue resulting from straight-line revenue recognition in respect of charter agreements that provide for variable charter rates amounting to \$17.7 million, all of which would be recognized as revenue during the period from January 1, 2013 until March 1, 2015.

No accrued revenue was recognized during the year ended December 31, 2013.

Accrued revenue as of December 31, 2012 of \$0.6 million represents revenue earned prior to cash being received in respect of charter agreements that provide for variable charter rates.

Commissions

We pay commissions currently ranging up to 5.0% on our period time and spot time charters, to unaffiliated ship brokers, other brokers associated with our charterers and to our charterers. These commissions are directly related to our revenues, from



which they are deducted. The amount of our total commissions to unaffiliated ship brokers and other brokers associated with our charterers and to our charterers might grow, as revenues increase due to improving market conditions and delivery of our eight remaining contracted newbuild vessels, or decrease as a result of deteriorating market conditions. These commissions do not include fees we pay to our Manager, which are described under "Item 4. Information on the Company-B. Business Overview-Management of Our Fleet."

Voyage Expenses

We charter our vessels primarily through period time charters and spot time charters under which the charterer is responsible for most voyage expenses, such as the cost of bunkers, port expenses, agents' fees, canal dues, extra war risks insurance and any other expenses related to the cargo. We are responsible for the remaining voyage expenses such as draft surveys, hold cleaning, bunkers during ballast period or for vessel repositioning, postage and other minor miscellaneous expenses related to the voyage. As our past period time charter contracts expire we expect that our voyage expenses will continue to increase in the future due to the increased number of vessels operated in the spot market, which involves increased vessel repositioning costs. We generally do not employ our vessels on voyage charters under which we would be responsible for all voyage expenses. We also record within voyage expenses the 4% United States federal tax we pay in respect of our U.S. source shipping income (imposed on gross income without the allowance for any deductions). In many cases, we recover these taxes from the charterers, and we record such recovered amounts within revenues.

Vessel Operating Expenses

Vessel operating expenses include costs for crewing, insurance, lubricants, spare parts, provisions, stores, repairs, maintenance, statutory and classification expense, drydocking, intermediate and special surveys, tonnage taxes and other minor miscellaneous items. We expect that our vessel operating expenses will continue to increase in the future as our fleet grows. Additionally, our crewing costs, which are a significant part of our vessel operating expenses, are expected to continue to increase in the future due to the limited supply and increase in demand for well-qualified crew. Furthermore, we expect that insurance costs, drydocking and maintenance costs will increase as our vessels age. A portion of our vessel operating expenses including crew wages paid to our Greek crew members are in currencies other than the U.S. dollar. These expenses may increase or decrease as a result of fluctuation of the U.S. dollar against these currencies.

Depreciation

We depreciate our drybulk vessels on a straight-line basis over the expected useful life of each vessel. Depreciation is based on the cost of the vessel less its estimated residual value. We estimate the useful life of our vessels to be 25 years from the date of delivery from the shipyard. Furthermore, we estimate the residual value of our vessels is equal to the product of its lightweight tonnage and estimated scrap rate, which is estimated to be \$182 per light-weight ton.

Vessels, Net

Vessels are recorded at their historical cost, which consists of the contracted purchase price, any direct material expenses incurred upon acquisition (including improvements, on-site supervision expenses incurred during the construction period, commissions paid, delivery expenses and other expenditures to prepare the vessel for her initial voyage) and financing costs incurred during the construction of the vessel, less any potential discount or commission payable to us resulting in a contract price reduction. Subsequent expenditures for conversions and major improvements are also capitalized when it is determined that they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. If such factors are not met, such expenditures are not capitalized and, instead, are charged to expenses as incurred.

As of December 31, 2012 and 2013, we capitalized interest amounting to \$966,161 and \$467,019 respectively.

Under our Management Agreement with our Manager, for purchases of vessels including with respect to each of our eight remaining contracted newbuild vessels, we will pay our Manager an acquisition fee of 1.0% on the contract price of the relevant vessel for our Manager's services in connection with finalizing the contract and arranging for various regulatory approvals. In addition, according to an agreement between us and our Manager, we pay our Manager a supervision fee in respect of each newbuild, of which 50% is payable upon the signing of the relevant supervision agreement, and 50% upon successful completion of the sea trials of each newbuild, for the on-premises supervision of all newbuilds we have agreed to acquire pursuant to shipbuilding contracts, memoranda of agreement, or otherwise. As of May 28, 2008 the supervision fee was \$0.375 million, and as of May 29, 2011 the supervision fee was adjusted to \$0.550 million. These amounts charged by our Manager are included as part of the vessel cost.

General and Administrative Expenses

General and administrative expenses consist of management fees paid to our Manager, which is a related party, in relation to management services offered, and expenses incurred relating to us being a public company, which include the preparation of

disclosure documents, legal and accounting costs, including costs related to compliance with the Sarbanes-Oxley Act of 2002, director and officer compensation and director and officer liability insurance costs.

In connection with our initial public offering which was completed in June 2008, we entered into a two year initial term Management Agreement with our Manager, with automatic one-year renewals for an additional eight years. The fees were fixed for the initial two-year period; the fixed fee at \$575 per day per vessel and the variable fee at 1.0% on gross freight, charter hire, ballast bonus and demurrage and were to be adjusted thereafter every year by agreement between us and our Manager. The initial term of two years expired on May 28, 2010 and as of May 29, 2010, pursuant to an agreement between us and our Manager, the variable fee on gross freight, charter hire, ballast bonus and demurrage was adjusted to 1.25%. As of May 29, 2011, pursuant to an agreement between us and our Manager, the fixed fee was adjusted to \$700 per day per vessel from \$575 per day. As of May 29, 2012 and as of May 29, 2013, no readjustment has been made to any of the fees paid by us to our Manager under the Management Agreement.

Pursuant to the terms of the Management Agreement, the Manager provides executive officers at no cost. To the extent that the manager does not provide executive officers, but instead we employ executive officers directly, the management fee is reduced by an amount equal to the aggregate cost of compensation and benefits and other incidental costs borne as a result of employing the executive officers directly.

In addition to the fees described above, we pay our Manager the acquisition fees with respect to vessel purchases and new-builds described above in "Vessels, Net" and sales fees with respect to vessel sales equal to 1% of the sale price of each vessel. Such fees remained unchanged.

Although we have not, within the past nine years, deployed our vessels on bareboat charters and do not currently have any plans to deploy our vessels on bareboat charters, under our Management Agreement, we will also provide our Manager with a fee of \$250 per day per vessel deployed on bareboat charters for providing commercial, technical and administrative services.

We expect that the amount of our total management fees will increase following the delivery of our eight contracted newbuild vessels and as a result of potential fleet expansion in the future.

Interest Expense and Other Finance Costs

We incur interest expense on outstanding indebtedness under our existing loan and credit facilities, which we include in interest expenses. We also incurred financing costs in connection with establishing those facilities, which are capitalized and amortized over the period of the facility. The amortization of the finance costs is included in amortization and write-off of deferred finance charges. We will incur additional interest expense in the future on our outstanding borrowings and under future borrowings.

Inflation

Inflation has only a moderate effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing expenses.

Early Redelivery Income, Net

Early redelivery cost reflects amounts payable to charterers for early termination of a period time charter resulting from our request for early redelivery of a vessel. We generally request such early redelivery when we would like to take advantage of a strong period time charter market environment and believe that an opportunity to enter into a similarly priced period time charter is not likely to be available when the relevant vessel is scheduled to be redelivered.

Early redelivery income reflects amounts payable to us for early termination of a period time charter resulting from a charterer's request for early redelivery of a vessel. We may accept such requests from charterers when we believe that we are compensated by a substantial portion of the contracted revenue, reduce our third party risk or maintain the opportunity to re-employ the vessel either in the spot market or in the period time charter market at adequate levels.

We have entered into such arrangements for early redelivery, and incurred such costs or earned such income in the past and we may continue to do so in the future, depending on market conditions.

On December 15, 2012, we took early redelivery of the Martine, instead of the contracted earliest redelivery date of January 21, 2014. In connection with this early redelivery, we recognized early redelivery income of \$8.5 million, comprised of cash compensation paid by the relevant charterer of \$8.6 million, net of commissions, less accrued revenue of \$0.1 million. No replacement charter contract had been secured at the time of conclusion of the early redelivery agreement. The vessel was subsequently fixed in the spot market at a gross daily charter rate of \$9,500.

On December 19, 2012, we took early redelivery of the Maria, instead of the contracted earliest redelivery date of February 24, 2014. In connection with this early redelivery, we recognized early redelivery income of \$3.2 million, comprised of cash



compensation paid by the relevant charterer of \$3.4 million, net of commissions, less accrued revenue of \$0.2 million. No replacement charter contract had been secured at the time of conclusion of the early redelivery agreement. The vessel was subsequently fixed in the spot market at a gross daily charter rate of \$6,250.

On April 22, 2013, we took early redelivery of the Sofia in advance of the contracted earliest redelivery date of September 19, 2013. In connection with this early redelivery, we recognized early redelivery income of \$3.0 million, comprised of cash compensation paid by the relevant charterer. No replacement charter contract had been secured at the time of conclusion of the early redelivery agreement. The vessel was subsequently fixed in the spot market at a gross daily charter rate of \$11,000.

On May 3, 2013, we took early redelivery of the Vassos in advance of the contracted earliest redelivery date of October 1, 2013. In connection with this early redelivery, we recognized early redelivery income of \$2.3 million, comprised of cash compensation paid by the relevant charterer of \$2.6 million, net of commissions, less accrued revenue of \$0.3 million. No replacement charter contract had been secured at the time of conclusion of the early redelivery agreement. The vessel was subsequently fixed in the spot market at a gross daily charter rate of \$9,300.

On May 16, 2013, we took early redelivery of the Katerina in advance of the contracted earliest redelivery date of January 1, 2014. In connection with this early redelivery, we recognized early redelivery income of \$1.8 million, comprised of cash compensation paid by the relevant charterer of \$2.1 million, net of commissions, less accrued revenue of \$0.3 million. No replacement charter contract had been secured at the time of conclusion of the early redelivery agreement. The vessel was subsequently fixed in the spot market at a gross daily charter rate of \$9,500.

Critical Accounting Policies

We prepared our consolidated financial statements in accordance with U.S. GAAP, which requires us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. We base these estimates on the information currently available to us and on various other assumptions we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application. For a further description of our material accounting policies, please read Note 2 to our financial statements included elsewhere in this annual report.

Vessels' Depreciation

Depreciation is computed using the straight-line method over the estimated useful life of a vessel, after considering the estimated residual value. We estimate the useful life of our vessels to be 25 years from the date of initial delivery from the shipyard. An increase in the useful life of a drybulk vessel or in its residual value would have the effect of decreasing the annual depreciation and extending it into later periods. A decrease in the useful life of a drybulk vessel or in its residual value would have the effect of increasing the annual depreciation.

Impairment of Long-lived Assets

The Company reviews for impairment its long-lived assets held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, we are required to evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset.

The carrying values of our vessels may not represent their fair market value at any point in time since the market prices of secondhand vessels tend to fluctuate with changes in charter rates and the cost of newbuilds. Historically, both charter rates and vessel values tend to be cyclical. Declines in the fair market value of vessels, prevailing market charter rates, vessel sale and purchase considerations, and regulatory changes in drybulk shipping industry, changes in business plans or changes in overall market conditions that may adversely affect cash flows are considered as potential impairment indicators. In the event the independent market value of a vessel is lower than its carrying value, we determine undiscounted projected net operating cash flow for such vessel and compare it to the vessel carrying value.

The undiscounted projected net operating cash flows for each vessel are determined by considering the charter revenues from existing time charters for the fixed vessel days and an estimated daily time charter equivalent for the unfixed days (based on our company budgeted charter rate for the first 12 months and the most recent ten year historical average of similar size vessels for the period thereafter) over the remaining estimated life of the vessel, net of brokerage commissions, expected outflows for vessels' maintenance, vessel operating expenses, assuming an average annual inflation rate and management fees. The undiscounted cash flows incorporate various factors such as estimated future charter rates, future drydocking costs, estimated vessel operating costs assuming an average annual inflation rate of 3%, estimated vessel utilization rates, estimated remaining lives of the vessels, assumed to be 25 years from the delivery of the vessel from the shipyard and estimated salvage value of the vessels at \$182 per light-weight ton. 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.

Our analysis of the impairment test performed for the year ended December 31, 2012, indicated a variance of plus 56%, between actual net receipts during 2013 and net receipts forecast by the Company for the same period. Our analysis of the impairment test performed for the year ended December 31, 2013, which also involved sensitivity tests on the future time charter rates (which is the input that is most sensitive to variations), allowing for variances of up to 35% depending on vessel type on time charter rates from the Company's base scenario, indicated no impairment on any of our vessels.

No impairment loss was recorded for any of the periods presented.

Recent Accounting Pronouncements

Refer to Note 2 of the consolidated financial statements included elsewhere in this annual report.

Results of Operations

Year ended December 31, 2013 compared to year ended December 31, 2012

During the year ended December 31, 2013, we had an average of 26.6 drybulk vessels in our fleet. During the year ended December 31, 2012, we had an average of 21.1 drybulk vessels in our fleet.

During the year ended December 31, 2013, we acquired the newbuild vessel Zoe and the secondhand vessel Paraskevi both Panamax class vessels, Xenia, a Post-Panamax class vessel, and Pedhoulas Commander, a Kamsarmax class vessel.

During the year ended December 31, 2012, we acquired the newbuild vessels Efrossini, a Panamax class vessel, Venus Horizon, a Post-Panamax class vessel, and Pedhoulas Builder, Pedhoulas Fighter, and Pedhoulas Farmer, all Kamsarmax class vessels. Additionally, during November 2012 we acquired the Koulitsa, a secondhand Panamax class vessel.

Revenues

Revenues increased by 2.1%, or \$3.9 million, to \$191.5 million during the year ended December 31, 2013 from \$187.6 million during the year ended December 31, 2012, as result of the net effect of the following factors: (i) a decrease in the TCE rate for 2013 by 20.4% to \$18,297, compared to \$22,979 for 2012 due to the decrease in prevailing charter rates, (ii) an increase in operating days for the year ended December 31, 2013 by 25.6% to 9,615 days, compared to 7,654 days for the year ended December 31, 2012, due to deliveries of the vessels Paraskevi in January 2013, Pedhoulas Commander in March 2013 and Zoe and Xenia in July 2013 and (iii) due to the amortization of \$16.7 million of cash compensation net of commissions, accrued and deferred revenue in relation to the agreements concluded with the charterers of the Stalo and Eleni.

Commissions

Commissions to unaffiliated ship brokers, other brokers associated with our charterers and our charterers during the year ended December 31, 2013 amounted to \$4.8 million, an increase of \$1.5 million, or 45.5%, compared to \$3.3 million during the year ended December 31, 2012, due to the increase in our revenues and an increase in our average contracted commissions, which were increased to 2.5% from 1.74% for the years ended December 31, 2013 and 2012, respectively.

Vessel operating expenses

Vessel operating expenses increased by 21.7% to \$42.0 million during the year ended December 31, 2013 from \$34.5 million during the year ended December 31, 2012 as a consequence of the increase in ownership days by 25.9% from 7,716 in 2012 to 9,713 in 2013. Vessel operating expenses increase is primarily due to the net effect of the following factors:

- I. the increase in crewing cost by 27.9% to \$22.0 million in 2013, compared to \$17.2 million in 2012, primarily due to the increased number of ownership days;
- II. the increase in cost for spares, stores and provisions by 8.7% to \$7.5 million in 2013, compared to \$6.9 million in 2012, attributed to increased use of spares for repairs and the increased number of initial supplies for four vessels delivered in 2013 compared to the six delivered in 2012;
- III. the decrease in cost for lubricants to \$2.8 million in 2013, compared to \$3.3 million in 2012 as the net effect of the increased number of ownership days and the lower costs for lubricants in 2013 compared to 2012;
- IV. the increase in cost for insurances by 25.0% to \$3.5 million, compared to \$2.8 million mainly due to the increased number of ownership days; and
- V. the increase in repairs and dry-docking costs by 28.0% to \$3.2 million in 2013, compared to \$2.5 million in 2012, as a net effect of the reduced repairs costs and the increased dry-docking costs of vessels in 2013 compared to 2012.



Consequently, daily operating expenses, which are defined as operating expenses per vessel per ownership day, decreased by 3.5% to \$4,320 during the year ended December 31, 2013 from \$4,476 during the year ended December 31, 2012.

Depreciation

Depreciation expense increased by 15.8% to \$37.4 million during the year ended December 31, 2013, compared to \$32.3 million during the year ended December 31, 2012, due to the increase in the average number of vessels from 21.1 during the year ended December 31, 2012 to 26.6 during the year ended December 31, 2013.

General and administrative expenses

General and administrative expenses increased by 15.1% to \$11.4 million during the year ended December 31, 2013, compared to \$9.9 million during the year ended December 31, 2012. The increase of \$1.5 million is due to the net effect of: (i) the increase in the management fees charged by our Manager to \$8.4 million in 2013 from \$7.7 million in 2012 mainly as a result of the increased ownership days of 9,713 in 2013, from 7,716 in 2012; and (ii) the increase in expenses incurred related to our operation as a public company of \$3.0 million in 2013, from \$2.2 million in 2012.

Daily general and administrative expenses decreased by 9.2% to \$1,170, during the year ended December 31, 2013 from \$1,289, during the year ended December 31, 2012.

Daily management fees, which are the part of daily general and administrative expenses payable to our Manager, decreased by 13.8% to \$863 during the year ended December 31, 2013, from \$1,001 during the year ended December 31, 2012.

Daily public company expenses, which are the part of daily general and administrative expenses payable for our operations as a public company increased by 6.6% to \$307 during the year ended December 31, 2013, from \$288 during the year ended December 31, 2012.

Interest expense

Interest expense remained almost unchanged during the year ended December 31, 2013 at \$9.1 million, compared to the year ended December 31, 2012. This is the result of the combination of: (i) the slight increase in average loans outstanding of \$542.1 million during the year ended December 31, 2013, compared to the average loans outstanding of \$533.7 million during the year ended December 31, 2012 and (ii) the decrease in the weighted average interest rate of our outstanding indebtedness of 1.737% per annum ("p.a.") for the year ended December 31, 2013 compared to the weighted average interest rate of our outstanding indebtedness of 1.850% p.a. for the year ended December 31, 2012, due to lower prevailing LIBOR rates; and (iii) lower capitalized interest expenses of \$0.5 million during the year ended December 31, 2013 compared to \$1.0 million during the year ended December 31, 2012. The total principal amount of loans outstanding as of December 31, 2013 was \$508.3 million, compared to \$615.7 million as of December 31, 2012.

(Loss)/Gain on derivatives

Gain on derivatives of \$0.8 million during the year ended December 31, 2013 compared to loss of \$5.4 million during the year ended December 31, 2012, resulted from (i) a decrease in the realized loss of interest rate derivatives of \$5.5 million during the year ended December 31, 2013 from \$8.2 million during the same period of 2012, and (ii) an increase in the gain from the mark-to-market valuation of interest rate swap transactions of \$6.3 million for the year ended December 31, 2013 compared to \$2.8 million for the year ended December 31, 2012.

As of December 31, 2013, the aggregate notional amount of interest rate swap transactions outstanding was \$382.2 million, compared to \$505.8 million as of December 31, 2012. These swaps economically hedged the interest rate exposure of 86.6% of the Company's aggregate loans outstanding as of December 31, 2013 that bear interest at LIBOR. The mark-to-market valuation of these interest rate swap transactions at the end of each period is affected by the prevailing comparable interest rates at that time.

Early redelivery income, net

During the year ended December 31, 2013, we recorded early redelivery income, relating to the early termination of period time charters of our vessels, of \$7.1 million compared to \$11.7 million early redelivery income during the year ended December 31, 2012. Early redelivery income during the year ended December 31, 2013 resulted from the following: (i) on April 22, 2013, we took early redelivery of the *Sofia*, instead of on September 19, 2013, and in connection with this early redelivery, we recognized early redelivery income of \$3.0 million, comprised of cash compensation paid by the relevant charterer, (ii) on May 3, 2013, we took early redelivery of the *Vassos*, instead of on October 1, 2013, and in connection with this early redelivery, we recognized early redelivery income of \$2.3 million, comprised of cash compensation paid by the relevant charterer of \$2.6 million, net of commissions, less accrued revenue of \$0.3 million, and (iii) on May 16, 2013, we took early redelivery of the *Katerina*, instead of January 1, 2014, and in connection with this early redelivery, we recognized early redelivery income of \$1.8 million, comprised of cash compensation paid by the relevant charterer of \$2.1 million, net of commissions, less accrued revenue of \$0.3 million.

Voyage expenses

During the year ended December 31, 2013, we recorded voyage expenses of \$10.2 million, compared to \$7.3 million during the year ended December 31, 2012, as a result of increased vessel repositioning expenses.

Year ended December 31, 2012 compared to year ended December 31, 2011

During the year ended December 31, 2012, we had an average of 21.1 drybulk vessels in our fleet. During the year ended December 31, 2011, we had an average of 16.4 drybulk vessels in our fleet.

During the year ended December 31, 2012, we acquired the newbuild vessels *Efrossini*, a Panamax class vessel, *Venus Horizon*, a Post-Panamax class vessel, and *Pedhoulas Builder*, *Pedhoulas Fighter*, and *Pedhoulas Farmer*, all Kamsarmax class vessels. Additionally, during November 2012 we acquired the *Koulitsa*, a secondhand Panamax class vessel.

During the year ended December 31, 2011, we acquired the vessels *Venus History*, a Post-Panamax class vessel and *Pelopidas*, a Capesize class vessel.

Revenues

Revenues increased by 9.1%, or \$15.6 million, to \$187.6 million during the year ended December 31, 2012 from \$172.0 million during the year ended December 31, 2011, as result of the net effect of the following factors: (i) a decrease in the TCE rate for 2012 by 17.7% to \$22,979, compared to \$27,932 for 2011 due to the decrease in prevailing charter rates and (ii) an increase in operating days for the year ended December 31, 2012 by 28.4% to 7,654 days, compared to 5,962 days for the year ended December 31, 2011, due to deliveries of the vessels *Efrossini* and *Venus Horizon* in February 2012, *Pedhoulas Builder* in May 2012, *Pedhoulas Fighter* in August 2012, *Pedhoulas Farmer* in September 2012 and *Koulitsa* in November 2012.

Commissions

Commissions to unaffiliated ship brokers, other brokers associated with our charterers and our charterers during the year ended December 31, 2012 amounted to \$3.3 million, an increase of \$0.2 million, or 6.5%, compared to \$3.1 million during the year ended December 31, 2011, due to the increase in our revenues and a decrease in our lower average contracted commissions, which were reduced to 1.74% from 1.81% for the years ended December 31, 2012 and 2011, respectively.

Vessel operating expenses

Vessel operating expenses increased by 32.7% to \$34.5 million during the year ended December 31, 2012 from \$26.0 million during the year ended December 31, 2011, as a consequence of the increase in ownership days by 28.8% from 5,992 in 2011 to 7,716 in 2012. Vessel operating expenses increase is primarily due to the net effect of the following factors:

- I. the increase of crewing cost by 30.3% to \$17.2 million in 2012, compared to \$13.2 million in 2011, primarily due to the increased number of ownership days;
- II. the increase of cost for spares, stores and provisions by 68.3% to \$6.9 million in 2012, compared to \$4.1 million in 2011, attributed to increased use of spares for repairs and increased number of initial supplies for six vessels delivered in 2012 compared to two delivered in 2011;
- III. the increase of cost for lubricants by 6.5% to \$3.3 million in 2012, compared to \$3.1 million in 2011 as a net effect of increased number of ownership days and lower costs for lubricants in 2012 compared to 2011;
- IV. the increase of cost for insurances by 21.7% to \$2.8 million, compared to \$2.3 million mainly due to increased number of ownership days; and
- V. the increase of repairs and dry-docking costs by 9.5% to \$2.3 million in 2012, compared to \$2.1 million in 2011, as a net effect of increased repairs costs and reduced dry-docking costs of vessels in 2012 compared to 2011.

Consequently, daily operating expenses, which are defined as the operating expenses per vessel per ownership day, increased by 2.9% to \$4,476 during the year ended December 31, 2012 from \$4,350 during the year ended December 31, 2011.

Depreciation

Depreciation expense increased by 36.9% to \$32.3 million during the year ended December 31, 2012, compared to \$23.6 million during the year ended December 31, 2011, due to the increase in the average number of vessels from 16.4 during the year ended December 31, 2011 to 21.1 during the year ended December 31, 2012.

General and administrative expenses

General and administrative expenses increased by 16.5% to \$9.9 million during the year ended December 31, 2012, compared to \$8.5 million during the year ended December 31, 2011. The increase of \$1.4 million is due to the net effect of: (i) the increase in the management fees charged by our Manager to \$7.7 million in 2012 from \$6.0 million in 2011 as a result of the



increased ownership days of 7,716 in 2012, from 5,992 in 2011; and (ii) the decrease in expenses related to our operation as a public company of \$2.2 million in 2012, from \$2.5 million in 2011.

Daily general and administrative expenses decreased by 9.0% to \$1,289, during the year ended December 31, 2012 from \$1,417, during the year ended December 31, 2011.

Daily management fees, which are the part of daily general and administrative expenses payable to our Manager, decreased by 0.5% to \$1,001 during the year ended December 31, 2012, from \$1,006 during the year ended December 31, 2011.

Daily public company expenses, which are part of daily general and administrative expenses payable for our operations as a public company decreased by 30% to \$288 during the year ended December 31, 2012, from \$411 during the year ended December 31, 2011.

Interest expense

Interest expense increased by 71.7% to \$9.1 million during the year ended December 31, 2012, from \$5.3 million during the year ended December 31, 2011. The \$3.8 million increase in interest expense was mainly attributable to: (i) the average loans outstanding of \$533.7 million during the year ended December 31, 2012, compared to the average loans outstanding of \$460.4 million during the year ended December 31, 2011; (ii) the weighted average interest rate of our outstanding indebtedness of 1.850% per annum ("p.a.") for the year ended December 31, 2012 compared to the weighted average interest rate of our outstanding indebtedness of 1.439% p.a. for the year ended December 31, 2011, due to higher margins incurred on certain new loans drawn during the year ended December 31, 2012 and higher prevailing LIBOR rates; and (iii) lower capitalized interest expenses of \$1.0 million during the year ended December 31, 2012 compared to \$1.5 million during the year ended December 31, 2011. The total principal amount of loans outstanding as of December 31, 2012 was \$615.7 million, compared to \$484.3 million as of December 31, 2011.

(Loss)/Gain on derivatives

Loss on derivatives decreased by \$7.1 million to \$5.4 million during the year ended December 31, 2012 from \$12.5 million during the year ended December 31, 2011. The decrease of \$7.1 million reflects mainly a decrease in losses of \$7.0 million from interest rate derivatives as a result of the realized loss and the mark-to-market valuation of interest rate swap transactions to \$5.4 million for the year ended December 31, 2012 compared to \$12.5 million for the year ended December 31, 2011.

As of December 31, 2012, the aggregate notional amount of interest rate swap transactions outstanding was \$505.8 million, compared to \$547.1 million as of December 31, 2011. An aggregate notional amount of \$53.7 million of interest rate swap transactions outstanding as of December 31, 2012 will become effective during the year ending December 31, 2013, upon the expiration of the existing interest rate swap transactions relating to such loans. These swaps economically hedged the interest rate exposure of 83% of the Company's aggregate loans outstanding as of December 31, 2012 that bear interest at LIBOR. The mark-to-market valuation of these interest rate swap transactions at the end of each period is affected by the prevailing comparable interest rates at that time.

Foreign currency loss

Foreign currency loss was zero millions during the year ended December 31, 2012, compared to a gain of \$0.8 million during the year ended December 31, 2011. Foreign currency exchange gains or losses result primarily from currency translation or currency conversion of advances for vessel acquisitions and vessels under construction denominated in foreign currencies or from currency payments of supplies or services denominated in foreign currencies.

Early redelivery income, net

During the year ended December 31, 2012, we recorded early redelivery income, relating to the early termination of period time charters of our vessels, of \$11.7 million compared to \$0.2 million early redelivery income during the year ended December 31, 2011. Early redelivery income during the year ended December 31, 2012 is analyzed as follows: (i) On December 15, 2012, we took early redelivery of the *Martine*, instead of on January 21, 2014, and in connection with this early redelivery, we recognized early redelivery income of \$8.5 million, comprising cash compensation paid by the relevant charterer of \$8.6 million, net of commissions, less accrued revenue of \$0.1 million; (ii) on December 19, 2012, we took early redelivery of the *Maria*, instead of on February 24, 2014, and in connection with this early redelivery, we recognized early redelivery income of \$3.2 million, comprising cash compensation paid by the relevant charterer of \$3.4 million, net of commissions, less accrued revenue of \$0.2 million.

Voyage expenses

During the year ended December 31, 2012, we recorded voyage expenses of \$7.3 million, compared to \$2.0 million during the year ended December 31, 2012, as a result of increased vessel repositioning expenses.

B. Liquidity and Capital Resources

As of December 31, 2013, we had \$72.8 million in cash and restricted cash, of which \$64.7 million consisted of cash and cash equivalents, \$6.7 million consisted of short-term restricted cash and \$1.4 million was long-term restricted cash. In addition, as of December 31, 2013, we had \$50.0 million in a floating rate note investment (for more information, please see Note 9 to our financial statements included elsewhere in this annual report).

As of February 25, 2014, we had \$49.9 million in cash, time deposits and restricted cash of which \$46.4 million consisted of cash and cash equivalents, \$1.7 million was short-term restricted cash and \$1.8 million was long-term restricted cash. In addition, as of February 25, 2014, we had \$50.0 million in a floating rate note investment.

As of December 31, 2013, we had aggregate debt outstanding of \$508.3 million, of which \$35.2 million was payable within the next 12 months. As of December 31, 2013, we had an aggregate additional borrowing capacity of \$86.2 million available under existing revolving credit facilities as well as \$63.0 million available under committed loan facilities for one existing and two newbuild vessels. Additionally, under certain conditions we could borrow up to \$40.0 million in cash against our floating rate note investment.

As of February 25, 2014, we had an aggregate additional borrowing capacity of \$71.1 million available under existing revolving credit facilities, as well as \$86.0 million available under committed loan facilities for two existing and two newbuild vessels. Additionally, under certain conditions we could borrow up to \$40.0 million in cash against our floating rate note investment.

As of December 31, 2013, our commitments for vessel acquisitions were \$260.1 million, consisting of \$113.1 million payable in 2014, \$125.5 million payable in 2015, and \$21.5 million payable in 2016. As of December 31, 2013 the existing fleet consisted of 28 vessels and we had contracted to acquire 10 newbuilds, four of which were scheduled to be delivered in 2014, five in 2015 and one in 2016.

As of February 25, 2014, our commitments for vessel acquisitions were \$201.2 million, consisting of \$54.2 million payable in 2014, \$125.5 million payable in 2015, and \$21.5 million payable in 2016. As of February 25, 2014, the existing fleet consisted of 30 vessels and we had contracted to acquire eight newbuild vessels, two of which were scheduled to be delivered in 2014, five in 2015 and one in 2016.

Our primary liquidity needs are to fund capital expenditures in relation to newbuild contracts, financing expenses, debt repayment, vessel operating expenses, general and administrative expenses and dividend payments to our stockholders. We anticipate that our primary sources of funds will be existing cash and cash equivalents as of December 31, 2013 of \$64.7 million, short-term restricted cash of \$6.7 million, borrowings of \$40 million against our long term floating rate note investment, additional undrawn borrowing capacity of \$149.2 million, cash from operations and possibly, additional indebtedness to be raised against our eight unencumbered newbuild vessels upon their delivery to us, and equity financing.

We currently estimate that the contracted cash flow from operations, existing cash and cash equivalents, additional borrowing against our floating rate note investment which matures in 2014, existing undrawn loan and revolving credit facilities and commitments and additional indebtedness secured by six remaining newbuild vessels which are currently unencumbered, will be sufficient to fund the operations of our fleet, including our working capital requirements, and the capital expenditure requirements through the end of 2014. However, during 2014 or 2015, we may seek additional indebtedness to partially fund our capital expenditure requirements in order to maintain a strong cash position. We may incur additional indebtedness secured by our six remaining newbuild vessels upon their delivery to us, which are all currently unencumbered. To the extent that market conditions deteriorate, charterers may default or seek to renegotiate charter contracts, and vessel valuations may decrease, resulting in a breach of our debt covenants. In such case our contracted revenues may decrease and we may be required to make additional prepayments under existing loan facilities, resulting in additional financing needs. If we acquire additional vessels, our capital expenditure requirements will increase and we will need to rely on existing cash and time deposits, operating cash surplus and existing undrawn loan commitments. If we are unable to obtain additional indebtedness, or to find alternative financing, we will not be capable of funding our commitments for capital expenditures relating to our contracted newbuild vessels. A failure to fulfill our commitment would generally result in a forfeiture of the advances we paid to the shipyard with respect to the contracted newbuild vessels. In addition, we may also be liable for other damages for breach of contract. Examples of such liabilities could include payments to the shipyard or the third party seller for the difference between the forfeited advance and the amount that remains to be paid by us if the shipyard or the third party seller cannot locate a third-party buyer that is willing to pay an amount equal to the difference or compensatory payments by us to charter parties with whom we have entered into charters with respect to the contracted newbuilds. Such events could adversely impact the dividends we intend to pay, and could have a material adverse effect on our business, financial condition and results of operation.

We have paid dividends to our stockholders each quarter since our initial public offering in June 2008, including an aggregate amount of \$16.5 million over three consecutive quarterly dividends, each in the amount of \$0.05 per share, followed by one



consecutive quarterly dividend in the amount of \$0.06 per share, paid during 2013. We also declared a dividend of \$0.06 per share, payable on or about March 17, 2014, to our shareholders of record on March 10, 2014. Also during 2013, we paid two consecutive quarterly dividends of \$0.26111 and \$0.51111 per Series B Preferred Share. Our future liquidity needs will impact our dividend policy. We currently intend to use a portion of our free cash to pay dividends to our stockholders. The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things: (i) our earnings, financial condition and cash requirements and available sources of liquidity; (ii) decisions in relation to our growth strategies; (iii) provisions of Marshall Islands and Liberian law governing the payment of dividends; (iv) restrictive covenants in our existing and future debt instruments; and (v) global financial conditions. Dividends might be reduced or not be paid in the future. In addition, cash dividends on our common stock are subject to the priority of dividends on our 1,600,000 outstanding shares of Series B Preferred Shares issued June 2013.

Cash Flows

Cash and cash equivalents decreased to \$64.7 million as of December 31, 2013, compared to \$102.7 million as of December 31, 2012. We consider highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in U.S. dollars.

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to \$100.6 million in 2013, consisting of net income after non-cash items of \$115.7 million less an increase in working capital of \$15.1 million.

Net cash provided by operating activities amounted to \$105.1 million in 2012, consisting of net income after non-cash items of \$126.9 million less an increase in working capital of \$21.8 million.

Net Cash Used in Investing Activities

Net cash flows used in investing activities were \$100.3 million for the year ended December 31, 2013 compared to \$158.1 million for the year ended December 31, 2012. The decrease in cash flows used in investing activities of \$57.8 million from 2012 is mainly attributable to the following factors: (i) a decrease of \$18.0 million in payments for vessel acquisitions and advances for vessels under construction during the year ended December 31, 2013 compared to the same period of 2012; and (ii) a decrease in restricted cash of \$18.6 million during the year ended December 31, 2013, compared to an increase of \$21.3 million during the year ended December 31, 2012, due to a decrease in the restricted cash maintained in relation to the loan and credit facilities.

Net cash flows used in investing activities were \$158.1 million for the year ended December 31, 2012 compared to net cash flows used in investing activities of \$125.9 million for the year ended December 31, 2011. The increase in cash flows used in investing activities of \$32.2 million from 2011 is mainly attributable to the net effect of the following factors: (i) no change in our net bank time deposits during the year ended December 31, 2012, compared to a decrease of \$35.0 million during the same period in 2011; (ii) a decrease of \$24.1 million in payments for vessel acquisitions and advances for vessels under construction during the year ended December 31, 2012, due to the net effect of the cancellation of newbuild Hull 10131 of \$32.4 million and an increase of \$8.3 million in advances paid; and (iii) net increase in restricted cash of \$21.3 million during the year ended December 31, 2012, due to an increase in the restricted cash used as loan and credit facilities collaterals, compared to no change during the year ended December 31, 2011.

Net Cash (Used in)/Provided by Financing Activities

Net cash flows used in financing activities were \$38.3 million for the year ended December 31, 2013, compared to net cash flows provided by financing activities of \$127.7 million for the year ended December 31, 2012. This decrease of \$166.0 million, compared to the year ended December 31, 2012, resulted from the combined effect of a decrease of \$57.9 million in long term debt principal payments, a decrease in long-term debt proceeds of \$296.6 million, a decrease in dividends paid of \$19.7 million, an increase of \$51.7 million in proceeds from the issuance of common and preferred stock and a decrease in payments of deferred financing costs of \$1.3 million.

Net cash flows provided by financing activities were \$127.7 million for the year ended December 31, 2012, compared to net cash flows used in financing activities of \$18.5 million for the year ended December 31, 2011. This change of \$146.2 million, compared to the year ended December 31, 2011, is largely attributable to an increase of \$86.8 million in long term debt principal payments, offset by an increase in long-term debt proceeds of \$228.6 million, a decrease in dividends paid of \$4.3 million, a decrease in payments of deferred financing costs of \$4.5 million and a decrease of \$4.4 million in proceeds from the issuance of common stock.

Credit Facilities

We operate in a capital intensive industry which requires significant amounts of investment, and we fund a portion of this investment through long-term bank debt. Our subsidiaries have generally entered into individual credit facilities in order to finance

the acquisition of the vessels owned by these subsidiaries and for general corporate purposes. In 2013, five of our subsidiaries entered into a new credit facility which was used to fully refinance the outstanding balances under five individual credit facilities that had been previously entered into with the same bank. The durations from drawdown of our 14 credit facilities outstanding on December 31, 2013, ranged from two to 15 years, and they are generally repaid by semiannual principal installments and a balloon payment due on maturity, for ten of them, and by semi-annual principal installments for four of them. We generally pay interest on these facilities at LIBOR plus a margin, except for four facilities, under which a portion of the principal amounts bear interest at the Commercial Interest Reference Rate published by the Organization for Economic Co-operation and Development ("OECD") applicable on the date of signing of the relevant loan agreements. The obligations under our credit facilities are secured by, among other types of security, first priority mortgages over the vessels owned by the respective borrower subsidiaries, first priority assignments of all insurances and earnings of the mortgaged vessels and guarantees by us.

During 2013, we drew down loans totaling \$16.0 million and we repaid \$123.4 million of our indebtedness. As of December 31, 2013, we had 14 outstanding credit facilities with a combined outstanding balance of \$508.3 million. These debt facilities have maturity dates between 2014 and 2024. For a description of our debt facilities as of December 31, 2013, please see Note 8 to our financial statements included elsewhere in this annual report. During 2014, we are scheduled to repay approximately \$35.2 million of our long-term debt outstanding as of December 31, 2013. During 2013, we entered into a new loan facility in the amount of \$16.0 million for Zoe. In January 2014, we entered into a new credit facility of up to \$13.0 million for Pedhoulas Commander, of which we have drawn down an amount of \$4.9 million. For a description of this facility, please see Note 11 (d) (ii) to our financial statements included elsewhere in this annual report. In July 2013, we accepted a commitment letter from a bank for a credit facility for up to \$50.0 million to finance part of the purchase price of Lake Despina (Hull 8126) and newbuild Hull 1660, and also for general corporate purposes. For a description of this facility, please see Note 11 (d) (i) to our financial statements included elsewhere in this annual report. In February 2014, we accepted a commitment letter from a bank for a loan facility for up to \$51.0 million to finance part of the purchase price of Kypros Land (Hull 1659) and Hull 821, and to refinance existing indebtedness and also for general corporate purposes. For a description of this facility, please see Note 22 (d) to our financial statements included elsewhere in this annual report.

Covenants under Credit Facilities

The credit facilities impose operating and financial restrictions on us. These restrictions in our existing credit facilities generally limit our subsidiaries' ability to, among other things, and subject to exceptions set forth in such credit facilities:

- pay dividends if an event of default has occurred and is continuing or would occur as a result of the payment of such dividends;
- enter into certain long-term charters;
- incur additional indebtedness, including through the issuance of guarantees;
- change the flag, class or management of the vessel mortgaged under such facility or terminate or materially amend the management agreement relating to such vessel;
- create liens on their assets;
- make loans;
- make investments;
- make capital expenditures;
- undergo a change in ownership or control or permit a change in ownership and control of our Manager;
- sell the vessel mortgaged under such facility; and
- permit our chief executive officer to change.

Our existing credit facilities also require certain of our subsidiaries to maintain financial ratios and satisfy financial covenants. Depending on the credit facility, certain of our subsidiaries are subject to financial ratios and covenants requiring that these subsidiaries:

- ensure that the market value of the vessel mortgaged under the applicable credit facility, determined in accordance with the terms of that facility, does not fall below 100% to 120%, as applicable, of the outstanding amount of the loan (the "Minimum Value Covenant");
- ensure that outstanding amounts in currencies other than the U.S. dollar do not exceed 100% or 110%, as applicable, of the U.S. dollar equivalent amount specified in the relevant credit agreement for the applicable period by, if necessary, providing cash collateral security in an amount necessary for the outstanding amounts to meet this threshold; and
- ensure that we comply with certain financial covenants under the guarantees described below.

In addition, under guarantees we have entered into with respect to certain of our subsidiaries' existing credit facilities, we are subject to financial covenants. Depending on the guarantee, these financial covenants include the following:

- our total consolidated liabilities with the relevant bank divided by our total consolidated assets must not exceed 80% or 85% as the case may be ("Consolidated Leverage Covenant"). The total consolidated assets are based on the market



- value of our vessels and the book values of all other assets, on an adjusted basis as set out in the relevant guarantee;
- the ratio of our aggregate debt to EBITDA must not at any time exceed 5.5:1 on a trailing 12 months' basis or the ratio of our aggregate debt after deducting cash to EBITDA must not at any time exceed 6.5:1 or 8.5:1 on a trailing 12 months' basis ("EBITDA Covenant"). EBITDA is not a recognized measurement under US GAAP and represents net income before net interest expense, income tax expense, depreciation and amortization;
 - our net consolidated worth (total consolidated assets less total consolidated liabilities) ("Consolidated Net Worth Covenant") must not at any time be less than \$150.0 million;
 - payment of dividends is subject to no event of default having occurred;
 - maintenance of minimum free liquidity of \$500,000 is required on deposit; and
 - a minimum of 51% of the Company's shares shall remain directly or indirectly beneficially owned by the Hajioannou family for the duration of the relevant credit facilities.

As of December 31, 2013, the Company was in compliance with all debt covenants with respect to its loan and credit facilities.

Interest Rate Swaps

We have entered into interest rate swap agreements converting floating interest rate exposure into fixed interest rates in order to economically hedge our exposure to fluctuations in prevailing market interest rates. For more information on our interest rate swap agreements, refer to Note 14 to our financial statements included elsewhere in this annual report.

C. Research and Development, Patents and Licenses

We incur from time to time expenditures relating to inspections for acquiring new vessels that meet our standards. Such expenditures are insignificant and they are expensed as they are incurred.

D. Trend Information

Our results of operations depend primarily on the charter hire rates that we are able to realize, and the demand for drybulk vessel services. After reaching historical highs in mid-2008, charter hire rates for Panamax and Capesize drybulk vessels reached near historically low levels. For example, the Baltic Drybulk Index, or "BDI," declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94% within a single calendar year. On January 2, 2013, the BDI reached a low of 698 and a high of 2,337 on December 12, 2013. As of February 25, 2014, the BDI was 1,197.

The decline and volatility in charter rates in the drybulk market reflects in part the fact that the supply of drybulk vessels in the market has been increasing. Demand for drybulk vessel services is influenced by global financial conditions. Global financial conditions remain volatile and demand for drybulk services may decrease in the future.

In response to the volatile market conditions, we seek to strengthen our charter coverage. Currently, 12 of our 30 vessels are employed or scheduled to be employed in period time charters of more than three months. Additionally, we believe we have structured our capital expenditure requirements, debt commitments and liquidity resources in a way that will provide us with financial flexibility (see "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources" for more information).

E. Off-Balance Sheet Arrangements

As of December 31, 2013, we did not have any off-balance sheet arrangements.

F. Contractual Obligations

Our contractual obligations as of December 31, 2013 were:

	Total	Less than 1 year (2014)	1-3 years (2015-2016)	3-5 years (2017-2018)	More than 5 years (After January 1, 2019)
(Dollars in thousands)					
Long-term debt obligations	\$ 508,295	\$ 35,185	\$ 112,979	\$ 156,193	\$ 203,938
Interest payments ⁽¹⁾	\$ 47,585	\$ 12,140	\$ 18,095	\$ 11,515	\$ 5,835
Payments to our Manager ⁽²⁾	\$ 18,674	\$ 11,003	\$ 7,671	-	-
Newbuild contracts	\$ 252,406	\$ 110,016	\$ 142,390	-	-
Total	\$ 826,960	\$ 168,344	\$ 281,135	\$ 167,708	\$ 209,773

1. Amounts shown reflect estimated interest payments we expect to make with respect to our long-term debt obligations and interest rate swaps. The interest payments reflect an assumed LIBOR-based applicable interest rate of 0.3480% (the six-month LIBOR rate as of December 31, 2013), plus the relevant margin of the applicable credit facility and the estimated net settlement of our interest rate swaps. See "Item 5. Operating and Financial Review and Prospects – B. Liquidity and Capital Resources-Interest Rate Swaps."

2. Represents the fixed fee of \$700 per vessel per day and the variable fee of 1.25% of estimated charter hire based on charter agreements in place as of December 31, 2013, based on the management fees effective as of May 29, 2013. In addition, it includes amounts payable to our Manager under the Management Agreement in respect of the acquisition fees for each of the ten newbuild vessels and the supervision fees for each of the ten newbuild vessels, which are described elsewhere herein. The levels of the above mentioned fees are subject to adjustment every year and will be agreed upon between us and our Manager. The fees shown in the table above do not take into account any potential future changes to the fees. Pursuant to the terms of the Management Agreement, the Manager provides executive officers at no cost. To the extent that the manager does not provide executive officers, but instead we employ executive officers directly, the management fee is reduced by an amount equal to the aggregate cost of compensation and benefits and other incidental costs borne as a result of employing the executive officers directly. The fees shown in the table above do not take into account any such reductions.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth, as of February 25, 2014, information regarding our directors and executive officers.

Name	Age	Position
Polys Hajioannou	47	Chief Executive Officer, Chairman of the Board and Class I Director
Dr. Loukas Barmparis	51	President, Secretary and Class II Director
Konstantinos Adamopoulos	51	Chief Financial Officer and Class III Director
Ioannis Foteinos	55	Chief Operating Officer and Class I Director
John Gaffney	53	Class II Director
Frank Sica	63	Class III Director
Ole Wikborg	58	Class I Director

Certain biographical information about each of these individuals is set forth below. The term of our Class I directors expires in 2015, the term of our Class II directors expires in 2016 and the term of our Class III directors expires in 2014.

Polys Hajioannou is our Chief Executive Officer and has been Chairman of our board of directors since 2008. Mr. Hajioannou also serves with our Manager and prior to its inception, our Manager's predecessor Alassia Steamship Co., Ltd., which he joined in 1987. Mr. Hajioannou was elected as a member of the board of directors of the Union of Greek Shipowners in 2006 and served on the board until February 2009. Mr. Hajioannou is also a founding member of the Union of Cyprus Shipowners. Mr. Hajioannou is a member of the Lloyd's Register Hellenic Advisory Committee. In 2011, Mr. Hajioannou was appointed to the board of directors of the Hellenic Mutual War Risks Association (Bermuda) Limited. Mr. Hajioannou holds a Bachelor of Science degree in nautical studies from Sunderland University.

Dr. Loukas Barmparis is our President and Secretary and has been a member of our board of directors since 2008. Dr. Barmparis also serves as the technical manager of our Manager, which he joined in February 2006. Until 2009 he was the project development manager of the affiliated Alasia Development S.A., responsible for renewable energy projects. Prior to joining our Manager and Alasia Development S.A., from 1999 to 2005 and from 1993 to 1995, Dr. Barmparis was employed at N. Daskalantonakis Group, Grecotel, one of the largest hotel chains in Greece, as technical manager and project development general manager. During the interim period between 1995 and 1999, Dr. Barmparis was employed at Exergia S.A. as an energy consultant. Dr. Barmparis holds a master of business administration ("M.B.A.") from the Athens Laboratory of Business Administration, a doctorate from the Imperial College of Science Technology and Medicine, a master of applied science from the University of Toronto and a diploma in mechanical engineering from the Aristotle University of Thessaloniki.

Konstantinos Adamopoulos is our Chief Financial Officer and has been a member of our board of directors since 2008. Prior to joining us, Mr. Adamopoulos was employed at Calyon, a financial institution, as a senior relationship manager in shipping finance for 14 years. Prior to this, from 1990 to 1993, Mr. Adamopoulos was employed by the National Bank of Greece in London as an account officer for shipping finance and in Athens as deputy head of the export finance department. Prior to this, from 1987 to 1989, Mr. Adamopoulos served as a finance officer in the Greek Air Force. Mr. Adamopoulos holds an M.B.A. in finance from the City University Business School and a Bachelor of Science degree in business administration from the Athens School of Economics and Business Science.

Ioannis Foteinos is our Chief Operating Officer and has been a member of our board of directors since February 2009. Mr. Foteinos has 25 years of experience in the shipping industry. After obtaining a bachelor's degree in nautical studies from Sunderland University, he joined the predecessor of our Manager, Safety Management Overseas, in 1984, where he presently serves and will continue to serve as Chartering Manager.



Frank Sica has been a member of our board of directors and of our corporate governance, nominating and compensation committee, and a member and chairman of our audit committee, since 2008. Mr. Sica has served as a Managing Partner at Tailwind Capital, a private equity firm since 2006. From 2004 to 2005, Mr. Sica was a Senior Advisor to Soros Private Funds Management. From 1998 to 2003, Mr. Sica worked at Soros Fund Management where he oversaw the direct real estate and private equity investment activities of Soros. From 1988 to 1998, Mr. Sica was a Managing Director at Morgan Stanley. Mr. Sica is a graduate of Wesleyan University, where he received a B.A. degree, and of the Amos Tuck School of Business at Dartmouth College, where he received his M.B.A. Mr. Sica is also director of CSG Systems International, an account management and billing software company for communication industries, JetBlue Airways Corporation, a commercial airline, and Kohl's Corporation, an owner and operator of department stores.

Ole Wikborg has been a member of our board of directors and of our audit committee and corporate governance, nominating and compensation committee since 2008. Mr. Wikborg has been involved in the marine and shipping industry in various capacities for over 30 years. Since 2002, Mr. Wikborg has served as a director, senior underwriter and member of the management team of the Norwegian Hull Club, based in Oslo, Norway. From 2002 to 2006, Mr. Wikborg also served as a member and chairman of the Ocean Hull Committee of the International Union of Marine Insurance ("IUMI"). Since 2006, he has served as Vice President and a member of the Executive Board of the IUMI and in 2010, he was elected as President of IUMI. Since 1997, Mr. Wikborg has served as a board member of the Central Union of Marine Insurers, based in Oslo, and was that organization's Chairman from 2009 to 2013. From 1997 until 2002, Mr. Wikborg served as the senior vice president and manager of the marine and energy division of the Zurich Protector Insurance Company ASA. Prior to his career in marine insurance, Mr. Wikborg served in the Royal Norwegian Navy, attaining the rank of Lieutenant Commander.

John Gaffney has been a member of our board of directors and of our audit committee, and a member and chairman of our corporate governance, nominating and compensation committee, since October 2011. Mr. Gaffney joined the law firm of Gibson, Dunn & Crutcher LLP as a partner in November 2011. From January 2010 through September 2011, Mr. Gaffney was a Senior Vice President of Corporate Affairs and General Counsel of Solyndra, Inc., where he led Solyndra's corporate affairs and legal activities. From January 2008 through December 2009, Mr. Gaffney was an Executive Vice President at First Solar, where he led First Solar's corporate development, government affairs, legal and sustainable development activities. Prior to joining First Solar, Mr. Gaffney practiced law at the firm of Cravath, Swaine & Moore LLP, where he was a partner from 1993 to 2008. Mr. Gaffney is a graduate of The George Washington University, where he received a B.A. degree, and New York University, where he received his J.D. and M.B.A. degrees.

B. Compensation of Directors and Senior Management

Our Manager, pursuant to the terms of management agreement, has historically provided to us our executive officers at no cost. For the year ended December 31, 2013, certain executive officers and senior management were employed directly by us, in which case the management fee payable by us to the Manager is reduced by an amount equal to the aggregate costs of compensation and benefits and other incidental costs borne by us as a result of such employment. The aggregate costs of compensation and benefits and other incidental costs of executive officers and senior management employed directly by the Company for the year ended December 31, 2013, was \$0.9 million. For a discussion of the fees payable to our Manager, refer to "Item 7. Major Shareholders and Related Party Transactions-B. Related Party Transactions-Management Agreement". Also, we do not have any service contracts with any of our non-executive directors that provide for benefits upon termination of their services.

Non-executive independent directors of the Company are paid an annual fee in the amount of \$40,000 plus reimbursement for their out-of-pocket expenses.

In addition, the chairman of the audit committee, Frank Sica, receives the annual equivalent of \$60,000 in the form of shares of our common stock. John Gaffney and Ole Wikborg receive the annual equivalent of \$30,000 in the form of shares of our common stock.

No amounts are set aside or accrued by us to provide pension, retirement or similar benefits.

C. Board Practices

As of December 31, 2013, we had seven members on our board of directors. The board of directors may change the number of directors to not less than three, nor more than 15, by a vote of a majority of the entire board. Each director shall be elected to serve until the third succeeding annual meeting of stockholders and until his or her successor shall have been duly elected and qualified, except in the event of death, resignation or removal. A vacancy on the board created by death, resignation, removal (which may only be for cause), or failure of the stockholders to elect the entire class of directors to be elected at any election of directors or for any other reason, may be filled only by an affirmative vote of a majority of the remaining directors then in office,

even if less than a quorum, at any special meeting called for that purpose or at any regular meeting of the board of directors. None of our directors is a party to service contracts with us providing for benefits upon termination of employment. Information regarding the period which each director served and the date of expiration of each director's current term is available in "Item 6. Directors, Senior Management and Employees-A. Directors and Senior Management."

During the fiscal year ended December 31, 2013, the full board of directors held four meetings. Each director attended all of the meetings of committees of which the director was a member in person or electronically. Our board of directors has determined that each of Messrs. Sica, Gaffney and Wikborg are independent within the current meanings of independence employed by the corporate governance rules of the New York Stock Exchange and the SEC. Stockholders who wish to send communications on any topic to the board of directors or to the independent directors as a group, or to the chairman of the audit committee, Mr. Frank Sica, or to the chairman of the corporate governance, nominating and compensation committee, Mr. John Gaffney, may do so by writing to our Secretary, Dr. Loukas Barmparis, Safe Bulkers, Inc., 30-32 Avenue Karamanli, 16673, Voula, Athens, Greece.

Corporate Governance

The board of directors and our Company's management have engaged in an ongoing review of our corporate governance practices in order to oversee our compliance with the applicable corporate governance rules of the New York Stock Exchange and the SEC.

We have adopted a number of key documents that are the foundation of the Company's corporate governance, including:

- a Code of Business Conduct and Ethics for all officers and employees, which incorporates a Code of Ethics for directors and a Code of Conduct for corporate officers;
- a Corporate Governance, Nominating and Compensation Committee Charter; and
- an Audit Committee Charter.

These documents and other important information on our governance are posted on our website and may be viewed at <http://www.safebulkers.com>. We will also provide a paper copy of any of these documents upon the written request of a stockholder. Stockholders may direct their requests to the attention of our Secretary, Dr. Loukas Barmparis, Safe Bulkers, Inc., 30-32 Avenue Karamanli, 16673, Voula, Athens, Greece.

Committees of the Board of Directors

Audit committee

Our audit committee consists of Ole Wikborg, John Gaffney and Frank Sica, as chairman. Our board of directors has determined that Frank Sica qualifies as an audit committee "financial expert," as such term is defined in Regulation S-K promulgated by the SEC. The audit committee is responsible for:

- the appointment, compensation, retention and oversight of independent auditors and approving any non-audit services performed by such auditor;
- assisting the board in monitoring the integrity of our financial statements, the independent auditors'
- qualifications and independence, the performance of the independent accountants and our internal audit function and our compliance with legal and regulatory requirements;
- annually reviewing an independent auditors' report describing the auditing firm's internal quality-control procedures, and any material issues raised by the most recent internal quality control review, or peer review, of the auditing firm;
- discussing the annual audited financial and quarterly statements with management and the independent auditors;
- discussing earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- discussing policies with respect to risk assessment and risk management;
- meeting separately, and periodically, with management, internal auditors and the independent auditor;
- reviewing with the independent auditor any audit problems or difficulties and management's responses;
- setting clear hiring policies for employees or former employees of the independent auditors;
- annually reviewing the adequacy of the audit committee's written charter, the internal audit charter, the scope of the annual internal audit plan and the results of internal audits;
- reporting regularly to the full board of directors; and
- handling such other matters that are specifically delegated to the audit committee by the board of directors from time to time.



Our corporate governance, nominating and compensation committee consists of Ole Wikborg, Frank Sica and John Gaffney, as chairman. The corporate governance, nominating and compensation committee is responsible for:

- nominating candidates, consistent with criteria approved by the full board of directors, for the approval of the full board of directors to fill board vacancies as and when they arise, as well as putting in place plans for succession, in particular, of the chairman of the board of directors and executive officers;
- selecting, or recommending that the full board of directors select, the director nominees for the next annual meeting of shareholders;
- developing and recommending to the full board of directors corporate governance guidelines applicable to us and keeping such guidelines under review;
- overseeing the evaluation of the board and management; and
- handling such other matters that are specifically delegated to the corporate governance, nominating and compensation committee by the board of directors from time to time.

D. Employees

We directly employ our president, Dr. Loukas Barmparis, our chief financial officer, Konstantinos Adamopoulos, our chief operating officer, Ioannis Foteinos, our internal auditor and an employee who serves as our legal representative at our representation office in Greece. As of December 31, 2013, approximately 566 people served on board the vessels in our fleet, and our Manager employed approximately 54 people on shore.

E. Share Ownership

The common stock beneficially owned by our directors and executive officers and/or companies affiliated with these individuals is disclosed in "Item 7. Major Shareholders and Related Party Transactions-A. Major Shareholders" below.

Equity Compensation Plans

We have agreed to provide the chairman of the audit committee, Mr. Frank Sica, as part of his remuneration, the annual equivalent of \$60,000 in the form of shares of our common stock, and our non-executive independent directors, Mr. John Gaffney and Mr. Ole Wikborg, as part of their remuneration, the annual equivalent of \$30,000 each, in the form of shares of our common stock.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our outstanding common stock and Series B Preferred Shares as of February 25, 2014 held by:

- each person or entity that we know beneficially owns 5% or more of our common stock;
- each of our officers and directors; and
- all our directors and officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. In general, a person who has voting power or investment power with respect to securities is treated as a beneficial owner of those securities.

Beneficial ownership does not necessarily imply that the named person has the economic or other benefits of ownership. For purposes of this table, shares subject to options, warrants or rights or shares exercisable within 60 days of February 25, 2014 are considered as beneficially owned by the person holding those options, warrants or rights. Each stockholder is entitled to one vote for each share held. The applicable percentage of ownership for each stockholder is based on 83,439,515 shares of common stock outstanding as of February 25, 2014. Information for certain holders is based on their latest filings with the SEC or information delivered to us. Except as noted below, the address of all stockholders, officers and directors identified in the table and the accompanying footnotes below is in care of our principal executive offices.

Identity of Person or Group	Number of Shares of Common Stock Owned	Percentage of Common Stock	Number of Shares of Series B Preferred Shares	Percentage of Series B Preferred Shares
5% Beneficial Owners:				
Vorini Holdings Inc. ⁽¹⁾	19,426,015	23.28 %	-	-
Bellapais Maritime Inc. ⁽²⁾	5,000,000	5.99 %	-	-
Kyperounta Maritime Inc. ⁽²⁾	5,000,000	5.99 %	-	-
Lefkoniko Maritime Inc. ⁽²⁾	5,000,000	5.99 %	-	-
Akamas Maritime Inc. ⁽²⁾	5,000,000	5.99 %	-	-
Chalkoessa Maritime Inc. ⁽²⁾	5,000,000	5.99 %	400,000	25.00 %
Nicolaos Hadjioannou ⁽⁴⁾	22,426,015	26.88 %	-	-
Officers and Directors:				
Polys Hajioannou ⁽³⁾	44,426,015	53.24 %	400,000	25.00 %
Dr. Loukas Barmparis	-	-	*	*
Konstantinos Adamopoulos	-	-	*	*
Ioannis Foteinos	-	-	-	-
Frank Sica ⁽⁵⁾	67,572	*	*(5)	*
Ole Wikborg	18,718	*	-	-
John Gaffney	18,718	*	20,000	1.25 %
All executive officers and directors as a group (7 persons)	44,531,023	53.37 %	448,000	28.00 %

* Less than 1%

(1) Controlled by Polys Hajioannou and his family.

(2) Controlled by Polys Hajioannou.

(3) By virtue of shares owned indirectly through Vorini Holdings, Inc., Bellapais Maritime Inc., Kyperounta Maritime Inc., Lefkoniko Maritime Inc., Akamas Maritime Inc. and Chalkoessa Maritime Inc.

(4) By virtue of shares owned indirectly through Vorini Holdings, Inc. and other entities he controls.

(5) Held in a trust controlled by Frank Sica for the benefit of his family members.

In June 2008, we completed a registered public offering of our shares of common stock in which the selling stockholder was Vorini Holdings Inc., and our common stock began trading on the New York Stock Exchange. Our major stockholders have the same voting rights as our other stockholders. As of February 25, 2014, we had 11 stockholders of record, three of these stockholders of record were located in the United States and held an aggregate 36,920,707 shares of common stock, representing approximately 44.2% of our outstanding shares of common stock. However, one of the United States stockholders of record is Cede & Co., a nominee of The Depository Trust Company, which holds 36,883,271 shares of our common stock. Accordingly, we believe that the shares held by Cede & Co. include shares of common stock beneficially owned by both holders in the United States and non-United States beneficial owners. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control. We are not aware of any significant changes in the percentage ownership held by any major stockholders since our initial public offering.

The Hajioannou family owns approximately 56.84% of our outstanding common stock. They are able to control the outcome of matters on which our stockholders are entitled to vote, including the election of our entire board of directors and other significant corporate actions. Shares of our common stock held by the Hajioannou family do not have different or unique voting rights.

B. Related Party Transactions

Management Affiliations

Our chief executive officer, Polys Hajioannou controls our Manager and other companies which lease office space to us. Our Manager, along with its predecessor, has provided services to our vessels since 1965 and continues to provide technical, administrative, commercial and certain other services which support our business, as well as comprehensive ship management services such as technical supervision and commercial management, including chartering our vessels, pursuant to our Management Agreement described below.

Management Agreement

Under our Management Agreement, our Manager is responsible for providing us with technical, administrative commercial and certain other services, which include the following:

**Technical Services**

These services include managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory compliance and compliance with the law of the flag state of each vessel and of the places where the vessel operates, ensuring classification society compliance, supervising the maintenance and general efficiency of vessels, arranging the hire of qualified officers and crew, training, transportation and lodging, insurance (including handling and processing all claims) of, and appropriate investigation of any charterer concerns with respect to, the crew, conducting union negotiations concerning the crew, performing normally scheduled drydocking and general and routine repairs, arranging insurance for vessels (including marine hull and machinery, protection and indemnity and risks insurance), purchasing stores, supplies, spares, lubricating oil and maintenance capital expenditures for vessels, appointing supervisors and technical consultants, providing technical support, shoreside support and shipyard supervision, and attending to all other technical matters necessary to run our business.

Commercial Services

These services include chartering the vessels that we own, assisting in our chartering, locating, purchasing, financing and negotiating the purchase and sale of our vessels, supervising the design and construction of newbuilds, and such other commercial services as we may reasonably request from time to time.

Administrative Services

These services include administering payroll services, assistance with the preparation of our tax returns and financial statements, assistance with corporate and regulatory compliance matters not related to our vessels, procuring legal and accounting services, assistance in complying with U.S. and other relevant securities laws, human resources (including provision of our executive officers and directors of our subsidiaries), cash management and bookkeeping services, development and monitoring of internal audit controls, disclosure controls and information technology, assistance with all regulatory and reporting functions and obligations, furnishing any reports or financial information that might be requested by us and other non-vessel related administrative services, assistance with office space, providing legal and financial compliance services, overseeing banking services (including the opening, closing, operation and management of all of our accounts, including making deposits and withdrawals reasonably necessary for the management of our business and day-to-day operations), arranging general insurance and director and officer liability insurance (at our expense), providing all administrative services required for any subsequent debt and equity financings and attending to all other administrative matters necessary to ensure the professional management of our business.

Reporting Structure

Our Manager reports to us and to our board of directors through our executive officers.

Compensation of Our Manager

Under our Management Agreement, in return for providing technical, commercial and administrative services, our Manager receives a fixed fee of \$700 per vessel for vessels in our fleet, prorated for the number of calendar days that we own or charter—in each vessel and \$250 per vessel per day, for bareboat charters. Such fee is subject to reduction for any compensation and benefits paid by us. Our Manager also receives a variable fee of 1.25% on all gross freight, charter hire, ballast bonus and demurrage with respect to each vessel in our fleet. Further, our Manager receives an acquisition fee of 1.0% based on the contract price of any vessel bought and a sales fee of 1.0% based on the contract price of any vessel sold by it on our behalf, including each of our contracted newbuilds. We also pay our Manager a supervision fee of \$550,000 per newbuild, of which 50% is payable upon the signing of the relevant supervision agreement, and 50% upon successful completion of the sea trials of each newbuild, for the on-premises supervision of all newbuilds we have agreed to acquire pursuant to shipbuilding contracts, memoranda of agreement, or otherwise. The management fees were constant for the 2 year initial period of the Management Agreement, which ended on May 28, 2010. On May 29, 2010, pursuant to an agreement between us and our Manager, the variable fee on gross freight, charter hire, ballast bonus and demurrage was adjusted to 1.25% from 1.0%. On May 29, 2011, the fixed fee per vessel was adjusted to \$700 from \$575 per day, and the supervision fee per newbuild was adjusted to \$550,000 from \$375,000, while all other management fees remained constant. Since then all management fees have remained constant. Pursuant to the terms of management agreement, the Manager provides to us executive officers at no cost. To the extent that the Manager does not provide executive officers to us but instead such executive officers are employed by us directly, the management fee payable by us to the Manager shall be reduced by an amount equal to the aggregate costs of compensation and benefits and other incidental costs borne by us as a result of such employment.

The management fees do not cover capital expenditure, financial costs and operating expenses for our vessels and our general and administrative expenses such as directors, and officers' liability insurance, legal and accounting fees and other similar third party expenses. More specifically, we reimburse expenses of the Manager or its personnel directly related to the operation and management of our vessels, such as:

- interest, principal and other financial costs,
- voyage expenses
- vessel operating expenses including crewing costs, surveyor's attendance fees, bunkers, lubricant oils, spares, survey fees, classification society fees, maintenance and repair costs, tonnage taxes and vetting expenses,
- commissions, remuneration or disbursements due to lawyers, brokers, agents, surveyors, consultants, financial advisors, investment bankers, insurance advisors,
- deductibles, insurance premiums and/or P&I calls,
- postage, communication, traveling, victualling and other out of pocket expenses.

Each year, our Manager prepares and submits to us a detailed draft budget for the next calendar year, which includes a statement of estimated revenue, estimated general and administrative expenses and a proposed budget for capital expenditures, repairs or alterations. Once approved by us, this draft budget becomes the approved budget.

Term and Termination Rights

Subject to the termination rights described below, the initial term of our Management Agreement expired on May 28, 2010. Since then our Management Agreement has been automatically renewed for four one-year periods, expiring May 28, 2014. Upon expiration of the renewal term, our Management Agreement automatically renews for one-year periods until May 28, 2018, at which point the agreement will expire. In addition to the termination provisions outlined below, we are able to terminate our Management Agreement at any point after the initial term upon 12 months' notice to our Manager. Such notice of termination has not been provided to our Manager by us.

Our Manager's Termination Rights

Our Manager may terminate our Management Agreement prior to the end of its term if:

- any money payable by us is not paid when due or if due on demand, within ten business days following demand by our Manager;
- we default in the performance of any other material obligation under the Management Agreement and the matter is unresolved within 20 business days after we receive written notice of such default from our Manager;
- the management fee determined by arbitration in respect of any annual period following the initial term is unsatisfactory to our Manager, in which case the Manager may terminate upon 12 months' written notice to us;
- any acquisition of our shares or a merger, consolidation or similar transaction results in any "person" or "group" acquiring 40% or
- more of the total voting power of our or the resulting entity's outstanding voting securities, and such percentage represents a higher percentage of such voting power than that held directly or indirectly by Polys Hajoannou and Nicolaos Hadjoannou, collectively; or
- there is a change in directors after which a majority of the members of our board of directors are not continuing directors.

"Continuing directors" means, as of any date of determination, any member of our board of directors who was:

- a member of our board of directors on June 4, 2008; or
- nominated for election or elected to our board of directors with the approval of a majority of the directors then in office who were either directors on June 4, 2008 or whose nomination or election was previously so approved.

Our Termination Rights

In addition to certain standard termination rights, we may terminate our Management Agreement prior to the end of its term if:

- our Manager defaults in the performance of any material obligation under our Management Agreement and the matter is not resolved
- within 20 business days after our Manager receives from us written notice of such default; or
- any money payable by our Manager to us or third parties under our Management Agreement is not paid or accounted for within ten business days following written notice by us.

Non-Competition

Our Manager has agreed that, during the term of our Management Agreement and for one year after its termination, our Manager will not provide any management services to, or with respect to, any drybulk vessels, other than in the following circumstances:

- a. pursuant to its involvement with us; or
- b. with respect to drybulk vessels that are owned or operated by companies affiliated with our chief executive officer, his children or Nicolaos Hadjoannou, subject in each case to compliance with, or waivers of, the restrictive covenant agreements entered into between us and companies affiliated with our chief executive officer or Nicolaos Hadjoannou.



Our Manager has also agreed that if one of our drybulk vessels and a drybulk vessel owned or operated by a company affiliated with our chief executive officer or Nicolaos Hadjioannou are both available and meet the criteria for a charter being fixed by our Manager, our drybulk vessel will receive such charter.

Sale of Our Manager

Our Manager has agreed that, during the term of the Management Agreement and for one year after its termination, our Manager will not transfer, assign, sell or dispose of all or substantially all of its business that is necessary for the performance of its services under the Management Agreement without the prior written consent of our board of directors. Furthermore, during such period, in the event of any proposed change in control of our Manager, we have a 30-day right of first offer to purchase our Manager. In December 2011, the Management Agreement was amended to define a “proposed change in control of our Manager” to mean (a) the approval by the board of directors of the Manager or the shareholders of the Manager of a proposed sale of all or substantially all of the assets or property of the Manager necessary for the performance of its services under the Management Agreement; or (b) the approval of any transaction that would result in: (i) Polys Hajioannou or Vorini Holdings Inc., or any entity controlled by, or under common control with, any of the above, beneficially owning, directly or indirectly, less than 60% of the outstanding voting securities or voting power of the Manager or Machairiotissa Holdings Inc., respectively, or (ii) Polys Hajioannou or Vorini Holdings Inc., or any entity controlled by, or under common control with, any of the above, together with all directors, officers and employees of the Manager beneficially owning, directly or indirectly, less than 80% of the outstanding voting securities or voting power of the Manager or Machairiotissa Holdings Inc., respectively. The Management Agreement was also amended to provide us the right to obtain certain information about the ownership of the Manager.

Restrictive Covenant Agreements

Under the restrictive covenant agreements entered into with us, Polys Hajioannou, Vorini Holdings Inc., Machairiotissa Holdings Inc., or any entity controlled by, or under common control with, any of the above (together, the “Hajioannou Entities”), have agreed to restrictions on their ownership or operation of any drybulk vessels or the acquisition, investment in or control of any business involved in the ownership or operation of drybulk vessels, subject to the exceptions described below.

In the case of Polys Hajioannou, the restricted period continues until the later of (a) one year following the termination of the Management Agreement and (b) one year following the termination of his services and employment with us. In the case of the Hajioannou Entities, the restricted period continues until one year following the termination of the Management Agreement. Notwithstanding these restrictions, Polys Hajioannou and the Hajioannou Entities are permitted to engage in the restricted activities during the restricted periods in the following circumstances:

- a pursuant to their involvement with us;
- b pursuant to their involvement with our Manager, subject to compliance with, or waivers of, the Management Agreement;
- c with respect to certain permitted acquisitions (as defined below), provided that (i) any commercial management of drybulk vessels controlled by the restricted individuals and entities in connection with such permitted acquisition is performed by our Manager and (ii) the restricted individuals and entities comply with the requirements for permitted acquisitions described below;
- d with respect to the direct or indirect ownership, operation or financing by our chief executive officer of a maximum of four drybulk vessels on the water at any one time and with respect to contracts with shipyards for newbuild drybulk vessels, as part of his estate planning for the benefit of one or more of his children, provided that (i) such drybulk vessels or newbuilding contracts have been first offered to us and refused by the majority of our independent directors and (ii) such vessels have been acquired on pricing terms and conditions that are not more favorable than those offered to us; and
- e pursuant to their passive ownership of up to 9.99% of the outstanding voting securities of any publicly traded company that is engaged in the drybulk vessel business.

As noted above, Polys Hajioannou and the Hajioannou Entities are permitted to engage in restricted activities with respect to two types of permitted acquisitions. One such permitted acquisition is an acquisition of a drybulk vessel or an acquisition or investment in a drybulk vessel business on terms and conditions as to price that are not more favorable, and on such other terms and conditions that are not materially more favorable, than those first offered to us and refused by a majority of our independent directors. The second type of permitted acquisition is an acquisition of a group of vessels or a business that includes non-drybulk vessels and non-drybulk vessel businesses, provided that less than 50% of the fair market value of the acquisition is attributable to drybulk vessels or drybulk vessel businesses. Under this second type of permitted acquisition, we must be promptly given the opportunity to buy the drybulk vessels or drybulk vessel businesses included in the acquisition for their fair market value plus certain break-up costs.

Polys Hajioannou and the Hajioannou Entities have also agreed that if one of our drybulk vessels and a drybulk vessel owned or operated by any of the Hajioannou Entities are both available and meet the criteria for a charter being fixed by our Manager, our drybulk vessels will receive such charter.

Registration Rights Agreement

In connection with the closing of our initial public offering, we entered into a registration rights agreement with Vorini Holdings Inc., one of our principal stockholders, pursuant to which we have granted it and certain of its transferees the right, under certain circumstances and subject to certain restrictions, to require us to register under the Securities Act shares of our common stock held by those persons. Under the registration rights agreement, Vorini Holdings Inc. and certain of its transferees have the right to request us to register the sale of shares held by them on their behalf and may require us to make available shelf registration statements permitting sales of shares into the market from time to time over an extended period. In addition, those persons have the ability to exercise certain piggyback registration rights in connection with registered offerings initiated by us. Vorini Holdings Inc. currently owns 19,426,015 shares entitled to these registration rights.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See “Item 18. Financial Statements” below.

Legal Proceedings

We are involved in an ongoing arbitration dispute in London, England, with the Shipyard. We had entered into an agreement with the Shipyard for the construction, sale and delivery by the Shipyard to us of one 180,000 DWT Capesize class newbuild vessel (Hull No. J0131) in exchange for USD \$53 million. In December 2012, after having paid \$31.8 million in advances during construction, we exercised our termination right under the agreement due to the Shipyard’s excessive construction delays and delivered demands to each of the Shipyard and the refund guarantor, The Export Import Bank of China (a bank rated Aa3 by Moody’s Investor Services), pursuant to the agreement and the refund guarantees, respectively, for a refund of the full amount of advances paid, with interest. In response, in January 2013, the Company received a notice of arbitration, and arbitration proceedings with the Shipyard were initiated in London, England. The Shipyard alleged that the Company’s termination constituted a breach of the agreement and argued that the Company was not entitled to a refund of the advances paid or interest. In September, 2013 a hearing was held in London with respect to certain preliminary issues related to the case. In January 2014, an appealable arbitration award in favor of the Company was issued, which provided that the Company had lawfully cancelled the shipbuilding contract and ordered the Shipyard to refund to the Company the full amount of the advances paid, with interest. In February 2014, the Company served to the relevant refund guarantor, the arbitration award. The appeal period for the award lapsed on or about February 24, 2014. The Company is and will continue vigorously pursuing the refund under the arbitration award.

We are not otherwise involved in any legal proceedings which may have, or have had, a significant effect on our business, financial position, results of operations or liquidity, nor are we aware of any other proceedings that are pending or threatened which may have a significant effect on our business, financial position, results of operations or liquidity.

The nature of our business exposes us to the risk of lawsuits for damages or penalties relating to, among other things, personal injury, property casualty and environmental contamination. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. However, such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

Dividend Policy

We paid our first quarterly dividend as a public company of \$0.1461 per share in August 2008 and subsequent dividends of \$0.475 per share in November 2008, \$0.15 per share in February 2009, May 2009, August 2009, November 2009, February 2010, May 2010, August 2010, November 2010, February 2011, May 2011, August 2011, November 2011, February 2012, May 2012 and August 2012, and \$0.05 per share in November 2012. During 2013, we paid an aggregate amount of \$16.5 million over three consecutive quarterly dividends, each in the amount of \$0.05 per share of common stock, followed by one consecutive quarterly dividend in the amount of \$0.06 per share of common stock. Also during 2013, we paid an aggregate amount of \$1.2 million with respect to two consecutive quarterly dividends of \$0.26111 and \$0.51111 per Series B Preferred Share.



We currently intend to use a portion of our free cash to pay dividends to our shareholders. The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things: (a) our earnings, financial condition and cash requirements and available sources of liquidity, (b) decisions in relation to our growth strategies, (c) provisions of Marshall Islands and Liberian law governing the payment of dividends, (d) restrictive covenants in our existing and future debt instruments and (e) global financial conditions. Dividends might be reduced or not be paid by us. Our ability to pay dividends may be limited by the amount of cash we can generate from operations following the payment of fees and expenses and the establishment of any reserves, as well as additional factors unrelated to our profitability. In addition, cash dividends on our common stock are subject to the priority of dividends on our 1,600,000 outstanding shares of Series B Preferred Shares issued in June 2013. We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations and to make dividend payments. See "Item 3. Key Information—D. Risk Factors—Risks Inherent in Our Industry and Our Business" for a discussion of the risks related to our ability to pay dividends.

B. Significant Changes

No significant change has occurred since the date of the annual financial statements included in this annual report on Form 20-F.

ITEM 9. THE OFFER AND LISTING

Trading on the New York Stock Exchange

Since our initial public offering in the United States on May 29, 2008, our common stock has been listed on the New York Stock Exchange under the symbol "SB." Since June 18, 2013 our Series B Preferred Shares have been listed on the New York Stock Exchange under the symbol "SB PR B." The following table shows the high and low sales prices for our common stock during the indicated periods.

	Price Range	
	High	Low
2009	\$ 9.64	\$ 2.71
2010	9.18	6.50
2011	9.78	5.28
2012	7.73	3.12
2013	10.95	3.40
First Quarter 2012	7.73	6.07
Second Quarter 2012	7.00	5.96
Third Quarter 2012	6.66	5.76
Fourth Quarter 2012	5.96	3.12
First Quarter 2013	5.19	3.40
Second Quarter 2013	5.75	4.59
Third Quarter 2013	7.65	4.78
Fourth Quarter 2013	10.95	6.21
August 2013	6.95	4.78
September 2013	7.65	6.48
October 2013	7.78	6.21
November 2013	9.00	7.20
December 2013	10.95	7.41
January 2014	11.25	8.65
February 2014 ⁽¹⁾	11.10	8.70

(1) For the period through February 25, 2014.

The following table shows the high and low sales prices for our Series B Preferred Shares during the indicated periods.

	Price Range	
	High	Low
Second Quarter ⁽¹⁾	\$ 25.00	\$ 24.27
Third Quarter 2013	27.78	24.29
Fourth Quarter 2013	25.91	24.84
August 2013	25.25	24.29
September 2013	25.25	24.75
October 2013	25.40	24.84
November 2013	25.91	25.00
December 2013	25.91	25.03
January 2014	26.40	25.16
February 2014 ⁽²⁾	25.89	25.01

(1) For the period from June 18, 2013, the date on which our Series B Preferred Shares began trading on the New York Stock Exchange, until the end of the period.

(2) For the period through February 25, 2014.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Under our articles of incorporation, our authorized capital stock consists of 200,000,000 shares of common stock, par value \$0.001 per share, of which, as of December 31, 2013 and February 25, 2014, 83,436,484 and 83,439,515 shares were issued and outstanding, respectively, and 20,000,000 shares of blank check preferred stock, par value \$0.01 per share, of which, as of December 31, 2013 and February 25, 2014, 1,600,000 shares of Series B Cumulative Redeemable Perpetual Preferred Shares were issued and outstanding. Of this blank check preferred stock, 1,000,000 shares have been designated Series A Participating Preferred Stock in connection with our adoption of a stockholder rights plan as described below under "—Stockholder Rights Plan." All of our shares of stock are in registered form.

Please see Note 10 to our financial statements included elsewhere in this annual report for a discussion of the history of our share capital.

B. Memorandum and Articles of Association

Our purpose, as stated in our articles of incorporation, is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the BCA. Our articles of incorporation and bylaws do not impose any limitations on the ownership rights of our stockholders.

The rights of our stockholders are set forth in our articles of incorporation and bylaws. Amendments to our articles of incorporation require the affirmative vote of the holders of a majority of all outstanding shares entitled to vote, except that amendments to certain provisions of our articles of incorporation dealing with the rights of stockholders, the board of directors, our bylaws and amendments to the articles of incorporation require the affirmative vote of at least 75% of all outstanding shares entitled to vote. Amendments to our bylaws require the affirmative vote of at least 75% of all outstanding shares entitled to vote.

Under our bylaws, annual stockholder meetings will be held at a time and place selected by our board of directors. The meetings may be held inside or outside of the Republic of the Marshall Islands. Special meetings may be called by the chairman of the board of directors, the chief executive officer or a majority of the board of directors. Our board of directors may set a record date between 15 and 60 days before the date of any meeting to determine the stockholders that will be eligible to receive notice and vote at the meeting. Our bylaws permit stockholder action by unanimous written consent.

We are registered at The Trust Company of the Marshall Islands, Inc. under registration number 27394.

Directors

Under our bylaws, our directors are elected by a plurality of the votes cast at each annual meeting of the stockholders by the holders of shares entitled to vote in the election. There is no provision for cumulative voting.

Pursuant to the provisions of our bylaws, the board of directors may change the number of directors to not less than three, nor more than 15, by a vote of a majority of the entire board. Each director shall be elected to serve until the third succeeding annual meeting of stockholders and until his or her successor shall have been duly elected and qualified, except in the event of



death, resignation or removal. A vacancy on the board created by death, resignation, removal (which may only be for cause), or failure of the stockholders to elect the entire class of directors to be elected at any election of directors or for any other reason may be filled only by an affirmative vote of a majority of the remaining directors then in office, even if less than a quorum, at any special meeting called for that purpose or at any regular meeting of the board of directors. The board of directors has the authority to fix the amounts which shall be payable to the non-employee members of our board of directors for attendance at any meeting or for services rendered to us.

Common Stock

Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of shares of common stock are entitled to receive ratably all dividends, if any, declared by our board of directors out of funds legally available for dividends. Upon our dissolution or liquidation or the sale of all or substantially all of our assets, after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of our common stock will be entitled to receive pro rata our remaining assets available for distribution. Holders of common stock do not have conversion, redemption or preemptive rights to subscribe to any of our securities. All outstanding shares of common stock are fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of any shares of preferred stock which we may issue in the future. Our common stock is not subject to any sinking fund provisions and no holder of any shares will be required to make additional contributions of capital with respect to our shares in the future. There are no provisions in our articles of incorporation or bylaws discriminating against a shareholder because of his or her ownership of a particular number of shares.

We are not aware of any limitations on the rights to own our common stock, including rights of non-resident or foreign stockholders to hold or exercise voting rights on our common stock, imposed by foreign law or by our articles of incorporation or bylaws.

Preferred Stock

Our articles of incorporation authorize our board of directors, without any further vote or action by our stockholders, to issue up to 20,000,000 shares of blank check preferred stock, of which 1,000,000 shares have been designated Series A Participating Preferred Stock, in connection with our adoption of a stockholder rights plan as described below under “-Stockholder Rights Plan,” and 1,600,000 have been designated as 8.00% Series B Cumulative Redeemable Perpetual Preferred Shares and to determine, with respect to any series of preferred stock established by our board of directors, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the preferences and relative, participating, option or other special rights, if any, and any qualifications, limitations or restrictions of such series; and
- the voting rights, if any, of the holders of the series.

Stockholder Rights Plan

Each share of our common stock includes a right that entitles the holder to purchase from us a unit consisting of one-thousandth of a share of our Series A participating preferred stock at a purchase price of \$25.00 per unit, subject to specified adjustments. The rights are issued pursuant to a stockholder rights agreement between us and American Stock Transfer & Trust Company, as rights agent. Until a right is exercised, the holder of a right will have no rights to vote or receive dividends or any other stockholder rights.

The rights may have anti-takeover effects. The rights will cause substantial dilution to any person or group that attempts to acquire us without the approval of our board of directors. As a result, the overall effect of the rights may be to render more difficult or discourage any attempt to acquire us. Because our board of directors can approve a redemption of the rights or a permitted offer, the rights should not interfere with a merger or other business combination approved by our board of directors. The adoption of the rights agreement was approved by our existing stockholder prior to our initial public offering in May 2008.

We have summarized the material terms and conditions of the rights agreement and the rights below. For a complete description of the rights, we encourage you to read the stockholder rights agreement, which we have filed as an exhibit to this annual report.

Detachment of rights

The rights are attached to all certificates representing our outstanding common stock and will attach to all common stock certificates we issue prior to the rights distribution date that we describe below. The rights are not exercisable until after the rights

distribution date and will expire at the close of business on the tenth anniversary date of the adoption of the rights plan, unless we redeem or exchange them earlier as described below. The rights will separate from the common stock and a rights distribution date will occur, subject to specified exceptions, on the earlier of the following two dates:

- ten days following the first public announcement that a person or group of affiliated or associated persons or an “acquiring person” has acquired or obtained the right to acquire beneficial ownership of 15% or more of our outstanding common stock; or
- ten business days following the start of a tender or exchange offer that would result, if closed, in a person becoming an “acquiring person.”

One of our principal stockholders, Vorini Holdings Inc., and its affiliates are excluded from the definition of “acquiring person” for purposes of the rights, and therefore their ownership or future share acquisitions cannot trigger the rights. Specified “inadvertent” owners that would otherwise become an acquiring person, including those who would have this designation as a result of repurchases of common stock by us, will not become acquiring persons as a result of those transactions.

Our board of directors may defer the rights distribution date in some circumstances, and some inadvertent acquisitions will not result in a person becoming an acquiring person if the person promptly divests itself of a sufficient number of shares of common stock.

Until the rights distribution date:

- our common stock certificates will evidence the rights, and the rights will be transferable only with those certificates; and
- any new shares of common stock will be issued with rights, and new certificates will contain a notation incorporating the rights agreement by reference.

As soon as practicable after the rights distribution date, the rights agent will mail certificates representing the rights to holders of record of common stock at the close of business on that date. As of the rights distribution date, only separate rights certificates will represent the rights.

We will not issue rights with any shares of common stock we issue after the rights distribution date, except as our board of directors may otherwise determine.

Flip-in event

A “flip-in event” will occur under the rights agreement when a person becomes an acquiring person. If a flip-in event occurs and we do not redeem the rights as described under the heading “-Redemption of rights” below, each right, other than any right that has become void, as described below, will become exercisable at the time it is no longer redeemable for the number of shares of common stock, or, in some cases, cash, property or other of our securities, having a current market price equal to two times the exercise price of such right.

If a flip-in event occurs, all rights that then are, or in some circumstances that were, beneficially owned by or transferred to an acquiring person or specified related parties will become void in the circumstances which the rights agreement specifies.

Flip-over event

A “flip-over event” will occur under the rights agreement when, at any time after a person has become an acquiring person:

- we are acquired in a merger or other business combination transaction; or
- 50% or more of our assets, cash flows or earning power is sold or transferred.

If a flip-over event occurs, each holder of a right, other than any right that has become void as we describe under the heading “-Flip-in event” above, will have the right to receive the number of shares of common stock of the acquiring company having a current market price equal to two times the exercise price of such right.

Antidilution

The number of outstanding rights associated with our common stock is subject to adjustment for any stock split, stock dividend or subdivision, combination or reclassification of our common stock occurring prior to the rights distribution date. With some exceptions, the rights agreement does not require us to adjust the exercise price of the rights until cumulative adjustments amount to at least 1% of the exercise price. It also does not require us to issue fractional shares of our preferred stock that are not integral multiples of one one-hundredth of a share, and, instead, we may make a cash adjustment based on the market price of the common stock on the last trading date prior to the date of exercise. The rights agreement reserves us the right to require, prior to the occurrence of any flip-in event or flip-over event, that, on any exercise of rights, a number of rights must be exercised so that we will issue only whole shares of stock.



Redemption of rights

At any time until ten days after the date on which the occurrence of a flip-in event is first publicly announced, we may redeem the rights in whole, but not in part, at a redemption price of \$0.01 per right. The redemption price is subject to adjustment for any stock split, stock dividend or similar transaction occurring before the date of redemption. At our option, we may pay that redemption price in cash, shares of common stock or any other consideration our board of directors may select. The rights are not exercisable after a flip-in event until they are no longer redeemable. If our board of directors timely orders the redemption of the rights, the rights will terminate on the effectiveness of that action.

Exchange of rights

We may, at our option, exchange the rights (other than rights owned by an acquiring person or an affiliate or an associate of an acquiring person, which have become void), in whole or in part. The exchange must be at an exchange ratio of one share of common stock per right, subject to specified adjustments at any time after the occurrence of a flip-in event and prior to

- any person other than our existing stockholder becoming the beneficial owner of common stock with voting power equal to 50% or more of the total voting power of all shares of common stock entitled to vote in the election of directors; or
- the occurrence of a flip-over event.

Amendment of terms of rights

While the rights are outstanding, we may amend the provisions of the rights agreement only as follows:

- to cure any ambiguity, omission, defect or inconsistency;
- to make changes that do not adversely affect the interests of holders of rights, excluding the interests of any acquiring person; or
- to shorten or lengthen any time period under the rights agreement, except that we cannot change the time period when rights may be redeemed or lengthen any time period, unless such lengthening protects, enhances or clarifies the benefits of holders of rights other than an acquiring person.

At any time when no rights are outstanding, we may amend any of the provisions of the rights agreement, other than decreasing the redemption price.

Dissenters' Rights of Appraisal and Payment

Under the BCA, our stockholders have the right to dissent from various corporate actions, including any merger or sale of all, or substantially all, of our assets not made in the usual course of our business, and receive payment of the fair value of their shares. In the event of any amendment of our articles of incorporation, a stockholder also has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. The dissenting stockholder must follow the procedures set forth in the BCA to receive payment. In the event that we and any dissenting stockholder fail to agree on a price for the shares, the BCA procedures involve, among other things, the institution of proceedings in the high court of the Republic of the Marshall Islands or in any appropriate court in any jurisdiction in which our shares are primarily traded on a local or national securities exchange. The value of the shares of the dissenting stockholder is fixed by the court after reference, if the court so elects, to the recommendations of a court-appointed appraiser.

Stockholders' Derivative Actions

Under the BCA, any of our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the stockholder bringing the action is a holder of common stock both at the time the derivative action is commenced and at the time of the transaction to which the action relates.

Limitations on Liability and Indemnification of Officers and Directors

The BCA authorizes corporations to limit or eliminate the personal liability of directors and officers to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our articles of incorporation include a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director to the fullest extent permitted by law.

Our bylaws provide that we must indemnify our directors and officers to the fullest extent authorized by law. We are also expressly authorized to advance certain expenses (including attorneys' fees and disbursements and court costs) to our directors and officers and carry directors' and officers' insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

The limitation of liability and indemnification provisions in our articles of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise

benefit us and our stockholders. In addition, stockholders' investments may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

Anti-Takeover Effect of Certain Provisions of our Articles of Incorporation and Bylaws

Several provisions of our articles of incorporation and bylaws, which are summarized in the following paragraphs, may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our board of directors to maximize stockholder value in connection with any unsolicited offer to acquire us. However, these anti-takeover provisions could also delay, defer or prevent (a) the merger or acquisition of our company by means of a tender offer, a proxy contest or otherwise that a stockholder might consider in its best interest, including attempts that may result in a premium over the market price for the shares held by the stockholders, and (b) the removal of incumbent officers and directors.

Blank check preferred stock

Under the terms of our articles of incorporation, our board of directors has authority, without any further vote or action by our stockholders, to issue up to 20,000,000 shares of blank check preferred stock, of which 1,000,000 shares have been designated Series A Participating Preferred Stock, in connection with our adoption of a stockholder rights plan as described above under "Stockholder Rights Plan" and 1,600,000 have been designated Series B Cumulative Redeemable Perpetual Preferred Shares. Our board of directors may issue shares of preferred stock on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management.

Classified board of directors

Our articles of incorporation provide for a board of directors serving staggered, three-year terms. Approximately one-third of our board of directors will be elected each year. This classified board provision could discourage a third party from making a tender offer for our shares or attempting to obtain control of our company. It could also delay stockholders who do not agree with the policies of the board of directors from removing a majority of the board of directors for two years.

Election and removal of directors

Our articles of incorporation prohibit cumulative voting in the election of directors. Our bylaws require parties other than the board of directors to give advance written notice of nominations for the election of directors. Our articles of incorporation and bylaws also provide that our directors may be removed only for cause. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

Calling of special meeting of stockholders

Our articles of incorporation and bylaws provide that special meetings of our stockholders may only be called by our Chairman of the board of directors, chief executive officer or by either, at the request of a majority of our board of directors.

Advance notice requirements for stockholder proposals and director nominations

Our bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary.

Generally, to be timely, a stockholder's notice must be received at our offices not less than 90 days nor more than 120 days prior to the first anniversary date of the previous year's annual meeting. Our bylaws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or to make nominations for directors at an annual meeting of stockholders.

C. Material Contracts

Not applicable.

D. Exchange Controls and Other Limitations Affecting Security Holders

Under Marshall Islands law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to non-resident holders of our common stock.

E. Tax Considerations

Marshall Islands Tax Considerations

We are a non-resident domestic Marshall Islands corporation. Because we do not, and we do not expect that we will, conduct business or operations in the Republic of the Marshall Islands, under current Marshall Islands law we are not subject to tax



on income or capital gains and our stockholders (so long as they are not citizens or residents of the Republic of the Marshall Islands) will not be subject to Marshall Islands taxation or withholding on dividends and other distributions (including upon a return of capital) we make to our stockholders. In addition, so long as our stockholders are not citizens or residents of the Republic of the Marshall Islands, our stockholders will not be subject to Marshall Islands stamp, capital gains or other taxes on the purchase, holding or disposition of our common stock, and our stockholders will not be required by the Republic of the Marshall Islands to file a tax return relating to our common stock.

Each stockholder is urged to consult their tax counselor or other advisor with regard to the legal and tax consequences, under the laws of pertinent jurisdictions, including the Republic of the Marshall Islands, of their investment in us. Further, it is the responsibility of each stockholder to file all state, local and non-U.S., as well as U.S. federal tax returns that may be required of them.

Liberian Tax Considerations

Some of our vessel-owning subsidiaries are incorporated under the laws of the Republic of Liberia. The Republic of Liberia enacted a new income tax act effective as of January 1, 2001 (the "New Act") which did not distinguish between the taxation of "non-resident" Liberian corporations, such as our subsidiaries, which conduct no business in Liberia and were wholly exempt from taxation under the income tax law previously in effect since 1977, and "resident" Liberian corporations which conduct business in Liberia and are, and were under the prior law, subject to taxation. The New Act was amended by the Consolidated Tax Amendments Act of 2011 which was published and became effective on November 1, 2011 (the "Amended Act"). The Amended Act specifically exempts from taxation non-resident Liberian corporations such as our Liberian subsidiaries that engage in international shipping (and not exclusively in Liberia) and that do not engage in other business or activities in Liberia other than specifically enumerated in the Amended Act. In addition, the Amended Act made such exemption from taxation retroactive to the effective date of the New Act.

United States Federal Income Tax Considerations

The following discussion of United States federal income tax matters is based on the Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the United States Department of the Treasury as of the date hereof, all of which are subject to change, possibly with retroactive effect. This discussion does not address any United States state or local taxes, any United States federal tax other than federal income tax or the tax on net investment income imposed by Section 1411 of the Code. This discussion does not purport to address the tax consequences of owning our stock to all categories of investors, some of which (such as financial institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations, insurance companies, United States expatriates, persons holding our stock as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, persons liable for alternative minimum tax, pass-through entities and investors therein, persons who own, actually or under applicable constructive ownership rules, 10% or more of our stock, traders or dealers in securities or currencies and United States holders whose functional currency is not the United States dollar) may be subject to special rules. This discussion only addresses holders that hold the stock as a capital asset. This discussion is based upon our beliefs and expectations concerning our past, current and anticipated activities, income and assets and those of our subsidiaries, the direct, indirect and constructive ownership of our stock and the trading and quotation of our stock. Should any such beliefs or expectations prove to be incorrect, the conclusions described herein could be adversely affected. You are encouraged to consult your own tax advisors concerning the overall tax consequences of the ownership of our stock arising in your own particular situation under United States federal, state, local or foreign law.

If a partnership holds our stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners in a partnership holding our stock are encouraged to consult their tax advisors.

Taxation of Our Shipping Income

For purposes of the following discussion, "shipping income" means income that is derived by a non-United States corporation from:

- a. the use of vessels;
- b. the hiring or leasing of vessels for use on a time, operating or bareboat charter basis;
- c. the participation in a pool, partnership, strategic alliance, joint operating agreement or other joint venture it directly or indirectly owns or participates in that generates such income; or
- d. the performance of services directly related to those uses.

Shipping income attributable to transportation exclusively between non-United States ports is generally not subject to United States income tax. However, unless exempt from United States income tax under the rules contained in Section 883 of the Code, a non-United States corporation is, under the rules of Section 887 of the Code, subject to a 4% United States income tax in respect of its "United States source gross transportation income" (without the allowance for deductions). United States source gross transportation income includes 50% of shipping income that is attributable to transportation that begins or ends (but that does not both begin and end) in the United States. Under Section 883 of the Code, a non-United States corporation will be exempt from United States income tax on its United States source gross transportation income if:

- a. it is organized in a foreign country (its "country of organization") that grants an "equivalent exemption" to United States corporations; and
- b. either
 1. more than 50% of the value of its stock is owned, directly or indirectly, by individuals who are "residents" of its country of organization or of another foreign country that grants an "equivalent exemption" to United States corporations; or
 2. its stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States.

We believe that we will not satisfy the requirements of Section 883 of the Code. As a result, we will be subject to the 4% United States income tax on United States source gross transportation income. Since 50% of our gross shipping income for transportation that begins or ends in the United States would be treated as United States source gross transportation income, we expect that the effective rate of United States income tax on our gross shipping income for such transportation would equal 2%. Many of our charters contain a provision that obligates the charterer to reimburse us for the 4% United States income tax that we are required to pay in respect of the vessel subject to the relevant charter.

In lieu of the foregoing rules, since the exemption of Section 883 of the Code will not apply to us, our United States source gross transportation income that is considered to be "effectively connected" with the conduct of a United States trade or business would be subject to the United States corporate income tax currently imposed at rates of up to 35% (net of applicable deductions). In addition, we may be subject to the 30% United States "branch profits" taxes on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of our United States trade or business.

We expect that none of our United States source gross transportation income will be "effectively connected" with the conduct of a United States trade or business. Such income would be considered "effectively connected" only if:

- a. we had, or were considered to have, a fixed place of business in the United States involved in the earning of our United States source gross transportation income; and
- b. substantially all of our United States source gross transportation income was attributable to regularly scheduled transportation, such as the operation of a vessel that followed a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

We believe that we will not meet these conditions because we will not have, or permit circumstances that would result in our having, any vessel sailing to or from the United States on a regularly scheduled basis. In addition, income attributable to transportation that both begins and ends in the United States is not subject to the tax rules described above. Such income is subject to either a 30% gross-basis tax or to United States corporate income tax on net income at rates of up to 35% (and the branch profits tax discussed above). Although there can be no assurance, we do not expect to engage in transportation that produces shipping income of this type.

Taxation of Gain on Sale of Assets

Regardless of whether we qualify for the exemption under Section 883 of the Code, we will not be subject to United States income taxation with respect to gain realized on a sale of a vessel, provided the sale is considered to occur outside of the United States (as determined under United States tax principles). In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel (and risk of loss with respect to the vessel) passes to the buyer outside of the United States. We expect that any sale of a vessel will be so structured that it will be considered to occur outside of the United States.

United States Federal Income Taxation of United States Holders

You are a "United States holder" if you are a beneficial owner of our stock and you are a United States citizen or resident, a United States corporation (or other United States entity taxable as a corporation), an estate the income of which is subject to



United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of that trust.

Distributions on Our Stock

Subject to the discussion of PFICs below, any distributions with respect to our stock that you receive from us, other than distributions in liquidation and distributions in redemption of our stock that are treated as exchanges, will generally constitute dividends, which may be taxable as ordinary income or “qualified dividend income” as described below, to the extent of our current or accumulated earnings and profits (as determined under United States tax principles). Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of your tax basis in our stock (on a dollar-for-dollar basis) and thereafter as capital gain. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid will generally be reported as a “dividend” for United States federal income tax purposes.

Because we are not a United States corporation, if you are a United States corporation (or a United States entity taxable as a corporation), you will not be entitled to claim a dividends-received deduction with respect to any distributions you receive from us.

Dividends paid with respect to our stock will generally be treated as “passive category income” for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

If you are an individual, trust or estate, dividends you receive from us should be treated as “qualified dividend income” taxed at preferential rates, provided that:

- a. the common stock or Series B Preferred Shares on which the dividends are paid are readily tradable on an established securities market in the United States (such as the NYSE);
- b. we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (see the discussion below under “-PFIC Status”);
- c. you own our stock for more than (x) in the cases where the dividends on the Series B Preferred Shares are attributable to a period or periods aggregating in excess of 366 days, 90 days in the 181-day period beginning 90 days before the date on which the Series B Preferred Shares become ex-dividend or (y) in all other cases, 60 days in the 121-day period beginning 60 days before the date on which the stock becomes ex-dividend;
- d. you are not under an obligation to make related payments with respect to positions in substantially similar or related property; and
- e. certain other conditions are met.

Special rules may apply to any “extraordinary dividend.” Generally, an extraordinary dividend is: (1) a dividend in an amount that is equal to (or in excess of) (x) 10%, in the case of common stock, or (y) 5%, in the case of the Series B Preferred Shares, of your adjusted tax basis in (or the fair market value of, in certain circumstances) a share of our stock or (2) dividends received within a one year period that, in the aggregate, equal or exceed 20% of your adjusted tax basis in (or fair market value of in certain circumstances) a share of our stock. If we pay an “extraordinary dividend” on our stock that is treated as “qualified dividend income” and if you are an individual, estate or trust, then any loss you derive from a subsequent sale or exchange of such stock will be treated as long-term capital loss to the extent of such dividend.

There is no assurance that dividends you receive from us will be eligible for preferential rates. Dividends you receive from us that are not eligible for any preferential rate will be taxed at the ordinary income rates.

Sale, Exchange or Other Disposition of Stock

Provided that we are not a PFIC for any taxable year and except as provided in the discussion under “Redemption of Stock”, you generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our stock, in an amount equal to the difference between the amount realized by you from such sale, exchange or other disposition and your tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if your holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as United States source income or loss, as applicable, for United States foreign tax credit purposes. Your ability to deduct capital losses against ordinary income is subject to limitations.

Redemption of Stock

In the case of a redemption of stock (including a disposition of stock to us or persons related to us), unless the redemption satisfies

one of the tests set forth in Section 302(b) of the Code for treating the redemption as a sale or exchange, the redemption will be treated under Section 302 of the Code as a distribution. If the redemption is treated as a sale or exchange of the United States holder’s stock, the United States holder’s treatment will be as discussed above in “-Sale, Exchange or Other Disposition of Stock.” The redemption will be treated as a sale or exchange only if it (i) is “substantially disproportionate,” (ii) constitutes a “complete termination of the holder’s stock interest” in us or (iii) is not “essentially equivalent to a dividend,” each within the meaning of Section 302(b). In determining whether any of the alternative tests of Section 302(b) is met, shares of our capital stock actually owned, as well as shares considered to be owned by the United States holder by reason of certain constructive ownership rules, must be taken into account. Because the determination as to whether any of the alternative tests of Section 302(b) is satisfied with respect to a particular holder of the stock will depend on that holder’s particular facts and circumstances as of the time the determination is made, United States holders should consult their own tax advisors to determine their tax treatment of a redemption of stock in light of their own particular investment circumstances.

PFIC Status

Special United States income tax rules apply to you if you hold stock in a non-United States corporation that is classified as a “passive foreign investment company” (or “PFIC”) for United States income tax purposes. In general, we will be treated as a PFIC in any taxable year in which, after applying certain look-through rules, either:

- a. at least 75% of our gross income for such taxable year consists of “passive income” (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or
- b. at least 50% of the average value of our assets during such taxable year consists of “passive assets” (i.e., assets that produce, or are held for the production of, passive income).

For purposes of determining whether we are a PFIC, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiary corporations in which we own at least 25% of the value of the subsidiary’s stock. Income we earn, or are deemed to earn, in connection with the performance of services will not constitute passive income. By contrast, rental income will generally constitute passive income (unless we are treated under certain special rules as deriving our rental income in the active conduct of a trade or business).

Because we have chartered all our vessels to unrelated charterers on the basis of period time and spot time charter contracts (and not on the basis of bareboat charters) and because we expect to continue to do so, we believe that currently we should not be treated as being and should not become a PFIC. We believe it is more likely than not that our gross income derived from our time charter activities constitutes active service income (as opposed to passive rental income) and, as a result, our vessels constitute active assets (as opposed to passive assets) for purposes of determining whether we are a PFIC. We believe there is legal authority supporting this position, consisting of case law and United States Internal Revenue Service (“IRS”) pronouncements concerning the characterization of income derived from time charters as service income for other tax purposes. However, there is no legal authority specifically relating to the statutory provisions governing PFICs or relating to circumstances substantially similar to ours. Moreover, a recent case by the United States Court of Appeals for the Fifth Circuit held that, contrary to the position of the IRS in that case, and for purposes of a different set of rules under the Code, income received under a time charter of vessels should be treated as rental income rather than services income. If the reasoning of the Fifth Circuit case were extended to the PFIC context, the gross income we derive or are deemed to derive from our time chartering activities would be treated as rental income, and we would probably be a PFIC.

We have not sought, and we do not expect to seek, an IRS ruling on this matter. As a result, the IRS or a court could disagree with our position that we are not currently a PFIC. No assurance can be given that this result will not occur. In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future, or that we can avoid PFIC status in the future.

As discussed below, if we were to be treated as a PFIC for any taxable year, you generally would be subject to one of three different United States income tax regimes, depending on whether or not you make certain elections. Additionally, you would be required to file annual information returns with the IRS.

Taxation of United States Holders That Make a Timely QEF Election

If we were treated as a PFIC, and if you make a timely election to treat us as a “Qualified Electing Fund” for United States tax purposes (a “QEF Election”), you would be required to report each year your allocable share of our ordinary earnings and our net capital gain for our taxable year that ends with or within your taxable year, regardless of whether we make any distributions to you. Such income inclusions would not be eligible for the preferential tax rates applicable to “qualified dividend income.” Your adjusted tax basis in our stock would be increased to reflect such taxed but undistributed earnings and profits. Distributions of



earnings and profits that had previously been taxed would result in a corresponding reduction in your adjusted tax basis in our stock and would not be taxed again once distributed. You would generally recognize capital gain or loss on the sale, exchange or other disposition of our stock. Even if you make a QEF Election for one of our taxable years, if we were a PFIC for a prior taxable year during which you held our stock and for which you did not make a timely QEF Election, you would also be subject to the more adverse rules described below under “Taxation of United States Holders That Make No Election.”

You would make a QEF Election with respect to any year that our company is treated as a PFIC by completing and filing IRS Form 8621 with your United States income tax return in accordance with the relevant instructions. If we were to become aware that we were to be treated as a PFIC for any taxable year, we would notify all United States holders of such treatment and would provide all necessary information to any United States holder who requests such information in order to make the QEF election described above.

Taxation of United States Holders That Make a Timely “Mark-to-Market” Election

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we expect, our stock is treated as “marketable stock,” you would be allowed to make a “mark-to-market” election with respect to our stock, provided that you complete and file IRS Form 8621 in accordance with the relevant instructions. If that election is made, you generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of our stock at the end of the taxable year over your adjusted tax basis in our stock. You also would be permitted an ordinary loss in respect of the excess, if any, of your adjusted tax basis in our stock over its fair market value at the end of the taxable year (but only to the extent of the net amount previously included in income as a result of the mark-to-market election). Your tax basis in our stock would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our stock would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by you.

Taxation of United States Holders That Make No Election

Finally, if we were treated as a PFIC for any taxable year and if you did not make either a QEF Election or a “mark-to-market” election for that year, you would be subject to special rules with respect to (a) any excess distribution (that is, the portion of any distributions received by you on our stock in a taxable year in excess of 125% of the average annual distributions received by you in the three preceding taxable years, or, if shorter, your holding period for our stock) and (b) any gain realized on the sale, exchange or other disposition of our stock. Under these special rules:

1. the excess distribution or gain would be allocated ratably over your aggregate holding period for our common stock;
2. the amount allocated to the current taxable year would be taxed as ordinary income; and
3. the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

If an individual dies while owning our stock, the individual’s successor generally would not receive a step-up in tax basis with respect to such stock for United States tax purposes.

United States Federal Income Taxation of Non-United States Holders

You are a “non-United States holder” if you are a beneficial owner of our stock (other than a partnership for United States tax purposes) and you are not a United States holder.

Distributions on Our Stock

You generally will not be subject to United States income or withholding taxes on dividends you receive from us with respect to our stock, unless that income is effectively connected with your conduct of a trade or business in the United States. If you are entitled to the benefits of an applicable income tax treaty with respect to those dividends, that income generally is taxable in the United States only if it is attributable to a permanent establishment maintained by you in the United States.

Sale, Exchange or Other Disposition of Our Stock

You generally will not be subject to United States income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our stock, unless:

- a. the gain is effectively connected with your conduct of a trade or business in the United States. If you are entitled to the benefits of an applicable income tax treaty with respect to that gain, that gain generally is taxable in the United States only if it is attributable to a permanent establishment maintained by you in the United States; or
- b. you are an individual who is present in the United States for 183 days or more during the taxable year of disposition and certain other conditions are met.

If you are engaged in a United States trade or business for United States tax purposes, you will be subject to United States tax with respect to your income from our stock (including dividends and the gain from the sale, exchange or other disposition of the stock) that is effectively connected with the conduct of that trade or business in the same manner as if you were a United States holder. In addition, if you are a corporate non-United States holder, your earnings and profits that are attributable to the effectively connected income (subject to certain adjustments) may be subject to an additional United States branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable income tax treaty.

United States Backup Withholding and Information Reporting

In general, if you are a non-corporate United States holder, dividend payments (or other taxable distributions) made within the United States will be subject to information reporting requirements and backup withholding tax if you:

- a. fail to provide us with an accurate taxpayer identification number;
- b. are notified by the IRS that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or
- c. in certain circumstances, fail to comply with applicable certification requirements.

Under legislation enacted in 2010, United States holders who are individuals generally will be required to report certain information with respect to an interest in our stock, including our name, address and such information as is necessary to identify the class or issue of which the shares of stock are a part. These requirements are subject to exceptions, including an exception for shares held in accounts maintained by certain financial institutions and an exception applicable if the aggregate value of all “specified foreign financial assets” (as defined in the Code) held by the United States holder (and, as applicable, by his or her spouse) does not exceed a specified minimum amount.

If you are a non-United States holder, you may be required to establish your exemption from information reporting and backup withholding by certifying your status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable. If you sell our stock to or through a United States office or broker, the payment of the sales proceeds is subject to both United States backup withholding and information reporting unless you certify that you are a non-United States person, under penalties of perjury, or you otherwise establish an exemption. If you sell our stock through a non-United States office of a non-United States broker and the sales proceeds are paid to you outside the United States, then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements (but not backup withholding) will apply to a payment of sales proceeds, even if that payment is made outside the United States, if you sell our stock through a non-United States office of a broker that is a United States person or has certain other connections with the United States.

Backup withholding tax is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your income tax liability by accurately completing and timely filing a refund claim with the IRS. You should consult your own tax advisor regarding the application of the backup withholding and information reporting rules.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In accordance with these requirements, we file reports and other information as a foreign private issuer with the SEC. You may inspect and copy our public filings without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. You may obtain copies of all or any part of such materials from the SEC upon payment of prescribed fees. You may also inspect reports and other information regarding registrants, such as us, that file electronically with the SEC without charge at a web site maintained by the SEC at <http://www.sec.gov>.

I. Subsidiary Information

Not applicable.



ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A. Quantitative Information About Market Risk

Interest Rate Risk

We are subject to market risks relating to changes in interest rates because we have floating rate debt outstanding, which is based on U.S. dollar LIBOR plus, in the case of each credit facility, a specified margin. Our objective is to manage the impact of interest rate changes on our earnings and cash flow in relation to our borrowings and to this effect, when we deem appropriate, we use derivative financial instruments. We had entered into 15 interest rate swap agreements as of December 31, 2013, compared to 17 interest rate swap agreements as of December 31, 2012, in order to manage future interest costs and the risk associated with changing interest rates.

The total notional principal amount of these swaps as of December 31, 2013 was \$382.2 million. The swaps have specified rates and durations. Refer to the table in Note 14 of our financial statements included elsewhere in this annual report which summarizes the interest rate swaps in place as of December 31, 2013 and December 31, 2012. Under our interest rate swap transactions, the bank effects quarterly or semiannual floating-rate payments to us for the relevant amount based either on the three- or six-month U.S. dollar LIBOR and we make quarterly or semiannual payments to the bank on the relevant amount at the respective fixed rates.

We entered into these interest rate swap agreements to mitigate our exposure to interest rate fluctuations and at a time when we believed long-term interest rates were reasonably low. None of our interest rate swap meets hedge accounting criteria under accounting guidance relating to Fair Value Measurement. Although we are exposed to credit-related losses in the event of non-performance in connection with such swap agreements, because the counterparties are major financial institutions, we consider the risk of loss due to their nonperformance to be minimal.

Through these swap transactions, we effectively hedged the interest rate exposure of 86.6% of our loans outstanding as of December 31, 2013, which bear interest at LIBOR.

The following table sets forth the sensitivity of our existing loans as of December 31, 2013 as to a 100 basis point increase in LIBOR taking into account our interest rate swap agreements that are currently in place, during the next five years, and reflects the additional interest expense.

Year	Amount
2014	\$1.0 million
2015	\$1.6 million
2016	\$1.7 million
2017	\$1.7 million
2018	\$1.6 million

Foreign Currency Exchange Risk

We generate all of our revenues in U.S. dollars, but for the year ended December 31, 2013 we incurred approximately 32.28% of our vessel operating expenses in currencies other than the U.S. dollar. As of December 31, 2013, approximately 30.84% of our outstanding accounts payable were denominated in currencies other than the U.S. dollar and were subject to exchange rate risk, as their value fluctuates with changes in exchange rates.

A hypothetical 10% immediate and uniform adverse move in all currency exchange rates from the rates in effect as of December 31, 2013, would have increased our vessel operating expenses by approximately \$1,354,380 and the fair value of our outstanding accounts payable by approximately \$126,701.

As of December 31, 2013 a portion of our remaining capital expenditures related to the agreements for the purchase of newbuilds was denominated in Japanese yen, equivalent to \$1.9 million. A hypothetical 10% immediate adverse move in the Japanese yen exchange rate from the rate in effect as of December 31, 2013, would have increased our remaining capital expenditures by approximately \$211,198. While, from time to time, we have in the past used financial derivatives in the form of foreign exchange forward agreements to mitigate the risk associated with exchange rate fluctuations, currently, no such instruments are in place, although we may enter into foreign exchange forward agreements in the future in relation to the remaining payments denominated in Japanese Yen for the newbuild vessels we have contracted to purchase.

There have been no material quantitative changes in market risk exposures between 2013 and 2012.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material Modifications to the Rights of Security Holders

We adopted a stockholder rights plan on May 13, 2008 that authorizes the issuance to our existing stockholders of preferred share rights and additional shares of common stock if any third party seeks to acquire control of a substantial block of our common stock. See "Item 10. Additional Information -B. Memorandum and Articles of Association-Stockholder Rights Plan" included in this annual report for a description of the stockholder rights plan.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of December 31, 2013. Disclosure controls and procedures are defined under SEC rules as controls and other procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include without limitations controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on our evaluation, the chief executive officer and the chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2013.

B. Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act and for the assessment of the effectiveness of internal control over financial reporting. Our internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



In making its assessment of our internal control over financial reporting as of December 31, 2013, management, including the chief executive officer and chief financial officer, used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission of 1992 (“COSO”).

Management concluded that, as of December 31, 2013, our internal control over financial reporting was effective. Deloitte Hadjipavlou, Sofianos & Cambanis S.A. (“Deloitte”), our independent registered public accounting firm, has audited the financial statements included herein and our internal control over financial reporting and has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2013 which is reproduced in its entirety in Item 15(c) below.

C. Attestation Report of the Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Safe Bulkers, Inc.,

Majuro, Republic of The Marshall Islands,

We have audited the internal control over financial reporting of Safe Bulkers, Inc., and its subsidiaries (the “Company”) as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated March 5, 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Hadjipavlou, Sofianos & Cambanis S.A.

Athens, Greece

March 5, 2014

D. Changes in Internal Control over Financial Reporting

During the period covered by this annual report, we have made no changes to our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee consists of three independent directors, John Gaffney, Ole Wikborg and Frank Sica, who is the chairman of the committee. Our board of directors has determined that Frank Sica, whose biographical details are included in “Item 6. Directors, Senior Management and Employees-A. Directors and Senior Management”, qualifies as an audit committee financial expert as defined under current SEC regulations.

ITEM 16B. CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics for all officers and employees of our company, which incorporates a Code of Ethics for directors and a Code of Conduct for corporate officers, a copy of which is posted on our website, and may be viewed at http://www.safebulkers.com/corp_ethics.htm. We will also provide a paper copy of this document free of charge upon written request by our stockholders. Stockholders may direct their requests to the attention of Dr. Loukas Barmparis, Secretary, Safe Bulkers, Inc., 30-32 Avenue Karamanli, 16673, Voula, Athens, Greece. No waivers of the Code of Business Conduct and Ethics have been granted to any person during the fiscal year ended December 31, 2013.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees billed to the Company for the fiscal years ended December 31, 2013 and 2012 by the Company’s principal accounting firm, Deloitte, Hadjipavlou, Sofianos & Cambanis S.A., an independent registered public accounting firm and member of Deloitte Touche Tohmatsu, Limited, by the category of service, were as follows:

	2012	2013
	(In Thousands)	
Audit fees	\$ 575	\$ 464
Total fees	\$ 575	\$ 464

Audit fees represent compensation for professional services rendered for the integrated audit of the consolidated financial statements of the Company and for the review of the quarterly financial information as well as in connection with the review of registration statements and related consents and comfort letters and any other audit services required for SEC or other regulatory filings.

Pre-approval Policies and Procedures

The audit committee charter sets forth our policy regarding retention of the independent auditors, giving the audit committee responsibility for the appointment, compensation, retention and oversight of the work of the independent auditors. The audit committee charter provides that the committee is responsible for reviewing and approving in advance the retention of the independent auditors for the performance of all audit and lawfully permitted non-audit services. The chairman of the audit committee or in the absence of the chairman, any member of the audit committee designated by the chairman, has authority to approve in advance any lawfully permitted non-audit services and fees. The audit committee is authorized to establish other policies and procedures for the pre-approval of such services and fees. Where non-audit services and fees are approved under delegated authority, the action must be reported to the full audit committee at its next regularly scheduled meeting.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.



ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On June 10, 2009, the Company announced that Vorini Holdings Inc. authorized a program under which it may from time to time purchase shares of the Company's common stock on the open market. The maximum number of shares of common stock that can be purchased annually under the program and any private placement is approximately 2% of the Company's shares outstanding. The program is still in effect. No shares were purchased during 2012 and 2013 pursuant to the program. In December 2012, Vorini Holdings Inc. purchased 600,000 shares of the Company at a price of \$3.00 per share in a block trade completed through a broker-dealer. As of February 25, 2014, the Company had 83,439,515 shares of common stock outstanding. Approximately 47,426,015 of those shares, or 56.84% of common stock outstanding, were held by the Company's affiliates, according to information provided to the Company by such affiliates. The remaining 39,013,500 shares, or 43.16% of common stock outstanding, represented the public float.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

Statement of Significant Differences Between our Corporate Governance Practices and the New York Stock Exchange Corporate Governance Standards for U.S. Non-Controlled Issuers

Overview

Pursuant to certain exceptions for foreign private issuers and controlled companies, we are not required to comply with certain of the corporate governance practices followed by U.S. and non-controlled companies under the New York Stock Exchange listing standards. However, pursuant to Section 303A.11 of the New York Stock Exchange Listed Company Manual and the requirements of Form 20-F, we are required to state any significant differences between our corporate governance practices and the practices required by the New York Stock Exchange. We believe that our established practices in the area of corporate governance are in line with the spirit of the New York Stock Exchange standards and provide adequate protection to our shareholders. For example, our audit committee consists solely of independent directors. The significant differences between our corporate governance practices and the New York Stock Exchange standards applicable to listed U.S. companies are set forth below.

Independent Directors

The New York Stock Exchange requires that listed companies have a majority of independent directors. As permitted under Marshall Islands law and our bylaws, our board of directors consists of a majority of non-independent directors.

Executive Sessions

The New York Stock Exchange requires that non-management directors meet regularly in executive sessions without management. The New York Stock Exchange also requires that all independent directors meet in an executive session at least once a year. As permitted under Marshall Islands law and our bylaws, our non-management directors do not regularly hold executive sessions without management and we do not expect them to do so.

Corporate Governance, Nominating and Compensation Committee

The New York Stock Exchange requires that a listed U.S. company have a nominating/corporate governance committee and a compensation committee, each composed of independent directors. As permitted under Marshall Islands law and our bylaws, we have a combined corporate governance, nominating and compensation committee, which at present is composed wholly of independent directors.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 17. FINANCIAL STATEMENTS

Not Applicable.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F-1 through F-25 included herein by reference.

ITEM 19. EXHIBITS

Exhibit	Description
1.1	Amended and Restated Articles of Incorporation*
1.2	Articles of Amendment to Amended and Restated Articles of Incorporation**
1.3	Amended and Restated Bylaws*
2.1	Form of Registration Rights Agreement between Safe Bulkers, Inc. and Vorini Holdings Inc.*
2.2	Stockholder Rights Agreement*
2.3	Specimen Share Certificate*
4.1	Form of Management Agreement between Safety Management Overseas S.A. and Safe Bulkers, Inc.
4.2	Amendment No. 1 to Management Agreement between Safety Management Overseas S.A. and Safe Bulkers, Inc.
4.3	Amendment No. 2 to Management Agreement between Safety Management Overseas S.A. and Safe Bulkers, Inc.
4.4	Amendment No. 3 to Management Agreement between Safety Management Overseas S.A. and Safe Bulkers, Inc.
4.5	Form of Restrictive Covenant Agreement among Safe Bulkers, Inc., Polys Hajioannou, Vorini Holdings Inc., SafeFixing Corp and Machairiotissa Holdings Inc.
4.6	Amendment No. 1 to Restrictive Covenant Agreement among Safe Bulkers, Inc., Polys Hajioannou, Vorini Holdings Inc., SafeFixing Corp and Machairiotissa Holdings Inc.
4.7	Amendment No. 2 to Restrictive Covenant Agreement among Safe Bulkers, Inc., Polys Hajioannou, Vorini Holdings Inc., SafeFixing Corp and Machairiotissa Holdings Inc.
4.8	Form of Restrictive Covenant Agreement between Safe Bulkers, Inc. and Polys Hajioannou
4.9	Amendment No. 1 to Restrictive Covenant Agreement between Safe Bulkers, Inc. and Polys Hajioannou
8.1	List of Subsidiaries
12.1	Certification of principal executive officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended
12.2	Exchange Act of 1934, as amended
13.1	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of principal financial officer pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Deloitte Hadjipavlou, Sofianos & Cambanis S.A.

* Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Reg. No. 333-150995) filed with the SEC and hereby incorporated by reference to such Registration Statement.

** Previously filed as an exhibit to the Company's Form 6-K filed with the SEC on October 8, 2009 and hereby incorporated by reference to such Form 6-K.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

March 5, 2014

By /s/ KONSTANTINOS ADAMOPOULOS
Name: Konstantinos Adamopoulos
Title: Chief Financial Officer and Director



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of
Safe Bulkers, Inc.
Majuro, Republic of the Marshall Islands

We have audited the accompanying consolidated balance sheets of Safe Bulkers, Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2013, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Safe Bulkers, Inc. and subsidiaries as of December 31, 2012 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte Hadjipavlou, Sofianos & Cambanis S.A.
March 5, 2014
Athens, Greece

SAFE BULKERS, INC.
CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2013
(In thousands of U.S. Dollars, except for share and per share data)

	Notes	December 31,	
		2012	2013
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		102,724	64,671
Accounts receivable	4	37,047	36,372
Inventories		5,900	12,600
Accrued revenue	19	554	-
Restricted cash		22,800	6,750
Prepaid expenses and other current assets		2,804	2,792
Investment	9	-	50,000
Total current assets		171,829	173,185
FIXED ASSETS:			
Vessels, net	5	810,001	855,200
Advances for vessel acquisition and vessels under construction	6	39,902	76,299
Total fixed assets		849,903	931,499
OTHER NON CURRENT ASSETS:			
Deferred finance charges, net	7	6,467	5,347
Restricted cash		3,923	1,423
Derivative assets	14	-	762
Accrued revenue	19	92	-
Long-term investment	9	50,000	-
Total assets		1,082,214	1,112,216
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt	8	19,199	35,185
Unearned revenue	19	18,205	13,106
Trade accounts payable		3,061	4,109
Accrued liabilities	15	6,364	3,865
Derivative liabilities	14	591	732
Due to Manager	3	73	307
Total current liabilities		47,493	57,304
Derivative liabilities	14	8,978	3,270
Long-term debt, net of current portion	8	596,468	473,110
Unearned revenue - Long-term	19	3,419	196
Total liabilities		656,358	533,880
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Shareholders' equity:			
Common stock, \$0.001 par value; 200,000,000 authorized, 76,661,451 and 83,436,484 issued and outstanding at December 31, 2012 and 2013, respectively	10	77	83
Preferred stock, \$0.01 par value; 20,000,000 authorized, none and 1,600,000 issued and outstanding at December 31, 2012 and 2013, respectively		-	16
Additional paid-in capital		150,269	237,212
Retained earnings		275,510	341,025
Total shareholders' equity		425,856	578,336
Total liabilities and shareholders' equity		1,082,214	1,112,216

The accompanying notes are an integral part of these consolidated statements.



SAFE BULKERS, INC.

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(In thousands of U.S. Dollars, except for share and per share data)

	Notes	Year Ended December 31,		
		2011	2012	2013
REVENUES:				
Revenues	12	172,036	187,557	191,520
Commissions		(3,128)	(3,261)	(4,799)
Net revenues		168,908	184,296	186,721
EXPENSES:				
Voyage expenses		(1,987)	(7,286)	(10,207)
Vessel operating expenses	13	(26,066)	(34,540)	(41,964)
Depreciation	5	(23,637)	(32,250)	(37,394)
General and administrative expenses				
-Management fee to related party	3,18	(6,026)	(7,726)	(8,379)
-Public company expenses	18	(2,463)	(2,220)	(2,981)
Early redelivery income, net	16	207	11,677	7,050
Operating income		108,936	111,951	92,846
OTHER (EXPENSE)/INCOME:				
Interest expense	8	(5,250)	(9,072)	(9,086)
Other finance costs		(1,055)	(1,268)	(1,032)
Interest income		1,046	1,122	1,008
(Loss)/gain on derivatives	14	(12,491)	(5,384)	813
Foreign currency loss		(799)	(3)	(40)
Amortization and write-off of deferred finance charges	7	(653)	(1,226)	(1,252)
Net income		89,734	96,120	83,257
Less Preferred dividend		-	-	1,787
Net income available to common shareholders		89,734	96,120	81,470
Earnings per share in U.S. Dollars, basic and diluted	21	1.29	1.27	1.05
Weighted average number of shares, basic and diluted		69,463,093	75,468,465	77,495,029

The accompanying notes are an integral part of these consolidated statements.

SAFE BULKERS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(In thousands of U.S. Dollars, except for per share data)

	Common Stock	Preferred Stock	Additional Paid in Capital	Retained Earnings	
				Earnings	Total
Balance as of January 1, 2011	66	-	75,166	168,901	244,133
Net income	-	-	-	89,734	89,734
Issuance of common stock	5	-	39,632	-	39,637
Share based compensation	-	-	120	-	120
Dividends (\$0.60 per common share)	-	-	-	(41,782)	(41,782)
Balance as of December 31, 2011	71	-	114,918	216,853	331,842
Net income	-	-	-	96,120	96,120
Issuance of common stock	6	-	35,231	-	35,237
Share based compensation	-	-	120	-	120
Dividends (\$0.50 per common share)	-	-	-	(37,463)	(37,463)
Balance as of December 31, 2012	77	-	150,269	275,510	425,856
Net income	-	-	-	83,257	83,257
Issuance of common stock	6	-	47,974	-	47,980
Issuance of preferred stock	-	16	38,849	-	38,865
Share based compensation	-	-	120	-	120
Dividends (\$0.77222 per preferred share)	-	-	-	(1,235)	(1,235)
Dividends (\$0.21 per common share)	-	-	-	(16,507)	(16,507)
Balance as of December 31, 2013	83	16	237,212	341,025	578,336

The accompanying notes are an integral part of these consolidated statements.



SAFE BULKERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(In thousands of U.S. Dollars)

	December 31,		
	2011	2012	2013
Cash Flows from Operating Activities:			
Net income	89,734	96,120	83,257
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	23,637	32,250	37,394
Amortization and write-off of deferred finance charges	653	1,226	1,252
Unrealized loss / (gain) on derivatives	263	(2,798)	(6,329)
Share based compensation	120	120	120
Change in:			
Accounts receivable	(4,265)	303	675
Due from Manager	(24)	24	-
Inventories	(1,236)	(3,247)	(6,700)
Accrued revenue	-	(646)	646
Prepaid expenses and other current assets	(452)	(575)	12
Due to Manager	(449)	73	234
Trade accounts payable	(287)	1,878	950
Accrued liabilities	547	(255)	(2,595)
Unearned revenue	(1,052)	(19,408)	(8,322)
Net Cash Provided by Operating Activities	107,189	105,065	100,594
Cash Flows from Investing Activities:			
Vessel acquisitions including advances for vessels under construction	(160,969)	(136,845)	(118,894)
Increase in restricted cash	-	(23,300)	(6,250)
Restricted cash released	-	2,000	24,800
Maturity of bank time deposits	35,080	-	-
Net Cash Used in Investing Activities	(125,889)	(158,145)	(100,344)
Cash Flows from Financing Activities:			
Proceeds from long-term debt	84,000	312,630	16,000
Principal payments of long-term debt	(94,453)	(181,254)	(123,372)
Dividends paid	(41,782)	(37,463)	(17,742)
Payment of deferred financing costs	(5,916)	(1,467)	(132)
Proceeds on issuance of common stock (net)	39,637	35,237	48,078
Proceeds on issuance of preferred stock (net)	-	-	38,865
Net Cash (Used in)/Provided by Financing Activities	(18,514)	127,683	(38,303)
Net (decrease)/increase in cash and cash equivalents	(37,214)	74,603	(38,053)
Cash and cash equivalents at beginning of year	65,335	28,121	102,724
Cash and cash equivalents at end of year	28,121	102,724	64,671
Supplemental cash flow information:			
Cash paid for interest (excluding capitalized interest):	5,050	8,534	9,263
Non cash Investing and Financing activities (represent advances and capitalized interest for newbuild Hull J0131 for 2012 and other minor non cash items for 2013):	-	32,412	194

The accompanying notes are an integral part of these consolidated statements.

SAFE BULKERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States Dollars—except for share and per share data, unless otherwise stated)

1. Basis of Presentation and General Information:

Safe Bulkers, Inc. ("Safe Bulkers") was formed on December 11, 2007, under the laws of the Republic of the Marshall Islands for the purpose of acquiring an ownership interest in 19 companies. Each of the 19 companies were under the common control of Polys Hajioannou and his family and owned or were scheduled to acquire a newbuild drybulk vessel. The shares of the 19 companies were contributed to Safe Bulkers by Vorini Holdings, Inc. ("Vorini Holdings"), a Marshall Islands corporation, controlled by Polys Hajioannou and his family. Safe Bulkers became the owner of 100% of each of the 19 companies, and Vorini Holdings became the sole shareholder of Safe Bulkers.

Safe Bulkers successfully completed its initial public offering on June 3, 2008 (the "IPO"). Safe Bulkers common stock trades on the New York Stock Exchange ("NYSE") under the symbol "SB." Following the IPO, Vorini Holdings became the controlling shareholder of Safe Bulkers.

On December 18, 2013, Bellapais Maritime Inc. ("Bellapais") a Marshall Islands corporation, Kyperounta Maritime Inc. ("Kyperounta") a British Virgin Islands corporation, Lefkoniko Maritime Inc. ("Lefkoniko") a British Virgin Islands corporation, Akamas Maritime Inc. ("Akamas") a Cayman Islands corporation, Chalkoessa Maritime Inc. ("Chalkoessa") a Marshall Islands corporation, all wholly owned by Polys Hajioannou, and Kition Holdings Corp. ("Kition Holdings") a British Virgin Islands corporation wholly owned by Nikolaos Hajioannou, Polys Hajioannou's brother, entered into a stock transfer agreement with Vorini Holdings, through which shares of Safe Bulkers owned by Vorini Holdings were sold for no consideration to the above entities.

By virtue of shares owned indirectly through Vorini Holdings, Bellapais, Kyperounta, Lefkoniko, Akamas, Chalkoessa and Kition Holdings, Polys Hajioannou and his family continue to be the controlling shareholders of Safe Bulkers, and accordingly control the outcome of matters on which shareholders are entitled to vote, including the election of the entire board of directors and other significant corporate actions.

Since the IPO, Safe Bulkers successfully completed four additional public common stock offerings and one preferred stock offering.

As of December 31, 2013, Safe Bulkers held 40 wholly-owned companies (which are referred to herein as "Subsidiaries") which together owned and operated a fleet of 28 drybulk vessels, and were scheduled to acquire an additional ten newbuild (the "Newbuilds") vessels.

Safe Bulkers and the Subsidiaries are collectively referred to in the notes to the consolidated financial statements as the "Company."

The Company's principal business is the acquisition, ownership and operation of drybulk vessels. The Company's vessels operate worldwide, carrying drybulk cargo for the world's largest consumers of marine drybulk transportation services. Safety Management Overseas S.A., a company incorporated under the laws of the Republic of Panama ("Safety Management" or the "Manager"), a related party controlled by Polys Hajioannou, provides technical, commercial and administrative management services to the Company.

The accompanying consolidated financial statements include the operations, assets and liabilities of the Company, using the historical carrying costs of the assets and the liabilities of the Subsidiaries listed below.

Subsidiary	Vessel Name	Type	Built
Maxeikosiepta Shipping Corporation ("Maxeikosiepta")(1)	Paraskevi	Panamax	January 2003
Marindou Shipping Corporation ("Marindou")(1)	Maria	Panamax	April 2003
Maxeikosiexi Shipping Corporation ("Maxeikosiexi")(1)	Koulitsa	Panamax	April 2003
Avstes Shipping Corporation ("Avstes")(1)	Vassos	Panamax	February 2004
Kerasies Shipping Corporation ("Kerasies")(1)	Katerina	Panamax	May 2004
Marathassa Shipping Corporation ("Marathassa")(1)	Maritsa	Panamax	January 2005
Maxeikositessera Shipping Corporation ("Maxeikositessera")(1)	Efrossini	Panamax	February 2012
Glovertwo Shipping Corporation ("Glovertwo")(3)	Zoe - (H 814)	Panamax	July 2013
Shikokutessera Shipping Inc. ("Shikokutessera")(2)(3)	Kypros Land - (H 1659)	Panamax	January 2014
Pemer Shipping Ltd. ("Pemer")(1)	Pedhoulas Merchant	Kamsarmax	March 2006
Petra Shipping Ltd. ("Petra")(1)	Pedhoulas Trader	Kamsarmax	May 2006

Subsidiary	Vessel Name	Type	Built
Pelea Shipping Ltd. ("Pelea")(1)	Pedhoulas Leader	Kamsarmax	March 2007
Vassone Shipping Corporation ("Vassone")(3)	Pedhoulas Commander	Kamsarmax	May 2008
Maxeikosi Shipping Corporation ("Maxeikosi")(1)	Pedhoulas Builder	Kamsarmax	May 2012
Maxeikositria Shipping Corporation ("Maxeikositria")(1)	Pedhoulas Fighter	Kamsarmax	August 2012
Maxeikosiena Shipping Corporation ("Maxeikosiena")(1)	Pedhoulas Farmer	Kamsarmax	September 2012
Staloudi Shipping Corporation ("Staloudi")(1)	Stalo	Post-Panamax	January 2006
Marinouki Shipping Corporation ("Marinouki")(1)	Marina	Post-Panamax	January 2006
Soffive Shipping Corporation ("Soffive")(1)	Sophia	Post-Panamax	June 2007
Vasstwo Shipping Corporation ("Vasstwo")(1)	Xenia	Post-Panamax	August 2006
Eniaprohi Shipping Corporation ("Eniaprohi")(1)	Eleni	Post-Panamax	November 2008
Eniadephi Shipping Corporation ("Eniadephi")(1)	Martine	Post-Panamax	February 2009
Maxdodeka Shipping Corporation ("Maxdodeka")(1)	Andreas K	Post-Panamax	September 2009
Maxdekatria Shipping Corporation ("Maxdekatria")(1)	Panajiota K	Post-Panamax	April 2010
Maxdeka Shipping Corporation ("Maxdeka")(3)	Venus Heritage	Post-Panamax	December 2010
Shikoku Friendship Shipping Company ("Shikoku")(3)	Venus History	Post-Panamax	September 2011
Maxenteka Shipping Corporation ("Maxenteka")(3)	Venus Horizon	Post-Panamax	February 2012
Maxpente Shipping Corporation ("Maxpente")(1)	Kanaris	Capesize	March 2010
Eptaprohi Shipping Corporation ("Eptaprohi")(1)	Pelopidas	Capesize	November 2011
Maxtessera Shipping Corporation ("Maxtessera")(2)(3)	Lake Despina - (H 8126)	Capesize	January 2014
Shikokupente Shipping Inc. ("Shikokupente")(3)	TBN - H 1660	Panamax	1H 2014 (4)
Gloverthree Shipping Corporation ("Gloverthree")(3)	TBN - H 821	Panamax	2H 2014 (4)
Gloverfour Shipping Corporation ("Gloverfour")(3)	TBN - H 822	Panamax	1H 2015 (4)
Shikokuokto Shipping Inc. ("Shikokuokto")(3)	TBN - H 1689	Panamax	1H 2015(4)
Gloverfive Shipping Corporation ("Gloverfive")(3)	TBN - H 827	Panamax	2H 2015 (4)
Gloversix Shipping Corporation ("Gloversix")(3)	TBN - H 828	Panamax	1H 2016 (4)
Shikokuexi Shipping Inc. ("Shikokuexi")(3)	TBN - H 1685 - (ex H 2396)	Post-Panamax	2H 2015 (4)
Shikokuepta Shipping Inc. ("Shikokuepta")(3)	TBN - H 1686 - (ex H 2397)	Post-Panamax	2H 2015 (4)
Maxeikosipente Shipping Corporation ("Maxeikosipente")(1)(5)	-	-	-
Efragel Shipping Corporation ("Efragel")(1)(6)	-	-	-
-//-	Efrossini (hereinafter called "Old Efrossini")	Panamax	February 2003 (7)
S.B. Sea Venture Company Ltd (8)	-	-	-

- (1) Incorporated under the laws of the Republic of Liberia
 (2) Newbuild vessel acquisitions. Refer to Note 22.
 (3) Incorporated under the laws of the Republic of the Marshall Islands
 (4) Estimated completion date for newbuild vessels
 (5) Cancellation of Newbuild. Refer to Notes 4 and 11.
 (6) Company dissolved in October 2012.
 (7) Vessel sold in January 2010.
 (8) Incorporated under the laws of the Republic of Cyprus, under dissolution.

For the years ended December 31, 2011, 2012 and 2013, the following charterers individually accounted for more than 10% of the Company's charter revenues as follows:

	December 31,		
	2011	2012	2013
Daiichi Chuo Kisen Kaisha	48.17 %	46.48 %	30.30 %
Kawasaki Kisen Kaisha	17.93 %	16.39 %	15.39 %

2. Significant Accounting Policies

Principles of Consolidation: The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include all accounts of the Company. All intra-group and intercompany balances and transactions have been eliminated upon consolidation.

Use of Estimates: The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include vessel valuations, the valuation of amounts due from charterers, residual value of vessels, useful life of vessels and the fair value of derivative instruments. Actual results may differ from these estimates.

Other Comprehensive Income / (Loss): The Company follows the accounting guidance relating to Statement of Comprehensive Income, which requires separate presentation of certain transactions that are recorded directly as components of shareholders' equity. The Company has no other comprehensive income/(loss) and accordingly comprehensive income/(loss) equals net income for the periods presented.

Foreign Currency Translation: The reporting and functional currency of the Company is the U.S. dollar ("USD"). Transactions incurred in other currencies are translated into USD using the exchange rates in effect at the time of the transaction. On the balance sheet date, monetary assets and liabilities that are denominated in other currencies are translated into USD to reflect the end-of-period exchange rates. Resulting gains or losses from foreign currency transactions are recorded within Foreign currency loss in the accompanying consolidated statements of income in the period in which they arise.

Cash and Cash Equivalents: Cash and cash equivalents consist of current, call, time deposits and certificates of deposit with original maturities of three months or less and which are not restricted for use or withdrawal.

Time Deposits: Time deposits are held with banks with original maturities longer than three months. In the event original maturities are shorter than twelve months, such deposits are classified as current assets; if original maturities are longer than twelve months, such deposits are classified as non-current assets.

Restricted Cash: Restricted cash represents minimum cash deposits or cash collateral deposits required to be maintained with certain banks under the Company's borrowing arrangements or in relation to bank guarantees issued on behalf of the Company. In the event that the obligation relating to such deposits is expected to be terminated within the next twelve months, these deposits are classified as current assets; otherwise, they are classified as non-current assets.

Accounts Receivable: Accounts receivable reflects trade receivables from time or voyage charters and other receivables from operational activities, net of an allowance for doubtful accounts. On each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No allowance for doubtful accounts was recorded for any of the periods presented.

Inventories: Inventories consist of bunkers and lubricants owned by the Company remaining on board the vessels at the end of each reporting period, which are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

Vessels, Net: Vessels are stated at their historical cost, which consists of the contracted purchase price and any direct material expenses incurred upon acquisition (including improvements, on-site supervision expenses incurred during the construction period, commissions paid, delivery expenses and other expenditures to prepare the vessel for her initial voyage), less accumulated depreciation. Financing costs incurred during the construction period of the vessels are also capitalized and included in the vessels' cost. Certain subsequent expenditures for conversions and major improvements are also capitalized if it is determined that they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels.

Vessels' Depreciation: Depreciation is computed using the straight-line method over the estimated useful life of the vessels after considering the estimated residual value. Management estimates the useful life of the Company's vessels to be 25 years from the date of initial delivery from the shipyard.

Accounting for Special Survey and Drydocking Costs: Special survey and drydocking costs are expensed in the period incurred and are included in vessel operating expenses in the accompanying consolidated statements of income.

Repairs and Maintenance: All repair and maintenance expenses, including major overhauling and underwater inspection expenses, are expensed when incurred and are included in vessel operating expenses in the accompanying consolidated statements of income.

Impairment of Long-lived Assets: The Company follows the Accounting Standards Codification ("ASC") Subtopic 360-10, "Property, Plant and Equipment" ("ASC 360-10"), which requires impairment losses to be recorded on long-lived assets used in

operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. If indicators of impairment are present, the Company performs an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value and the difference is recorded as an impairment loss in the consolidated statements of income. Various factors including anticipated future charter rates, estimated scrap values, future drydocking costs and estimated vessel operating costs are included in this analysis. No impairment loss was recorded during the years ended December 31, 2011, 2012 and 2013.

Assets Held for Sale: The Company may dispose of certain of its vessels when suitable opportunities occur, including prior to the end of their useful lives. The Company classifies assets as being held for sale when the following criteria are met: (i) management is committed to sell the asset; (ii) the asset is available for immediate sale in its present condition; (iii) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (iv) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale within one year; (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Long-lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less the cost to sell the asset. These assets are no longer depreciated once they meet the criteria of being held for sale. There were no assets held for sale as of December 31, 2012 and 2013.

Deferred Financing Costs: Financing fees incurred for obtaining new loans and credit facilities are deferred and amortized over the term of the respective loan or credit facility using the effective interest rate method. Any unamortized balance of costs relating to loans repaid or refinanced is expensed in the period in which the repayment or refinancing is made, subject to the guidance regarding Debt Extinguishment. Any unamortized balance of costs related to credit facilities repaid is expensed in the period. Any unamortized balance of costs relating to the credit facilities refinanced is deferred and amortized over the term of the respective credit facility in the period in which the refinancing occurs, subject to the provisions of the accounting guidance relating to Changes in Line-of-Credit or Revolving-Debt Arrangements.

Derivative Instruments: The Company may enter into foreign exchange forward contracts to create economic hedges for its exposure to currency exchange risk on payments relating to the acquisition of vessels and on certain loan obligations. The Company also enters into interest rate derivatives to create economic hedges for its exposure to interest rate risk of its loan obligations (see also Notes 8 and 14). When such derivatives do not qualify for hedge accounting, the Company records these financial instruments in the consolidated balance sheet at their fair value as either a derivative asset or a liability, and recognizes the fair value changes thereto in the consolidated statements of income. When the derivatives do qualify for hedge accounting, depending upon the nature of the hedge, changes in fair value of the derivatives are either offset against the fair value of assets, liabilities or firm commitments through income, or recognized in other comprehensive income/(loss) (effective portion) until the hedged item is recognized in the consolidated statements of income. For the years ended December 31, 2011, 2012 and 2013, no derivatives were accounted for as accounting hedges.

Financial Instruments: Over-the-counter foreign exchange forward contracts and interest rate derivatives are recorded at fair value. Other financial instruments, including cash equivalents and debt are recorded at amortized cost.

(a) Interest rate risk: The Company's interest rates and long-term loan repayment terms are described in Note 8. The Company manages its interest rate risk by entering into interest rate derivative instruments which are described in Note 14.

(b) Concentration of credit risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of trade accounts receivable, cash and cash equivalents, time deposits and derivative instruments. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its trade accounts receivable. The Company places its cash and cash equivalents, time deposits and other investments with high credit quality financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions. The Company is exposed to credit risk in the event of non-performance by its counterparties to derivative instruments; however, the Company limits its exposure by transacting with counterparties with high credit ratings.

(c) Fair value measurement: In accordance with the requirements of accounting guidance relating to Fair Value Measurement the Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Accounting for Revenues and Related Expenses: The Company generates its revenues from charterers for the charter hire of its vessels. Vessels are chartered under time charter, where a contract is entered into for the use of a vessel for a specific voyage or a specific period of time and at a specified daily charter rate. Time charter revenues are recognized as earned on the straight-line basis over the term of the charter as service is provided. Revenues from time charter may also include ballast bonus, which is an amount paid by the charterer for repositioning the vessel at the charterer's disposal (delivery point), which is recognized as revenue over the term of the charter, and other miscellaneous revenues from vessel operations. Expenses relating to the Company's time charters are vessel operating expenses and certain voyage expenses, which are paid by the Company and recognized as incurred. Vessel operating expenses that are paid by the Company include costs for crewing, insurance, lubricants, spare parts, provisions, stores, repairs, maintenance, statutory and classification expense, drydocking, intermediate and special surveys and other minor miscellaneous expenses. Voyage expenses which are also recognized as incurred and paid by the Company include costs for draft surveys, hold cleaning, postage, extra war risk insurance, bunkers during ballast period and other minor miscellaneous expenses related to the voyage. The charterer is responsible for paying the cost of bunkers and other voyage expenses (e.g., port expenses, agents' fees, canal dues, extra war risks insurance and any other expenses related to the cargo).

Revenue is recognized when a charter agreement exists, the vessel is made available to the charterer and collection of the related revenue is reasonably assured. Unearned revenue includes: (i) cash received prior to the balance sheet date relating to services to be rendered after the balance sheet date and (ii) deferred revenue resulting from straight-line revenue recognition in respect of charter agreements that provide for varying charter rates. Accrued revenue results from straight-line revenue recognition in respect of charter agreements that provide for varying charter rates. Commissions (address and brokerage), regardless of charter type, are always paid by the Company, are deferred and amortized over the related charter period and are presented as a separate line item in revenues to arrive at net revenues in the accompanying consolidated statements of income.

Pension and Retirement Benefit Obligations-Crew: The Subsidiaries included in the consolidated financial statements employ the crew on board under short-term contracts (usually up to nine months) and accordingly, they are not liable for any pension or post-retirement benefits.

Taxes: Entities within the group that are incorporated under the laws of either the Republic of Liberia or the Republic of the Marshall Islands are not subject to Liberian or Marshall Islands income taxes. However, each vessel-owning Subsidiary is subject to registration and tonnage taxes under the laws of the Republic of Cyprus or the Republic of the Marshall Islands depending on where each Company's vessel is registered. As of January 1, 2013, each vessel managed in Greece is subject to tonnage tax, under the laws of the Republic of Greece. In addition, as of December 31, 2013, each vessel managed in Greece is also subject to an annual shipping community mandatory financial contribution for the years 2014, 2015 and 2016 under the laws of the Republic of Greece. These registration, tonnage taxes and financial contributions are recorded within Vessel Operating Expenses in the accompanying consolidated statements of income and none are considered income taxes.

Furthermore, the Subsidiaries are subject to a 4% U.S. federal tax in respect of its U.S. source shipping income (imposed on gross income without the allowance for any deductions), because none of the Subsidiaries meet the requirements for an exemption from such tax provided by Section 883 of the U.S. Internal Revenue Code of 1986. As a result, the Subsidiaries file U.S. federal tax returns and pay the relevant U.S. federal tax on their U.S. source shipping income, which is not considered an income tax. Such taxes have been recorded within Voyage expenses in the accompanying consolidated statements of income. In many cases, these taxes are recovered from the charterers; such amounts recovered are recorded within Revenues in the accompanying consolidated statements of income.

Dividends: Dividends are recorded in the period in which they are approved by the Company's Board of Directors.

Segment Reporting: The Company reports financial information and evaluates its operations by total charter revenue and not by the type of vessel or vessel employment for its customers. The Company's vessels have similar operating and economic characteristics. As a result, management, including the chief operating decision makers, reviews operating results solely by revenue per day and operating results of the fleet, and thus the Company has determined that it operates under one reportable segment. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, the disclosure of geographic information is impracticable.

Recent Accounting Pronouncements: There were no recent accounting pronouncements which had a material effect on the Company's consolidated financial statements in the current period. Nor were there any recent accounting pronouncements which the Company has not yet adopted that will have a significant effect on the consolidated financial statements.

3. Transactions with Related Parties

Safety Management Overseas S.A., Panama (the "Manager"): On May 29, 2008, Safe Bulkers signed a management agreement (the "Management Agreement") with Safety Management, a related party that is controlled by Polys Hajioannou. Under



the Management Agreement, the Manager provides to Safe Bulkiers executive officers at no cost and management services to vessel-owning Subsidiaries. Each vessel-owning Subsidiary has entered into, or in the case of vessels not yet delivered, will enter into, a management agreement with the Manager (the "Shipmanagement Agreements"). Under these Shipmanagement Agreements, chartering, operations, technical and accounting services are provided to the vessels by the Manager. In accordance with the Management Agreement and the Shipmanagement Agreements, the Manager receives a fixed fee per vessel calculated proportionally to the number of ownership days, (the "Fixed Fee"), plus, a variable fee calculated on gross freight, charter hire, ballast bonus and demurrage (the "Variable Fee"). Fixed Fees and Variable Fees are recorded in General and Administrative Expenses (refer to Note 18). In addition, under the Supervision Agreements, the Manager receives a supervision fee in exchange for on-site supervision services with respect to all newbuilds, of which 50% is payable upon the signing of the relevant Supervision Agreement, and 50% upon successful completion of the sea trials of each newbuild (the "Supervision Fee"). Supervision Fees are recorded in Advances for vessel acquisition and vessels under construction (refer to Note 6). Furthermore under the Management Agreement, the Manager receives a sales fee calculated by the contract price for each vessel sold, (the "Sales Fee") payable upon the conclusion of the vessel sale, and an acquisition fee calculated on the contract price of each vessel constructed or purchased, (the "Acquisition Fee") payable upon the conclusion of the vessel acquisition, in exchange for services provided in relation to a sale or an acquisition of a vessel respectively. Sales Fees are recorded in Gain on sale of assets. Acquisition fees are recorded in Advances for vessel acquisition and vessels under construction (refer to Note 6).

The management fees can be adjusted annually effective May 29 of each year, the anniversary of our entry into the Management Agreement. On May 29, 2011, the Fixed Fee was adjusted to \$0.700 from \$0.575, and the Supervision Fee was adjusted to \$550 from \$375, while all other management fees remained constant. No readjustment has been made since then on any of the fees.

Fees pursuant to the Management Agreement, the Shipmanagement Agreements and the Supervision Agreements are as follows:

For the Years Ended May 29, (In thousands of U.S. Dollars, except of Variable, Sales and Acquisition fees)				
	2011	2012	2013	
Fixed Fee	\$ 0.575	\$ 0.700	\$ 0.700	
Variable Fee	1.25 %	1.25 %	1.25 %	
Supervision Fee	\$ 375	\$ 550	\$ 550	
Sales Fee	1.00 %	1.00 %	1.00 %	
Acquisition Fee	1.00 %	1.00 %	1.00 %	

On July 29, 2013, the Management Agreement was amended, to provide inter alia that to the extent the executive officers are not provided by the Manager but are instead employed by Safe Bulkiers, the management fee payable by Safe Bulkiers is reduced, in arrears, by an amount equal to the aggregate costs of compensation and benefits and other incidental costs borne by the Company as a result of such employment, and is recorded under Compensation for Directors and Officers within General and Administrative expenses (refer to Note 18).

Fees pursuant to the Management Agreement, the Shipmanagement Agreements and the Supervision Agreements are comprised of the following:

Year Ended December 31, (In thousands of U.S. Dollars)				
	2011	2012	2013	
Fixed and Variable fees	\$ 6,026	\$ 7,726	\$ 8,379	
Supervision Fees	2,113	1,375	1,925	
Acquisition Fees	1,348	1,810	823	

4. Accounts receivable

Accounts receivable are comprised of the following:

December 31,		
	2012	2013
Trade receivables	\$ 5,247	\$ 4,572
Other receivables	31,800	31,800
Total	\$ 37,047	\$ 36,372

Trade receivables reflect the current receivables from time or voyage charters.

Other receivables amounting to \$31,800 as of December 31, 2012 and December 31, 2013, reflect the receivables related to the cancellation of the acquisition agreement of newbuild Hull J0131. The Company had entered into a shipbuilding contract with Zhoushan Jinhaiwan Shipyard Co., (the "Shipyard") for the construction, sale and delivery by the Shipyard to it of one 180,000 DWT Capesize class newbuild vessel (Hull J0131) in exchange for \$53,000 (the "Shipyard Agreement"). In December 2012, after having paid \$31,800 in advances during construction, the Company exercised its termination right under the Shipyard Agreement due to the Shipyard's excessive construction delays. The Company delivered demands to each of the Shipyard and the Export Import Bank of China (a bank rated Aa3 by Moody's Investor Services) (the "Refund Guarantor"), pursuant to the shipbuilding contract and the refund guarantees, respectively, for a refund of the full amount of advances paid, with interest. In response, in January 2013, the Company received a notice of arbitration, and arbitration proceedings with the Shipyard were initiated in London, England. The Shipyard alleged that the Company's termination constituted a breach of the Shipyard Agreement and argued that the Company was not entitled to a refund of any of the advances paid or interest. Under the terms of the Shipyard Agreement and the relevant refund guarantees, the Company was entitled to receive interest on the advances paid, the accrued amount of which as of December 31, 2013, was \$4,153, (refer to Note 11c). The capitalized expenses in relation to newbuild Hull J0131 as of December 31, 2013, amounted to \$887, and the legal expenses incurred amounted to \$78 as of December 31, 2013 (refer to Note 11c). In September, 2013 a hearing was held in London relating to certain preliminary issues related to the case. In January 2014, an appealable arbitration award in favor of the Company was issued in relation to these preliminary issues, which provided that the Company had lawfully cancelled the shipbuilding contract and ordered the Shipyard to refund to the Company the full amount of the advances paid in the sum of \$31,800, with interest at the rate of five percent (5%) computed from the respective dates of the Company's advances. In February 2014, the Company served to the Refund Guarantor the arbitration award. The appeal period of the award lapsed on or about February 24, 2014, and the Company is and will continue vigorously pursuing the refund under the arbitration award.

5. Vessels, Net

Vessels, net, are comprised of the following:

	Vessel Cost	Accumulated Depreciation	Net Book Value
Balance, January 1, 2012	\$ 743,116	\$ (87,760)	\$ 655,356
Transfer from Advances for vessel acquisitions and vessels under construction	186,895	-	186,895
Depreciation expense	-	(32,250)	(32,250)
Balance, December 31, 2012	\$ 930,011	\$ (120,010)	\$ 810,001
Transfer from Advances for vessel acquisitions and vessels under construction	82,593	-	82,593
Depreciation expense	-	(37,394)	(37,394)
Balance, December 31, 2013	\$ 1,012,604	\$ (157,404)	\$ 855,200

Transfer from Advances for vessel acquisitions and vessels under construction represents advances paid in respect of the acquisition of second hand vessels and newbuild vessels which were under construction and delivered to the Company. For the periods presented, the Company accepted delivery of the following vessels:

- During the year ended December 31, 2012: **Efrossini, Venus Horizon, Pedhoulas Builder, Pedhoulas Fighter, Pedhoulas Farmer and Kouliitsa; and**
- During the year ended December 31, 2013: **Paraskevi, Pedhoulas Commander, Zoe and Xenia.**

As of December 31, 2013, vessels with a carrying value of \$836,451 have been provided as collateral to secure the Company's bank loans as discussed in Note 8.

6. Advances for Vessel Acquisition and Vessels under Construction

Advances for vessel acquisition and vessels under construction are comprised of the following:	
Balance, January 1, 2012	\$ 122,307
Advances paid, including capitalized expenses and interest	136,902
Asset purchase cancellation	(32,412)
Transferred to vessel cost	(186,895)
Balance, December 31, 2012	\$ 39,902
Advances paid, including capitalized expenses and interest	118,990
Transferred to vessel cost	(82,593)
Balance, December 31, 2013	\$ 76,299

Advances paid for vessel acquisitions and vessels under construction comprise payments of installments that were due to the respective shipyard or third-party sellers, capitalized interest and certain capitalized expenses. During 2012 and 2013 such payments were made for the following vessels:

- During the year ended December 31, 2012: **Venus Horizon, Efrossini, Pedhoulas Builder, Pedhoulas Fighter, Pedhoulas Farmer, Koulitsa, Paraskevi, Hull J0131, Zoe (Hull 814), Lake Despina (Hull 8126), Kypros Land (Hull 1659), Hull 1660, Hull 1685 - (ex H 2396) and Hull 1686 - (ex H 2397)**; and
- During the year ended December 31, 2013: **Paraskevi, Pedhoulas Commander, Xenia, Zoe (Hull 814), Lake Despina (Hull 8126), Kypros Land (Hull 1659), Hull 1660, Hull 821, Hull 822, Hull 827, Hull 828, Hull 1685, Hull 1686 and Hull 1689.**

Transfers to vessel cost relate to the delivery to the Company from the respective shipyard or third-party seller of the following vessels:

- During the year ended December 31, 2012: **Efrossini, Venus Horizon, Pedhoulas Builder, Pedhoulas Fighter, Pedhoulas Farmer and Koulitsa**; and
- During the year ended December 31, 2013: **Paraskevi, Pedhoulas Commander, Zoe, and Xenia.**

Asset purchase cancellation relates to the cancellation of the acquisition of Hull J0131, under the Shipyard Agreement, during the year ended December 31, 2012, discussed in Note 4.

7. Deferred Finance Charges, Net

Deferred finance charges are comprised of the following:	
Balance, January 1, 2012	\$ 6,226
Additions	1,467
Amortization expense	(1,226)
Balance, December 31, 2012	\$ 6,467
Additions	132
Amortization expense	(1,252)
Balance, December 31, 2013	\$ 5,347

8. Bank Debt

Bank debt is comprised of the following secured borrowings:

Borrower	Commencement	Maturity	December 31,	
			2012	2013
Maxpente	July 2010	December 2013	\$ 33,900	\$ -
Marathassa	February 2005	December 2013	13,305	-
Marinouki	March 2006	December 2013	25,174	-
Soffive	November 2007	December 2013	33,000	-
Kerasies	December 2007	December 2013	30,932	-
Maxeikosi	August 2012	August 2014	17,875	16,668
Maxpente	December 2013	January 2015	-	30,838
Maxdodeka	December 2012	February 2016	23,150	-
Glovertwo	October 2013	October 2016	-	16,000
Marathassa	December 2013	February 2017	-	10,208
Marindou	December 2012	January 2018	28,400	28,400
Marinouki	December 2013	March 2018	-	20,963
Avstes	December 2012	April 2018	22,700	22,700
Eniaprohi	December 2012	November 2018	24,000	24,000
Petra	January 2007	January 2019	22,220	22,220
Eniadephi	December 2012	February 2019	33,750	33,750
Pemer	March 2007	March 2019	22,218	22,218
Eptaprohi	April 2012	April 2019	42,800	-
Pelea	December 2012	June 2019	32,298	32,298
Maxeikosiena	October 2012	October 2019	18,000	-
Soffive	December 2013	November 2019	-	27,840
Kerasies	December 2013	December 2019	-	24,744
Maxdekatria	March 2012	March 2020	20,800	20,400
Maxdeka	August 2011	December 2022	34,087	30,678
Staloudi	July 2008	July 2023	27,520	24,520
Shikoku	October 2011	August 2023	41,067	37,333
Maxeikositessera	September 2012	February 2024	33,971	31,017
Maxenteka	April 2012	April 2024	34,500	31,500
Total			\$ 615,667	\$ 508,295
Current portion			\$ 19,199	\$ 35,185
Long-term portion			\$ 596,468	\$ 473,110

The above loans and credit facilities generally bear interest at LIBOR plus a margin, except for a portion of the principal amounts of the Maxdeka, Shikoku, Maxenteka and Maxeikositessera loan facilities, which bear interest at the Commercial Interest Reference Rate ("CIRR") published by the Organization for Economic Co-operation and Development, as applicable on the date of the signing of the relevant loan agreements. The above loans and credit facilities are generally repayable in semi-annual installments and a balloon payment at maturity, except for the Maxdeka, Shikoku, Maxenteka and Maxeikositessera loan facilities, which are repayable in semi-annual installments. The fair value of bank debt outstanding on December 31, 2013 amounted to \$509,233 when valuing the respective portions of the Maxdeka, Shikoku, Maxenteka and Maxeikositessera loan facilities on the basis of the relevant CIRR, as applicable on December 31, 2013, which are considered to be Level 2 items in accordance with the fair value hierarchy.

As of December 31, 2013, an aggregate amount of \$86,154, was available for drawing under certain of the above loan agreements and reducing revolving credit facilities. The estimated minimum annual principal payments required to be made after December 31, 2013, based on the bank loan and the credit facility agreements as amended, are as follows:

To December 31,	
2014	\$ 35,185
2015	63,890
2016	49,089
2017	46,903
2018	109,290
2019 and thereafter	203,938
Total	\$ 508,295

Total interest incurred on long-term debt for the years ended December 31, 2011, 2012 and 2013 amounted to \$6,722, \$10,038, and \$9,553, respectively, which includes interest capitalized of \$1,472, \$966 and \$467 for the years ended December 31, 2011, 2012 and 2013, respectively. The average interest rate (including the margin) for all bank loan and credit facilities during the years 2011, 2012 and 2013 was 1.439% p.a., 1.850% p.a., and 1.737% p.a., respectively.

Certain of the above loans or credit facilities have a currency conversion option whereby the borrower may elect to convert the outstanding loan amount or any part thereof to certain currencies specified in each agreement, using the spot exchange rate applicable on the date of conversion. Specified currencies include Japanese Yen ("JPY"), Swiss Franc ("CHF"), Euro ("EUR"), Canadian dollar ("CAD") or pound sterling ("GBP"), depending on the relevant agreement. In all the above loans and credit facilities with a currency conversion option, no consideration has been or will be paid by any of the borrowers to the respective lenders in connection with the conversion option since the parties did not ascribe value to the conversion option as the conversion options are always based on the market or spot rates at the time they are exercised. The exercise of the conversion option in any of the above loans or credit facilities results in a change in both the currency denomination of the loan and the basis of the interest rate (that is, a USD-denominated loan bears interest based on USD LIBOR and, upon conversion into a JPY-denominated loan, will bear interest based on JPY LIBOR). All other terms of the loans or credit facilities, including the margin (the interest rate spread over LIBOR) and the repayment terms, will remain the same upon exercise of the currency conversion option.

The Company considered the accounting guidance relating to Accounting for Derivative Instruments and Hedging Activities, and concluded that the conversion options are embedded derivatives that would require bifurcation and separate accounting because of the following:

- (i) The economic characteristics and risks of an instrument in which the underlying is both a foreign currency and the interest rate is not clearly and closely related to the economic characteristics and risks of a debt host;
- (ii) The borrowing arrangement that embodies both the conversion option and the debt host is not remeasured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur; and
- (iii) A separate instrument with the same terms as the conversion option would be a derivative instrument subject to the requirements of this accounting guidance.

However, the Company believes that the conversion option under the borrowing arrangements has no fair value due to the fact that the conversion into a different currency, and, accordingly, into a corresponding LIBOR interest rate, will always be at the prevailing foreign currency exchange rate (spot rate) and prevailing interest rate at the time of the conversion. Furthermore, both the Company and the bank did not ascribe value to the currency conversion options as no consideration was sought by the bank and no value was paid by the Company, as noted above.

As of December 31, 2012 and 2013 all loans were denominated in US Dollars.

The foregoing loan and credit facilities are secured as follows:

- First priority mortgages over the vessels owned by the respective borrowers;
- First priority assignment of all insurances and earnings of the mortgaged vessels;
- Second priority mortgage over the **Pedhoulas Merchant** as security for the Petra loan;
- Second priority mortgage over the **Pedhoulas Trader** as security for the Pemei loan; and
- Corporate guarantee from Safe Bulk Carriers.

The loan and credit facility agreements, as amended, contain debt covenants including restrictions as to changes in management and ownership of the vessels, additional indebtedness and mortgaging of vessels without the respective lender's prior consent, minimum vessel insurance cover ratio requirements, as well as minimum fair vessel value ratio to outstanding loan

principal requirements; the fair vessel value being determined according to the provisions of the individual loan or credit facility agreements with the relevant bank (the "Minimum Value Covenant"). The borrowers are permitted to pay dividends to their owners as long as no event of default under the respective loan has occurred or has not been remedied.

One of the loan and facility agreements requires the respective borrowers to maintain at all times a minimum balance of \$150 in each vessel operating account. One of the loan and facility agreements requires the respective borrower to maintain at all times a minimum balance of \$500 in the vessel operating account.

In addition, the corporate guarantees, as amended, by Safe Bulk Carriers include the following financial covenants:

- its total consolidated liabilities divided by its total consolidated assets must not at any time exceed 80% or 85% as the case may be (the "Consolidated Leverage Covenant"). The total consolidated assets are based on the fair market value of its vessels and the book values of all other assets, on an adjusted basis as set out in the relevant guarantee;
- the ratio of its aggregate debt to EBITDA must not at any time exceed 5.5:1 on a trailing 12 month basis or as the case may be the ratio of its aggregate debt after deducting cash to EBITDA must not at any time exceed 8.5:1 or 6.5:1, as applicable on a trailing 12 month basis ("EBITDA Covenant"). EBITDA is not a recognized measurement under US GAAP and represents net income before net interest expense, income tax expense, depreciation and amortization;
- its consolidated net worth (total consolidated assets less total consolidated liabilities) ("Consolidated Net Worth Covenant") must not at any time be less than \$150,000;
- payment of dividends is subject to no event of default having occurred;
- maintenance of minimum free liquidity of \$500 is required on deposit with a relevant lender; and
- a minimum of 51% of its shares shall remain directly or indirectly beneficially owned by the Hajoannou family for the duration of the relevant credit facilities.

As of December 31, 2013, the Company was in compliance with all debt covenants with respect to its loans and credit facilities.

9. Investment

During the year ended December 31, 2009, the Company invested \$50,000 in a five-year Floating Rate Note issued by HSBC Bank Middle East Limited, which is recorded in the consolidated balance sheet at amortized cost as the Company intends to hold the investment until its maturity on October 14, 2014. The Company receives interest on a quarterly basis, based on the three-month USD LIBOR plus a margin of 1.5%. The fair market value of the Floating Rate Note as of December 31, 2013 was approximately \$50,077, which was equal to the exit price the Company would receive from the relevant bank based on an indicative bid price, which is considered to be a Level 2 item in accordance with the fair value hierarchy. Subject to certain conditions, the Company may borrow up to 80% of the Floating Rate Note amount.

10. Share Capital

The Company was incorporated on December 11, 2007 with authorized share capital of 500 shares of common stock with a par value of \$0.001 per share. On May 9, 2008, the Company's Articles of Incorporation were amended. Under the amended Articles of Incorporation, the Company's authorized capital stock consists of 200,000,000 shares of common stock with a par value of \$0.001 per share, of which 54,500,000 shares were issued prior to the listing of the Company's common stock on the NYSE, completed on June 3, 2008, and 20,000,000 shares of preferred stock with a par value of \$0.01 per share. In connection with the IPO process, Vorini Holdings sold 10,000,000 shares of common stock of the Company with a par value of \$0.001 per share at a price of \$19 per share. No proceeds were paid to the Company.

In March 2010, the Company successfully completed a public offering, whereby 10,350,000 shares of Safe Bulk Carriers common stock were issued and sold at a price of \$7 per share, and a private placement, whereby 1,000,000 shares of Safe Bulk Carriers common stock was issued and sold to Vorini Holdings. The net proceeds of the public offering and the private placement were \$74,967, net of underwriting discount of \$3,150 and offering expenses of \$861.

In April 2011, the Company successfully completed a public offering, whereby 5,000,000 shares of Safe Bulk Carriers common stock were issued and sold at a price of \$8.4 per share. The net proceeds of the public offering were \$39,637, net of underwriting discount of \$2,100 and offering expenses of \$263.

In March 2012, the Company successfully completed a public offering, whereby 5,750,000 shares of Safe Bulk Carriers common stock were issued and sold at a price of \$6.5 per share. The net proceeds of the public offering were \$35,237, net of underwriting discount of \$1,869 and offering expenses of \$268.

In June 2013, the Company successfully completed a public offering, whereby 800,000 shares of Safe Bulk Carriers series B cumulative redeemable perpetual preferred shares were issued and sold at a price of \$25.00 per share, and a private placement, whereby 800,000 shares of Safe Bulk Carriers series B cumulative redeemable perpetual preferred shares were issued and sold to

Chalkoessa, at the public offering price. The net proceeds of the public offering and the private placement were \$38,865 net of underwriting discount of \$672 and offering expenses of \$463.

In November 2013, the Company successfully completed a public offering, whereby 5,750,000 shares of Safe Bulkers common stock were issued and sold at a price of \$7.43 per share, and a private placement, whereby 1,000,000 shares of Safe Bulkers common stock were issued and sold to Bellapais, at the public offering price. The net proceeds of the public offering and the private placement were \$47,980, net of underwriting discount of \$1,898 and offering expenses of \$275.

Pursuant to an arrangement approved by the Company's shareholders' and the nominating and compensation committee, effective July 1, 2008, the audit committee chairman receives the equivalent of \$15 every quarter, payable in arrears in the form of newly issued Company common stock as part compensation for services rendered as audit committee chairman. The number of shares to be issued is determined based on the closing price of the Company's common stock on the last trading day prior to the end of each quarter in which services were provided and the shares are issued as soon as practicable following the end of the quarter. During the years ended December 31, 2012 and 2013, 9,767 shares and 12,517 shares, respectively, were issued to the audit committee chairman.

Pursuant to an arrangement approved by the Company's shareholders and the nominating and compensation committee, effective January 1, 2010, the independent directors of the Company, other than the audit committee chairman, each receive the equivalent of \$7.5 every quarter, payable in arrears in the form of newly issued Company common stock as part compensation for services rendered as independent directors. The number of shares to be issued is determined as noted above. During the years ended December 31, 2012 and 2013, 9,768 shares and 12,516 shares, respectively were issued to the independent directors of the Company, other than the audit committee chairman.

11. Commitments and Contingencies

(a) Commitments under Shipbuilding Contracts and Memorandums of Agreement ("MoAs")

As of December 31, 2013 the Company had commitments under four shipbuilding contracts and six MoAs for the acquisition of ten newbuilds. The Company expects to settle these commitments as follows:

Year Ending December 31	Due to Shipyards / Sellers	Due to Manager	Total
2014	\$ 110,016	\$ 3,100	\$ 113,116
2015	121,496	4,026	125,522
2016	20,894	577	21,471
Total	\$ 252,406	\$ 7,703	\$ 260,109

(b) Other contingent liabilities

The Company and its Subsidiaries have not been involved in any legal proceedings other than an arbitration legal proceeding in relation to the cancellation of the acquisition of newbuild Hull J0131 under the Shipyard Agreement, as discussed in Note 4, that may have, or have had, a significant effect on their business, financial position, results of operations or liquidity, nor is the Company aware of any proceedings that are pending or threatened that may have a significant effect on its business, financial position, results of operations or liquidity. From time to time various claims, suits and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, shipyards, insurance providers and other claims relating to the operation of the Company's vessels. Management is not aware of any material claims or contingent liabilities which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

The Company accrues for the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Management is not aware of any such claims or contingent liabilities which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements. A maximum of \$1,000,000 of the liabilities associated with the individual vessel actions, mainly for sea pollution, is covered by P&I Club insurance.

(c) Contingent gain

In relation to the cancellation of the Shipyard Agreement discussed in Note 4, the Company expects, based on the facts and circumstances surrounding the cancellation of the construction of the vessel due to delays in the construction process and on the basis of legal advice received from legal counsel, to record a gain when cash is received which as of December 31, 2013 amounted to \$3,188, on successful settlement of the legal case, which represents accrued interest income of \$4,153 on the

advances paid to Shipyard, net of capitalized expenses of \$887, related to vessel's construction and of legal expenses incurred related to the cancellation of \$78.

(d) Credit facilities

- (i) In July 2013, the Company accepted a commitment letter from a bank for a credit facility for up to \$50,000, to be used to finance part of the purchase price of **Lake Despina (Hull 8126)** and of **Hull 1660** and also for general corporate purposes. The credit facility comprises a term loan tranche of up to \$15,000 and a reducing revolving tranche of up to \$35,000. The credit facility is repayable over five years in 10 semi-annual consecutive installments commencing six months after drawdown and a balloon payment payable with the final installment.
- (ii) In September 2013, the Company accepted a commitment letter from a bank for a credit facility for up to \$13,000, to be used to refinance part of the purchase price of the **Pedhoulas Commander** and also for general corporate purposes. The credit facility comprises a term loan tranche of up to \$4,875 and a reducing revolving tranche of up to \$8,125. The credit facility is repayable over five years in 10 semi-annual consecutive installments commencing six months after drawdown and a balloon payment payable with the final installment.

12. Revenues

Revenues are comprised of the following:

	Year Ended December 31		
	2011	2012	2013
Time charter revenue	\$ 167,759	\$ 179,653	\$ 177,077
Ballast bonus	2,382	6,397	10,878
Other income	1,895	1,507	3,565
Total	\$ 172,036	\$ 187,557	\$ 191,520

13. Vessel Operating Expenses

Vessel operating expenses are comprised of the following:

	Year Ended December 31		
	2011	2012	2013
Crew wages and related costs	\$ 13,196	\$ 17,202	\$ 22,015
Insurance	2,260	2,828	3,477
Repairs, maintenance and drydocking costs	2,108	2,493	3,240
Spares, stores and provisions	4,055	6,939	7,533
Lubricants	3,059	3,296	2,787
Taxes	212	303	669
Miscellaneous	1,176	1,479	2,243
Total	\$ 26,066	\$ 34,540	\$ 41,964

14. Fair Value of Financial Instruments and Derivatives Instruments

Over-the-counter foreign exchange forward contracts and interest rate derivatives are recorded at fair value. The carrying values of the current financial assets and current financial liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair values of the variable interest long-term debt approximate the recorded values, due to their variable interest rates. The fair value of the fixed interest long-term debt is estimated using prevailing market rates as of the period end. The fair values of the long-term debt and long-term investment (the floating rate note) are disclosed in Note 8 and 9, respectively.

Derivative instruments

The Company enters into interest rate swap transactions to manage interest costs and the risk associated with changing interest rates with respect to its variable interest rate loans and credit facilities. The Company, from time to time, may also enter into foreign exchange forward contracts to create economic hedges for its exposure to currency exchange risk on payments relating to acquisition of vessels and on certain loan obligations or for trading purposes. Foreign exchange forward contracts are agreements

entered into with a bank to exchange, at a specified future date, currencies of different countries at a specific rate. As of December 31, 2012 and 2013, the Company had no outstanding derivative instruments relating to currency exchange contracts.

The Company's interest rate swaps and foreign exchange forward contracts did not qualify for hedge accounting. The Company marks to market the fair market value of the interest rate swaps and foreign exchange forward contracts at the end of every period and accordingly records the resulting unrealized loss/gain during the period in the consolidated statement of income. Information on the location and amounts of derivative fair values in the consolidated balance sheets and derivative gains/losses in the consolidated statements of income are shown below:

Derivatives not designated as hedging instruments

Type of Contract	Balance sheet location	Asset Derivatives Fair Values		Liability Derivatives Fair Values	
		December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013
Interest Rate	Derivative assets / Non-current assets	\$ -	\$ 762	\$ -	\$ -
Interest Rate	Derivative liabilities / Current liabilities	-	-	591	732
Interest Rate	Derivative liabilities / Non-current liabilities	-	-	8,978	3,270
	Total Derivatives	\$ -	\$ 762	\$ 9,569	\$ 4,002

	Amount of (Loss) / Gain Recognized on Derivatives Year ended December 31,	
	2012	2013
Interest Rate Contracts	\$ (5,384)	\$ 813
Net (Loss) / Gain Recognized	\$ (5,384)	\$ 813

The gain or loss is recognized in the consolidated statement of income and is presented in Other (Expense)/Income - Loss on Derivatives.

The Company's interest rate derivative instruments are pay-fixed, receive-variable interest rate swaps based on the USD LIBOR swap rate. The fair value of the interest rate swaps is determined using a discounted cash flow approach based on market-based LIBOR swap yield curves. LIBOR swap rates are observable at commonly quoted intervals for the full terms of the swaps and therefore are considered Level 2 items in accordance with the fair value hierarchy. The following table summarizes the valuation of the Company's financial instruments as of December 31, 2012 and 2013.

	Significant Other Observable Inputs (Level 2) December 31,	
	2012	2013
Derivative instruments - asset position	\$ -	\$ 762
Derivative instruments - liability position	9,569	4,002

As of December 31, 2012 and 2013, no fair value measurements for assets or liabilities under Level 1 or Level 3 were recognized in the Company's consolidated balance sheet.

Interest Rate Derivatives

Details of interest rate swap transactions entered into with certain banks in respect of certain loans and credit facilities as of December 31, 2012 and 2013 are presented in the table below:

Loan or Credit Facility	Inception	Expiry	Fixed Rate	Notional amount	
				December 31, 2012	December 31, 2013
Marindou (1)	January 14, 2008	January 14, 2013	3.9500 %	\$ 25,759	\$ -
Petra (1)	February 19, 2008	January 18, 2013	2.8850 %	28,271	-
Maxdodeka (2)	February 01, 2010	February 01, 2013	3.9100 %	30,600	-
Marinouki (1)	March 19, 2008	March 05, 2013	2.7300 %	26,051	-
Pemer (1)	March 07, 2008	March 07, 2013	2.7450 %	28,268	-
Avstes (1)	April 25, 2008	April 18, 2013	3.8900 %	25,684	-
Eniadephi (1)	April 01, 2009	February 12, 2014	3.3500 %	37,125	34,875
Eniaprohi (2)	November 14, 2011	November 13, 2014	1.4000 %	35,552	33,328
Soffive (2)	November 20, 2011	November 20, 2014	1.3500 %	34,800	32,400
Staloudi (2)	January 09, 2012	January 07, 2015	1.4500 %	42,040	38,400
Maxpente (2)	January 31, 2011	January 31, 2015	1.2200 %	36,400	33,900
Marathassa (2)	November 23, 2012	November 21, 2015	1.9500 %	14,935	13,305
Kerasies (2)	December 14, 2010	December 14, 2015	1.6500 %	30,932	28,798
Pelea (2)	December 15, 2011	December 14, 2016	2.0500 %	34,935	32,962
Maxdekatria (2)	September 28, 2012	September 28, 2017	0.9000 %	20,800	20,800
Marindou (2)	January 14, 2013	January 16, 2018	1.6000 %	28,500	28,500
Petra (2)	January 18, 2013	January 18, 2018	0.9800 %	-	14,000
Marinouki (2)	March 05, 2013	March 05, 2018	1.4800 %	25,174	24,297
Pemer (2)	June 07, 2013	March 07, 2018	0.9475 %	-	14,000
Avstes (2)	July 18, 2013	April 18, 2018	1.3500 %	-	14,000
Shikoku (2)	August 28, 2013	August 28, 2018	1.2500 %	-	18,667
Total				\$ 505,826	\$ 382,232

(1) Under these swap transactions, the bank effects semiannual floating-rate payments to the Company for the relevant amount based on the six-month USD LIBOR, and the Company effects semiannual payments to the bank on the relevant amount at the respective fixed rates.

(2) Under these swap transactions, the bank effects quarterly floating-rate payments to the Company for the relevant amount based on the three-month USD LIBOR, and the Company effects quarterly payments to the bank on the relevant amount at the respective fixed rates.

The notional amounts of the above transactions are reduced during the term of the swap transactions based on the expected principal outstanding under the respective facility.

15. Accrued Liabilities

Accrued liabilities are comprised of the following:

	December 31,	
	2012	2013
Interest on long-term debt	\$ 1,720	\$ 1,536
Vessels' operating and voyage expenses	1,929	1,055
Commissions	65	92
Interest on derivatives and other finance expenses	2,439	1,006
General and administrative expenses	211	176
Total	\$ 6,364	\$ 3,865

16. Early Redelivery Income, Net

From time to time, the Company enters into arrangements for early redelivery of its vessels from charterers and may continue to do so in the future, depending on market conditions. Early redelivery costs are incurred when the contracted daily fixed charter rates are substantially lower than the daily charter rates the vessels could potentially earn in the current market. Income is recognized in connection with early termination of a period time charter, resulting from a request of the respective vessel charterers for early redelivery and agreement to compensate the Company. Early redelivery costs for the periods presented represent costs incurred in connection with early termination of charters for which no replacement charter contract for the relevant vessel has been secured at the time of concluding the charter termination agreement, and are recognized at the time the charter termination agreement is concluded. Early redelivery income is recognized when a charter termination agreement exists, the vessel is redelivered to the Company and collection of the related compensation is reasonably assured. If at the time



of concluding the early redelivery agreement a replacement charter contract had been secured, any costs incurred or income recognized would have been amortized over the term of the replacement charter contract.

Company	Date	Year Ended December 31		
		2011	2012	2013
Eniadephi	(a) December 15, 2012	\$ -	\$ 8,475	\$ -
Marindou	(b) December 19, 2012	-	3,202	-
Soffive	(c) April 22, 2013	-	-	2,965
Avstes	(d) May 3, 2013	-	-	2,304
Kerasies	(e) May 16, 2013	-	-	1,781
Other minor early redeliveries	Various	207	-	-
Total		\$ 207	\$ 11,677	\$ 7,050

Details of the transactions presented in the above table are as follows:

- (a) On December 15, 2012, Eniadephi took early redelivery of the Martine, instead of on January 21, 2014. In connection with this early redelivery, we recognized early redelivery income of \$8,475, comprising cash compensation paid by the relevant charterer of \$8,644, net of commissions, less accrued revenue of \$169.
- (b) On December 19, 2012, Marindou took early redelivery of the Maria, instead of on February 24, 2014. In connection with this early redelivery, we recognized early redelivery income of \$3,202, comprising cash compensation paid by the relevant charterer of \$3,375, net of commissions, less accrued revenue of \$173.
- (c) On April 22, 2013, Soffive took early redelivery of the Sofia, instead of on September 19, 2013. In connection with this early redelivery, we recognized early redelivery income of \$2,965, comprising of cash compensation paid by the relevant charterer.
- (d) On May 3, 2013, Avstes took early redelivery of the Vassos, instead of on October 1, 2013. In connection with this early redelivery, we recognized early redelivery income of \$2,304, comprising cash compensation paid by the relevant charterer of \$2,607, net of commissions, less accrued revenue of \$303.
- (e) On May 16, 2013, Kerasies took early redelivery of the Katerina, instead of on January 1, 2014. In connection with this early redelivery, we recognized early redelivery income of \$1,781, comprising cash compensation paid by the relevant charterer of \$2,087, net of commissions, less accrued revenue of \$306.

In all the cases presented above, no replacement charter contract had been secured at the time of the termination of the respective early redelivery agreement.

17. Future Minimum Time Charter Revenue

The future minimum time charter revenue, net of commissions, based on vessels committed to non-cancelable time charter contracts (including fixture recaps) as of December 31, 2013, is as follows:

December 31,	
2014	\$ 59,900
2015	27,544
2016	22,415
2017	22,056
2018	22,958
Thereafter	151,339
Total	\$ 306,212

Future minimum time charter revenue excludes the future acquisitions of the vessels discussed in Note 11, since estimated delivery dates are not confirmed. Revenues from time charters are not generally received when a vessel is off-hire, including time required for normal periodic maintenance. In arriving at the minimum future charter revenues, an estimated off-hire time of 12 days to perform any scheduled drydocking on each vessel has been deducted, and it has been assumed that no additional off-hire time is incurred, although such estimate may not be reflective of the actual off-hire in the future.

18. General and Administrative Expenses

General and administrative expenses include management fees payable to our Manager and costs in relation to our operation as a public company.

General and administrative expenses for the years ended December 31, 2011, 2012 and 2013 were as follows:

	December 31,		
	2011	2012	2013
Management fees - related party	\$ 6,026	\$ 7,726	\$ 8,379
Professional fees (legal and accounting)	839	588	648
Compensation for Directors and Officers	240	240	1,120
Listing fees and expenses	58	53	75
Miscellaneous	1,326	1,339	1,138
Total	\$ 8,489	\$ 9,946	\$ 11,360

19. Unearned Revenue / Accrued Revenue

Unearned Revenue represents cash received in advance of it being earned, whereas Accrued Revenue represents revenue earned prior to cash being received. Revenue is recognized as earned on a straight-line basis at their average rates when charter agreements provide for varying annual charter rates over their term. Total Unearned Revenue / Accrued Revenue during the periods presented is as follows:

	December 31,	
	2012	2013
Unearned Revenue		
Cash received in advance of service provided - Current liability	\$ 3,935	\$ 2,966
Deferred revenue resulting from varying charter rates		
Current liability	14,270	10,140
Non-current liability	3,419	196
Total Unearned Revenue	\$ 21,624	\$ 13,302
Accrued Revenue		
Resulting from varying charter rates - Current asset	\$ 554	\$ -
Resulting from varying charter rates - Non Current asset	92	-
Total Accrued Revenue	\$ 646	\$ -

20. Dividends

During 2013, the Company declared and paid three consecutive quarterly dividends of \$0.05 per common share followed by one quarterly dividend of \$0.06 per common share, totaling \$16,507.

During 2013, the Company declared and paid one quarterly dividend of \$0.26111 per preferred share followed by one quarterly dividend of \$0.51111 per preferred share, totaling \$1,235.

21. Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the year and includes the shares issuable to the audit committee chairman and the independent directors at the end of the year for services rendered. Diluted earnings per share are the same as basic earnings per share. There are no other potentially dilutive shares. The computation of basic earnings per share is calculated after deducting the preferred stock dividend from net income.



22. Subsequent Events

- (a) **Dividend declaration:** On January 10, 2014, the Board of Directors declared a dividend of \$0.50 per preferred share, totaling \$800, payable to all shareholders of record as of January 24, 2014, which was paid on January 30, 2014.
- (b) **Newbuild deliveries:** In January 2014, the Company took delivery of Lake Despina, a 181,400 dwt, Japanese newbuild Capesize class vessel, and of Kypros Land, a 77,100 dwt, Japanese newbuild Panamax class vessel.
- (c) **Credit facility:** In January 2014, the Company entered into the documentation regarding the credit facility discussed in Note 11 (d) (i) and drew down in full the term loan portion of that facility.
- (d) **Credit facility:** In February 2014, the Company accepted a commitment letter from a bank for a loan facility for up to \$51,000 to be used to finance part of the purchase price of Kypros Land (Hull 1659) and of Hull 821, to refinance existing indebtedness and also for general corporate purposes. The credit facility comprises a term loan tranche of up to \$30,900 and a reducing revolving tranche of up to \$20,100. The credit facility is repayable over five years in 10 semi-annual consecutive installments commencing six months after drawdown and a balloon payment payable with the final installment.
- (e) **Dividend declaration:** On February 21, 2014, the Board of Directors declared a dividend of \$0.06 per common share, totaling \$5,006, payable to all shareholders of record as of March 10, 2014, on March 17, 2014.

CORPORATE DIRECTORY

Board of Directors and Management

Polys Hajioannou,
Chief Executive Officer,
Chairman and Director

Dr. Loukas Barmparis
President, Secretary and Director

Konstantinos Adamopoulos
Chief Financial Officer,
Treasurer and Director

Ioannis Foteinos
Chief Operating Officer and Director

Frank Sica
Director

John Gaffney
Director

Ole Wikborg
Director

Principal Executive office

Safe Bulkers, Inc.
Apt. D11, Les Acanthes
6, Avenue des Citronniers
MC98000, Monaco

Representation office

Safe Bulkers, Inc.
30-32 Karamanli Avenue
Voula, 166 73
Athens, Greece

Contact Details

Tel: +30 2 111 888-400
Fax: +30 2 111 878-500
E-mail: directors@safebulkers.com

Website

Information about Safe Bulkers, Inc.'s fleet, as well as corporate investor information, press releases, stock quotes, and SEC filings may be obtained through our website at www.safebulkers.com

Transfer Agent and Registrar

American Stock Transfer & Trust Company
6201 15th Avenue, Brooklyn, NY 11219
Tel: +1 (718) 9218210

U.S. Legal Counsel

Kirkland & Ellis LLP
601 Lexington Avenue
New York, NY 10022
Tel: +1 (212) 446-4800

U.K./Greek Legal Counsel

Norton Rose LLP
Building K1
1 Palea Leoforos Posidonos &
3 Moraitini street
175 64 Paleo Faliro, Greece
Tel: +30 (210) 947-5300

Independent Auditors

Deloitte Hadjipavlou, Sofianos &
Cambanis S.A.
Fragoklissias 3a & Granikou str.,
Marousi 151 25
Athens, Greece
Tel: + 30 (210) 678-1100

Investor Relations/Media Contact

Eleni Bej, Vice President
Capital Link, Inc.
230 Park Avenue, Suite 1536
New York, N.Y. 10169
Tel.: (212) 661-7566
Fax: (212) 661-7526
E-Mail: safebulkers@capitalink.com

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Principal Executive office
Apt. D11, Les Acanthes
6, Avenue des Citronniers
MC98000, Monaco

Representation office
30-32 Karamanli Avenue
Voula 166 73
Athens, Greece

[www. safebulk.com](http://www.safebulk.com)