



*seanergy*

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A N N U A L  
R E P O R T 2012

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Seanergy Maritime Holdings Corp.





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# Seanergy

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## Annual Report 2012

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# Seanergy's Fleet

## Our Fleet

The following table provides information with respect to the Company's owned fleet:

Vessel Name	Vessel Class	Capacity (DWT)	Year Built
Bremen Max	Panamax	73,503	1993
Hamburg Max	Panamax	73,498	1994
Davakis G.	Supramax	54,051	2008
Delos Ranger	Supramax	54,057	2008
<b>Total</b>		<b>255,109</b>	<b>12.1</b>

## Fleet Employment

Vessel Name	Charter Type	Charterer	Charter Latest Expiration Date	Daily Charter Rate (Gross)
Bremen Max	N/A	N/A	N/A	Spot Positioning
Hamburg Max	T/C	Cargill	Oct. 2013	Spot Positioning
Davakis G.	T/C	Norden A/S, Copenhagen	Aug. 2013	Spot Positioning
Delos Ranger	V/C	Louis Dreyfus Commodities Suisse S.A.	Oct. 2013	Spot Positioning

# Financial Highlights

	2011	2012
<b>Selected Income Statement Highlights</b>		
Net Revenues	\$104,060	\$55,616
Vessel Operating Expenses	-\$34,727	-\$26,983
Management Fees	-\$2,991	-\$2,213
General and Administrative Expenses	-\$8,673	-\$6,739
Vessel and Goodwill Impairment Losses, Losses on Sale of Vessels	-\$201,905	-\$167,098
EBITDA	-\$148,125	-\$162,095
Adjusted EBITDA	\$53,780	\$5,003
Interest and Finance Cost, Net	-\$13,422	-\$12,421
Net Loss	-\$197,756	-\$193,768
Loss per Share	-\$27.04	-\$16.74
<i>Weighted Average number of Shares (Split-Adjusted)</i>	7,314,636	11,576,576

<b>Selected Balance Sheet Highlights</b>		
Current Assets	\$43,432	\$52,086
Cash and Cash Equivalents	\$37,294	\$6,298
Net Vessels	\$381,129	\$68,511
Current Liabilities	\$58,697	\$222,577
Current Portion of Long Term Debt	\$45,817	\$208,649
Long Term Debt	\$300,586	-
Total Stockholders' Equity	\$76,923	-\$101,617

<b>Selected Cash Flow Highlights</b>		
Net Cash Provided by Operating Activities	\$26,439	\$2,418
Net Cash Provided by Investing Activities	-	\$55,402
Net Cash Used in Financing Activities	-\$62,492	-\$71,256

<b>Selected Operational Highlights</b>		
Fleet Utilization	95.1%	86.3%
TCE Rate	\$14,524	\$7,465
Daily Vessel Operating Expenses per Vessel	\$4,757	\$4,189
Daily Management Fee per Vessel	\$410	\$344
Daily General and Administrative Expenses per Vessel	\$1,188	\$1,046

# Chairman's Review

*Dear fellow shareholders,*

2012 was a particularly difficult year for dry bulk shipping industry, as in February the charter market reached the lowest levels seen since 1986 owing to a combination of vessel oversupply and uncertainty about economic growth prospects. A modest improvement in sentiment was evident in the second half of the year, as China's announcement of fiscal stimulus and central banks' monetary accommodation provided a more stable backdrop.

Looking beyond volatility in market sentiment, the underlying demand fundamentals for dry bulk shipping remain positive as witnessed by the increasing volume of trade in recent years. Energy generation, infrastructure development and residential housing in developing countries are supported by favorable demographic dynamics and are not expected to abate in the coming years, even as economic growth expectations for China seem to trend downwards. Furthermore, the expanding supply of dry bulk commodities in many parts of the world is likely to spur increasing volumes of seaborne trade as well as an increase in distances travelled due to shifts in trade patterns.

Vessel oversupply remains the main cause for low charter rates as in 2012 the world net dry bulk fleet growth was about 10% given that the new-building vessel deliveries override the record demolition sales of about 34 million DWT. Since the start of 2013 net dry bulk fleet growth has amounted to 3.3%, while a further 58 million DWT of additional capacity is scheduled for delivery until the end of the year. So far, demolition activity has been strong with volume having fallen by 25% year on year.

From 2014 onwards, there is going to be a sharp drop in vessels' deliveries and the rate of growth in fleet supply is expected to match that of demand growth.

For Seanergy, 2012 was a transformational year, as we have worked extensively with our lenders in order to ultimately arrive at a capital structure that is going to ensure the viability of the company and support long term growth. In this context we have managed to reach final agreements with three of our five lenders in 2012 and with the fourth lender during 2013, which have resulted in significant debt reduction. Our aim now is to reach an agreement with our remaining lender in order to complete our restructuring plans.

We are currently in the low end of the dry bulk market cycle and opportunities exist that may offer long term investors favorable returns. Seanergy is working diligently to position itself to take advantage of the eventual upside of the dry bulk market and to share this upside with its shareholders.

Lastly, it is our priority to ensure the continuation of the excellent operational track record that has so far characterized our company.

On behalf of Seanergy's Board of Directors, I would like to thank our shareholders for their continued support of our Company.

Sincerely,  
Dale Ploughman  
Chairman of the Board of Directors  
July 2013

# Chief Executive Officer's Review

*To the shareholders of Seenergy,*

In this challenging market environment, we have begun working proactively with our lenders and advisors since 2012, to restructure our debt obligations so as to strengthen our financial position and capital structure. This process, when completed, will enable Seenergy, to significantly improve its balance sheet with considerably reduced liabilities in order to position the Company ahead of the widely anticipated rebound of the maritime industry.

Over the course of 2012 and to date, we managed to reduce our indebtedness to \$135 million, from \$346 million, through finalized agreements with four of our five lenders. We are now in advanced discussions with our remaining lender, aiming to complete the restructuring of our outstanding debt.

In connection with the debt restructuring, we sold 16 vessels, including our 100% ownership interest in Bulk Energy Transport (Holdings) Limited and seven MCS subsidiaries. Our strong banking relationships have been of paramount importance during this difficult time, which allowed us to discharge debt liabilities significantly higher than the disposed assets. Looking beyond the restructuring process, we will continue to work tirelessly towards our goal to rebuild our fleet and become an industry leader.

In regards to our financial performance in 2012, it was adversely affected by the low freight markets. The oversupply of new tonnage entering the market continued to lead to a weak dry bulk environment. As a result, our vessels were employed at significantly lower rates achieving an average daily Time Charter Equivalent rate, for the year, of \$7,465 per vessel per day. A figure that is almost half of what we achieved in 2011 of \$14,524. As a result our net revenues were down 47% compared to the previous year.

On an encouraging note, we continued to deliver a first-rate service to our highly reputable charterers and this will continue going forward. Our strategy will remain to employ our vessels on short period charter so we can take advantage of upswings in the market with a focus on the cost cutting measures initiated in 2011 that will support profitability. With an established technical manager, we believe that Seenergy today has highly competitive daily operating expenses as well as general and administrative expenses and fleet management fees.

Our mission since inception is to profit from positive long term fundamentals in the dry bulk shipping industry. We believe that currently asset values are at historically low levels, which present a unique investment opportunity as it is expected to allow investors to profit from the ensuing rebound in the market.

We expect rates to remain firm for the remainder of 2013 and strengthen in 2014 with the decrease of the scheduled new building deliveries. According to industry reports, dry bulk shipping demand growth is expected to be 6% in 2014 with fleet growth of 4%, net of slippage and removal of older tonnage. Therefore we expect substantial relief from the record high fleet growth experienced in 2012 of over 10% and about 15% in 2011. China continues to play an integral role for dry bulk shipping demand, as the new government has pledged record funds and unprecedented commitment in infrastructural growth. We expect that the current plan will continue its implementation over the next years and that the Chinese government will ensure that the proper policies are in place that will sustain China's growth.

Furthermore, we expect India to also lead to the support of a rise in the volume of transported



dry bulk commodities as the trade is a vital link to industrial production and electricity generation. Domestic supply of utility coal in India is not expected to meet the rise in energy demand and this will result in an increase in imports into the country. Lastly, the population growth in the Far East, specifically in Asian developing countries will also lead to an increase in grain trade as total food consumed will rise.

In closing, we would like to thank our lenders, advisors and shareholders for the support given to Seanergy during this period. In addition I would like to thank our staff for their loyal commitment and hard work. Our management team and our relationships with knowledge and experience in the capital markets and

shipping, would generate transactions that are accretive to earnings and shareholder value. Our strong partnership with the Restis family, our major shareholder and one of the largest ship owning and management groups in the industry, adds significant value in technical management and commercial agreements with first class charterers. Going forward, we are confident that we can position Seanergy, with a restructured balance sheet to be among the significant players of our industry and generate strong investor returns.

Sincerely,  
Stamatis Tsantanis  
Chief Executive Officer  
July 2013

# Board Committees & Shareholders' Information

Board of Directors		
Name	Position	Director Class
Dale Ploughman	Chairman of the Board of Directors	B (term expires in 2014)
Stamatis Tsantanis	Chief Executive Officer and Director	A (term expires in 2013)
Christina Anagnostara	Chief Financial Officer and Director	B (term expires in 2014)
Elias Culucundis	Director	A (term expires in 2013)
Dimitris Anagnostopoulos	Director	C (term expires in 2015)
George Tsimpis	Director	C (term expires in 2015)

Committees of the Board of Directors			
Audit Committee	Compensation Committee	Nominating Committee	Shipping Committee
Dimitris Anagnostopoulos George Tsimpis Elias Culucundis	Elias Culucundis George Tsimpis Dimitris Anagnostopoulos	Elias Culucundis George Tsimpis Dimitris Anagnostopoulos	Dale Ploughman Christina Anagnostara Elias Culucundis

Management	Headquarters	Contacts	Investor Relations / Media
Stamatis Tsantanis Chief Executive Officer  Christina Anagnostara Chief Financial Officer	Seenergy Maritime Holdings Corp. 1-3 Patriarchou Grigoriou 16674 Glyfada Athens, Greece Tel: +30 213 01 81 507	Seenergy Maritime Holdings Corp. Stamatis Tsantanis Christina Anagnostara  Tel: +30 213 01 81 507 e-mail: <a href="mailto:mail@seenergy-maritime.com.gr">mail@seenergy-maritime.com.gr</a>	Capital Link, Inc. Paul Lampoutis 230 Park Avenue Suite 1536 New York, NY 10169 Tel. (212) 661-7566 e-mail: <a href="mailto:seenergy@capitalink.com">seenergy@capitalink.com</a>

<b>Legal Matters:</b>	Seward and Kissel LLP	One Battery Park Plaza New York, NY 10004 US	Tel: (212) 574-1200
<b>Auditors:</b>	Ernst & Young (Hellas) Certified Auditors – Accountants S.A.	11 <sup>th</sup> Km National Road Athens-Lamia, Metamorphosis, Athens 144 51, Greece	Tel: +30 210 2886000
<b>Transfer Agent:</b>	Continental Stock Transfer & Trust Company	17 Battery Place, New York, New York 10004	Tel: (212) 845-3217



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2012

OR

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

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

OR

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

Date of event requiring this shell company report: Not applicable

Commission file number: 001-34848

**SEANERGY MARITIME HOLDINGS CORP.**

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(Exact name of Registrant as specified in its charter)

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(Translation of Registrant's name into English)

Republic of the Marshall Islands

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(Jurisdiction of incorporation or organization)

1-3 Patriarchou Grigoriou Street, 166 74 Glyfada, Athens, Greece

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(Address of principal executive offices)

Stamatis Tsantanis, Chief Executive Officer  
Seanergy Maritime Holdings Corp.  
1-3 Patriarchou Grigoriou Street, 166 74 Glyfada, Athens, Greece  
Telephone: 011-30 210 8931507, Fax: 011-30 210 9638450

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

<b>Title of class</b>	<b>Name of exchange on which registered</b>
Shares of common stock, par value \$0.0001 per share	NASDAQ Capital Market

Securities registered or to be 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, 2012, there were 11,959,282 shares of the registrant's common stock, \$0.0001 par value, 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 during the preceding 12 months.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions 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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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements include, but are not limited to, statements regarding our or our management's expectations, hopes, beliefs, intentions or strategies regarding the future and other statements other than statements of historical fact. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predict," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements in this annual report may include, for example, statements about:

- our ability to continue as a going concern;
- our future operating or financial results;
- our financial condition and liquidity, including our ability to pay amounts that we owe, obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities;
- our ability to come to a satisfactory resolution with our lenders in our ongoing debt restructuring process;
- our ability to pay dividends in the future;
- dry bulk shipping industry trends, including charter rates and factors affecting vessel supply and demand;
- future, pending or recent acquisitions and disposition, business strategy, areas of possible expansion or contraction, and expected capital spending or operating expenses;
- the useful lives and changes in the value of our vessels and their impact on our compliance with loan covenants;
- availability of crew, number of off-hire days, classification survey requirements and insurance costs;
- global and regional economic and political conditions;
- our ability to leverage the relationships and reputation in the dry bulk shipping industry of Safbulk Pty Ltd., or Safbulk and Enterprises Shipping and Trading S.A., or EST;
- changes in seaborne and other transportation patterns;
- changes in governmental rules and regulations or actions taken by regulatory authorities;
- potential liability from future litigation and incidents involving our vessels;
- acts of terrorism and other hostilities;
- the number of newbuildings under construction in the dry bulk industry;
- future charter hire rates and vessel values;
- loss of our customers, charters or vessels;
- the aging of our fleet and increases in operating costs;
- damage to our vessels; and
- other factors discussed in "Item 3.D. Risk Factors."

The forward-looking statements contained in this annual report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading "Item 3.D. Risk Factors." Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws and/or if and when management knows or has a reasonable basis on which to conclude that previously disclosed projections are no longer reasonably attainable.

## PART I

References in this annual report to “Seanergy,” “we,” “us,” “our company” or “Company” refer to Seanergy Maritime Holdings Corp. and its subsidiaries, but, if the context otherwise requires, may refer only to Seanergy Maritime Holdings Corp. References in this annual report to “Seanergy Maritime” refer to our predecessor, Seanergy Maritime Corp. References in this annual report to “BET” refer to our former wholly-owned subsidiary Bulk Energy Transport (Holdings) Limited. References in this annual report to “MCS” refer to our wholly-owned subsidiary Maritime Capital Shipping Limited.

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

The following table presents selected consolidated financial data of Seanergy as of and for the years ended December 31, 2012, 2011, 2010, 2009 and 2008. The information is only a summary and should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this annual report and section “Item 5. Operating and Financial Review and Prospects.” The selected consolidated financial data is a summary of, and is derived from, 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. Balance sheet data as of December 31, 2010, 2009 and 2008 and income statement data for the years ended December 31, 2009 and 2008 is derived from our audited financial statements not included herein. The historical data included below and elsewhere in this annual report is not necessarily indicative of our future performance.

Our fleet operations commenced in August 2008, upon the consummation of our initial business combination. During the period from our inception to the date of our initial business combination, we were a development stage enterprise.

Following the 15-for-1 reverse stock split effectuated on June 24, 2011, pursuant to which every fifteen shares of our common stock issued and outstanding were converted into one share of common stock, all share and per share amounts disclosed in the table below and in our consolidated financial statements included at the end of this annual report have been retroactively restated to reflect this change in capital structure. Please refer to “Item 4. A History and Development of the Company.”

Amounts in the tables below are in thousands of U.S. dollars, except for share and per share data.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>Statement of Income Data:</b>					
Vessel revenue, net	55,616	104,060	95,856	87,897	34,453
Direct voyage expenses	(13,587)	(2,541)	(2,399)	(753)	(151)
Vessel operating expenses	(26,983)	(34,727)	(30,667)	(16,222)	(3,180)
Voyage expenses - related party	(532)	(661)	(434)	(1,119)	(440)
Management fees - related party	(1,625)	(2,415)	(2,328)	(1,715)	(388)
Management fees	(588)	(576)	(316)	-	-
General and administration expenses	(6,337)	(8,070)	(7,606)	(5,928)	(2,161)
General and administration expenses - related party	(402)	(603)	(697)	(742)	(109)
Loss on bad debts	(327)	-	-	-	-
Amortization of deferred dry-docking costs	(3,648)	(7,313)	(3,657)	(1,045)	-
Depreciation	(15,606)	(28,856)	(29,328)	(26,812)	(9,929)
Loss on sale of vessels	(15,590)	-	-	-	-
Gain from acquisition of subsidiary	-	-	-	6,813	-
Impairment loss for goodwill	(4,365)	(12,910)	-	-	(44,795)
Impairment loss for vessels and deferred charges	(147,143)	(188,995)	-	-	(4,530)
<b>Operating (loss) income</b>	<b>(181,117)</b>	<b>(183,607)</b>	<b>18,424</b>	<b>40,374</b>	<b>(31,230)</b>
Interest and finance costs	(12,480)	(13,482)	(12,931)	(7,230)	(3,895)
Interest and finance costs – shareholders	-	-	-	(386)	(182)
Interest income	59	60	358	430	3,361
Loss on interest rate swaps	(189)	(641)	(4,164)	(1,575)	-
Foreign currency exchange (losses) gains, net	(43)	(46)	14	(44)	(39)
<b>Net (loss) / income before taxes</b>	<b>(193,770)</b>	<b>(197,716)</b>	<b>1,701</b>	<b>31,569</b>	<b>(31,985)</b>
Income taxes	2	(40)	(60)	-	-
<b>Net (loss) / income</b>	<b>(193,768)</b>	<b>(197,756)</b>	<b>1,641</b>	<b>31,569</b>	<b>(31,985)</b>
Less: Net income attributable to the noncontrolling interest	-	-	(1,509)	(1,517)	-

<b>Net (loss) income attributable to Seenergy Maritime Holdings Corp.</b>	(193,768)	(197,756)	132	30,052	(31,985)
<b>Net (loss) income per common share</b>					
Basic	(16.74)	(27.04)	0.02	17.42	(18.14)
Diluted	(16.74)	(27.04)	0.02	14.77	(18.14)
<b>Weighted average common shares outstanding</b>					
Basic	11,576,576	7,314,636	5,861,129	1,725,531	1,763,486
Diluted	11,576,576	7,314,636	5,861,129	2,035,285	1,763,486
<b>Dividends declared per share</b>	-	-	-	-	2.76

	As of December 31,				
	2012	2011	2010	2009	2008
<b>Balance Sheet Data:</b>					
Total current assets	52,086	43,432	68,459	67,473	29,814
Vessels, net	68,511	381,129	597,372	444,820	345,622
Total assets	120,960	436,476	696,401	538,452	378,202
Total current liabilities, including current portion of long-term debt	222,577	58,697	72,791	42,138	32,999
Long-term debt, net of current portion	-	300,586	346,168	267,360	213,638
Seenergy common stock	1	1	1	-	-
Total Seenergy shareholders' equity	(101,617)	76,923	274,665	208,489	131,565
Non controlling interest	-	-	-	18,330	-
Total equity	(101,617)	76,923	274,665	226,819	131,565

	Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>Cash Flow Data:</b>					
Net cash provided by operating activities	2,418	26,439	31,537	43,208	25,700
Net cash provided by (used in) investing activities	55,402	-	7,885	36,353	(142,919)
Net cash (used in) provided by financing activities	(71,256)	(62,492)	(49,242)	(43,497)	142,551

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and our business in general. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected and the trading price of our securities could decline.

### Industry Specific Risk Factors

*Charter hire rates for dry bulk carriers are highly volatile and remain significantly below the highs of 2008, which has adversely affected our revenues, earnings and profitability and our ability to pay dividends in the future.*

The abrupt and dramatic downturn in the dry bulk charter market, from which we have derived substantially all of our revenues, has severely affected the dry bulk shipping industry and has harmed our business. The Baltic Dry 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%. Over the comparable period of May through December 2008, the high and low of the Baltic Capesize Index, the Baltic Panamax Index, the Baltic Supramax Index and the Baltic Handysize Index represent declines of 96%, 96%, 94% and 92%, respectively. Since 2008, the BDI has remained volatile. In 2012, the BDI ranged from a low of 647 in February 2012 to a high of 1,165 in May 2012, and to date in 2013, has ranged from a low of 698 on January 2, 2013 to a high of 935 on March 25, 2013. The decline and volatility in charter rates have been due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which resulted in a significant decline in cargo shipments, trade disruptions caused by natural disasters, and increased vessel deliveries. Dry bulk charter rates are at depressed levels and may decline further. These circumstances, which result from the economic situation worldwide and the multiple disruptions to the operation of global credit markets, have had a number of adverse consequences for dry bulk shipping, including, among other developments:

- decrease in available financing for vessels;
- sharp decline in charter rates, particularly for vessels employed in the spot market;
- charterers seeking to renegotiate the rates for existing time charters;
- widespread loan covenant defaults in the dry bulk shipping industry due to the substantial decrease in vessel values; and

- declaration of bankruptcy by some operators, charterers and ship owners.

The degree of charter hire rate volatility among different types of dry bulk carriers has varied widely. If we enter into a charter when charter hire rates are low, our revenues and earnings will be adversely affected. In addition, a decline in charter hire rates likely will cause the value of the vessels that we own to decline and we may not be able to successfully charter our vessels in the future at rates sufficient to allow us to operate our business profitably or meet our obligations.

***An over-supply of drybulk carrier capacity may prolong or further depress the current low charter rates and, in turn, adversely affect our profitability.***

Fluctuations in charter rates and vessel values result from changes in the supply and demand for dry bulk cargoes carried internationally at sea, including coal, iron, ore, grains and minerals. The market supply of drybulk carriers has been increasing, and the number of drybulk carriers on order was near historic highs. These newbuildings were delivered in significant numbers starting at the beginning of 2006 and continued to be delivered in significant numbers through 2012. As of the end of February 2013, newbuilding orders were placed for an aggregate of more than 19.1% of the current global dry bulk fleet, with deliveries expected during the next four years. While vessel supply will continue to be affected by the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or accidental losses, an over-supply of dry bulk carrier capacity, particularly in conjunction with the current low level of demand, could exacerbate the recent decrease in charter rates or prolong the period during which low charter rates prevail. If the current low charter rate environment persists, or a further reduction occurs, during a period when the current charters for our dry bulk carriers expire or are terminated, we may only be able to recharter those vessels at reduced rates or we may not be able to charter our vessels at all. The current long-term time charters for two of our vessels are scheduled to expire in 2013. Because the factors affecting the supply and demand for dry bulk carriers are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in dry bulk shipping market conditions are also unpredictable.

Factors that could influence demand for seaborne transportation of cargo include:

- demand for and production of dry bulk products;
- distance that cargo is to be transported by sea;
- global and regional economic and political conditions;
- environmental and other regulatory developments; and
- changes in seaborne and other transportation patterns, including changes in the distances over which cargo is transported due to geographic changes in where commodities are produced and cargoes are used.
- Factors that influence the supply of vessel capacity include:
  - number of new vessel deliveries;
  - scrapping rate of older vessels;
  - vessel casualties;
  - price of steel;
  - number of vessels that are out of service;
  - changes in environmental and other regulations that may limit the useful life of vessels; and
  - port or canal congestion.

In addition to the prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to scrap prices, costs of bunkers and other operating costs, costs associated with classification society surveys, maintenance and insurance coverage, the efficiency and age profile of the existing dry bulk fleet in the market and government and industry regulations of maritime transportation practices, particularly environmental protection laws and regulations. These factors influencing the supply and demand for shipping capacity are outside of our control, and we may not be able to correctly assess the nature, timing and degree of changes in industry conditions.

We anticipate that the future demand for our vessels will be dependent upon continued economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the world's dry bulk carrier fleet and the sources and supply of cargo to be transported by sea. If the global vessel capacity increases in the dry bulk shipping market, but the

demand for vessel capacity in this market does not increase or increases at a slower rate, the charter rates could materially decline, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***The market values of our vessels may decrease, which could limit the amount of funds that we can borrow or trigger certain financial covenants under our current or future credit facilities and we may incur a loss if we sell vessels following a decline in their market value.***

The fair market values of our vessels are related to prevailing freight charter rates. While the fair market value of vessels and the freight charter market have a very close relationship as the charter market moves from trough to peak, the time lag between the effect of charter rates on market values of ships can vary. A decrease in the market value of our vessels would require us to raise additional capital in order to remain compliant with our loan covenants and loan covenant waiver agreements, and could result in the loss of our vessels and adversely affect our earnings and financial condition.

The fair market value of our vessels may increase and decrease depending on a number of factors including:

- prevailing level of charter rates;
- general economic and market conditions affecting the shipping industry;
- types and sizes of vessels;
- supply and demand for vessels;
- other modes of transportation;
- cost of newbuildings;
- governmental and other regulations; and
- technological advances.

In addition, as vessels grow older, they generally decline in value. If the fair market value of our vessels declines, we may not be in compliance with certain security margin covenants of our credit facilities. During the year ended December 31, 2012, and as of the date of this annual report, we were not in compliance with certain covenants in our loan facilities, including security margin covenants, with Piraeus Bank S.A. of Greece, or Piraeus Bank (ex CPB) (special successor of Cyprus Popular Bank Public Co. Ltd., formerly known as Marfin Popular Bank Public Co. Ltd., successor by way of cross-border merger of Marfin Egnatia Bank Societe Anonyme), United Overseas Bank Limited, or UOB, and DVB Bank AG, or DVB. On January 29, 2013, MCS sold its 100% ownership interest in the four subsidiaries that owned the Handysize dry bulk carriers Fiesta, Pacific Fantasy, Pacific Fighter and Clipper Freeway. The buyer was a third party nominee of the lenders under the senior secured credit facility with DVB. In exchange for the sale approximately \$30.3 million of outstanding debt was discharged and the guarantee provided under the facility was fully released. In addition, events of default have occurred under the Piraeus Bank (ex CPB) and UOB loan agreements. For more information regarding the Piraeus Bank (ex CPB) and UOB loan agreements, please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Credit Facilities.”

We are in discussions with our lenders regarding our Piraeus Bank (ex CPB) and UOB loan agreements. If we are not able to obtain waivers of the events of default and remedy our noncompliance or obtain waivers in respect of other covenant breaches, our lenders could require us to post additional collateral, enhance our equity and liquidity, increase our interest payments or pay down our indebtedness to a level where we are in compliance with our loan covenants, sell vessels from our fleet, or they could accelerate our indebtedness and foreclose on their collateral, which would impair our ability to continue to conduct our business. For discussion of our ongoing effort to restructure our debt, please see “Item 4. History and Development of the Company—Restructuring.” If our indebtedness is accelerated, we may not be able to refinance our debt or obtain additional financing. This may limit our ability to continue to conduct our operations, pay dividends to you, finance our future operations, make acquisitions or pursue business opportunities.

In addition, if we sell any of our owned vessels at a time when prices are depressed, we could incur a loss and our business, results of operations, cash flow and financial condition could be adversely affected. Moreover, if we sell vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel’s carrying amount in our financial statements, resulting in a loss and a reduction in earnings. For example, in June 2012, we announced a book value loss of approximately \$13.2 million relating to the sale of the Capesize drybulk carrier, the Bet Scouter, to an unrelated third party, which was reflected in our financial results for the second quarter of 2012. More recently, on April 10, 2013, the Company announced the sale of the African Oryx, a Handysize bulk carrier for \$4.1 million, to an unrelated third party. The sale is expected to result in an impairment loss of \$0.8 million that will be recorded in 2013.

***If economic conditions throughout the world do not improve, it will impede our results of operations, financial condition and cash flows, and could cause the market price of our common shares to decline.***

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. In addition, the world economy continues to face a number of new challenges, including uncertainty related to the continuing discussions in the United States regarding the federal debt ceiling and recent turmoil and hostilities in the Middle East, North Africa and other geographic areas and countries and continuing economic weakness in the European Union. The deterioration in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods and, thus, shipping. We cannot predict how long the current market conditions will last. However, recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, have had a material adverse effect on our results of operations, financial condition and cash flows, have caused the price of our common shares to decline and could cause the price of our common shares to decline further.

The economies of the United States, the European Union and other parts of the world continue to experience relatively slow growth or remain in recession and exhibit weak economic trends. The credit markets in the United States and Europe have experienced significant contraction, deleveraging and reduced liquidity, and the U.S. federal government and state governments and European authorities continue to implement a broad variety of governmental action and/or new regulation of the financial markets. Global financial markets and economic conditions have been, and continue to be, severely disrupted and volatile. Since 2008, lending by financial institutions worldwide remain at very low levels compared to the period preceding 2008.

Continued economic slowdown in the Asia Pacific region, especially in Japan and China, may exacerbate the effect on us of the recent slowdown in the rest of the world. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The growth rate of China's GDP decreased to approximately 7.8% for the year ended December 31, 2012, as compared to approximately 9.2% for the year ended December 31, 2011, and continues to remain below pre-2008 levels. China has imposed measures to restrain lending, which may further contribute to a slowdown in its economic growth. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Moreover, the current economic slowdown in the economies of the European Union may further adversely affect economic growth in China and elsewhere. Our results of operations and ability to grow our fleet would be impeded by a continuing or worsening economic downturn in any of these countries.

***The instability of the euro or the inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.***

As a result of the credit crisis in Europe, in particular in Greece, Cyprus, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism, or the ESM, which was established on September 27, 2012 to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Furthermore, in July 2012, the European Central Bank stated its commitment to take necessary action within its mandate in order to save the Euro. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for drybulk cargoes and for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

***Disruptions in world financial markets and the resulting governmental action in the United States, Europe, including Cyprus, and in other parts of the world could have a material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our common stock to further decline.***

In recent years, the United States, Europe, and other parts of the world exhibited deteriorating economic trends and significant contraction, de-leveraging and reduced liquidity of the credit markets. The United States federal government and state governments, the European Union, and other foreign governments have implemented and are continuing to implement a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The Securities and Exchange Commission, or the Commission, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

A number of financial institutions experienced serious financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. These difficulties have resulted, in part, from declining markets for assets held by such institutions, particularly the reduction in the value of their mortgage and asset-backed securities portfolios. These difficulties have been compounded by a general decline in the willingness by banks and other financial institutions to extend credit or refinance our debt. In addition, these difficulties may adversely affect the financial institutions that provide our credit facilities and may impair their ability to continue to perform under their financing obligations to us, which could have an impact on our ability to fund current and future obligations.

For example, on March 25, 2013, two of our credit facilities with CPB, one of Cyprus's largest banks, with outstanding indebtedness of \$138.8 million, were taken over by Piraeus Bank (ex CPB). As part of the Cypriot international bail-in plan, Piraeus Bank (ex CPB) has taken over the operations of the Cypriot Banks in Greece, including CPB. Our loan facilities and operating accounts were transferred to Piraeus Bank (ex CPB), and as a result, it is uncertain how this will affect our current, ongoing, negotiations with Piraeus Bank (ex CPB) to restructure our debt.

In addition, the world economy is currently facing a number of other challenges. This includes (i) uncertainty related to the European sovereign debt crisis and certain countries' ability to refinance their sovereign debt, such as Greece, Spain, Portugal, Ireland, and Italy, (ii) uncertainty related to the course of the economic recovery in the United States and (iii) the possibility of an economic slowdown in Asian economies such as China, Japan and South Korea.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. Major market disruptions and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition or cash flows, could cause the trading price of our common shares on the NASDAQ Capital Market to decline precipitously and could cause the price of our common shares to continue to decline or impair our ability to make distributions to our shareholders.

***We maintain cash with a limited number of financial institutions including financial institutions that may be located in Greece, which will subject us to credit risk.***

We maintain all of our cash with a limited number of financial institutions, including institutions that are located in Greece. These financial institutions located in Greece may be subsidiaries of international banks or Greek financial institutions. Economic conditions in Greece have been, and continue to be, severely disrupted and volatile, and as a result of sovereign weakness, Moody's Investor Services Inc. has downgraded the bank financial strength ratings, as well as the deposit and debt ratings, of several Greek banks to reflect their weakening stand-alone financial strength and the anticipated additional pressures stemming from the country's challenged economic prospects.

***Changes in the economic and political environment in China and policies adopted by the government to regulate its economy may have a material adverse effect on our business, financial condition and results of operations.***

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five-year state plans are adopted by the Chinese government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through state plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform, the level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could adversely affect our business, operating results and financial condition.

***Risks involved with operating ocean-going vessels could affect our business and reputation, which would adversely affect our revenues and expenses.***

The operation of an ocean-going vessel carries inherent risks. These risks include the possibility of:

- crew strikes and/or boycotts;
- marine disaster;
- piracy;
- environmental accidents;
- cargo and property losses or damage; and
- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries or adverse weather conditions.

Any of these circumstances or events could increase our costs or lower our revenues.

***Rising fuel prices may adversely affect our profits.***

The cost of fuel is a significant factor in negotiating charter rates. As a result, an increase in the price of fuel beyond our expectations may adversely affect our profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geo-political developments, supply and demand for oil, actions by members of the Organization of the Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations. Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

Upon redelivery of vessels at the end of a period time or voyage 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.

Currently, we have five vessels in the spot charter market. Spot charter contracts generally provide that the vessel owner bears the cost of fuel in the form of bunkers, which is a material operating expense. We do not intend to hedge our fuel costs thus an increase in the price of fuel beyond our expectations may affect in a negative way our profitability and our cash flows.

***We may become dependent on spot charters in the volatile shipping markets which may have an adverse impact on stable cash flows and revenues.***

We currently employ five vessels on spot charters and we may employ more vessels in the spot market when long-term time charters on one or more of our vessels expire. The spot charter market is highly competitive and rates within this market are subject to volatile fluctuations, while longer-term period time charters provide income at predetermined rates over more extended periods of time. When we spot charter our vessels, there can be no assurance that we will be successful in keeping all our vessels fully employed in these short-term markets or that future spot rates will be sufficient to enable our vessels to be operated profitably. A significant decrease in charter rates could affect the value of our fleet and could adversely affect our profitability and cash flows with the result that our ability to pay debt service to our lenders could be further impaired.

***Our operations are subject to seasonal fluctuations, which could affect our operating results and ability to service our debt or pay dividends in the future.***

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. To the extent we operate vessels in the spot market, this seasonality may result in quarter-to-quarter volatility in our operating results. The dry bulk carrier market 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 schedule and supplies of certain commodities. As a result, our revenues may be weaker during the fiscal quarters ending June 30 and September 30, and, conversely, our revenues may be stronger in fiscal quarters ending December 31 and March 31. While this seasonality will not affect our operating results as long as our fleet is employed on period time charters, if our vessels are employed in the spot market in the future, seasonality may materially affect our operating results.

***Our vessels may call on ports located in countries that are subject to restrictions imposed by the United States, the European Union or other governments that could adversely affect our reputation and the market price of our common stock.***

From time to time, on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and countries identified by the U.S. government as state sponsors of terrorism including Cuba, Iran, Sudan and Syria. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expanded the application of the prohibitions to additional activities of non-U.S. companies and introduced limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, in 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or in-

sure the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

We believe that we are currently in compliance with all applicable sanctions and embargo laws and regulations. In order to maintain compliance, we are monitoring and reviewing the movement of our vessels on a frequent basis. During 2012, two of our chartered vessels made three port calls to Iran and one of our chartered vessels made two port calls to Sudan, representing approximately 1.2% of the approximately 421 total calls on worldwide ports made by our vessels during 2012. These five port calls occurred while the respective vessels were chartered to third parties and operated at the instructions of the charterers or sub-charterers.

Most of our charters include provisions and trade exclusion clauses prohibiting the vessels from calling on ports where there is an existing U.S. embargo. Furthermore as of the date hereof, neither the Company nor its subsidiaries have ever entered into or have any future plans to enter into, directly or indirectly, any contracts, agreements or other arrangements with the governments of Iran, Syria, Sudan or Cuba or any entities controlled by the governments of these countries, including any entities organized in these countries.

Although we intend to comply with all applicable sanctions and embargo laws and regulations, there can be no assurance that we will maintain such compliance, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, not to invest, in our company. Additionally, some investors may decide not to invest in our company simply because we do business with companies that do business in sanctioned countries. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. Investor perception of the value of our common stock may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

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

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration, including those governing oil spills, discharges to air and water, ballast water management, and the handling and disposal of hazardous substances and wastes. These requirements include, but are not limited to, European Union Regulations, the U.S. Oil Pollution Act of 1990, or OPA, the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, the U.S. Clean Air Act, U.S. Clean Water Act and the U.S. Marine Transportation Security Act of 2002, and regulations of the International Maritime Organization, or the IMO, including the International Convention for the Prevention of Pollution from Ships of 1975, the International Convention for the Prevention of Marine Pollution of 1973, the IMO International Convention for the Safety of Life at Sea of 1974 and the International Convention on Load Lines of 1966. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast water, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. Furthermore, the explosion of the *Deepwater Horizon* and the subsequent release of oil into the Gulf of Mexico, or other events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition and our available cash. Because such conventions, laws and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale price or useful life of our 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 operations. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations.

We currently maintain, for each of our vessels, pollution liability coverage insurance of \$1.0 billion per incident. If the damages from a catastrophic spill exceed our insurance coverage, it would severely affect us.

***Increased inspection procedures, tighter import and export controls and new security regulations could increase costs and disrupt our business.***

International shipping is subject to security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. Since the events of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security, such as the Maritime Transportation Security Act of 2002, or MTSA. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. These security procedures can result in delays in the loading, discharging or trans-shipment and the levying of customs duties, fines or other penalties against exporters or importers and, in some cases, carriers. Future changes to the existing security procedures may be implemented that could affect the dry bulk sector. These changes have the potential to impose additional financial and legal obligations on carriers and, in certain cases, to render the shipment of certain types of goods uneconomical or impractical. These additional costs could reduce the volume of goods shipped, resulting in a decreased demand for vessels and have a negative effect on our business, revenues and customer relations.

***Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.***

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased during 2012 to its lowest level since 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea, with drybulk vessels and tankers particularly vulnerable to such attacks. If these piracy attacks result in regions in which our vessels are deployed being characterized as “war risk” zones by insurers, as the Gulf of Aden temporarily was in May 2008, or Joint War Committee “war and strikes” listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability, of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

***World events could affect our results of operations and financial condition.***

Continuing conflicts and recent developments in Korea, the Middle East, including Egypt, and North Africa, and the presence of U.S. and other armed forces in the Middle East, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. 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 and the Gulf of Aden off the coast of Somalia. Any of these occurrences could have a material adverse impact on our operating results.

***The operation of dry bulk carriers has particular operational risks which could affect our earnings and cash flow.***

The operation of vessels such as dry bulk carriers, has certain particular risks. With a dry bulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, dry bulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, dry bulk carriers are often subjected to battering treatment during discharging 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 discharging procedures may affect a vessel’s seaworthiness while at sea. Hull fractures in dry bulk carriers may lead to the flooding of the vessels’ holds. If a dry bulk carrier suffers flooding in her 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 are unable to adequately maintain our vessels, we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition, results of operations and our ability to pay dividends in the future.

***If any of our vessels fails to maintain its class certification and/or fails any annual survey, intermediate survey, or special survey, or if any scheduled class survey takes longer or is more expensive than anticipated, this could have a material adverse impact on our financial condition and results of operations.***

The hull and machinery of every commercial vessel must be certified by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the International Convention for the Safety of Life at Sea, or SOLAS. Our vessels are certified with one or more classification societies that are members of the International Association of Classification Societies.

A vessel must undergo annual, intermediate and special surveys. The vessel’s machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels follow this maintenance cycle for hull and machinery inspection. At the beginning, in between and in the end of this cycle, every vessel is required to undergo inspection of her underwater parts that usually includes dry-docking. These surveys and dry-dockings can be costly and can result in delays in returning a vessel to operation. The cost of our fleet’s surveys in 2012 totaled approximately \$1.5 million. See “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Capital Requirements” for our anticipated surveys.

If any vessel does not maintain its class, the vessel will not be allowed to carry cargo between ports and cannot be employed or insured. Any such inability to carry cargo or be employed, or any such violation of covenants, could have a material adverse impact on our financial condition and results of operations.

***Because our seafaring employees are covered by industry-wide collective bargaining agreements, failure of industry groups to renew those agreements may disrupt our operations and adversely affect our earnings.***

Our vessel-owning subsidiaries employ a large number of seafarers. All of the seafarers employed on the vessels in our fleet are covered by industry-wide collective bargaining agreements that set basic standards. We cannot assure you that these agreements will prevent labor interruptions. Any labor interruptions could disrupt our operations and harm our financial performance.

***Maritime claimants could arrest 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 that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arresting or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted which would have a material adverse effect on our financial condition and results of operations.

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 try to assert “sister ship” liability against one of our vessels for claims relating to another of our vessels.

***If we complete our restructuring, we may acquire additional dry bulk carriers, and if those vessels are not delivered on time or are delivered with significant defects, our earnings and financial condition could suffer.***

We may acquire additional vessels in the future. A delay in the delivery of any of these vessels to us or the failure of the contract counterparty to deliver a vessel at all could cause us to breach our obligations under a related time charter and could adversely affect our earnings, our financial condition and the amount of dividends, if any, that we pay in the future. The delivery of these vessels could be delayed or certain events may arise which could result in us not taking delivery of a vessel, such as a total loss of a vessel, a constructive loss of a vessel, or substantial damage to a vessel prior to delivery. In addition, the delivery of any of these vessels with substantial defects could have similar consequences.

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

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could have a material adverse effect on our financial condition and results of operations.

***The shipping industry has inherent operational risks that may not be adequately covered by our insurance.***

We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution). We may not be adequately insured against all risks or our insurers may not pay a particular claim. 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. Furthermore, in the future, we may not be able to 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.

## **Company Specific Risk Factors**

***Our independent auditors have expressed doubt about our ability to continue as a going concern. The existence of such report may adversely affect our stock price, our business relationships and our ability to raise capital. There is no assurance that we will not receive a similar report for the year ended December 31, 2013.***

Our financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might be necessary if we are unable to continue as a going concern. Accordingly, the financial statements did not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event we are unable to continue as a going concern, except for the current classification of debt. However, there are material uncertainties related to events or conditions which raise substantial doubt on our ability to continue as a going concern and, therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business.

Our independent registered public accounting firm has issued their opinion with an explanatory paragraph in connection with our audited financial statements included in this annual report that expresses substantial doubt about our ability to continue as a going concern. Although we believe that as a result of our restructuring efforts, we may overcome such doubt in the future, we cannot provide any assurance that we will in fact operate our business profitably or obtain sufficient financing to sustain our business, generate sufficient revenue and operating cash flow. Accordingly, there can be no assurance that our independent registered public accounting firm’s report on our future financial statements for any future period will not include a similar explanatory paragraph if we are unable to successfully implement our restructuring plan. Ernst & Young’s, or any successor’s expression of such doubt or our inability to overcome the factors leading to such doubt could have a material adverse effect on our stock price, our business relationships and ability to raise capital and therefore could have a material adverse effect on our business and financial prospects.

***We are in breach of our loan agreements and events of default have occurred. We are currently in discussions with our lenders for waivers or amendments of our loan agreements, and if we are not successful in obtaining such waivers and amendments, our lenders may act upon events of default and accelerate our outstanding indebtedness under the relevant agreements, which would impact our ability to continue to conduct our business.***

Our credit facilities, which are secured by mortgages on our vessels, require us to comply with specified collateral coverage ratios and satisfy certain financial and other covenants. The recent intense fluctuation in the drybulk charter market and related fluctuation in vessel values have affected our ability to comply with some of these covenants. A violation of these covenants constitutes an event of default under our credit facilities, which, unless waived by our lenders, provides our lenders with the right to require us to post additional collateral, enhance our equity and liquidity, increase our interest payments, pay down our indebtedness to a level where we are in compliance with our loan covenants, sell vessels in our fleet, reclassify our indebtedness under current liabilities and accelerate our indebtedness and foreclose their liens on our vessels. If our indebtedness is accelerated, we may not be able to refinance our debt or obtain additional financing, which would impair our ability to continue to conduct our business.

Events of default have occurred under our loan agreements as a result of, among other things, our breach of interest payment obligations under our Piraeus Bank (ex CPB) credit facilities and breach of our installment, interest payment and swap payment obligations under our UOB credit facility, for which we have not obtained a waiver. Under our Piraeus Bank (ex CPB) credit facilities, we had received a waiver through December 31, 2013 of certain financial covenants including the security margin covenant, whereby the aggregate market value of the vessels and the value of any additional security is required to be at least 135% of the aggregate of the debt financing, less the aggregate amount of all deposits maintained under the loan agreement. Commencing January 1, 2014, this security margin covenant will require that we maintain a ratio of not less than 120%, or a prepayment of the loans may be required or additional security may be requested. Similarly, our UOB loan facility, as currently in effect, requires the MCS borrowers to ensure that the aggregate market value of the MCS vessels is not less than 133% of the outstanding amount under the UOB senior loan. Our lenders have not taken action to accelerate the loans as of the date of this annual report. We are currently in discussions with our lenders as part of the restructuring effort. For more information regarding the Piraeus Bank (ex CPB) and UOB credit facilities, please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Credit Facilities.”

There can be no assurance that our lenders will grant us waivers for the covenant breaches for which we do not currently have waivers. Accordingly, our lenders could accelerate our indebtedness and foreclose their liens on our vessels, which would impair our ability to conduct our business and continue as a going concern. For further discussion, please see “Item 4. History and Development of the Company—Restructuring.”

Generally accepted accounting principles require that long-term debt be classified as a current liability when a covenant violation gives the lender the right to call the debt at the balance sheet date, absent a waiver. Accordingly, as of December 31, 2012, we are required to reclassify our long term debt under current liabilities in our consolidated balance sheet since we have not received waivers in respect of the covenants that were breached at such time. As of December 31, 2012, our current liabilities exceeded our current assets by \$170.5 million, mainly as a result of all of our debt being classified as current.

Because of the presence of cross-default provisions in all of our loan agreements, the refusal of any one lender to grant or extend a waiver could result in all of our indebtedness being accelerated even if the other lender has waived covenants and other defaults under the respective loan agreements. A cross-default provision means that if we default on one loan we would then default on the other loans as well.

If our indebtedness is accelerated, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our vessels if our lenders foreclose their liens. Therefore, our ability to continue as a going concern is dependent on management’s ability to successfully generate revenue and to meet our obligations as they become due and the continued support of our lenders.

Moreover, in connection with any waivers and/or amendments to our loan agreements, our lenders may impose additional operating and financial restrictions on us and/or modify the terms of our existing loan agreements. These restrictions may limit our ability to, among other things, pay dividends, make capital expenditures and/or incur additional indebtedness, including through the issuance of guarantees. In addition, our lenders may require the payment of additional fees, require prepayment of a portion of our indebtedness to them, accelerate the amortization schedule for our indebtedness and increase the interest rates they charge us on our outstanding indebtedness.

***Our credit facilities and waivers impose operating and financial restrictions on us, and if we receive additional waivers and/or amendments to our loan agreements, our lenders may impose additional operating and financial restrictions on us and/or modify the terms of our existing loan agreements.***

In addition to certain financial covenants relating to our financial position, operating performance and liquidity, the restrictions contained in our loan agreements limit our ability to, among other things:

- incur additional indebtedness;

- create liens on our or our subsidiaries' assets;
- sell capital stock of all or a substantial number of our subsidiaries;
- engage in any business other than the operation of the vessels;
- pay dividends;
- change or terminate the management of the vessels or terminate or materially amend the management agreement relating to each vessel; and
- sell the vessels.

The restrictions included in the Piraeus Bank (ex CPB) loan agreement include the following financial covenants:

- the ratio of financial indebtedness to Last Twelve Months (LTM) Earnings, Before Interest, Taxes, Depreciation and Amortization (EBITDA) shall be less than 6.5:1 (financial indebtedness or net debt are defined as the sum of all outstanding debt facilities minus cash and cash equivalents)
- the ratio of LTM EBITDA to net interest expense shall not be less than 2:1,
- the ratio of total liabilities to total assets shall not exceed 0.70:1;
- unrestricted cash deposits to be not less than 2.5% of the financial indebtedness; and
- average quarterly unrestricted cash deposits, other than in favor of the lender, to be not less than 5% of the financial indebtedness;
- the Piraeus Bank (ex CPB) Security Value Covenant shall not be less than 135%.

We received a waiver from Piraeus Bank (ex CPB) with respect to the above restrictions through and including December 31, 2013. Commencing January 1, 2014 the following financial covenants will apply and will be tested on a quarterly basis:

- the ratio of net debt to Last Twelve Months (LTM) Earnings, Before Interest, Taxes, Depreciation and Amortization (EBITDA) where net debt as defined is the sum of all outstanding debt facilities minus cash and cash equivalents, shall be no more than 8.75:1;
- the ratio of EBITDA to net interest expense shall not be less than 1.75:1;
- the aggregate amount of cash deposits shall be no less than 5% of the net debt; and
- the aggregate market values of the vessels and the value of any additional security shall not be less than 120% of the aggregate of the outstanding amounts under the revolving credit and term facilities and any amount available for drawing under the revolving facility, less the aggregate amount of all deposits maintained.

In addition to the minimum financial covenants, under the terms of the Piraeus Bank (ex CPB) loan agreement, we must also ensure that certain members of the Restis family, who are affiliates of our major shareholders, and the family of our former chairman Mr. George Koutsolioutsos (or companies affiliated with them) together own at all times an aggregate of at least 10% of our issued share capital. A violation of this covenant constitutes an event of default under our credit.

Under the UOB loan agreement, no other person other than the Restis family or affiliated companies with the Restis family or Seanergy may become the beneficial owner of more than 30% of MCS's issued voting share capital. In addition, under the UOB loan agreement, the MCS subsidiaries are subject to operating and financial covenants that may affect MCS's business. These restrictions may, subject to certain exceptions, limit the MCS subsidiaries' ability to engage in many of the activities listed above. Under the UOB loan, effective after December 31, 2012, the aggregate market value of the underlying vessels may not be less than 133% of the outstanding amount of the UOB senior loan. If the market value of the vessels is less than this amount, the MCS subsidiaries must prepay an amount that will result in the market value of the vessels meeting this requirement or offer additional security to the lenders, and a portion of the debt may be required to be classified as current.

Therefore, we may need to seek permission from our lenders in order to engage in some important corporate and commercial actions that we believe would be in the best interest of our business, and a denial of permission may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. Also, any further decline in vessel values may, absent obtaining or extending our current waivers, cause us, or MCS to fail to meet the market value covenants in

the loan agreements and entitle the lenders to assert certain rights. Our current and any future lenders' interests may be different from our interests, and we cannot guarantee that we will be able to obtain such lenders' permission when needed. These potential restrictions and requirements may limit our ability to pay dividends in the future to you, finance our future operations, make acquisitions or pursue business opportunities.

Our ability to comply with the covenants and restrictions contained in our loan agreements may be affected by economic, financial and industry conditions and other factors beyond our control. If we are not in compliance with the terms of our loan agreements, our lenders could require us to post additional collateral, enhance our equity and liquidity, compel us to withhold payment of dividends, increase our interest payment, pay down our indebtedness, sell vessels in our fleet, or they could also accelerate our indebtedness and foreclose on their collateral. The exercise of any of these remedies could materially adversely impair our ability to continue to conduct our business. Any future loan agreement or amendment or debt instrument may contain similar or more restrictive covenants. See "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources—Credit Facilities." In connection with future waivers or amendments that we may obtain, our lenders may impose additional restrictions on us.

***Substantial debt levels could limit our flexibility to obtain additional financing and pursue other business opportunities.***

As of December 31, 2012, we had outstanding indebtedness of \$208.6 million. This level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may be unavailable on favorable terms;
- we may need to use a substantial portion of our cash from operations to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and any future dividends to our shareholders;
- our debt level could make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally; and
- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control, as well as the level of future interest rates applicable to our outstanding indebtedness. If our operating income is not sufficient to service our current or future indebtedness, we will be forced to take actions, such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt or seeking additional equity capital. We may not be able to effect any of these remedies on satisfactory terms, or at all. In addition, a lack of liquidity in the debt and equity markets could hinder our ability to refinance our debt or obtain additional financing on favorable terms in the future.

***We are highly leveraged and anticipate that we will continue to have a high degree of leverage after our restructuring. Nevertheless, we may be able to incur substantial additional debt, which could materially adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and make debt service payments.***

As of December 31, 2012, our outstanding indebtedness was \$208.6 million. Despite our restructuring efforts over the last several months, as of the date of this annual report, we anticipate that we will continue to have a high degree of indebtedness after the completion of our ongoing restructuring. Although it is likely that any agreements governing our future indebtedness, including the terms of any indebtedness remaining outstanding as a result of the restructuring, will contain limitations on our ability to incur indebtedness, the covenants in such debt agreements typically contain a number of exceptions. As such, we may still be able to incur a significant amount of additional indebtedness. Our high level of indebtedness could have important consequences to our shareholders. As discussed elsewhere in this annual report, we are currently unable to meet our debt service requirements. See "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources." Even if the restructuring transactions with our lenders are completed on the proposed terms being discussed, we anticipate that our indebtedness will be significant. However, subsequent to the restructuring, we anticipate that our fleet will only consist of four vessels and, as a result, we will have significantly fewer vessels from which we will be able to generate revenue. Since our relative leverage will continue to remain high after our restructuring, and since we will have a diminished basis from which we can generate revenue, there is no assurance we will be able to service our significant indebtedness even if we complete our restructuring. We also can give no assurance that we will complete our restructuring.

Because we are highly leveraged and expect to remain highly leveraged after the restructuring, we will continue to remain subject to the following risks:

- our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, vessel or other acquisitions or general corporate purposes may be impaired in the future;

- if new debt is added to our debt levels, the related risks that we now face would increase and we may not be able to meet all of our debt obligations;
- a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes, and there can be no assurance that our operations will generate sufficient cash flow to service this indebtedness;
- we will be exposed to the risk of increased interest rates because our borrowings under facility agreements will be at variable rates of interest;
- it may be more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such indebtedness and the cross-acceleration or cross-default of our other indebtedness;
- we may be more vulnerable to general adverse economic and industry conditions;
- we may be at a competitive disadvantage compared to our competitors with less debt or comparable debt at more favorable interest rates;
- our ability to refinance indebtedness may be limited or the associated costs may increase; and
- our flexibility to adjust to changing market conditions and ability to withstand competitive pressures could be limited, or we may be prevented from carrying out capital spending that is necessary or important to our growth strategy and efforts.

This degree of leverage could materially adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and make debt service payments.

***The value of our vessels has fluctuated, and may continue to fluctuate significantly, due in large part to the sharp decline in the world economy and the charter market. A significant decline in vessel values could result in losses when we sell our vessels or could result in a requirement that we write down their carrying value, which would adversely affect our earnings. In addition, a decline in vessel values could adversely impact our ability to raise additional capital and would likely cause us to violate certain covenants in our loan agreements that relate to vessel value.***

The market value of our vessels can and have fluctuated significantly based on general economic and market conditions affecting the shipping industry and prevailing charter hire rates. Since the end of 2008, the market value of our vessels has dropped significantly due to, among other things, the substantial decline in charter rates. During the year ended December 31, 2008, we recorded an impairment charge of \$44.8 million on goodwill and an impairment charge of \$4.5 million on our vessels. No indication of impairment existed as of December 31, 2009, or December 31, 2010. During the year ended December 31, 2011, we recorded an impairment charge of \$12.9 million on goodwill and \$188.9 million on our vessels. During the year ended December 31, 2012, we recorded an impairment charge of \$4.4 million on goodwill and \$147.1 million on our vessels. There can be no assurance as to how long charter rates and vessel values will remain at the current low levels or whether they will improve to any significant degree. Consequently, we may have to record further impairments of our vessels and goodwill.

The market value of our vessels may increase or decrease in the future depending on the following factors:

- economic and market conditions affecting the shipping industry in general;
- supply of dry bulk vessels, including newbuildings;
- demand for dry bulk vessels;
- scrap values;
- types, sizes and ages of vessels;
- other modes of transportation;
- competition from other shipping companies;
- cost of newbuildings;
- technological advances;
- new regulatory requirements from governments or self-regulated organizations; and
- prevailing level of charter rates.

In addition, because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings. In addition, whenever events or changes in circumstances indicate potential impairment, we test the carrying value of our vessels in our financial statements, based upon their earning capacity and remaining useful lives. Earning capacity is measured by the vessels' expected earnings under their charters. If we determine that our vessels' carrying values should be reduced, we would recognize an impairment charge on our financial statements that would result in a potentially significant charge against our earnings and a reduction in our shareholders' equity. Such impairment adjustment could also hinder our ability to raise capital. If for any reason we sell our vessels at a time when prices have fallen, the sale proceeds may be less than that vessel's carrying amount on our financial statements, and we would incur a loss and a reduction in earnings. Finally, a decline in vessel values would likely cause us to violate certain covenants in our loan agreement that require vessel values to equal or exceed a stated percentage of the amount of our loans. Such violations could result in a default under our loan agreements.

***The failure of our counterparties to meet their obligations under our time charter agreements could cause us to suffer losses or otherwise adversely affect our business.***

Currently, two of our dry bulk vessels are employed under long-term time charters while five are employed in the spot market. The ability and willingness of each of our counterparties to perform its obligations under a 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 dry bulk shipping industry and the overall financial condition of the counterparties. In addition, in challenging market conditions, there have been reports of charterers, including some of our charterers, renegotiating their charters or defaulting on their obligations under charter agreements and our customers may fail to pay charterhire or attempt to renegotiate charter rates. Should a counterparty fail to honor its obligations under agreements with us, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure in the spot market or on time charters would be at lower rates given the currently decreased charter rate levels, particularly in the dry bulk carrier market. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, we could suffer significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as our ability to pay dividends in the future and comply with covenants in our loan agreements.

***Two of our vessels will soon be or are already exposed to the volatilities of the dry bulk charter markets as their current charters expire.***

Dry bulk charter markets have experienced significant continued weakness in 2012. We currently have five vessels in the spot market and the current long-term time charters for two of our vessels are scheduled to expire in 2013. The time charter market is highly competitive and spot and short-term voyage charter market charter-hire rates (which affect time charter rates) may fluctuate significantly based upon the supply of, and demand for, seaborne dry bulk shipping capacity. Our ability to re-charter our vessels on the expiration or termination of their current time charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in the dry bulk shipping market. The dry bulk charter market is volatile, and in the past, time charter and spot market charter rates for dry bulk carriers have declined below operating costs of vessels. If we are required to charter these vessels at a time when demand and charter rates are very low, we may not be able to secure time charter or spot market employment for our vessels at all or at reduced and potentially unprofitable rates. As a result, our business, financial condition, results of operations and cash flows, as well as our ability to pay dividends, if any, in the future, and compliance with covenants in our credit facilities may be affected.

***The derivative contract we have entered into to hedge our exposure to fluctuations in interest rates could result in higher than market interest rates and charges against our income.***

Through our subsidiary MCS, we have one interest rate swap for purposes of managing our exposure to fluctuations in interest rates applicable to the MCS loan facility with UOB, which was advanced at a floating rate based on LIBOR. Our hedging strategy, however, may not be effective and we may incur substantial losses if interest rates move materially differently from our expectations. Since our existing interest rate swap does not, and future derivative contract may not, qualify for treatment as hedge for accounting purposes, we recognize fluctuations in the fair value of such contracts in our income statement. In addition, our financial condition could be materially adversely affected to the extent we do not hedge our exposure to interest rate fluctuations under our financing arrangements. Any hedging activities we engage in may not effectively manage our interest rate exposure or have the desired impact on our financial conditions or results of operations. As of December 31, 2012, the fair value of our interest rate swap was a liability of approximately \$0.5 million.

***We cannot assure you that we will be able to refinance indebtedness incurred under our credit facilities.***

For so long as we have outstanding indebtedness under our credit facilities, we will have to dedicate a portion of our cash flow from operations to pay the principal and interest of this indebtedness. We cannot assure you that we will be able to generate cash flow in amounts that are sufficient for these purposes. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans or sell our assets. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our fleet, among other things, may materially affect our ability to obtain alternative financing. If we are not able to find alternative sources of financing on terms that are acceptable to us or at all, our business, financial condition, results of operations and cash flows may be materially adversely affected.

***Rising crew costs may adversely affect our profits.***

Crew costs are a significant expense for us under our charters. Recently, the limited supply of and increased demand for qualified crew, due to the increase in the size of the global shipping fleet, has created upward pressure on crewing costs, which we generally bear under our period time and spot charters. Increases in crew costs may adversely affect our profitability.

***The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.***

As of the date of this annual report, the vessels in our current fleet had an average age of 13.5 years. As our vessels age, they may become less fuel efficient and more costly to maintain and will not be as advanced as recently constructed vessels due to improvements in design, technology and engineering. 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 conversions, 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.

Also, charterers actively discriminate against hiring older vessels. For example, Rightship, the ship vetting service founded by Rio Tinto and BHP-Billiton which has become the major vetting service in the dry bulk shipping industry, ranks the suitability of vessels based on a scale of one to five stars. Most major carriers will not charter a vessel that Rightship has vetted with fewer than three stars. Therefore, as our vessels age, we may not be able to operate these vessels profitably during the remainder of their useful lives.

In addition, 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 30 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.

***Our vessels may suffer damage and we may face unexpected repair costs, which could adversely affect our cash flow and financial condition.***

If our vessels suffer damage, they may need to be repaired at a shipyard facility. The costs of repairs are unpredictable and can be substantial. The loss of earnings while our vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings and reduce the amount of dividends in the future. We may not have insurance that is sufficient to cover all or any of these costs or losses and may have to pay repair costs not covered by our insurance.

***Purchasing and operating secondhand vessels may result in increased operating costs and vessel off-hire, which could adversely affect our earnings.***

Our inspection of secondhand vessels prior to purchase does not provide us with the same knowledge about their condition and cost of any required or anticipated repairs that we would have had if these vessels had been built for and operated exclusively by us. We will not receive the benefit of warranties on secondhand vessels.

Typically, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels. Cargo insurance rates 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 the 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.

We inspected all of our second hand vessels, which we acquired from both related and unrelated third parties, considered the age and condition of the vessels in budgeting for their operating, insurance and maintenance costs, and if we acquire additional secondhand vessels in the future, we may encounter higher operating and maintenance costs due to the age and condition of those additional vessels.

***We are exposed to U.S. Dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.***

We generate all of our revenues and incur the majority of our operating expenses in U.S. Dollars, but we currently incur many of our general and administrative expenses in currencies other than the U.S. Dollar, primarily the Euro. Because such portion of our expenses is incurred in currencies other than the U.S. Dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. Dollar and the Euro, which could affect the amount of net income that we report in future periods. We may use financial derivatives to operationally hedge some of our currency exposure. Our use of

financial derivatives involves certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

***If the recent volatility in LIBOR continues, it could affect our profitability, earnings and cash flow.***

LIBOR has recently been volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of the recent disruptions in the international credit markets. Because the interest rates borne by our outstanding indebtedness fluctuate with changes in LIBOR, if this volatility were to continue, it would affect the amount of interest payable on our debt, which in turn, could have an adverse effect on our profitability, earnings and cash flow.

Furthermore, interest in most loan agreements in our industry has been based on published LIBOR rates. Recently, however, lenders have insisted on provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate. If we are required to agree to such a provision in future loan agreements, our lending costs could increase significantly, which would have an adverse effect on our profitability, earnings and cash flow.

***We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy financial obligations or to pay dividends.***

We are a holding company and our subsidiaries, which are all wholly-owned by us either directly or indirectly, 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. 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 Bermuda, the British Virgin Islands, Hong Kong and the Republic of the Marshall Islands, where our vessel-owning subsidiaries are incorporated, and the laws of Liberia where some of our formerly owned subsidiaries were incorporated, which regulate the payment of dividends by companies. If we are unable to obtain funds from our subsidiaries, our board of directors may not exercise its discretion to pay dividends in the future.

In addition, the declaration and payment of dividends in the future will depend on the provisions of Marshall Islands law affecting the payment of dividends. Marshall Islands law generally prohibits the payment of dividends if the company is insolvent or would be rendered insolvent upon payment of such dividend and dividends may be declared and paid out of our operating surplus; but in this case, there is no such surplus. Dividends may be declared or paid out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Our ability to pay dividends in the future will also be subject to our satisfaction of certain financial covenants contained in our credit facilities and certain waivers related thereto. We may be unable to pay dividends in the anticipated amounts or at all.

***If we fail to manage our growth properly, we may not be able to expand our fleet if we desire to do so, adversely affecting our overall financial position.***

We may expand our fleet in the future if desirable opportunities arise. Our growth will depend on:

- locating and acquiring suitable vessels at competitive prices;
- identifying and consummating acquisitions or joint ventures;
- integrating any acquired vessels successfully with our existing operations;
- enhancing our customer base;
- managing our expansion; and
- obtaining required financing, which could include debt, equity or combinations thereof.

Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty experienced in obtaining additional qualified personnel, managing relationships with customers and suppliers, integrating newly acquired operations into existing infrastructures, identifying new and profitable charter opportunities for vessels, and complying with new loan covenants. We have not identified further expansion opportunities at this time, and the nature and timing of any such expansion is uncertain. We may not be successful in growing further and may incur significant expenses and losses.

***We face strong competition, and we may not be able to compete for charters with new entrants or established companies with greater resources, which may adversely affect our results of operations.***

We obtain charters for our vessels in highly competitive markets in which our market share is insufficient to enforce any degree of pricing discipline. Although we believe that no single competitor has a dominant position in the markets in which we compete, we are

aware that certain competitors may be able to devote greater financial and other resources to their activities than we can, resulting in a significant competitive threat to us. Competition for the transportation of dry bulk cargoes can be intense and depends on price, customer relationships, operating expertise, professional reputation and size, location, age, condition and the acceptability of the vessel and its managers to the charterers. Due in part to the highly fragmented market, competitors with greater resources could operate larger fleets through consolidations or acquisitions that may be able to offer better prices and fleets.

We cannot give assurances that we will continue to compete successfully with our competitors or that these factors will not erode our competitive position in the future.

***Because we obtain some of our insurance through protection and indemnity associations, we may also be subject to calls, or premiums, in amounts based not only on our own claim records, but also on the claim records of all other members of the protection and indemnity associations.***

We may be subject to calls, or premiums, in amounts based not only on our claim records but also on the claim records of all other members of the protection and indemnity associations through which we receive insurance coverage for tort liability, including pollution-related liability. Our payment of these calls could result in significant expenses to us, which could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends in the future.

***We may not be able to attract and retain key management personnel and other employees in the shipping industry, which may negatively affect the effectiveness of our management and our results of operations.***

Our success will depend to a significant extent upon the abilities and efforts of our management team. We currently have two executive officers, our chief executive officer and our chief financial officer, and one general counsel and a support staff. Effective October 1, 2012, our current chief executive officer succeeded our former chief executive officer. Our former chief executive officer continues to serve as chairman of our board of directors. Our success will depend upon our ability to retain key members of our management team and the ability of our management to recruit and hire suitable employees. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining personnel could adversely affect our results of operations.

***We may not have adequate insurance to compensate us if we lose our vessels, which may have a material adverse effect on our financial condition and results of operations.***

We have procured hull and machinery insurance and protection and indemnity insurance, which include environmental damage and pollution insurance coverage and war risk insurance for our fleet. We do not expect to maintain for all of our vessels insurance against loss of hire, which covers business interruptions that result from the loss of use of a vessel. We may not be adequately insured against all risks. We may not be able to obtain adequate insurance coverage for our fleet in the future. The insurers may not pay particular claims. Our insurance policies may contain deductibles for which we will be responsible and limitations and exclusions which may increase our costs or lower our revenue. Moreover, insurers may default on claims they are required to pay. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our vessels. If our insurance is not enough to cover claims that may arise, the deficiency may have a material adverse effect on our financial condition and results of operations.

***We may be subject to litigation that, if not resolved in our favor and not sufficiently insured against, could have a material adverse effect on us.***

We may be, from time to time, involved in various litigation matters. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment matters, governmental claims for taxes or duties, and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or effect of any claim or other litigation matter, and the ultimate outcome of any litigation or the potential costs to resolve them may have a material adverse effect on us. Insurance may not be applicable or sufficient in all cases and/or insurers may not remain solvent which may have a material adverse effect on our financial condition.

***Failure to comply with the U.S. Foreign Corrupt Practices Act could result in fines, criminal penalties, and an adverse effect on our business.***

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt Practices Act. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take action determined to be in violation of such anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

***The Public Company Accounting Oversight Board is currently unable to inspect the audit work and practices of auditors operating in Greece, including our auditor.***

Auditors of U.S. public companies are required by law to undergo periodic Public Company Accounting Oversight Board, or PCAOB, inspections that assess their compliance with U.S. law and professional standards in connection with the performance of audits of financial statements filed with the Commission. Certain European Union countries, including Greece, do not currently permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries, even if they are part of major international firms. The PCAOB has concluded cooperative agreements within the European Union with the United Kingdom, Germany, the Netherlands, Spain and, most recently, Finland and France. Additionally, the PCAOB has entered into cooperative agreements with Switzerland and Norway, and with several non-European regulators in North America, the Middle East, Asia, and Australia. Accordingly, unlike for most U.S. public companies, the PCAOB is currently prevented from evaluating our auditor's performance of audits and its quality control procedures, and, unlike the shareholders of most U.S. public companies, our shareholders are deprived of the possible benefits of such inspections. The PCAOB continues to pursue additional agreements with audit oversight authorities in other European Union countries and jurisdictions around the world.

***We depend on our commercial and technical managers to operate our business and our business could be harmed if they fail to perform their services satisfactorily.***

Pursuant to our management agreements, EST provides us with technical, general administrative and support services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance, freight management, accounting related to vessels, provisions, bunkering and operation) and M/S Fleet and Wallem provide us with technical management services for certain of our vessels. Our operational success depends significantly upon EST's, M/S Fleet's and Wallem's satisfactory performance of these services. Our business would be harmed if EST, M/S Fleet or Wallem failed to perform these services satisfactorily. As of December 31, 2012 we owed EST approximately \$5.9 million which amount remains unpaid. 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 new period time and spot charters and to expand our relationships with our existing charterers will depend largely on our relationship with our commercial manager, Safbulk, and its reputation and relationships in the shipping industry. If Safbulk suffers material damage to its reputation or relationships, it may harm our ability to:

- renew existing charters upon their expiration;
- obtain new charters;
- 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 EST, M/S Fleet and Wallem if they default on their obligations to us, investors in us will have no recourse against them. Further, we will need to seek approval from our lenders to change our technical managers from EST, M/S Fleet or Wallem.

***Management fees are payable to our technical managers 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 with EST, M/S Fleet and Wallem, we pay a fee of \$450, \$329 and \$279, per day per vessel, respectively, for providing technical, support and administrative services. 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 third party expenses, which are reimbursed by us. 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 technical managers 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.

***EST, Safbulk, M/S Fleet and Wallem are privately held companies and there is little or no publicly available information about them.***

The ability of EST, Safbulk, M/S Fleet and Wallem to continue providing services for our benefit will depend in part on their respective financial strength. Circumstances beyond our control could impair their financial strength, and because they are privately held,

it is unlikely that information about their financial strength would become public unless any of these entities began to default on their respective obligations. As a result, our shareholders might have little advance warning of problems affecting EST, Safbulk, M/S Fleet and Wallem, even though these problems could have a material adverse effect on us.

***We outsource, and expect to continue to outsource, the technical management and commercial management of part of our fleet to companies that are affiliated with members of the Restis family, which may create conflicts of interest.***

We outsource, and expect to continue to outsource, the technical management and commercial management of part of our fleet to EST and Safbulk, companies that are affiliated with members of the Restis family. Companies affiliated with members of the Restis family own and may acquire vessels that compete with our fleet. Both EST and Safbulk have responsibilities and relationships to owners other than us which could create conflicts of interest between us, on the one hand, and EST or Safbulk, on the other hand. These conflicts may arise in connection with the chartering of the vessels in our fleet versus dry bulk carriers managed by other companies affiliated with members of the Restis family. There can be no assurance that they will resolve conflicts in our favor.

***The majority of the members of our shipping committee are appointees nominated by affiliates of members of the Restis family, which could create conflicts of interest detrimental to us.***

Our board of directors has created a shipping committee, which has been delegated exclusive authority to consider and vote upon all matters involving shipping and vessel finance, subject to certain limitations. Affiliates of members of the Restis family have the right to appoint two of the three members of the shipping committee and as a result such affiliates will effectively control all decisions with respect to our shipping operations that do not involve a transaction with a Restis affiliate. Mr. Dale Ploughman, Ms. Christina Anagnostara and Mr. Elias Culucundis currently serve on our shipping committee.

***The Restis affiliate shareholders hold approximately 85% of our outstanding common stock which limits your ability to influence our actions.***

As of the date of this annual report, the Restis affiliate shareholders own approximately 85% of our outstanding common stock. Our major shareholders have the power to exert considerable influence over our actions and matters which require shareholder approval, which limits your ability to influence our actions. Furthermore under the terms of the Piraeus Bank (ex CPB) loan agreement, we must also ensure that members of the Restis family and the family of our former chairman Mr. George Koutsolioutsos (or companies affiliated with them) together own at all times an aggregate of at least 10% of our issued share capital. Under the UOB loan agreement, no other person other than the Restis family or affiliated companies with the Restis family or Seanergy may become the beneficial owner of more than 30% of MCS's issued voting share capital.

***We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law, which may negatively affect the ability of shareholders to protect their interests.***

Our corporate affairs are governed by our amended and restated articles of incorporation, our amended and restated by-laws 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 U.S. jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, shareholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a U.S. jurisdiction.

***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 all of our assets are, and will be, located outside of the United States. Our business is operated primarily from our offices in Athens, Greece. In addition, our directors and officers are non-residents of the United States, and all or 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 securities laws or otherwise. Even if you are successful in bringing an action of this kind, you may 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. Although you may bring an original action against us or our affiliates in the courts of the Marshall Islands based on U.S. laws, and the courts of the Marshall Islands may impose civil liability, including monetary damages, against us, or our affiliates for a cause of action arising under Marshall Islands laws, it may be impracticable for you to do so given the geographic location of the Marshall Islands. For more information regarding the relevant laws of the Marshall Islands, please read "Enforceability of Civil Liabilities."

***We may be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. federal income tax consequences to U.S. holders of our common stock.***

A foreign corporation will be treated as a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of “passive income” or (2) 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, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which 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.” U.S. shareholders of a PFIC are subject to a disadvantageous U.S. 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.

We should not be a PFIC with respect to any taxable year. Based upon our operations as described herein, our income from time charters should not be treated as passive income for purposes of determining whether we are a PFIC. Accordingly, our income from our time chartering activities should not constitute “passive income,” and the assets that we own and operate in connection with the production of that income should not constitute passive assets.

There is substantial legal authority supporting this position consisting of case law and U.S. Internal Revenue Service, or IRS, pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept this position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if the nature and extent of our operations changed.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders would face adverse U.S. federal income tax consequences and certain information reporting requirements. Under the PFIC rules, unless those shareholders make an election available under the United States Internal Revenue Code of 1986 as amended, or the Code (which election could itself have adverse consequences for such shareholders, as discussed below under “Taxation – U.S. Federal Income Tax Consequences – U.S. Federal Income Taxation of U.S. Holders”), such shareholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of their shares of our common stock, as if the excess distribution or gain had been recognized ratably over the shareholder’s holding period of the shares of our common stock. See “Taxation – U.S. Federal Income Tax Consequences – U.S. Federal Income Taxation of U.S. Holders” for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders if we are treated as a PFIC.

Based on the current and expected composition of our and our subsidiaries’ assets and income, it is not anticipated that we will be treated as a PFIC. Our actual PFIC status for any taxable year, however, will not be determinable until after the end of each such taxable year. Accordingly there can be no assurances regarding our status as a PFIC for any future taxable year. See the discussion in the section entitled “Taxation — U.S. Federal Income Tax Consequences — U.S. Federal Income Taxation of U.S. Holders — Passive Foreign Investment Company Rules.” We urge U.S. Holders to consult with their own tax advisors regarding the possible application of the PFIC rules.

***We may have to pay tax on U.S. source income, which would reduce our earnings.***

Under the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as us and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States, exclusive of certain U.S. territories and possessions, may be subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the applicable Treasury Regulations promulgated thereunder.

We believe that we qualify for the benefits of Section 883 of the Code. However, there are factual circumstances beyond our control that could cause us or any one of our ship-operating companies to fail to qualify for this tax exemption and thereby subject us to U.S. federal income tax on our U.S. source shipping income. For example, we would fail to qualify for exemption under Section 883 of the Code for a particular tax year if shareholders, each of whom owned, actually or under applicable constructive ownership rules, a 5% or greater interest in the vote and value of the outstanding shares of our common stock, owned in the aggregate, 50% or more of the vote and value of the outstanding shares of our common stock, and “qualified shareholders” as defined by the applicable Treasury Regulations did not own, directly or under applicable constructive ownership rules, sufficient shares in our closely-held block of common stock to preclude the shares in the closely-held block that are not so owned from representing 50% or more of the value of our common stock for more than half of the number of days during the taxable year.

For the 2012 taxable year, we believe that 50% or more of the vote and value of our common stock was held by 5% shareholders. Although we believe that each of our 5% shareholders is a “qualified shareholder” for purposes of Section 883, we would not qualify for the Section 883 exemption unless we received from those shareholders, and each intermediary entity in the chain or ownership, certain beneficial ownership and intermediary statements substantiating those shareholder’s beneficial ownership and status as “qualified shareholders.”

Due to the factual nature of the issues involved, we can give no assurances on the tax-exempt status of ourselves or that of any of our subsidiaries. If we or our subsidiaries are not entitled to exemption under Section 883 for any taxable year, we or our subsidiaries could be subject for those years to an effective 4% U.S. federal income tax on the shipping income such companies derive during the year that is attributable to the transport of cargoes to or from the United States. The imposition of this taxation would have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders.

## **Risks Relating to Our Common Stock**

*The market price of our common stock has been and may in the future be subject to significant fluctuations.*

The market price of our common stock has been and may in the future be subject to significant fluctuations as a result of many factors, some of which are beyond our control. Among the factors that have in the past and could in the future affect our stock price are:

- quarterly variations in our results of operations;
- our lenders' willingness to extend our loan covenant waivers, if necessary;
- changes in market valuations of similar companies and stock market price and volume fluctuations generally;
- changes in earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community about our business or the shipping industry generally;
- strategic actions by us or our competitors such as acquisitions or restructurings;
- the thin trading market for our common stock, which makes it somewhat illiquid;
- the current ineligibility of our common stock to be the subject of margin loans because of its low current market price;
- regulatory developments;
- additions or departures of key personnel;
- general market conditions; and
- domestic and international economic, market and currency factors unrelated to our performance.

The stock markets in general, and the markets for dry bulk shipping and shipping stocks in particular, have experienced extreme volatility that has sometimes been unrelated to the operating performance of individual companies. These broad market fluctuations may adversely affect the trading price of our common stock.

*Our common stock could be delisted from the NASDAQ Capital Market, which could negatively impact the price of our common stock and our ability to access the capital markets.*

Our common stock was listed on the NASDAQ Global Market until December 20, 2012 and effective December 21, 2012, the Company transferred its stock listing to the Nasdaq Capital Market. Our common stock trades under the symbol "SHIP." Our ability to retain our listing is contingent upon compliance with NASDAQ listing requirements. The listing standards of the NASDAQ Capital Market provide, among other things, that a company may be delisted if the bid price of its stock drops below \$1.00 for a period of 30 consecutive business days.

On January 28, 2011, we were notified by NASDAQ that we were no longer in compliance with NASDAQ Listing Rule 5450(a) (1) because the closing bid price of our common stock for 30 consecutive business days, from December 14, 2010 to January 26, 2011, had been below the minimum \$1.00 per share bid price requirement for continued listing on the NASDAQ Global Market. In response, we conducted a 1-for-15 reverse stock split on June 24, 2011, or the Reverse Stock Split, which was approved at a special meeting of our shareholders on January 4, 2011. We regained compliance during July 2011 when, during the applicable grace period, the closing bid price of our common stock was at least \$1.00 per share for a minimum of ten consecutive business days.

On January 24, 2012, we were notified by NASDAQ that we were no longer in compliance with NASDAQ Listing Rule 5450(b) (1)(C) because the market value of the publicly held shares of our common stock for 30 consecutive business days, from December 6, 2011 to January 23, 2012 had been below the minimum \$5.0 million market value of publicly held shares requirement for continued listing on the NASDAQ Global Market. This notification had no effect on the listing of the Company's common stock, and the applicable grace period to regain compliance was 180 calendar days, expiring on July 23, 2012. The Company regained compliance at the end of February 2012, when during the applicable grace period the Company's minimum market value of our publicly held shares was \$5.0 million or greater for a minimum of ten consecutive business days.

On June 29, 2012, we were notified by NASDAQ that we were no longer in compliance with NASDAQ Listing Rule 5450(b)(1) (C) because the market value of the publicly held shares of our common stock for 30 consecutive business days, from May 16, 2012 to June 28, 2012 had been below the minimum \$5.0 million market value of publicly held shares requirement for continued listing on the NASDAQ Global Market. The applicable grace period to regain compliance was 180 calendar days, expiring on December 26, 2012. Prior to the expiration of this grace period, we transferred the listing of our common stock to The Nasdaq Capital Market, effective on December 21, 2012. Our common stock continues to trade under the symbol “SHIP” and this matter is now closed.

In addition, the ultimate accounting impact of the ongoing restructuring of our indebtedness is uncertain and will not be determined until the final terms of the restructuring are reached with UOB and Piraeus Bank (ex CPB). The outcome could negatively impact the trading of our common shares and our ability to remain listed on NASDAQ. See “Item 5 – Operating and Financial Review and Prospects—Recent Developments.”

***Our board of directors has suspended the payment of cash dividends as a result of certain restrictions in waivers we received from Piraeus Bank (ex CPB) relating to our loan covenants and prevailing market conditions in the international shipping industry. Until such market conditions improve, it is unlikely that we will reinstate the payment of dividends.***

In light of a lower freight environment and a highly challenging financing environment that has resulted in a substantial decline in the international shipping industry, our board of directors, beginning on February 4, 2009, suspended the cash dividend on our common stock. Our dividend policy will be assessed by our board of directors from time to time; however, it is unlikely that we will reinstate the payment of dividends until market conditions improve. Further, the waiver we received from Piraeus Bank (ex CPB) relating to our loan covenant restricts our ability to pay dividends. Therefore, there can be no assurances that, if we were to determine to resume paying cash dividends, Piraeus Bank (ex CPB) would provide any required consent.

***Anti-takeover provisions in our amended and restated articles of incorporation and by-laws could make it difficult for shareholders to replace or remove our current board of directors or could have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.***

Several provisions of our amended and restated articles of incorporation and by-laws could make it difficult for shareholders 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 shareholders may consider favorable.

These provisions include those that:

- authorize our board of directors to issue “blank check” preferred stock without shareholder approval;
- provide for a classified board of directors with staggered, three-year terms;
- require a super-majority vote in order to amend the provisions regarding our classified board of directors with staggered, three-year terms;
- permit the removal of any director from office at any time, with or without cause, at the request of the shareholder group entitled to designate such director;
- allow vacancies on the board of directors to be filled by the shareholder group entitled to name the director whose resignation or removal led to the occurrence of the vacancy; and
- prevent our board of directors from dissolving the shipping committee or altering the duties or composition of the shipping committee without an affirmative vote of not less than 80% of the board of directors.

These anti-takeover provisions could substantially impede the ability of shareholders 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.

***Future sales of our common stock may depress our stock price.***

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market or the perception that these sales could occur. In addition, these factors could make it more difficult for us to raise funds through future equity offerings.

***Issuance of preferred stock may adversely affect the voting power of our shareholders and have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.***

Our amended and restated articles of incorporation currently authorize our Board to issue preferred shares in one or more series and to determine the rights, preferences, privileges and restrictions, with respect to, among other things, dividends, conversion, voting,

redemption, liquidation and the number of shares constituting any series subject to prior shareholders' approval. If our Board determines to issue preferred shares, such issuance may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable. The issuance of preferred shares with voting and conversion rights may also adversely affect the voting power of the holders of common shares. This could substantially impede the ability of public shareholders 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.

***You may experience dilution as a result of the exercise of our warrants.***

We have an obligation to issue shares of common stock under our underwriters' warrants which are outstanding and exercisable to purchase an aggregate of 75,927 of our common shares. The sale of the common shares issued upon such events, or the perception that such events may occur, could materially and adversely affect the market price of our common shares. Furthermore, we may issue additional securities in the future that may have a dilutive effect to the holders of our common shares.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

###### ***Incorporation of Seanergy and Seanergy Maritime***

We were incorporated under the laws of the Republic of the Marshall Islands on January 4, 2008, originally under the name Seanergy Merger Corp., as a wholly owned subsidiary of Seanergy Maritime Corp., or Seanergy Maritime. We changed our name to Seanergy Maritime Holdings Corp. on July 11, 2008. Our executive offices are located at 1-3 Patriarchou Grigoriou Street, 166 74 Glyfada, Athens, Greece and our telephone number is 011 30 210 8931507.

Seanergy Maritime was incorporated in the Marshall Islands on August 15, 2006 as a blank check company formed to acquire, through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more businesses in the maritime shipping industry or related industries. Seanergy Maritime, up to the date of the initial business combination, had not commenced any business operations and was considered a development stage enterprise. Seanergy Maritime is our predecessor. See "Dissolution and Liquidation of Our Predecessor."

###### ***Initial Public Offering of Seanergy Maritime and Initial Business Combination***

On September 28, 2007, Seanergy Maritime consummated its initial public offering of 23,100,000 units, with each unit consisting of one share of its common stock and one warrant. Each warrant entitled the holder to purchase one share of Seanergy Maritime common stock at an exercise price of \$6.50 per share. As a result of the Reverse Stock Split, each unit holder is entitled to a one-fifteenth share upon the exercise of each unit. The initial public offering generated \$227.1 million in net proceeds, after deducting certain deferred offering costs, that was held in a trust account maintained by Continental Stock Transfer & Trust Company, which we refer to as the Seanergy Maritime Trust Account.

We acquired our initial fleet of six dry bulk carriers from the Restis family for an aggregate purchase price of (i) \$367 million in cash, (ii) \$28.3 million (face value) in the form of a convertible promissory note, or the Note, and (iii) an aggregate of 4,308,075 shares of our common stock (or 287,205 shares as adjusted for the Reverse Stock Split), subject to us meeting an Earnings Before Interest, Taxes, Depreciation and Amortization, or EBITDA, target of \$72.0 million to be earned between October 1, 2008 and September 30, 2009, which target was achieved and the additional consideration was recorded as an increase in goodwill of \$17.3 million. This acquisition was made pursuant to the terms and conditions of a Master Agreement dated May 20, 2008 among us, Seanergy Maritime, our former parent, the several selling parties who are affiliated with members of the Restis family, and the several investing parties who are affiliated with members of the Restis family, and six separate memoranda of agreement, which we collectively refer to as the "MOAs," between our vessel-owning subsidiaries and each seller, each dated as of May 20, 2008. The acquisition was completed with funds from the Seanergy Maritime Trust Account and with financing provided by Piraeus Bank (ex CPB).

On August 28, 2008, we completed our initial business combination with the acquisition, through our designated nominees, of the six dry bulk vessels. On that date, we took delivery of the M/V Davakis G., the M/V Delos Ranger and the M/V African Oryx. On September 11, 2008, we took delivery, through our designated nominee, of the fourth vessel, the M/V Bremen Max. On September 25, 2008, we took delivery, through our designated nominees, of the final two vessels, the M/V Hamburg Max and the M/V African Zebra.

###### ***Dissolution and Liquidation of Our Predecessor***

On August 26, 2008, shareholders of Seanergy Maritime also approved a proposal for the dissolution and liquidation of Seanergy Maritime, or the dissolution and liquidation, which was originally filed with the Commission on June 17, 2008, subsequently amended on July 31, 2008 and supplemented on August 22, 2008. Seanergy Maritime proposed the dissolution and liquidation because following the vessel acquisition, Seanergy Maritime was no longer needed and its dissolution was expected to save substantial accounting, legal and compliance costs related to the U.S. federal income tax filings necessary because of Seanergy Maritime's status as a partnership for U.S. federal income tax purposes.

In connection with the dissolution and liquidation of Seenergy Maritime, on January 27, 2009, Seenergy Maritime filed Articles of Dissolution with the Registrar of Corporations of the Marshall Islands in accordance with Marshall Islands law and distributed to each holder of shares of common stock of Seenergy Maritime one share of our common stock for each share of Seenergy Maritime common stock owned by such shareholders. All outstanding warrants and the underwriter's unit purchase option of Seenergy Maritime concurrently became our obligations and became exercisable to purchase our common stock. Following the dissolution and liquidation of Seenergy Maritime, our common stock and warrants began trading on the NASDAQ Global Market on January 28, 2009. For purposes of this annual report all share data and financial information for the period prior to January 27, 2009 is that of Seenergy Maritime.

### ***BET acquisition and subsequent disposition***

On August 12, 2009, we closed on the acquisition of a 50% interest in Bulk Energy Transport (Holdings) Limited ("BET") from Constellation Bulk Energy Holdings, Inc., or Constellation. Following this acquisition, we controlled BET through our right to appoint a majority of the BET board of directors pursuant to a shareholder agreement with Mineral Transport Holdings, Inc., or Mineral Transport, a company controlled by members of the Restis family. The purchase price consisted of \$1.00 and the acquisition of assets and the assumption of liabilities. The stock purchase was accounted for under the purchase method of accounting and accordingly the assets (vessels) acquired and the liabilities assumed have been recorded at their fair values. In addition to the vessels, the other assets acquired include \$37.75 million in cash and restricted cash and \$4.32 million in current receivables and inventories. The fair value of the vessels as of the closing of the acquisition was \$126.0 million, and BET owed \$143.01 million under its credit facility as of such date. The results of operations of BET are included in our consolidated statement of operations commencing on August 12, 2009. On October 22, 2010, we purchased the remaining 50% non-controlling ownership interest in BET from Mineral Transport for consideration that was paid in the form of: (i) \$7.0 million in cash paid to Mineral Transport and (ii) 24,761,905 shares of our common stock (or 1,650,793 shares as adjusted for the Reverse Stock Split) totaling \$26.0 million determined based upon an agreed price of \$1.05 per share (or \$15.75 per share as adjusted for the Reverse Stock Split) and having a fair value of \$30.95 million. The acquisition was treated as a transaction between entities under common control, and as such, the transaction was retrospectively reported as of May 20, 2010, due to the expiration on May 20, 2010 of a voting agreement between certain of our shareholders who are affiliated with members of the Restis family, and Seenergy Maritime's founding shareholders, composed of our former directors Messrs. Georgios Koutsolioutsos, Alexios Komninos, and Ioannis Tsigkounakis, and from that date our majority shareholders, the Restis family, also became our controlling shareholders. The excess of the consideration paid to acquire the remaining equity interest over its carrying value was recorded as a deemed distribution in equity amounting to \$18.11 million. We sold BET in December 2012. See "Restructuring—BET Sale" below.

### ***MCS acquisition and subsequent disposition of certain subsidiaries***

On May 28, 2010, after entering into a share purchase agreement with Maritime Capital Shipping (Holdings) Limited, or Maritime Capital, a company controlled by members of the Restis family, we completed the final documentation for the acquisition of a 51% ownership interest in MCS for consideration of \$33.0 million. The consideration was paid to Maritime Capital from the proceeds of our equity offering completed in February 2010 and from our cash reserves. On September 15, 2010, we completed the acquisition from Maritime Capital of the remaining 49% ownership interest in MCS for consideration that was paid in the form of: (i) cash in the amount of \$3.0 million paid to Maritime Capital from our cash reserves and (ii) 24,761,905 shares of our common stock (or 1,650,793 shares as adjusted for the Reverse Stock Split) totaling \$26.0 million at an agreed price of \$1.05 per share (or \$15.75 per share as adjusted for the Reverse Stock Split) and having a fair value of \$26.74 million. The acquisition was treated as a transaction between entities under common control, and as such, the transaction was recorded at historical cost and was retrospectively reported as of May 20, 2010. Accordingly, the excess of the consideration paid to acquire MCS over its carrying value was recorded as a deemed distribution in equity amounting to \$2.06 million. On January 29, 2013, we closed the sale of the four MCS subsidiaries which owned the vessels Fiesta, Pacific Fantasy, Pacific Fighter and Clipper Freeway. See "Restructuring—Sale of MCS Subsidiaries" below.

### ***Reverse Stock Split***

We conducted a 15-for-1 reverse stock split effectuated on June 24, 2011, pursuant to which every fifteen shares of our common stock issued and outstanding were converted into one share of common stock, which was approved at a special meeting of our shareholders on January 4, 2011.

### ***Equity Injection Plan***

On January 31, 2012, we completed an equity injection plan with four entities affiliated with the Restis family. In exchange for \$10 million, we issued an aggregate of 4,641,620 of our common shares to the four entities at a price of \$2.15442. The price was determined as the average closing price of the five trading days preceding the execution of the purchase plan. Following the issuance of the shares and as of the date of this annual report we have 11,959,282 outstanding common shares.

### ***Appointment of Chief Executive Officer***

Effective as of October 1, 2012, our board of directors appointed Stamatis Tsantanis to succeed Dale Ploughman as our Chief Executive Officer.

## ***Restructuring***

Beginning in August 2012, we have been engaged in restructuring discussions with our lenders to finalize the satisfaction and release of our obligations under certain of our loan facility agreements and the amendment of the terms of certain of our loan facility agreements. Since January 1, 2012, we have sold 13 of our vessels, in some cases by transferring ownership of certain of our vessel-owning subsidiaries to third parties nominated by our lenders in connection with our restructuring. As a result, as of the date of this annual report, our fleet consists of three Handysize, two Supramax and two Panamax vessels.

### *BET Sale*

On November 9, 2012, we entered into an agreement with I.M.I. Holdings Corp., or IMI, a company controlled by members of the Restis family, to sell our 100% ownership interest in Bulk Energy Transport (Holdings) Limited (“BET”), for a nominal cash consideration of \$1.00. In addition, we released BET from all of its obligations and liabilities towards us, which accrued to \$3.5 million as of the date of sale. The transaction was consummated on December 30, 2012 upon finalization of all the required documentation. On December 18, 2012, at the direction of IMI, we sold the vessel BET Prince for gross proceeds of \$8.3 million, which were used to repay part of the then outstanding debt. As a result of the transaction, our overall indebtedness was reduced by approximately \$46.7 million. In connection with the sale, our board of directors obtained a fairness opinion from an independent third party.

### *Sale of MCS subsidiaries*

On January 29, 2013, we closed the sale of the four MCS subsidiaries which owned the vessels Fiesta, Pacific Fantasy, Pacific Fighter and Clipper Freeway, financed under the facility agreement with DVB, to a third party entity nominated by DVB. In exchange for the sale, \$31.9 million of outstanding debt as of December 31, 2012 and all the liabilities and obligations under our facility agreement with DVB were discharged and the guarantee provided by MCS was fully released. In connection with the sale of these subsidiaries, our board of directors obtained a fairness opinion from an independent third party.

As of December 31, 2012, our outstanding indebtedness was \$208.6 million. Of this amount, \$31.9 million with scheduled maturity in 2015 was subject to the settlement agreement with DVB described above associated with the sale of four of our vessel-owning MCS subsidiaries, which we entered into on January 29, 2013. Despite our restructuring efforts over the last several months, as of the date of this annual report, our outstanding indebtedness consists of \$134.9 million outstanding debt under our Piraeus Bank (ex CPB) facility and \$38.1 million outstanding debt under our UOB facility.

While we continue to use our best efforts to complete the restructuring, there can be no assurance that a successful resolution can be reached with our lenders or that the restructuring will be successfully completed. Furthermore, there is no assurance that we will obtain the releases from certain of our indebtedness as proposed in the restructuring proposals and failure to obtain such releases could materially and adversely affect our business and operations. We expect that we will continue to have a high degree of indebtedness after the completion of our ongoing restructuring. In addition, the ultimate accounting impact of the restructuring is uncertain and will not be determined until the final terms of the restructuring are reached with UOB and Piraeus Bank (ex CPB). The outcome could negatively impact the trading of our common shares and our ability to remain listed on NASDAQ. See “Item 5 – Operating and Financial Review and Prospects—Recent Developments.”

### *Sale of African Oryx*

On April 10, 2013, we sold the African Oryx. Gross proceeds amounted to \$4.1 million and were used to repay debt.

## **B. Business Overview**

We are an international company providing worldwide seaborne transportation of dry bulk commodities. We own and operate a fleet of seven dry bulk vessels that consists of three Handysize, two Supramax and two Panamax vessels. Our fleet carries a variety of dry bulk commodities, including coal, iron ore, and grains, as well as bauxite, phosphate, fertilizer and steel products.

### **Our Fleet**

The following is a list of the vessels in our fleet as of the date of this annual report. The table below sets forth summary information concerning our fleet of drybulk carriers:

Vessel/Flag	Type	Dwt	Year Built	Current Employment	Term of Employment	Daily Base Gross Charter Hire Rate	Profit Sharing Above Base Charter Hire Rate	Charterer
Bremen Max/ Isle of Man	Panamax	73,503	1993	Spot Time Charter	Expiring May 2013	\$7,500	None	Louis Dreyfus Commodities Suisse S.A.
Hamburg Max /Isle of Man	Panamax	73,498	1994	N/A	N/A	N/A	None	To be fixed
Davakis G./Bahamas (1)	Supramax	54,051	2008	N/A	N/A	N/A	None	To be fixed
Delos Ranger / Bahamas (1)	Supramax	54,057	2008	Spot Time Charter	Expiring August 2013	\$9,000	None	Hudson Shipping Lines Inc.
African Joy /Hong Kong	Handysize	26,482	1996	Time Charter	Expiring April 2013	Floating (2)	None	MUR Shipping B.V.
African Glory /Hong Kong	Handysize	24,252	1998	Time Charter	Expiring May 2013	\$7,000 base rate and a ceiling of \$12,000	75% between base and ceiling and 50% above the ceiling (3)	MUR Shipping B.V.
Asian Grace /Hong Kong	Handysize	20,412	1999	Spot Time Charter	Expiring May 2013	\$5,750	None	Unicargo International Ltd.
<b>Total</b>		<b>326,255</b>						

(1) Sister ships.

(2) Calculated using the adjusted Time Charter average of the Baltic Handysize Index

(3) Calculated using the adjusted Time Charter average of the Baltic Supramax Index.

### Management of Our Fleet

Safbulk performs the commercial management of our initial fleet of six vessels (which now consists of four vessels following the sale of the African Zebra and the African Oryx). Safbulk Maritime S.A., or Safbulk Maritime, performed the commercial management of the BET fleet. Each of Safbulk and Safbulk Maritime, which is controlled by members of the Restis family and is referred to throughout this annual report as Safbulk, had entered into a brokerage agreement with Seenergy Management Corp., or Seenergy Management, one of our wholly-owned subsidiaries, to provide these commercial management services, pursuant to which Safbulk is entitled to receive a commission of 1.25% calculated on the collected gross hire/freight/demurrage payable when such amounts are collected. See “— Brokerage Agreements” below. MCS carries out the commercial management of its fleet in-house, arranging and negotiating the terms of its vessels’ time and bareboat charters based on market conditions.

EST performs the technical management of our initial fleet of six vessels (which now consists of four vessels following the sale of the African Zebra and the African Oryx). EST is controlled by members of the Restis family. Safbulk and EST presently do business with over 100 customers, the majority of which have been customers since inception.

Safbulk’s and EST’s main objective is to ensure responsible and ethical management of services and processes from the point of view of health, safety and environmental aspects. Towards this end it has increased its self regulation by adopting various models (EFQM, EBEN) standards (ISO 9001, ISO 14001, and OHSAS 18001) and codes (ISM Code).

EST has earned a market reputation for excellence in the provision of services that is evident from the many awards and certifications earned over the years including International Safety Management Certificate (1993), ISO 9001 Certification for Quality Management (1995), ISO 14001 Certification for Environmental Management System (2002), US Coast Guard AMVER Certification, EFQM “Committed to Excellence” (2004), “Recognized for Excellence” Certification (2005) and “Recognized for Excellence-4 stars” Certification (2006), OHSAS 18001:1999 for Health and Safety (2007) and EBEN (European Business Ethics Network silver (2008) and gold (2009) awards.

### Brokerage Agreements

Safbulk serves as exclusive commercial broker for our initial fleet of six vessels (which now consists of four vessels following the sale of the African Zebra and the African Oryx) pursuant to a brokerage agreement with Seenergy Management. Safbulk Maritime performed the commercial management of the BET fleet pursuant to a brokerage agreement with BET. Commercial management services include, among other things, seeking and negotiating employment for the vessels owned by the vessel-owning subsidiaries in accordance with the instructions of Seenergy Management and BET, as applicable. Pursuant to the brokerage agreements, Safbulk is entitled to receive a commission of 1.25% calculated on the collected gross hire/freight/demurrage payable when such amounts are collected. The brokerage agreement with Safbulk was originally for a term of two years expiring in May 2010. The brokerage agreement with Safbulk Maritime was originally for a term of one year expiring in August 2010. Each brokerage agreement is automatically renewable annually, unless either party is provided with three months’ written notice prior to the termination of such period. Both brokerage agree-

ments were automatically renewed for another year. The brokerage agreement with Safbulk is expiring in May 2013 and the brokerage agreement with Safbulk Maritime was automatically renewed until August 2013. With the sale of BET, the BET fleet has been divested as of December 31, 2012.

## **Management Agreements**

Seanergy Management has entered into a management agreement with EST with respect to our initial fleet of six vessels (which now consists of four vessels following the sale of the African Zebra and the African Oryx) and BET has entered into a management agreement with EST with respect to the BET fleet. Pursuant to these management agreements, EST performs certain duties that include general administrative and support services necessary for the operation and employment of such vessels, including, without limitation, crewing and other technical management, insurance, freight management, accounting related to vessels, provisions, bunkering, operation and, subject to our instructions, sale and purchase of vessels. On October 1, 2011 each of Seanergy Management and BET entered into an Amendment no. 1 to the management agreement with EST which provide that effective from October 1, 2011 and for the tenure of the agreement the Company shall pay a management fee per day per vessel of \$450 and it was further mutually agreed that effective from October 1, 2011 no adjustment would be made on the fee per vessel per day, unless agreed by the parties in writing by an amendment to the agreement.

The management fee under both agreements was EUR 436 per vessel per day for the year ended December 31, 2010, and under both agreements, the management fee was increased to Euro 460 per vessel per day for the first nine months of the year ending December 31, 2011. As of October 1, 2011 the management fee under both agreements was reduced to \$450 per vessel per day. Management fee are payable monthly in advance on the first business day of each following month. For the year ended December 31, 2012, the management fee under both agreements was \$450 per day.

The management agreement between Seanergy Management and EST was for an initial period of two years and is automatically extended for successive one year periods, unless three months' written notice is given by either party. The management agreement between BET and EST was for an initial period of one year and is automatically extended for successive one year periods, unless three months' written notice is given by either party.

Under the terms of our management agreements with third parties, namely M/S Fleet and Wallem, ship managers were entitled to receive an annual fee of \$120,000 and \$96,000 per vessel, respectively in 2011. In 2012, M/S Fleet and Wallem were entitled to receive an annual fee of \$120,000 and \$102,000 per vessel, respectively. The management agreements with M/S Fleet and Wallem may be terminated by two months prior notice by either party.

## **Shipping Committee**

We have established a shipping committee. The purpose of the shipping committee is to consider and vote upon all matters involving shipping and vessel finance in order to accelerate the pace of our decision making in respect of shipping business opportunities, such as the acquisition of vessels or companies. The shipping industry often demands very prompt review and decision-making with respect to business opportunities. In recognition of this, and in order to best utilize the experience and skills that our directors bring to us, our board of directors has delegated all such matters to the shipping committee. Transactions that involve the issuance of our securities or transactions that involve a related party, however, shall not be delegated to the shipping committee but instead shall be considered by the entire board of directors. The shipping committee consists of three directors. In accordance with the Amended and Restated Charter of the Shipping Committee, two of the directors on the shipping committee are nominated by the Restis affiliate shareholders and one of the directors on the shipping committee is nominated by a majority of our board of directors and is an independent member of the board of directors. The members of the shipping committee are Mr. Dale Ploughman and Ms. Christina Anagnostara, who are the Restis affiliate shareholders' nominees, and Mr. Elias Culucundis, who is the Board's nominee.

In order to assure the continued existence of the shipping committee, our board of directors has agreed that the shipping committee may not be dissolved and that the duties or composition of the shipping committee may not be altered without the affirmative vote of not less than 80% of our board of directors. In addition, the duties of our chief executive officer, who is currently Mr. Tsantanis, may not be altered without a similar vote. These duties and powers include voting the shares of stock that Seanergy owns in its subsidiaries. In addition to these agreements, we have amended certain provisions in its articles of incorporation and by-laws to incorporate these requirements.

As a result of these various provisions, in general, all shipping-related decisions will be made by the Restis family appointees to our board of directors unless 80% of the board members vote to change the duties or composition of the shipping committee.

## **The Dry Bulk Shipping Industry**

The global dry bulk carrier fleet is divided into four categories based on a vessel's carrying capacity. These categories are:

- *Capesize*. Capesize vessels have a carrying capacity of exceeding 100,000d wt. Only the largest ports around the world possess the infrastructure to accommodate vessels of this size. Capesize vessels are primarily used to transport iron ore or coal and, to a much lesser extent, grains, primarily on long-haul routes.

- *Panamax*. Panamax vessels have a carrying capacity of between 60,000 and 100,000 dwt. These vessels are designed to meet the physical restrictions of the Panama Canal locks (hence their name “Panamax” — the largest vessels able to transit the Panama Canal, making them more versatile than larger vessels). These vessels carry coal, grains, and, to a lesser extent, minerals such as bauxite/alumina and phosphate rock. As the availability of Capesize vessels has dwindled, Panamaxes have also been used to haul iron ore cargoes.
- *Handymax/Supramax*. Handymax vessels have a carrying capacity of between 30,000 and 60,000 dwt. These vessels operate on a large number of geographically dispersed global trade routes, carrying primarily grains and minor bulks. The standard vessels are usually built with 25-30 ton cargo gear, enabling them to discharge cargo where grabs are required (particularly industrial minerals), and to conduct cargo operations in countries and ports with limited infrastructure. This type of vessel offers good trading flexibility and can, therefore, be used in a wide variety of bulk and neobulk trades, such as steel products. Supramax are a sub-category of this category typically having a cargo carrying capacity of between 50,000 and 60,000 dwt.
- *Handysize*. Handysize vessels have a carrying capacity of up to 30,000 dwt. These vessels are almost exclusively carrying minor bulk cargo. Increasingly, vessels of this type operate on regional trading routes, and may serve as trans-shipment feeders for larger vessels. Handysize vessels are well suited for small ports with length and draft restrictions. Their cargo gear enables them to service ports lacking the infrastructure for cargo loading and discharging.

The supply of dry bulk carriers is dependent on the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or loss. The level of scrapping activity is generally a function of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs.

The demand for dry bulk carrier capacity is determined by the underlying demand for commodities transported in dry bulk carriers, which in turn is influenced by trends in the global economy. Demand for dry bulk carrier capacity is also affected by the operating efficiency of the global fleet, with port congestion, which has been a feature of the market since 2004, absorbing tonnage and therefore leading to a tighter balance between supply and demand. In evaluating demand factors for dry bulk carrier capacity, the Company believes that dry bulk carriers can be the most versatile element of the global shipping fleets in terms of employment alternatives.

## **Charter Hire Rates**

Charter hire rates fluctuate by varying degrees among dry bulk carrier size categories. The volume and pattern of trade in a small number of commodities (major bulks) affect demand for larger vessels. Therefore, charter rates and vessel values of larger vessels often show greater volatility. Conversely, trade in a greater number of commodities (minor bulks) drives demand for smaller dry bulk carriers. Accordingly, charter rates and vessel values for those vessels are subject to less volatility.

Charter hire rates paid for dry bulk carriers are primarily a function of the underlying balance between vessel supply and demand, although at times other factors may play a role. Furthermore, the pattern seen in charter rates is broadly mirrored across the different charter types and the different dry bulk carrier categories. However, because demand for larger dry bulk vessels is affected by the volume and pattern of trade in a relatively small number of commodities, charter hire rates (and vessel values) of larger ships tend to be more volatile than those for smaller vessels.

In the time charter market, rates vary depending on the length of the charter period and vessel specific factors such as age, speed and fuel consumption.

In the voyage charter market, rates are influenced by cargo size, commodity, port dues and canal transit fees, as well as commencement and termination regions. In general, a larger cargo size is quoted at a lower rate per ton than a smaller cargo size. Routes with costly ports or canals generally command higher rates than routes with low port dues and no canals to transit. Voyages with a load port within a region that includes ports where vessels usually discharge cargo or a discharge port within a region with ports where vessels load cargo also are generally quoted at lower rates, because such voyages generally increase vessel utilization by reducing the unloaded portion (or ballast leg) that is included in the calculation of the return charter to a loading area.

Within the dry bulk shipping industry, the charter hire rate references most likely to be monitored are the freight rate indices issued by the Baltic Exchange. These references are based on actual charter hire rates under charters entered into by market participants as well as daily assessments provided to the Baltic Exchange by a panel of major shipbrokers.

## **Competition**

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on its reputation. Safbulk negotiates the terms of our charters (whether voyage charters, period time charters, bareboat charters or pools) based on market conditions. We compete primarily with other owners of drybulk carriers, many of which may have more resources than us and may operate vessels that are newer, and therefore more attractive to charterers, than our vessels. Ownership of dry bulk carriers is highly fragmented and is divided among publicly listed

companies, state controlled and independent bulk carrier owners. We compete primarily with owners of drybulk vessels in the Handy-size, Supramax and Panamax class sizes. Some of our publicly listed competitors include Eagle Bulk Shipping Inc. (NASDAQ: EGLE), Freeseas Inc. (NASDAQ: FREE), Excel Maritime Carriers Ltd. (NYSE: EXM), Genco Shipping and Trading Limited (NYSE: GNK), Globus Maritime Limited (NASDAQ: GLBS), Navios Maritime Partners L.P. (NASDAQ: NMM), Paragon Shipping Inc. (NYSE: PRGN), Safe Bulkers Inc. (NYSE: SB) and Star Bulk Carriers Corp. (NASDAQ: SBLK).

## Customers

Our customers include national, regional and international companies, such as CF Bulk Carriers Ltd., MUR Shipping B.V. and SwissMarine Services S.A. Customers individually accounting for more than 10% of our voyage revenues during the years ended December 31, 2012, 2011 and 2010 were:

Customer	2012	2011	2010
A	19%	15%	15%
B	14%	17%	11%
C*	14%	10%	-
D*	-	24%	45%
E	-	10%	10%
F	-	10%	-
Total	47%	86%	81%

\* Customers C and D are related parties.

## Seasonality

Coal, iron ore and grains, which are the major bulks of the dry bulk shipping industry, are somewhat seasonal in nature. The energy markets primarily affect the demand for coal, with increases during hot summer periods when air conditioning and refrigeration require more electricity and towards the end of the calendar year in anticipation of the forthcoming winter period. The demand for iron ore tends to decline in the summer months because many of the major steel users, such as automobile makers, reduce their level of production significantly during the summer holidays. Grains are completely seasonal as they are driven by the harvest within a climate zone. Because three of the five largest grain producers (the United States of America, Canada and the European Union) are located in the northern hemisphere and the other two (Argentina and Australia) are located in the southern hemisphere, harvests occur throughout the year and grains require dry bulk shipping accordingly.

## Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of our vessels. We are subject to international conventions and treaties, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered relating to safety and health and environmental protection including the storage, handling, emission, transportation and discharge of hazardous and non-hazardous materials, and the remediation of contamination and liability for damage to natural resources. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of government and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (United States Coast Guard, harbor master or equivalent), classification societies, flag state administrations (country of registry) and charterers, particularly terminal operators. Certain of these entities require us to obtain permits, licenses, certificates or approvals for the operation of our vessels. Failure to maintain necessary permits, licenses, certificates or approvals could require us to incur substantial costs or temporarily suspend the operation of one or more of our vessels.

We believe that the heightened level of environmental and operational safety concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the dry bulk 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 United States and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations. However, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident that causes significant adverse environmental impact, such as the 2010 *Deepwater Horizon* oil spill, could result in additional legislation or regulation that could negatively affect our profitability.

## ***International Maritime Organization***

The United Nations' International Maritime Organization (the "IMO") has adopted the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto (collectively referred to as MARPOL 73/78 and herein as "MARPOL"). MARPOL entered into force on October 2, 1983. It has been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate. MARPOL sets forth pollution-prevention requirements applicable to drybulk carriers, among other vessels, and is broken into six Annexes, each of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI was separately adopted by the IMO in September of 1997.

### ***Air Emissions***

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits "deliberate emissions" of "ozone depleting substances," defined to include certain halons and chlorofluorocarbons. "Deliberate emissions" are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship's repair and maintenance. Emissions of "volatile organic compounds" from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil (see below).

The IMO's Maritime Environment Protection Committee, or MEPC, adopted amendments to Annex VI on October 10, 2008, which entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulphur contained in any fuel oil used on board ships. As of January 1, 2012, the amended Annex VI requires that fuel oil contain no more than 3.50% sulfur (from the previous cap of 4.50%). By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Sulfur content standards are even stricter within certain "Emission Control Areas" ("ECAs"). As of July 1, 2010, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 1.0% (from 1.50%), which will be further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea and the North Sea have been so designated. Effective August 1, 2012, certain coastal areas of North America were also designated ECAs, as will the applicable areas of the United States Caribbean Sea, including the coastal waters around Puerto Rico and the U.S. Virgin Islands, effective January 1, 2014. Ocean-going vessels in these areas will be subject to stringent emissions controls and may cause us to incur additional costs. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations. We cannot assure you that the jurisdictions in which our vessels operate will not adopt more stringent emissions standards independent of the IMO.

As of January 1, 2013 MARPOL made mandatory certain measures relating to energy efficiency for ships. This included the requirement that all new ships utilize the Energy Efficiency Design Index (EEDI) and all ships use the Ship Energy Efficiency Management Plan (SEEMP).

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The U.S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009.

### ***Safety Management System Requirements***

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. The Convention on Limitation of Liability for Maritime Claims (LLMC) was recently amended and the amendments are expected to go into effect on June 8, 2015. The amendments alter the limits of liability for loss of life or personal injury claims and property claims against ship owners.

The operation of our ships is also affected by the requirements set forth in Chapter IX of SOLAS, which sets forth the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires ship owners and bareboat charterers to develop and maintain an extensive "Safety Management System" 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. We rely upon the safety management system that our technical manager has developed for compliance with the ISM Code. The failure of a ship owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports.

The ISM Code requires that vessel operators obtain a safety management certificate, or SMC, for each vessel they operate. This certificate evidences compliance by a vessel's operators with the ISM Code requirements for a safety management system, or SMS. No

vessel can obtain an SMC under the ISM Code unless its manager has been awarded a document of compliance, or DOC, issued in most instances by the vessel's flag state.

Noncompliance with the ISM Code or other IMO regulations may subject the ship owner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports.

### ***Pollution Control and Liability Requirements***

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatories to such conventions. For example, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. 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 tonnage. To date, there has not been sufficient adoption of this standard for it to take force. However, Panama may adopt this standard in the relatively near future, which would be sufficient for it to take force. Upon entry into force of the BWM Convention, mid-ocean ballast exchange would be mandatory for our vessels. In addition, our vessels would be required to be equipped with a ballast water treatment system that meets mandatory concentration limits not later than the first intermediate or renewal survey, whichever occurs first, after the anniversary date of delivery of the vessel in 2014, for vessels with ballast water capacity of 1500-5000 cubic meters, or after such date in 2016, for vessels with ballast water capacity of greater than 5000 cubic meters.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In March 2006, the IMO amended Annex I to MARPOL, including a new regulation relating to oil fuel tank protection, which became effective August 1, 2007. The new regulation applies to various ships delivered on or after August 1, 2010. It includes requirements for the protected location of the fuel tanks, performance standards for accidental oil fuel outflow, a tank capacity limit and certain other maintenance, inspection and engineering standards.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations. We believe that we are in substantial compliance with all applicable existing IMO requirements. In addition, we intend to comply with all future applicable IMO requirements.

### ***The U.S. Oil Pollution Act of 1990 and Comprehensive Environmental Response, Compensation and Liability Act***

OPA established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade with the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States' territorial sea and its 200 nautical mile exclusive economic zone around the United States. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define "owner and operator" in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are "responsible parties" and are jointly, severally and strictly liable (unless the spill 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 oil from their vessels. OPA defines these other damages broadly to include:

- (i) injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;
- (ii) injury to, or economic losses resulting from, the destruction of real and personal property;
- (iii) net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;
- (iv) loss of subsistence use of natural resources that are injured, destroyed or lost;
- (v) lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and

- (vi) net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for non-tank vessels (e.g. drybulk) to the greater of \$1,000 per gross ton or \$854,400 (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsible party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5.0 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee.

The 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. For example, on August 15, 2012, the U.S. Bureau of Safety and Economic Enforcement (BSEE) issued a final drilling safety rule for offshore oil and gas operations that strengthens the requirements for safety equipment, well control systems, and blowout prevention practices. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business.

We currently maintain pollution liability coverage insurance in the amount of \$1.0 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could have an adverse effect on our business and results of operation.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA, 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 vessel owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call. We believe that we are in substantial compliance with all applicable existing state requirements. In addition, we intend to comply with all future applicable state regulations in the ports where our vessels call.

### ***Other Environmental Initiatives***

The CWA prohibits the discharge of oil, hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. In addition, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The EPA regulates the discharge of ballast water and other substances in U.S. waters under the CWA. EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit authorizing ballast water discharges and other discharges incidental to the operation of vessels. The Vessel General Permit imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. The EPA has proposed a draft 2013 Vessel General Permit to replace the current Vessel General Permit upon its expiration on December 19, 2013, authorizing discharges incidental to operations of commercial

vessels. The draft permit also contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. In 2009 the Coast Guard proposed new ballast water management standards and practices, including limits regarding ballast water releases. As of June 21, 2012, the U.S. Coast Guard implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships in U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004. Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act of 1970 (including its amendments of 1977 and 1990) (the “CAA”) requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans (“SIPs”) designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements.

### ***European Union Regulations***

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

The European Union has adopted several regulations and directives requiring, among other things, more frequent inspections of high-risk ships, as determined by type, age, and flag as well as the number of times the ship has been detained. The European Union also adopted and then extended a ban on substandard ships and enacted a minimum ban period and a definitive ban for repeated offenses. The regulation also provided the European Union with greater authority and control over classification societies, by imposing more requirements on classification societies and providing for fines or penalty payments for organizations that failed to comply.

### ***Greenhouse Gas Regulation***

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. On January 1, 2013, two new sets of mandatory requirements to address greenhouse gas emissions from ships, which were adopted in July 2011, entered into force. Currently operating ships are required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. 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 marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures which we cannot predict with certainty at this time.

### ***International Labour Organization***

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world’s tonnage have ratified it. On August 20, 2012, the required number of countries was met and MLC 2006 is expected to come into force on August 20, 2013. The ratification of MLC 2006 will require us to develop new procedures to ensure full compliance with its requirements.

## ***Vessel Security Regulations***

Since the terrorist attacks of September 11, 2001 in the United States, there have been a variety of initiatives intended to enhance vessel security such as the Maritime Transportation Security Act of 2002, or MTSA. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

Ships operating without a valid certificate may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

Furthermore, additional security measures could be required in the future which could have a significant financial impact on us. The U.S. Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code.

Our vessels are in compliance with the various security measures addressed by the MTSA, SOLAS and the ISPS Code. We do not believe these additional requirements will have a material financial impact on our operations.

## ***Inspection by Classification Societies***

Every seagoing 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 of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on 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 and/or to the regulations of the country concerned.

For maintenance of the class certification, regular and occasional surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

*Annual Surveys.* For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of 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 two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.

*Class Renewal Surveys.* Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey, a ship owner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel 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. This process is referred to as continuous class renewal.

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. Vessels under five years of age can waive dry-docking in order to increase available days and decrease capital expenditures, provided the vessel is inspected underwater.

Most vessels are usually dry-docked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a "recommendation" which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage and lending that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies (the IACS). In 2012 the IACS issued draft harmonized Common Structure Rules, the align with the IMO goals standards, and they are expected to be adopted in Winter 2013. Seenergy's vessels are certified as being "in class" by classification societies that are members of the International Association of Classification Societies. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memorandum of agreement. If the vessel is not certified on the date of closing, we have no obligation to take delivery of the vessel.

## **Risk of Loss and Liability Insurance**

### *General*

The operation of any cargo vessel includes risks such as mechanical failure, physical damage, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market. While we believe that our 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.

### *Hull and Machinery Insurance*

We maintain marine hull and machinery and war risk insurance, which includes the risk of actual or constructive total loss, for all of the vessels. The vessels are covered up to at least fair market value, with deductibles in amounts of approximately \$100,000 to \$172,500.

We arrange, as necessary, increased value insurance for our vessels. With the increased value insurance, in case of total loss of the vessel, Seenergy will be able to recover the sum insured under the increased value policy in addition to the sum insured under the hull and machinery policy. Increased value insurance also covers excess liabilities which are not recoverable in full by the hull and machinery policies by reason of under insurance. We expect to maintain delay cover insurance for certain of our vessels. Delay cover insurance covers business interruptions that result in the loss of use of a vessel.

### *Protection and Indemnity Insurance*

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which cover 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, 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. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations.

Our protection and indemnity insurance coverage for pollution is \$1.0 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each of Seenergy's vessels entered into insurance agreements with P&I Associations of the International

Group. Under the International Group reinsurance program, each P&I club in the International Group is responsible for the first \$7.0 million of every claim. In every claim the amount in excess of \$7.0 million and up to \$50.0 million is shared by the clubs under a pooling agreement. In every claim the amount in excess of \$50.0 million is reinsured by the International Group under the general excess of loss reinsurance contract. This policy currently provides an additional \$3.0 billion of coverage. Claims which exceed this amount are pooled by way of “overspill” calls. As a member of a P&I Association, which is a member of the International Group, Seenergy is subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations, and members of the pool of P&I Associations comprising the International Group. The P&I Associations’ policy year commences on February 20th. Calls are levied by means of estimated total costs, or ETC, and the amount of the final installment of the ETC varies according to the actual total premium ultimately required by the club for a particular policy year. Members have a liability to pay supplementary calls which might be levied by the board of directors of the club if the ETC is insufficient to cover amounts paid out by the club.

### C. Organizational Structure

We are the parent company of the following wholly-owned subsidiaries as of the date of this annual report:

<u>Subsidiary</u>	<u>Jurisdiction of Incorporation</u>
Seenergy Management Corp.	Republic of the Marshall Islands
Republic of the Marshall Islands	
Amazons Management Inc.	Republic of the Marshall Islands
Lagoon Shipholding Ltd.	Republic of the Marshall Islands
Cynthera Navigation Ltd.	Republic of the Marshall Islands
Martinique International Corp.	British Virgin Islands
Harbour Business International Corp.	British Virgin Islands
Waldeck Maritime Co.	Republic of the Marshall Islands
Maritime Capital Shipping Limited	Bermuda
Maritime Capital Shipping (HK) Limited	Hong Kong
African Glory Shipping Limited	British Virgin Islands
African Joy Shipping Limited	British Virgin Islands
Asian Grace Shipping Limited	British Virgin Islands
Maritime Grace Shipping Limited	British Virgin Islands
Atlantic Grace Shipping Limited	British Virgin Islands
Maritime Glory Shipping Limited	British Virgin Islands

### D. Property, Plants and Equipment

We do not own any real estate property. We lease our executive office space in Athens, Greece pursuant to the terms of a sublease agreement between Seenergy Management and Waterfront S.A., a company affiliated with a member of the Restis family, and for MCS we lease office space in Hong Kong from a third party entity.

### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following management’s discussion and analysis of the results of our operations and our financial condition should be read in conjunction with the financial statements and the notes to those statements included in “Item 18. Financial Statements.” This discussion contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, such as those set forth in the “Risk Factors” section and elsewhere in this annual report.

#### A. Operating Results

##### Factors Affecting our Results of Operations Overview

We are an international provider of dry bulk marine transportation services. As of December 31, 2012, we owned and operated a total fleet of 12 dry bulk carrier vessels, consisting of two Panamax, two Supramax and eight Handysize vessels. These ships had a combined carrying capacity of 468,500 dwt and an average age of approximately 14.2 years, out of an expected useful life of 30 years.

Over the past year, we have experienced significant losses, working capital deficiency and reduction in cash and cash equivalents, which has affected, and which we expect will continue to affect, our ability to satisfy our obligations. As charter rates for bulkers have experienced a high degree of volatility, we had to re-charter our vessels at low prevailing market rates and subsequently, we experienced significant reduction in cash flow, which in turn further impaired our liquidity.

Due to the economic conditions and operational difficulties, we have entered into restructuring discussions with each of the lenders under our loan facility agreements. As part of those discussions, we appointed Houlihan Lokey and Axia Ventures Group to act as our financial advisors in respect of the overall restructuring described below. The aim of the restructuring is to increase liquidity, normalize trade vendor payments and deleverage us on a going forward basis.

As a result of the conditions set out above, over a period of time, we defaulted under our facility agreements in respect of certain covenants (including, in some cases, the failure to make principal installments and interest payments and the failure to satisfy financial covenants) and events of default have occurred. During the restructuring process, our lenders have continued to reserve their rights in respect of events of default under our loan agreements. To date, we have not obtained waivers of these defaults from our lenders. The lenders have not exercised their remedies at this time, including demand for immediate payment; however, they could change their position at any time.

As of December 31, 2012, due to the covenant violations and absent of waivers in respect of the covenants that were breached at such time we have classified under current liabilities in the consolidated balance sheet \$208.6 million of our debt. As such, as of December 31, 2012, our current assets amounted to \$52.1 million, while current liabilities amounted to \$222.6 million, resulting in a negative working capital of \$170.5 million.

Since January 1, 2012, we have sold or otherwise disposed of a total of 13 vessels (or the ownership of certain vessel-owning subsidiaries) in connection with the restructuring, and any proceeds have been used to repay the related debt. Proceeds from the sale of additional vessels are expected to be insufficient to fully repay the related debt and, therefore, it is likely that we will continue to have significant debt unless we enter into satisfactory arrangements with our lenders for the discharge of all such obligations.

While we continue to use our best efforts to complete the restructuring process, there can be no assurance that a successful resolution can be reached with our lenders and be successfully completed.

Additionally, the ultimate accounting impact of the restructuring efforts is uncertain and will not be determined until the final terms are reached with UOB and Piraeus Bank (ex CPB). The outcome could negatively impact the trading of our common shares and our ability to remain listed on NASDAQ.

### **Important Measures for Analyzing Results of Operations**

We believe that the important non-GAAP measures and definitions for analyzing our results of operations consist of the following and are not included in the consolidated financial statements prepared under US GAAP:

- **Ownership days.** Ownership days are the total number of calendar days in a period during which we owned each vessel in our fleet. Ownership days are an indicator of the size of the fleet over a period and affect both the amount of revenues and the amount of expenses recorded during that period.
- **Available days.** Available days are the number of ownership days less the aggregate number of days that our vessels are off-hire due to major repairs, dry-dockings or special or intermediate surveys. The shipping industry uses available days to measure the number of ownership days in a period during which vessels should be capable of generating revenues.
- **Operating days.** Operating days are the number of available days in a period less the aggregate number of days that vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.
- **Fleet utilization.** Fleet utilization is determined by dividing the number of operating days during a period by the number of ownership days during that period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for any reason excluding scheduled repairs, vessel upgrades, dry-dockings or special or intermediate surveys.
- **Off-hire.** The period a vessel is unable to perform the services for which it is required under a charter.
- **Time charter.** A time charter is a contract for the use of a vessel for a specific period of time during which the charterer pays substantially all of the voyage expenses, including port costs, canal charges and fuel expenses. The vessel owner pays the vessel operating expenses, which include crew wages, insurance, technical maintenance costs, spares, stores and supplies and commissions on gross voyage revenues. Time charter rates are usually fixed during the term of the charter. Prevailing time charter rates do fluctuate on a seasonal and year-to-year basis and may be substantially higher or lower from a prior time charter agreement when the subject vessel is seeking to renew the time charter agreement with the existing charterer or enter into a new time charter agreement with another charterer. Fluctuations in time charter rates are influenced by changes in spot charter rates.
- **TCE.** Time charter equivalent or TCE rates are defined as our time charter revenues less voyage expenses during a period divided by the number of our Operating days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel oil and diesel oil) expenses, canal charges and commissions.

## Revenues

Our revenues were driven primarily by the number of vessels we operated, the number of operating days during which our vessels generated revenues, and the amount of daily charter hire that our vessels earned under charters. These, in turn, were affected by a number of factors, including the following:

- the nature and duration of our charters;
- the amount of time that we spent repositioning our vessels;
- the amount of time that our vessels spent in dry-dock undergoing repairs;
- maintenance and upgrade work;
- the age, condition and specifications of our vessels;
- the levels of supply and demand in the dry bulk carrier transportation market; and
- other factors affecting charter rates for dry bulk carriers under voyage charters.

A voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for an agreed-upon total amount. Under voyage charters, voyage expenses such as port, canal and fuel costs are paid by the vessel owner. A time charter voyage and a period time charter or period charter are generally contracts to charter a vessel for a fixed period of time at a set daily rate. Under time charters, the charterer pays voyage expenses. Under both types of charters, the vessel owners pay for vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. The vessel owners are also responsible for each vessel's dry-docking and intermediate and special survey costs.

Vessels operating on period time charters and bareboat time charters provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot charter market for single voyages during periods characterized by favorable market conditions.

Vessels operating in the spot charter market generate revenues that are less predictable, but can yield increased profit margins during periods of improvements in dry bulk rates. Spot charters also expose vessel owners to the risk of declining dry bulk rates and rising fuel costs. As of December 31, 2012 one of our vessels operated under long-term index-linked employment, three vessels were operating under fixed rate charters with profit sharing agreements, four vessels were on bareboat charters and four vessels were on time charters. As of December 31, 2011 three of our vessels operated under long-term index-linked employment, five vessels were employed under long-term fixed-rate charter agreements, five vessels were operating under fixed rate charters with profit sharing agreements, four vessels were on bareboat charters and three vessels operated in the spot market.

A standard maritime industry performance measure is the time charter equivalent, or TCE. TCE rates are defined as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel oil and diesel oil) expenses, canal charges and commissions. Our average TCE rates for 2012, 2011 and 2010 were \$7,465, \$14,524 and \$16,532, respectively.

## Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Vessel operating expenses generally represent costs of a fixed nature. Some of these expenses are required, such as insurance costs and the cost of spares. Additionally, effective as of January 1, 2013, each foreign flagged vessel managed in Greece by Greek or foreign ship management companies is subject to Greek tonnage tax, under the laws of the Republic of Greece which is estimated at approximately \$0.1 million for the fiscal year 2013.

## Principal Factors Affecting Our Business

The principal factors that affected our financial position, results of operations and cash flows included the following:

- number of vessels owned and operated;
- charter market rates and periods of charter hire;
- vessel operating expenses and direct voyage costs, which were incurred in both U.S. dollars and other currencies, primarily Euros;

- depreciation expenses, which are a function of vessel cost, any significant post-acquisition improvements, estimated useful lives, estimated residual scrap values, and fluctuations in the market value of our vessels;
- financing costs related to indebtedness associated with the vessels; and
- fluctuations in foreign exchange rates.

### Performance Indicators

The figures shown below are non-GAAP statistical ratios used by management to measure performance of our vessels. There are no comparable US GAAP measures.

Fleet Data:	Year Ended December 31,		
	2012	2011	2010
Average number of vessels(1)	17.6	20.0	16.6
Ownership days(2)	6,442	7,300	6,040
Available days(3)	6,333	7,133	5,662
Operating days(4)	5,559	6,944	5,627
Fleet utilization(5)	86.3%	95.1%	93.2%
Fleet utilization excluding drydocking off hire days (6)	87.8%	97.4%	99.4%
<b>Average Daily Results:</b>			
Vessel TCE rate(7)	\$ 7,465	\$ 14,524	\$ 16,532
Vessel operating expenses(8)	\$ 4,189	\$ 4,757	\$ 5,077
Management fees(9)	\$ 344	\$ 410	\$ 438
Total vessel operating expenses(10)	\$ 4,533	\$ 5,167	\$ 5,515

- (1) Average number of vessels is the number of vessels that constituted the Company's fleet for the relevant period, as measured by the sum of the number of days each vessel was a part of the Company's fleet during the relevant period divided by the number of calendar days in the relevant period.
- (2) Ownership days are the total number of days in a period during which the vessels in a fleet have been owned. Ownership days are an indicator of the size of the Company's fleet over a period and affect both the amount of revenues and the amount of expenses that the Company recorded during a period.
- (3) Available days are the number of ownership days less the aggregate number of days that vessels are off-hire due to major repairs, dry dockings or special or intermediate surveys. The shipping industry uses available days to measure the number of ownership days in a period during which vessels should be capable of generating revenues. During the year ended December 31, 2012, the Company incurred 109 off-hire days for vessel surveys.
- (4) Operating days are the number of available days in a period less the aggregate number of days that vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.
- (5) Fleet utilization is the percentage of time that our vessels were generating revenue, and is determined by dividing operating days by ownership days for the relevant period.
- (6) Fleet utilization excluding drydocking off-hire days is calculated by dividing the number of the fleet's operating days during a period by the number of available days during that period. The shipping industry uses fleet utilization excluding drydocking off-hire days to measure a Company's efficiency in finding suitable employment for its vessels and excluding the amount of days that its vessels are off-hire for reasons such as scheduled repairs, vessel upgrades, or dry dockings or special or intermediate surveys.
- (7) TCE rates are defined as our net revenues less voyage expenses during a period divided by the number of our operating days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel oil and diesel oil) expenses, canal charges and other commissions:

(In thousands of U.S. dollars, except operating days and daily time charter equivalent rate)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net revenues from vessels*	\$ 55,616	\$ 104,060	\$ 95,856
Voyage expenses	(13,587)	(2,541)	(2,399)
Voyage expenses — related party	(532)	(661)	(434)
Net operating revenues	\$ 41,497	\$ 100,858	\$ 93,023
Operating days	5,559	6,944	5,627
Daily time charter equivalent rate	\$ 7,465	\$ 14,524	\$ 16,532

\* Our TCE rate is calculated as the weighted average of the daily rate earned under time charter contracts and of the daily rate earned by bareboat agreements after deducting the relevant fixed operating expense allowance. Net revenue from vessels under bareboat agreements is net of operating expense allowance.

- (8) Average daily vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, are calculated by dividing vessel operating expenses by ownership days (including the ownership days of the vessels employed under bareboat charters) for the relevant time periods:

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating expenses	\$ 26,983	\$ 34,727	\$ 30,667
Ownership days	6,442	7,300	6,040
Daily vessel operating expenses	\$ 4,189	\$ 4,757	\$ 5,077

- (9) Daily management fees are calculated by dividing total management fees by ownership days for the relevant time period.
- (10) Total vessel operating expenses, or TVOE, is a measurement of total expenses associated with operating the vessels. TVOE is the sum of vessel operating expenses and management fees. Daily TVOE is calculated by dividing TVOE by fleet ownership days for the relevant time period.

#### ***Year ended December 31, 2012 as compared to year ended December 31, 2011***

*Vessel Revenue — Related Party, Net* — Vessel revenue, related party, was \$8.2 million during the year ended December 31, 2012, compared to \$35.7 million during the year ended December 31, 2011. Related party address commissions were \$0.3 million during the year ended December 31, 2012 compared to \$1.3 million during the year ended December 31, 2011. The decrease is due to the lower market rates earned during 2012 and the reduced size of our fleet. Four of the five vessels employed by related parties were sold in 2012. Three vessels were employed under time charters which commenced in 2011 (two in June and one in November), whose daily rate was based on the adjusted time charter average of the Baltic Capesize Index, or BCI. As a result of the prevailing lower market rates during 2012, revenue tied to the BCI was lower in 2012 than the one recognized during 2011. The related party commissions represent a 3.75% address commission payable to Swissmarine and SAMC.

*Vessel Revenue, Net* — Vessel revenue was \$49 million during the year ended December 31, 2012, compared to \$71.6 million during the year ended December 31, 2011. Address commissions were \$1.3 million during the year ended December 31, 2012, compared to \$1.9 million during the year ended December 31, 2011. The decrease in vessel revenue is mainly attributable to lower hire charter rates during the year ended December 31, 2012, as compared to the relevant period in 2011, including both charters with fixed rates as well as charters with rates tied to indices, and an 18% decrease in operating days as a result of three vessels sold in 2012, coupled with an increase in unfixed days in 2012.

*Direct Voyage Expenses* — Direct voyage expenses were \$13.6 million during the year ended December 31, 2012, compared to \$2.5 million during the year ended December 31, 2011. The increase was mainly attributable to the increased number of voyage charters in 2012, under which the bunkers are paid by the owner. Bunker expenses amounted to approximately \$10.7 million in 2012, compared to only \$0.9 million in 2011.

*Vessel Operating Expenses* — Vessel operating expenses were \$27 million during the year ended December 31, 2012, compared to \$34.7 million during the year ended December 31, 2011. This decrease is mainly attributable to a reduction in our direct daily vessel operating expenses, to \$4,189 in the twelve months of 2012 from \$4,757 in the twelve months of 2011, mainly related to operational

efficiency improvements, along with an 12% reduction in the ownership days, from 7,300 days in 2011 to 6,442 days in 2012, due to vessel sales in 2012. The decrease is also attributable to three vessels undergoing dry-docking during 2012 compared to five vessels during 2011, during which dry-dockings non-capitalized repairs also took place as well as a slight decrease of approximately \$0.2 million in insurance deductibles.

*Voyage Expenses — Related Party* — Voyage expenses, related party, were \$0.5 million during the year ended December 31, 2012, compared to \$0.7 million during the year ended December 31, 2011. These expenses represent commissions charged in relation to the brokerage agreement we have with Safbulk, an affiliate, for the provision of chartering services. The chartering commissions represent a commission of 1.25% payable to Safbulk on the collected vessel revenue. The decrease reflects the 20% reduction in our operating days from 6,944 operating days in 2011 to 5,559 operating days in 2012.

*Management Fees — Related Party* — Management fees, related party, were \$1.6 million during the year ended December 31, 2012, compared to \$2.4 million during the year ended December 31, 2011. Management fees relate to the management agreement we have with EST for the provision of operating and technical management services for the Seanergy fleet and for the former subsidiary BET fleet. The decrease in 2012 is due to the reduction in the fixed daily fee per vessel from EUR 460 for the nine month period ended September 30, 2011 to \$450 from October 1, 2011 thereafter, along with a 19% decrease in ownership days for these fleets from 4,015 ownership days in 2011 to 3,253 ownership days in 2012.

*Management Fees* — Management fees were \$0.6 million during the year ended December 31, 2012, compared to \$0.6 million during the year ended December 31, 2011. Management fees relate to the management agreements we have with M/S Fleet and Wallem for the provision of technical management services for the MCS fleet. In 2012, M/S Fleet and Wallem were entitled to receive an annual fee of \$120,000 and \$102,000 per vessel, respectively. In 2011, M/S Fleet and Wallem were entitled to receive an annual fee of \$120,000 and \$96,000 per vessel, respectively. Two of the four vessels under M/S Fleet management were sold in the fourth quarter of 2012. Termination charges of approximately \$40,000 were incurred following the sales.

*General and Administration Expenses* — General and administration expenses were \$6.3 million during the year ended December 31, 2012, compared to \$8.1 million during the year ended December 31, 2011. The decrease is mainly attributable to expense cutting efforts initiated during 2012 as well as the cost savings resulting from the restructuring of our Hong Kong office. Compensation savings from the latter amounted to approximately \$1.3 million over last year, coupled with approximately \$0.4 million in rent expense reduction due to relocation of the Hong Kong office. The decrease in general and administrative expenses is partly offset by approximately \$0.7 million in expenses incurred in 2012 related to our debt restructuring efforts.

*General and Administration Expenses — Related Party* — General and administration expenses – related party were \$0.4 million during the year ended December 31, 2012, compared to \$0.6 million during the year ended December 31, 2011. Our related party general and administration expenses are primarily comprised of office rental expenses. The monthly lease payment was EUR 25,000 during the year ended December 31, 2012, compared to EUR 35,000 during the year ended December 31, 2011.

*Loss on bad debts* — Loss on bad debts of \$0.3 million during the year ended December 31, 2012 represents uncollectible receivable write-offs.

*Amortization of Deferred Dry-docking Costs* — Amortization of deferred dry-docking costs were \$3.6 million during the year ended December 31, 2012 compared to \$7.3 million during the year ended December 31, 2011. Three vessels underwent dry-docking during 2012, for a total of approximately \$1.5 million, compared to five vessels during 2011, for a total of approximately of \$4.0 million. The decrease in amortization expense in 2012 is also due to unamortized dry-docking write-offs due to vessel sales of approximately \$1.1 million during the year ended December 31, 2012 compared to \$1.9 million during the year ended December 31, 2011, due to write-offs of unamortized balance of deferred dry-docking costs associated with the vessels African Zebra and BET Commander, respectively, since the latest dry-dockings occurred earlier than projected, resulting in a shortened amortization period for the prior dry-dockings as well as dry-docking impairment charges of \$1.2 million during the year ended December 31, 2012 compared to \$1.6 million during the year ended December 31, 2011. Additionally, the impairments incurred in 2011 reduced the 2012 amortization charges.

*Depreciation* — Depreciation was \$15.6 million for the year ended December 31, 2012, compared to \$28.9 million for the year ended December 31, 2011. The decrease reflects the reduction in our fleet size from 20 vessels on average in 2011 to 17.6 vessels on average in 2012, the increase of our vessels' estimated salvage value per LTW to \$435 from \$270 effective October 1, 2011 and the reduction in the net book value of the six initial vessels acquired in 2008 as at September 30, 2011, as a result of a \$187.4 million impairment charge.

*Loss on sale of vessels* — Loss on sale of vessels of \$15.6 million during the year ended December 31, 2012 is comprised of a loss of \$2.4 million on the sale of African Zebra on February 15, 2012 and a loss of \$13.2 million on the sale of BET Scouter on June 12, 2012.

*Impairment loss for vessels and deferred charges* — We recorded \$147.1 million impairment losses on our vessels for the year ended December 31, 2012. Losses of \$55.1 million are related to impairments on four vessels sold during the year. The impairment loss was measured as the amount by which the carrying amount of the long lived assets exceeded its fair value. Fair value was determined

using the MOA purchase price adjusted for selling costs. Losses of \$67.7 million are related to impairments on the vessels under the DVB and UOB loan facilities which were classified as held for sale as of December 31, 2012. The vessels were adjusted to their lower of their carrying amount or fair value less costs to sell. The vessels' ship owning subsidiaries under the DVB loan facility were sold in January 2013. Losses of \$24.3 million are related to impairment losses on three vessels following impairment testing on December 31, 2012. The impairment loss was measured as the amount by which the carrying amount of the long lived assets exceeded its fair value. Fair value was determined using valuations derived from market data. For the year ended December 31, 2011, we recorded an impairment loss of \$189 million on the six initial vessels acquired in 2008. The impairment loss was measured as the amount by which the carrying amount of the long lived assets exceeded their fair value. Fair value was determined using valuations derived from market data.

*Impairment loss for goodwill*— We recorded goodwill impairment losses of \$4.4 million and \$12.9 million during the years ended December 31, 2012 and 2011, respectively. We tested our goodwill for potential impairment and concluded that indication of impairment existed as of September 30, 2012 and September 30, 2011. The fair value for goodwill impairment testing was estimated by using the expected present value of future cash flows, applying judgments and assumptions that management believes were appropriate in the circumstances as well as by using the market capitalization approach. The future cash flows from operations were determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the 10-year average historical charter rates available for each type of vessel). The weighted average cost of capital used was 7.42% and 8.16% for the nine month periods ended September 30, 2012 and 2011, respectively, and 8.46% for the year ended December 31, 2011.

*Interest and Finance Costs* — Interest and finance costs were \$12.5 million during the year ended December 31, 2012, compared to \$13.5 million during the year ended December 31, 2011. The decrease is mainly attributable to lower loan balances in 2012 compared to those in 2011 as a result of debt repayments as well as proceeds from vessel sales during 2012, which were used to reduce outstanding debt. Debt repayments during 2012 amounted to \$98.8 million compared to \$53.1 million during 2011. The weighted average interest rate on the entire Company's outstanding debt for the years ended December 31, 2012 and 2011 was approximately 3.9% and 3.2%, respectively. Additionally, \$0.4 million in debt restructuring charges were incurred during 2011 related to the BET loan, Seenergy's former subsidiary.

*Interest Income* — Interest income of \$0.06 million for each of the years ended December 31, 2012 and 2011 represents interest earned on term deposits at annualized interest rates ranging from 0.10% to 0.45% during 2012 and 0.08% to 6.00% during 2011.

*Loss on interest rate swaps* — Loss on interest rate swaps was \$0.2 million during the year ended December 31, 2012, compared to \$0.6 million during the year ended December 31, 2011. The decrease is mainly attributable to the expiration of two interest rate swaps during 2012 as well as deconsolidation of one interest rate swap at December 30, 2012 associated with the sale of the BET, our former subsidiary.

*Income taxes* — Income taxes for the years ended December 31, 2012 and 2011 amounted to income of \$0.002 million and expense of \$0.04 million, respectively. Seenergy Management, the management company established in Greece under Greek Law 89/67 (as amended to date), is subject to an annual contribution calculated on the total amount of foreign exchange annually imported and converted to Euros during 2012-2015 according to a new tax bill passed in 2013 under the laws of the Republic of Greece. The new tax bill is retroactive to cover 2012 and the contribution to be paid in 2013 by Seenergy Management for 2012 is estimated at approximately \$0.05 million. Maritime Capital Shipping (HK) Limited, the South East Asia management office in Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profit for the year.

#### ***Year ended December 31, 2011 as compared to year ended December 31, 2010***

*Vessel Revenue — Related Party, Net* — Vessel revenue, related party, during the year ended December 31, 2011 decreased by \$8.5 million, or 19%, to \$35.7 million from \$44.2 million for the year ended December 31, 2010, before related party address commissions of \$1.3 million and \$1.5 million for the years ended December 31, 2011 and 2010, respectively. The decrease in net vessel revenue — related party, is a result of the chartering of the Bremen Max, Hamburg Max and BET Commander to unrelated third parties commencing on December 1, 2010, August 31, 2010 and October 6, 2011, respectively.

*Vessel Revenue, Net - Vessel revenue, net* during the year ended December 31, 2011 increased by \$16.8 million, or 31%, to \$71.6 million from \$54.8 million for the year ended December 31, 2010, before address commissions of \$1.9 million and \$1.6 million for the years ended December 31, 2011 and 2010, respectively. The increase in net vessel revenue from unrelated third parties is the result of the chartering of the Bremen Max, Hamburg Max and BET Commander to unrelated third parties commencing on December 1, 2010, August 31, 2010 and October 6, 2011, respectively, as well as revenues received from the MCS fleet for the period from May 21, 2010 to December 31, 2010. The Bremen Max ended its employment with the related party on September 25, 2010 and underwent dry-docking repairs before commencing its employment to the unrelated third party.

*Direct Voyage Expenses* — Direct voyage expenses, which include bunkers and port expenses and brokerage commissions, increased by \$0.1 million, or 4%, to \$2.5 million during the year ended December 31, 2011 from \$2.4 million in the year ended December 31, 2010. The increase in direct voyage expenses is principally due to an increase in operating days from 5,627 in 2010 to 6,944 in 2011 and the consolidation of MCS's operations commencing on May 21, 2010.

*Vessel Operating Expenses* — For the year ended December 31, 2011, our vessel operating expenses increased by \$4 million, or 13%, to \$34.7 million, from \$30.7 million for the year ended December 31, 2010. Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, chemicals and lubricants, consumable stores, tonnage taxes and other miscellaneous expenses. The increase in operating expenses is attributable to the increase in ownership days to 7,300 and an average of 20.0 vessels for the year ended December 31, 2011, as compared to an average of 6,040 ownership days and an average of 16.6 vessels for the year ended December 31, 2010, resulting from the consolidation of MCS's operations commencing on May 21, 2010. The increase in vessel operating expenses was offset by the decrease in additional repair costs incurred as a result of the dry-dock surveys for five of our vessels during the year ended December 31, 2011 as compared to seven of our vessels during the year ended December 31, 2010. Our daily vessel operating expenses decreased to \$4,757 for the year ended December 31, 2011, from \$5,077 for the year ended December 31, 2010.

*Voyage Expenses — Related Party* — These expenses represent commissions charged in relation to the brokerage agreement we have with Safbulk, an affiliate, for the provision of chartering services. Voyage expenses, related party, increased by \$0.3 million, or 75%, to \$0.7 million in the year ended December 31, 2011, from \$0.4 million in the year ended December 31, 2010. The chartering commissions represent a commission of 1.25% payable to Safbulk on the collected vessel revenue. The increase in voyage expenses – related party is mainly attributable to the fact that three of MCS vessels have brokerage agreements with Safbulk, and as such, those vessels recorded expenses for the entire 2011 as compared to the consolidation of MCS's operations which commenced on May 21, 2010.

*Management Fees — Related Party* — For the year ended December 31, 2011, management fees charged by EST, which is a related party, increased by \$0.1 million, or 4%, to \$2.4 million from \$2.3 million in the year ended December 31, 2010. Management fees relate to the management agreement we have with EST for the provision of operating and technical management services for the Seanergy fleet and our former subsidiary BET fleet. The fixed daily fee per vessel was EUR 436 in 2010, EUR 460 for the nine month period ended September 30, 2011, and \$450 from October 1, 2011, and for a period of one year.

*Management Fees* — For the year ended December 31, 2011 our management fees increased by \$0.3 million, or 100%, to \$0.6 million, from \$0.3 million for the year ended December 31, 2010. Management fees relate to the management agreements we have with M/S Fleet and Wallem for the provision of technical management services for the MCS fleet. The increase in management fees is a result of MCS' consolidation for the entire year during 2011 compared to its consolidation from May in 2010.

*General and Administration Expenses* — General and administrative expenses increased by \$0.5 million, or 7%, to \$8.1 million for the year ended December 31, 2011, compared to \$7.6 million for the year ended December 31, 2010 mainly due to personnel redundancy costs associated with the Hong Kong office reorganization. Our general and administration expenses primarily include auditing and accounting fees of \$0.8 million, fees for professional services of \$1.8 million and salaries, board of director remuneration and other compensation of \$3.2 million.

*General and Administration Expenses — Related Party* — Related party general and administrative expenses decreased by \$0.1 million, or 14%, to \$0.6 million for the year ended December 31, 2011, compared to \$0.7 million for the year ended December 31, 2010. Our related party general and administration expenses are primarily comprised of office rental expenses. The monthly lease payment was EUR 42,000 up to December 20, 2010, at which date it was amended to EUR 35,000.

*Amortization of Deferred Dry-docking Costs* — Amortization of deferred dry-docking costs increased by \$3.6 million, or 97%, to \$7.3 million for the year ended December 31, 2011, compared to \$3.7 million for the year ended December 31, 2010. The increase in amortization of deferred dry-docking costs is due to the fact that: (i) amortization for three of the five vessels that underwent dry-docking in 2011 commenced during the first half of the year, (ii) amortization for five of the seven vessels that underwent dry-docking in 2010 commenced in the last quarter of 2010 and (iii) only three vessels had undergone dry-docking in 2009. This resulted in lower dry-docking amortization for 2010 as compared to 2011, as the cost of the 3 surveys that took place in 2009 had to be amortized in 2010, whereas the 7 surveys that took place in 2010 and the 3 surveys that took place in the first half of 2011 had to be amortized in 2011.

*Depreciation* — For the year ended December 31, 2011, depreciation expense decreased by \$0.4 million, or 2%, to \$28.9 million, compared to \$29.3 million for the year ended December 31, 2010. The decrease is due to the change in the estimated residual value of our fleet as well as the impairment charge on our six initial vessels, which reduced the depreciable value of those vessels. We depreciate our vessels based on a straight line basis over the expected useful life of each vessel. Up to June 30, 2009, we estimated the useful lives of our vessels at 25 years from the date of their delivery from the shipyard. Effective July 1, 2009 we changed the estimated useful life of our fleet to 30 years. This change reduced depreciation expense by \$8 million (approximately \$0.32 per share) for the year ended December 31, 2009. Depreciation is based on the cost of the vessel less its estimated residual value. Residual value is estimated by taking the cost of steel times the weight of the ship noted in lightweight ton (LWT). Up to September 30, 2011, management estimated the salvage value of its vessels at \$270 per LWT. Effective October 1, 2011, following management's reassessment of the residual values of the company's vessels, the estimated salvage value per LWT was increased to \$435, as that was the average realized price during 2010. This change reduced depreciation expense by \$0.7 million (approximately \$0.10 per share) for the year ended December 31, 2011.

*Impairment loss for vessels and deferred charges*— We recorded an impairment loss of \$189 million during 2011 on the six initial vessels acquired in 2008. The impairment loss was measured as the amount by which the carrying amount of the long lived assets

exceeded their fair value. Fair value was determined using the valuation derived from market data. The impairment loss recorded is composed of a loss of \$187.4 million related to the vessels cost and of \$1.6 million related to the respective vessels unamortized dry-docking costs. No indication of impairment existed during 2010.

*Impairment loss for goodwill*— We recorded an impairment loss of \$12.9 million during 2011. No such impairment existed during 2010. We tested goodwill for potential impairment, and concluded that indication of impairment existed as of September 30, 2011, but not as of December 31, 2011 and 2010. The fair value for goodwill impairment testing was estimated by using the income approach (i.e., expected present value of future cash flows), using judgments and assumptions that management believes were appropriate in the circumstances as well as by using the market capitalization approach. The future cash flows from operations were determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the 10-year average historical charter rates available for each type of vessel). The weighted average cost of capital used was 8.16%, 8.46% and 8.75% for the nine month period ended September 30, 2011, and the years ended December 31, 2011 and 2010, respectively.

*Interest and Finance Costs* — Interest and finance costs increased by \$0.6 million, or 5%, to \$13.5 million for the year ended December 31, 2011, compared to \$12.9 million for the year ended December 31, 2010. Fees incurred for obtaining new loans, including related legal and other professional fees, are deferred and amortized using the effective interest method over the life of the related debt. The slight increase in interest and finance costs is attributable to the increase in margin in 2010 on the Piraeus Bank (ex CPB) and Citi facilities, offset by the lower loan balances in 2011 compared to those in 2010 as a result of ongoing debt repayments. In particular, the margin on the Piraeus Bank (ex CPB) revolving facility was increased from 3.50% to 4.00% effective June 2, 2010, the margin on the Piraeus Bank (ex CPB) term facility was increased from 3.00% to 3.50% effective June 2, 2010 and the margin on the Citi facility was reduced from 2.00% as of June 30, 2010 to 1.75% up to March 31, 2011, at which point it was adjusted back to 2.00%.

*Interest Income* — Interest income decreased by \$0.3 million, or 75%, to \$0.1 million for the year ended December 31, 2011, compared to \$0.4 million for the year ended December 31, 2010. The decrease in interest income is a result of the lower interest rates received in 2011.

*Loss on interest rate swaps* — Loss on interest rate swaps decreased by \$3.6 million, or 86%, to \$0.6 million for the year ended December 31, 2011, compared to \$4.2 million for the year ended December 31, 2010 mainly due to expiration of two interest rate swap agreements in 2011 in January and March 2011 and mark-to-market valuations. The Company had interest rate swap agreements under BET and MCS for both years. Specifically, the Company had seven interest rate swaps during 2010, one of which expired in October 2010.

*Income taxes* — Income taxes for the years ended December 31, 2011 and 2010 amounted to \$0.1 million and \$0.1 million, respectively, and relate to MCS. Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profit for both years.

## **Recent Accounting Pronouncements**

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

## **Critical Accounting Policies and Estimates**

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

## ***Business Acquisitions and Dispositions***

### ***Sale of BET***

On November 9, 2012, we entered into an agreement with IMI to sell our 100% ownership interest in BET for a nominal cash consideration of \$1. In addition, we released BET from all of its obligations and liabilities towards us, which accrued to \$3.5 million as of the date of sale. The transaction was consummated on December 30, 2012 upon finalization of all the required documentation. On December 18, 2012, at the direction of IMI, we sold the vessel BET Prince for gross proceeds of \$8.3 million, which were used to repay part of the then outstanding debt.

IMI is ultimately controlled by members of the Restis family and is under common control with us. In connection with the sale of BET, our board of directors obtained a fairness opinion from an independent third party.

(amounts in table in millions of US Dollars)

Cash and restricted cash	3.5
Vessels and other assets	49.5
Long-term debt and other liabilities, net of BET's obligation towards the Company	(58.2)
Effect on equity from disposal of subsidiary	(5.2)

The sale of BET was treated as a transaction between entities under common control, and as such, asset and liability values were transferred at historical cost, with the resulting gains from the extinguishment of BET's net liabilities amounting to \$5.2 million recognized as an equity transaction within Additional paid-in capital.

#### *Sale of MCS subsidiaries*

On January 29, 2013, MCS sold its 100% ownership interest in the four subsidiaries that owned the Handysize dry bulk carriers Fiesta, Pacific Fantasy, Pacific Fighter and Clipper Freeway. The buyer is a third-party nominee of the lenders under the senior secured credit facility with DVB, as agent. MCS had provided a guarantee under this facility, and in exchange for the sale, approximately \$30.3 million of outstanding debt was discharged. In addition, the guarantee provided by MCS was fully released. In connection with the sale of the subsidiaries, the Company's board of directors obtained a fairness opinion from an independent third party.

(amounts in table in millions of US Dollars)

Cash and restricted cash	1.9
Vessels and other assets	22.9
Long-term debt and other liabilities	(30.4)
Net liabilities	(5.6)

The Company expects to record a gain in 2013 of \$5.5 million from the sale of the four MCS subsidiaries, under the facility agreement with DVB,

#### *Impairment of long-lived assets*

We review our long-lived assets for impairment whenever events or changes in circumstances, such as undiscounted projected operating cash flows, business plans to dispose a vessel earlier than the end of its useful life and prevailing market conditions, indicate that the carrying amount of the assets may not be recoverable. The current conditions in the dry bulk market with decreased charter rates and decreased vessel market values are conditions that we consider indicators of a potential impairment for our vessels. We determine undiscounted projected operating cash flows, for each vessel and compare it to the vessel's carrying value. When the undiscounted projected operating cash flows, excluding interest charges, expected to be generated by the use of the vessel and its eventual disposition are less than its carrying amount, we impair the carrying amount of the vessel. Measurement of the impairment loss is based on the fair value of the asset as determined by independent valuers. The undiscounted projected operating cash inflows are determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the median of the trailing 10-year historical charter rates available for each type of vessel) adjusted for brokerage commissions and expected outflows for scheduled vessels' maintenance. The undiscounted projected operating cash outflows are determined by reference to our actual vessel operating expenses, assuming an average annual inflation rate of 2.5%. Effective fleet utilization is assumed to 98% in our exercise, assumptions in line with our historical performance. We recorded an impairment loss of \$147.1 million, \$189 million and \$NIL for the years ended December 31, 2012, 2011 and 2010, respectively.

#### *Goodwill impairment*

Goodwill represents the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in business combinations accounted for under the purchase method. Goodwill is reviewed for impairment at least annually in December. The goodwill impairment test is a two-step process. Under the first step, the fair value of the reporting unit is compared to the carrying value of the reporting unit (including goodwill). If the fair value of the reporting unit is less than the carrying value of the reporting unit, goodwill impairment may exist, and the second step of the test is performed. Under the second step, the implied fair value of the goodwill is compared to the carrying value of the goodwill and an impairment loss is recognized to the extent that the carrying value of goodwill exceeds the implied fair value of goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis and market capitalization analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not have to be performed. We test our goodwill for potential impairment at year end or whenever there is an indication of impairment. The fair value for goodwill impairment testing is estimated using the expected present value of future cash flows, using judgments and assumptions that management believes are appropriate in the

circumstances. The future cash flows from operations are determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the median of the trailing 10-year historical charter rates available for each type of vessel). We had one reporting unit and tested its goodwill for potential impairment, and concluded that indication of impairment existed as of September 30, 2012 and 2011. The fair value for goodwill impairment test was estimated using the expected present value of future cash flows, using judgments and assumptions that management believes were appropriate in the circumstances and using the market capitalization approach. The future cash flows from operations were determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the median of the trailing 10-year historical charter rates available for each type of vessel). The weighted average cost of capital used was 7.42%, 8.16% and 8.46% for the nine month periods ended September 30, 2012 and 2011, and the year ended December 31, 2011, respectively. As a result, an impairment loss for goodwill of \$4.4 million and \$12.9 million was recorded, for the years ended December 31, 2012 and 2011, respectively.

### ***Vessel depreciation***

Depreciation is computed using the straight-line method over the estimated useful life of the vessels, after considering the estimated salvage value. Management estimates the useful life of our vessels to be 30 years from the date of initial delivery from the shipyard. Salvage value is estimated by taking the cost of steel times the weight of the ship noted in lightweight ton (LWT). Salvage values are periodically reviewed and revised to recognize changes in conditions, new regulations or other reasons. Revisions of salvage values affect the depreciable amount of the vessels and affects depreciation expense in the period of the revision and future periods. Up to September 30, 2011, management estimated the salvage value of its vessels at \$270 per LWT. Effective October 1, 2011, following management's reassessment of the residual values of the company's vessels, the estimated salvage value per LWT was increased to \$435. This change reduced depreciation expense by \$0.8 million (approximately \$0.10 per share) for the year ended December 31, 2011.

The above four policies are considered to be critical accounting policies because assessments need to be made due to the shipping industry being highly cyclical experiencing volatility in profitability, and changes in vessel value and fluctuations in charter rates resulting from changes in the supply and demand for shipping capacity. In addition, there are significant assumptions used in applying these policies such as possible future new charters, future charter rates, future on-hire days, future market values and the time value of money. The estimates and assumptions regarding expected cash flows and the appropriate discount rates require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions. Consequently, actual results could differ from these estimates and assumptions used and we may need to review such estimates and assumptions in future periods as underlying conditions, prices and other mentioned variables change. Our results of operations and financial position in future periods could be significantly affected upon revision of these estimates and assumptions or upon occurrence of events. Due to the different scenarios under which such changes could occur, it is not practical to quantify the range and possible effects of such future changes in our financial statements.

### **Our Fleet – Illustrative Comparison of Possible Excess of Carrying Value Over Estimated Charter-Free Market Value of Certain Vessels**

In "Critical Accounting Policies and Estimates – Impairment of long-lived assets," we discuss our policy for impairing the carrying values of our vessels. During the past few years, the market values of vessels have experienced particularly high volatility, with substantial declines in many vessel classes. As a result, the charter-free market value, or basic market value, of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels' carrying amounts. The table set forth below indicates (i) the carrying value of each of our vessels as of December 31, 2012 and 2011, (ii) which of our vessels we believe has a basic market value below its carrying value, and (iii) the aggregate difference between carrying value and market value represented by such vessels. This aggregate difference represents the approximate analysis of the amount by which we believe we would have to reduce our net income if we sold all of such vessels in the current environment, on industry standard terms, in cash transactions, and to a willing buyer where we are not under any compulsion to sell, and where the buyer is not under any compulsion to buy. For purposes of this calculation, we have assumed that the vessels would be sold at a price that reflects our estimate of their charter-free market values as of December 31, 2012 and 2011. However, we are not holding our vessels for sale, except as otherwise noted in this report.

Our estimates of basic market value assume that our vessels are all in good and seaworthy condition without need for repair and if inspected would be certified in class without notations of any kind. Our estimates are based on information available from various industry sources, including:

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;

- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of basic market value are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future basic market value of our vessels or prices that we could achieve if we were to sell them.

Vessel	Dwt	Year purchased	Carrying Value	
			2012	2011
Davakis G.	54,051	2008	\$26.0 million*	\$26.9 million*
Delos Ranger	54,057	2008	\$26.2 million*	\$27.0 million*
African Oryx	24,112	2008	\$4.7 million*	\$13.3 million*
Bremen Max	73,503	2008	\$5.6 million*	\$14.0 million*
Hamburg Max	73,498	2008	\$6.0 million*	\$15.5 million*
African Zebra	38,632	2008	n/a	\$6.0 million*
BET Commander	149,507	2009	n/a	\$18.8 million*
BET Intruder	69,235	2009	n/a	\$15.5 million*
BET Prince	163,554	2009	n/a	\$30.0 million*
BET Scouter	172,173	2009	n/a	\$25.0 million*
BET Fighter	173,149	2009	n/a	\$20.8 million*
Fiesta	29,519	2010	\$5.5 million*	\$16.6 million*
Pacific Fantasy	29,538	2010	\$5.3 million*	\$15.6 million*
Pacific Fighter	29,538	2010	\$6.0 million*	\$17.6 million*
Clipper Freeway	29,538	2010	\$6.0 million*	\$17.6 million*
African Joy	26,482	2010	\$5.4 million*	\$14.6 million*
African Glory	24,252	2010	\$5.8 million*	\$15.8 million*
Asian Grace	20,138	2010	\$5.5 million*	\$14.8 million*
Clipper Glory	30,570	2010	n/a	\$28.0 million*
Clipper Grace	30,548	2010	n/a	\$28.0 million*
<b>TOTAL DWT</b>	<b>1,295,594</b>			

\* Indicates that, as of December 31, 2012 or 2011, the basic charter-free market value is lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeds their aggregate basic charter-free market value by approximately \$20 million and \$36.6 million, as of December 31, 2012 and 2011, respectively.

It should be noted that if we were to sell vessels with long-term charters attached, the sale price may be affected by the relationship of the charter rate to the prevailing market rate for a comparable charter with the same terms.

We refer you to the risk factor entitled "The value of our vessels has fluctuated, and may continue to fluctuate significantly, due in large part to the sharp decline in the world economy and the charter market. A significant decline in vessel values could result in losses when we sell our vessels or could result in a requirement that we write down their carrying value, which would adversely affect our earnings. In addition, a decline in vessel values could adversely impact our ability to raise additional capital and would likely cause us to violate certain covenants in our loan agreements that relate to vessel value."

#### Survey costs

There are two methods that are primarily used by the shipping industry to account for dry-dockings; first, the deferral method, whereby specific costs associated with a dry-docking are capitalized when incurred and amortized on a straight-line basis over the period to the next scheduled dry-dock; and second, the direct expensing method, whereby dry-docking costs are expensed in the period incurred. We use the deferral method of accounting for dry-dock expenses. Under the deferral method, dry-dock expenses are capital-

ized and amortized on a straight-line basis until the date that the vessel is expected to undergo its next dry-dock. We believe the deferral method better matches costs with revenue. We use judgment when estimating the period between dry-docks performed, which can result in adjustments to the estimated amortization of dry-dock expense, the duration of which depends on the age of the vessel and the nature of dry-docking repairs the vessel will undergo. We expect that our vessels will be required to be dry-docked approximately every 2.5 years in accordance with class requirements for major repairs and maintenance. Costs capitalized as part of the dry-docking include actual costs incurred at the dry-dock yard and parts and supplies used in undertaking the work necessary to meet class requirements.

### **Variable interest entities**

We evaluate our relationships with other entities to identify whether they are variable interest entities and to assess whether we are the primary beneficiary of such entities. If it is determined that we are the primary beneficiary, that entity is included in our consolidated financial statements. We do not participate in any variable interest entity.

### **Recent Developments**

#### ***The Fleet***

As discussed elsewhere in this annual report, we have had a significant reduction in the size of our fleet. As of the date of this annual report, we have a fleet of seven vessels. We expect further reductions in our fleet.

#### ***Restructuring of Our Indebtedness***

Due to the economic conditions and operational difficulties of the Company, we entered into restructuring discussions with each of the lenders under our loan facility agreements. See “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources - Credit Facilities” for a discussion of our loan agreements. As part of those discussions, we appointed Houlihan Lokey and Axia Ventures Group to act as our financial advisors in respect of the overall restructuring proposal described below. The aim of the restructuring is to increase liquidity, normalize trade vendor payments and deleverage the Company on a going forward basis.

Since the fourth quarter of 2012, we have been in default under our loan agreements in respect of certain covenants (including, in some cases, the failure to make amortization and interest payments, the failure to satisfy financial covenants and the triggering of cross default provisions) and events of default have occurred. To date, we have not obtained waivers of all these defaults from our lenders. Since January 1, 2012, we have sold or otherwise disposed of a total of 13 vessels (or the ownership of certain of our vessel-owning subsidiaries) in connection with the restructuring, and any proceeds have been used to repay the related debt. Proceeds from the sale of additional vessels are expected to be insufficient to fully repay the related debt and, therefore, it is likely that we will continue to have significant debt unless we enter into satisfactory arrangements with our lenders for the discharge of all such obligations. During the restructuring process, our lenders have continued to reserve their rights in respect of events of default under our loan agreements. Our lenders have not exercised their remedies at this time, including demand for immediate payment; however, our lenders could change their position at any time. As such, there can be no assurance that a satisfactory final agreement will be reached with all our lenders in the restructuring, or at all.

The following sets forth the terms of the completed steps of the restructuring to date:

#### ***BET Syndicate Facility Agreement***

On June 12, 2012, with the consent of the lenders under BET Syndicate facility with Citibank plc as agent, or the Citibank Facility, we completed the sale of the Bet Scouter with gross proceeds of approximately \$12.1 million. On July 16, 2012, with the consent of the lenders under the Citibank Facility, we completed the sale of the Bet Fighter with gross proceeds of approximately \$9.1 million and on October 29, 2012, with the consent of the lenders under the Citibank Facility, we completed the sale of the Bet Intruder with gross proceeds of approximately \$4.8 million. Citibank applied the gross proceeds towards repayment of part of the debt under the Citibank Facility.

On November 9, 2012, we entered into an agreement with IMI, a company controlled by members of the Restis family, to sell our 100% ownership interest in BET, for a nominal cash consideration of \$1. In addition, we released BET from all of its obligations and liabilities towards us, which accrued to \$3.5 million as of the date of sale. The transaction was consummated on December 30, 2012 with the consent of the majority lenders of the Citibank syndicate, upon finalization of all the required documentation. On December 18, 2012, at the direction of IMI, we sold the vessel BET Prince for gross proceeds of \$8.3 million, which were used to repay part of the then outstanding debt. As a result of the transaction, our overall indebtedness was reduced by approximately \$46.7 million.

#### ***HSBC Facility Agreement***

On September 4, 2012 we entered into a waiver letter (as supplemented by an extension letter dated October 24, 2012) through MCS and our MCS subsidiaries under the facility agreement with HSBC for the sale of the two vessels under the HSBC facility (the Clipper Grace and the Clipper Glory), whereby HSBC agreed to waive any default which had or would occur under the HSBC Facility

until the sale of the two vessels. On October 15, 2012 and December 4, 2012, we sold the Clipper Grace and Clipper Glory with gross proceeds of approximately \$22.5 million. Part of the sale proceeds of approximately \$17.1 million were applied towards the full and final satisfaction of all liabilities owed to HSBC under the HSBC Facility and HSBC further released us from all our liabilities and obligations under this facility.

#### *DVB Facility Agreement*

On January 25, 2013 we entered into a settlement agreement with, among others, DVB, MCS, the MCS subsidiaries under the under the facility agreement with DVB (the “DVB Facility”), for the sale of the four MCS subsidiaries to a third party entity nominated by DVB. On January 29, 2013, we closed the sale of our 100% MCS ownership interest in the four subsidiaries that owned the Handysize dry bulk carriers Fiesta, Pacific Fantasy, Pacific Fighter and Clipper Freeway. The buyer is a third-party nominee of the lenders under the senior secured credit facility with DVB, as agent. MCS had provided a guarantee under this facility, and in exchange for the sale, approximately \$30.3 million of outstanding debt was discharged. In addition, the guarantee provided by MCS was fully released. DVB has also released us from all our liabilities and obligations under the DVB Facility.

#### *Piraeus Bank (ex CPB) Facility Agreement*

We had outstanding indebtedness of \$138.8 million as of December 31, 2012, under two credit facilities with Cyprus Popular Bank Public Co Ltd (“CPB”), which was based in Cyprus. We have obtained waivers of the breach of certain financial covenants under our credit facilities through December 31, 2013. However as of December 31, 2012, we were not current with loan interest payments. As a result, an event of default has occurred.

The Cypriot financial crisis, beginning in 2012 and continuing in 2013, has involved the exposure of Cypriot banks to the Greek debt crisis, and efforts to restructure the troubled Cypriot banks. On March 25, 2013, as part of the Cyprus international bail-in plan, Piraeus Bank of Greece has taken over the operations of the Cypriot banks in Greece, including the Greek branches of CPB. We will continue the ongoing negotiations with Piraeus Bank (ex CPB) to amend the terms of the term facility and revolving credit facility loan agreements to enable us to comply with certain covenants on an ongoing basis after the closing of the restructuring described herein.

Due to the transfer of our loan to Piraeus Bank of Greece, the outcome of the restructuring proposal is uncertain.

#### *UOB Facility Agreement*

We are in breach of our obligations to pay installments, interest and swap payments relating to the UOB loan facility and as a result, an event of default has occurred. As of the date of this annual report we are negotiating with UOB for an agreement by which UOB will release us from all debt obligations of \$38.1 million as of December 31, 2012 in exchange for the sale of either our 100% ownership interest in the MCS subsidiaries under the UOB loan facility or the vessels under the UOB loan facility.

For more information regarding our loan facilities, please see “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources - Credit Facilities.”

While we continue to use our best efforts to complete the restructuring, there can be no assurance that a successful resolution can be reached with our lenders or that the restructuring will be successfully completed.

Additionally, the ultimate accounting impact of the restructuring is unknown and will not be determined until the final terms of the restructuring are reached with UOB and Piraeus Bank (ex CPB). The outcome could negatively impact the trading of our common shares and our ability to remain listed on NASDAQ.

#### ***NASDAQ Notifications and Listing under the NASDAQ Capital Market***

Our common stock was listed on the NASDAQ Global Market until December 20, 2012. Effective December 21, 2012, the Company transferred its stock listing to the Nasdaq Capital Market and the Company’s common stock continues to trade under the symbol “SHIP.” Our ability to retain our listing is contingent upon compliance with NASDAQ listing requirements. The listing standards of the NASDAQ Capital Market provide, among other things, that a company may be delisted if the bid price of its stock drops below \$1.00 for a period of 30 consecutive business days.

On January 28, 2011, we were notified by NASDAQ that we were no longer in compliance with NASDAQ Listing Rule 5450(a) (1) because the closing bid price of our common stock for 30 consecutive business days, from December 14, 2010 to January 26, 2011, had been below the minimum \$1.00 per share bid price requirement for continued listing on the NASDAQ Global Market. In response, we conducted a 1-for-15 reverse stock split on June 24, 2011, or the Reverse Stock Split, which was approved at a special meeting of our shareholders on January 4, 2011. We regained compliance during July 2011 when, during the applicable grace period, the closing bid price of our common stock was at least \$1.00 per share for a minimum of ten consecutive business days.

On January 24, 2012, we were notified by NASDAQ that we were no longer in compliance with NASDAQ Listing Rule 5450(b)(1)(C) because the market value of the publicly held shares of our common stock for 30 consecutive business days, from December 6, 2011 to January 23, 2012 had been below the minimum \$5.0 million market value of publicly held shares requirement for continued listing on the NASDAQ Global Market. This notification had no effect on the listing of the Company's common stock, and the applicable grace period to regain compliance was 180 calendar days, expiring on July 23, 2012. The Company regained compliance at the end of February 2012, when during the applicable grace period the Company's minimum market value of our publicly held shares was \$5.0 million or greater for a minimum of ten consecutive business days.

On June 29, 2012, we were notified by NASDAQ that we were no longer in compliance with NASDAQ Listing Rule 5450(b)(1)(C) because the market value of the publicly held shares of our common stock for 30 consecutive business days, from May 16, 2012 to June 28, 2012 had been below the minimum \$5.0 million market value of publicly held shares requirement for continued listing on the NASDAQ Global Market. The applicable grace period to regain compliance was 180 calendar days, expiring on December 26, 2012. Prior to the expiration of this grace period, we transferred the listing of our common stock to The Nasdaq Capital Market, effective on December 21, 2012. The Company's common stock continues to trade under the symbol "SHIP" and this matter is now closed.

### ***Annual Meeting of Shareholders***

At the annual meeting of our shareholders held on September 5, 2012, our shareholders approved and adopted the following proposals: 1) the election of Mr. George Tsimpis and Mr. Dimitris Anagnostopoulos, as Class C Directors to serve until the 2015 Annual Meeting of Shareholders, and 2) the appointment of Ernst & Young (Hellas) Certified Auditors Accountants S.A. as the Company's Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2012. The Company's previous independent registered public accounting firm, PricewaterhouseCoopers, S.A. ("PwC"), did not stand for re-election at our annual general meeting of shareholders. See Item 16F, "Change In Registrant's Certifying Accountant."

### ***Equity Incentive Plan***

On January 12, 2011 our board of directors adopted the Seanergy Maritime Holdings Corp. 2011 Equity Incentive Plan, or the Plan. A total of 8,750,000 shares of our common stock were reserved for issuance under the Plan, which is administered by the Compensation Committee of our board of directors. In May 2012, the total number of shares originally reserved under the Plan was adjusted to 583,334 shares to reflect the Reverse Stock Split. Under the Plan, our officers, key employees, directors, consultants and service providers may be granted incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, unrestricted stock, restricted stock units, and unrestricted stock at the discretion of our Compensation Committee. Any awards granted under the Plan that are subject to vesting are conditioned upon the recipient's continued service as an employee or a director of the Company, through the applicable vesting date.

On February 16, 2011, the Compensation Committee granted an aggregate of 3,332 restricted shares (as adjusted for the Reverse Stock Split) of our common stock, or the February 2011 Shares, pursuant to the Plan. 2,667 restricted shares of the February 2011 Shares were granted to our two executive directors, and the other 665 restricted shares of the February 2011 Shares were granted to certain of our other employees. All of the February 2011 Shares vest proportionally over a period of three years in equal installments, which commenced on January 10, 2012. The fair value of each February 2011 Share on the grant date was \$0.89 and such shares will be expensed over 3 years.

## **B. Liquidity and Capital Resources**

Our principal source of funds has been our operating cash flow, our borrowing facilities and equity provided by our shareholders. Our principal use of funds has primarily been capital expenditures to establish our fleet, maintain the quality of our dry bulk carriers, comply with international shipping standards and environmental laws and regulations, fund working capital requirements, and make principal repayments and interest payments on our outstanding loan facilities.

We are currently unable to meet our debt repayment obligations. Please see "—Recent Developments—Restructuring of our Indebtedness" above for a discussion of our ongoing effort to restructure our debt.

On January 31, 2012, we completed an equity injection plan with four entities affiliated with the Restis family. In exchange for \$10 million, we issued an aggregate of 4,641,620 of our common shares to the four entities at a price of \$2.15442. The price was determined as the average closing price of the five trading days preceding the execution of the purchase plan. Following the issuance of the shares and as of the date of this annual report we have 11,959,282 outstanding common shares.

As of December 31, 2012, our liquidity reflected \$6.3 million of total cash (\$4.3 million of unrestricted cash and \$2.0 million of restricted cash), compared to \$37.3 million in total cash as of December 31, 2011. Restricted cash at December 31, 2012, does not include an amount of \$3.7 million, relating to retention accounts and other compensating cash balances that are not pledged, which we should maintain with the accounts of each of the lending banks. The decrease of \$31.0 million was attributable primarily to debt repayment of \$98.8 million that was partially offset by proceeds of \$58.9 million from the sale of seven vessels and \$10.0 million proceeds from the equity injection plan that was completed on January 31, 2012 with the four entities affiliated with the Restis family.

As of December 31, 2012, we had total indebtedness of \$208.6 million. Our total indebtedness decreased by \$137.8 million or 40%, from \$346.4 million as of December 31, 2011. The decrease in our total indebtedness was mainly attributed from vessel sales, proceeds of which were used to reduce outstanding debt, the sale of the BET subsidiary as well as from regular installments during 2012.

As of December 31, 2012, we defaulted under the facility agreements in respect of certain covenants (including, in some cases, the failure to make principal installments and interest payments and the failure to satisfy financial covenants), events of default have occurred and we have classified under current liabilities in the consolidated balance sheet \$208.6 million of our long-term debt. Our working capital as of December 31, 2012, consisting of current assets amounting to \$52.1 million and current liabilities amounting to \$222.6 million, resulted in a deficit of \$170.5 million compared to a working capital deficit of \$15.3 million as of December 31, 2011. The deficit increase is mainly attributed to the reclassification of long term debt to current portion.

We are currently engaged in restructuring discussions with our lenders under the defaulted loan facility agreements, the aim of which is to increase liquidity, normalize trade vendor payments and deleverage the company on a going forward basis. As part of the restructuring efforts, we have sold, and expect to continue to sell, vessels or vessel-owning subsidiaries as part of the arrangements with our lenders to reduce and discharge our obligations. During 2012 and up to the date of issuance of this report, we have sold, disposed of or handed control over to our lenders a total of 13 vessels (or the ownership of certain of our vessel-owning subsidiaries). To the extent that we have sold vessels, the sale proceeds have been used to repay the related debt. Proceeds from the sale of additional vessels are expected to be insufficient to fully repay the related debt and, therefore, it is likely that we will continue to have significant debt unless we enter into satisfactory arrangements with our lenders for the discharge of such obligations.

We are currently negotiating with UOB for an agreement by which UOB will release us from all debt obligations of \$38 million as of December 31, 2012 under the UOB related facility in exchange for the sale of either our 100% ownership interest in the MCS vessel owning subsidiaries under the UOB loan facility or the vessels under the UOB loan facility.

Additionally, we are currently negotiating with Piraeus Bank (ex CPB) to amend the terms of the term facility and revolving credit facility loan agreements to enable us to comply with certain covenants on an ongoing basis after the closing of the restructuring described herein.

As of December 31, 2012 we had outstanding indebtedness of \$138.8 million, for vessels that we expect will remain in our possession after the completion of the restructuring, under two credit facilities with Piraeus Bank (ex CPB), (\$94 million relating to term facility and \$44.8 million relating reducing revolving credit facility). The Cypriot financial crisis, beginning in 2012 and continuing in 2013, has involved the exposure of Cypriot banks to the Greek debt crisis, and efforts to restructure the troubled Cypriot banks. On March 25, 2013, as part of the Cyprus international bail-in plan, Piraeus Bank of Greece has taken over the operations of the Cypriot banks in Greece, including the Greek branches of CPB. We will continue the ongoing negotiations with Piraeus Bank (ex CPB) to amend the terms of the term facility and revolving credit facility loan agreements to enable us to comply with certain covenants on an ongoing basis after the closing of the restructuring described herein. Due to the transfer of our loan to Piraeus Bank of Greece, the outcome of the restructuring proposal is uncertain.

While we continue to use our best efforts to complete the restructuring process, there can be no assurance that a successful resolution can be reached and successfully completed.

Our financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might be necessary if we are unable to continue as a going concern. However, there is a material uncertainty related to events or conditions which raises substantial doubt on our ability to continue as a going concern and, therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business. Our independent registered public accounting firm has issued their opinion with an explanatory paragraph in connection with our audited financial statements included in this annual report that expresses substantial doubt about our ability to continue as a going concern.

### ***Derivatives***

We had one interest swap agreement as of December 31, 2012, with the following characteristics: from June 10, 2008 for a period of five years through June 10, 2013, for a total notional principal amount of \$25.8 million; under the provisions of the agreement we pay a fixed rate of 3.96% and receive the three month LIBOR quarterly.

The market value of the interest swaps was a liability of \$0.5 million and \$4.4 million as of December 31, 2012 and 2011, respectively.

### **Cash Flows**

#### ***Year ended December 31, 2012, as compared to year ended December 31, 2011***

*Operating Activities:* Net cash provided by operating activities was \$2.4 million for the year ended December 31, 2012. In determining net cash provided by operating activities, net loss is adjusted for the effects of certain items such as depreciation and amortization, impairment losses, gains and losses from sales of vessels and unrealized gains and losses on derivatives,

The cumulative effect of adjustments to reconcile net loss to net cash provided by operating activities was a \$183.5 million increase for the year ended December 31, 2012 which consisted mainly of the following adjustments: \$147.1 million and \$4.4 million of impairment losses on vessels and deferred charges and impairment of goodwill respectively; \$15.6 million of depreciation; \$15.6 million loss on vessels sale; \$3.6 million amortization charges; \$0.5 million from the amortization and write-off of deferred finance fees; and \$0.3 million of loss on bad debts. These adjustments were partially offset by a \$2.0 million change from the valuation of derivatives and \$1.6 million payments for dry-docking and special survey costs.

Furthermore, the cash inflow from operations of \$12.7 million for the year ended December 31, 2012, resulted mainly from: a \$10.6 million increase in operating expenses liabilities, out of which an amount of \$4.2 million is related to BET subsidiary that was sold on December 30, 2012; a \$2.4 million increase in accrued expenses; a \$2.3 million increase in accounts payable; and a \$1.2 million decrease in inventories. This was partially offset by: a \$2.0 million increase in other current assets due to claim incidents; a \$1.2 million increase in trade receivables; and a \$0.6 decrease in deferred revenue

*Investing Activities:* For the year ended December 31, 2012, our net cash provided by investing activities was \$55.4 million. This cash inflow resulted from proceeds of \$58.9 million from the disposal of seven vessels, offset by \$3.5 million cash disposed of upon the disposal of BET.

*Financing Activities:* For the year ended December 31, 2012, our net cash used in financing activities was \$71.3 million. The cash outflow in 2012 resulted from the \$98.8 million principal repayments of our debt and was partially offset by the decrease of \$17.6 million in restricted cash which was used to pay down debt and the \$10.0 million proceeds from the equity injection plan that was completed on January 31, 2012 with the four entities affiliated with the Restis family.

#### ***Year ended December 31, 2011, as compared to year ended December 31, 2010***

*Operating Activities:* Net cash from operating activities totaled \$26.4 million for the year ended December 31, 2011, compared to \$31.5 million for the year ended December 31, 2010. This decrease is due to the fact that we had lower charter rates and higher operating expenses for the year ended December 31, 2011 as compared to the same period in 2010.

*Investing Activities:* The Company had no investing activities for the year ended December 31, 2011. Net cash provided by investing activities totaled \$7.9 million for the year ended December 31, 2010, which is primarily cash assumed as part of the acquisition of MCS in 2010.

*Financing Activities:* Net cash used in financing activities totaled \$62.5 million for the year ended December 31, 2011, as compared to net cash used in financing activities of \$49.2 million for the year ended December 31, 2010. The increase is mainly due to debt repayments and prepayments of \$53.1 million and \$67.9 million during the years ended December 31, 2011 and 2010, respectively, which is partially offset by the proceeds of \$28.5 million from the issuance of our common stock in 2010 and an increase in retained restricted cash of \$2.2 million in 2011.

#### **Credit Facilities**

A long term debt facility of up to \$255 million has been provided by Piraeus Bank S.A., of Athens, Greece, the special successor of former Cyprus Popular Bank Public Co Ltd (“CPB”), formerly known as Marfin Popular Bank Public Co Ltd, successor by way of cross-border merger of Marfin Egnatia Bank Societe Anonyme, being available in two facilities as described below. This facility is guaranteed by Seanergy, as corporate guarantor. An arrangement fee of \$2.5 million was paid on the draw-down date and is included net of amortization in deferred charges in the accompanying consolidated balance sheet.

##### ***Piraeus Bank (ex CPB) Reducing Revolving Credit Facility***

As of December 31, 2011, the Company had fully utilized the \$48 million of the available reducing revolving credit facility that was provided to partly finance the vessels and to provide corporate liquidity. As per Addendum no. 4, dated January 31, 2012, the Company made a payment of \$3.2 million on the outstanding revolving credit facility. As of December 31, 2012, the reducing revolving credit facility amounted to \$44.8 million.

The revolving credit facility bears interest at USD LIBOR plus 4.50% and the weighted average interest rate on the revolving credit facility, including the spread, for the years ended December 31, 2012, 2011 and 2010, was approximately 4.92%, 4.26% and 4.06%, respectively. In the event of our failure to pay any amount on the date on which such amount is due and payable, we are obligated to pay default interest on such amount on demand from the date of such default up to the date of actual payment at the per annum rate which is the aggregate of 2% plus applicable margin and LIBOR.

On April 10, 2013, the Company sold the vessel African Oryx for gross proceeds of \$4.1 million, which was used to repay part of the outstanding amount under this facility.

### *Piraeus Bank (ex CPB) Term Facility*

Certain vessel acquisitions were financed by Piraeus Bank (ex CPB) by an amortizing term facility equal to \$165 million, to partly finance the vessels' aggregate acquisition costs, excluding any amounts associated with an earn-out provision.

As per the amended loan agreement dated June 2, 2010, the term facility bore interest at USD LIBOR plus 3.50% until January 3, 2012. After January 3, 2012, interest was reinstated at USD LIBOR plus 1.5% if the Company's ratio of total assets to total liabilities was greater than 165%, or USD LIBOR plus 1.75% if the ratio was equal or less than 165%. The weighted average interest rate on the term facility, including the spread, for the years ended December 31, 2012, 2011 and 2010, was approximately 4.39%, 3.79% and 3.55%, respectively. In the event of our failure to pay any amount on the date on which such amount is due and payable, we are obligated to pay default interest on such amount on demand from the date of such default up to the date of actual payment at the per annum rate which is the aggregate of 2% plus applicable margin and LIBOR.

The Piraeus Bank (ex CPB) Facility includes covenants, among others, that require the borrowers and the corporate guarantor, Seanergy, to maintain vessel insurance value for an aggregate amount greater than the vessels' aggregate market value or an amount equal to 130% of the aggregate of (a) the outstanding amount under both the revolving credit and term facilities and (b) the amount available for drawing under the revolving facility. The vessels' insurance value is required to include as a minimum coverage for hull and machinery, war risk and protection and indemnity insurance, \$1 billion for oil pollution and for excess oil spillage and pollution liability insurance. In addition, mortgagees' interest insurance on the vessels is required with the insured value to be at least 110% of the aggregate of the revolving credit and term facility.

On January 31, 2012, the Company entered into an Addendum no. 4 for the amendment of certain terms of its Facility agreement with Piraeus Bank (ex CPB). In accordance with the Addendum 4 conditions precedent, we made a prepayment of \$3.2 million related to the revolving credit facility. The amendments include (i) the extension of the Facility's maturity date from September 2015 to

December 2018, (ii) principal installment payment holiday for 2012, and amendment of the amortization schedule for 2013 onwards, (iii) waiver of all financial covenants as of December 31, 2011 (iv) waiver of all financial covenants (including the security margin) for the period commencing from January 1, 2012 through December 31, 2013, and (v) amendment of the financial undertakings and the security margin to apply from 2014 onwards. Furthermore, with respect to the term loan, the applicable margin has been increased by 50 basis points to 4.00% starting from February 1, 2012; and the repayment installments are due on June 25, 2013 and December 25, 2013, and thereafter each of the twenty dates falling at consecutive quarterly intervals. Furthermore, with respect to the revolving credit facility, the applicable margin has been increased by 50 basis points to 4.50% starting from February 1, 2012, installment payments under the revolving credit facility were deferred to December 2018 and any surplus of funds greater than \$5 million over requirements associated with the operation and maintenance of the vessels during each fiscal quarter will be applied to the prepayment of the revolving credit facility.

In addition, if a vessel is sold or becomes a total loss or the mortgage on the vessel is discharged on its disposal, we are required to repay such part of the facilities as is equal to the higher of the amount related to such vessel or the amount necessary to maintain the security clause margin.

Other covenants include the following:

- not to borrow any money or permit such borrowings to continue other than by way of subordinated shareholders' loan or enter into any agreement for deferred terms, other than in any customary supplier's credit terms or any equipment lease or contract hire agreement other than in ordinary course of business;
- no loans, advances or investments in, any person, firm, corporation or joint venture or to any officer, director, shareholder or customer of any such person;
- not to assume, guarantee or otherwise undertake the liability of any person, firm, company;
- not to authorize any capital commitments;
- not to declare or pay dividends in any amount greater than 60% of the net cash flow of the Group as determined by the lender on the basis of the most recent annual audited financial statements provided, or repay any shareholder's loans or make any distributions in excess of the above amount without the lenders prior written consent (see below for terms of waiver obtained on December 31, 2008);
- not to change our Chief Executive Officer and/or Chairman without the prior written consent of the lender;
- not to assign, transfer, sell or otherwise or dispose vessels or any of the property, assets or rights without prior written consent of the lender;
- no change of control in the Company without the written consent of the lender;

- not to engage in any business other than the operation of the vessels without the prior written consent of the lender;
- ensure that members of the Restis family and the family of our former chairman Mr. George Koutsolioutsos (or companies affiliated with them) together own at all times an aggregate of at least 10% of our issued share capital.

Financial covenants include the following:

- the ratio of financial indebtedness to LTM EBITDA shall be less than 6.5:1;
- the ratio of LTM EBITDA to net interest expense shall not be less than 2:1;
- the ratio of total liabilities to total assets shall not exceed 0.70:1;
- unrestricted cash deposits shall not be less than 2.5% of the financial indebtedness; and
- average quarterly unrestricted cash deposits, other than in favor of the lender, shall not be less than 5% of the financial indebtedness.

The financial covenants listed above were to be tested on a quarterly basis. As per the amended loan agreement dated January 31, 2012, the above financial covenants have been waived until and including December 31, 2013.

Commencing January 1, 2014 the following financial covenants will apply:

- ratio of net debt to Last Twelve Months (LTM) Earnings, Before Interest, Taxes, Depreciation and Amortization (EBITDA) where net debt as defined is the sum of all outstanding debt facilities minus cash and cash equivalents, shall be no more than 8.75:1;
- the ratio of EBITDA to net interest expense shall not be less than 1.75:1;
- the aggregate amount of cash deposits shall be no less than 5% of the net debt; and
- the aggregate market values of the vessels and the value of any additional security shall not be less than 120% of the aggregate of the outstanding amounts under the revolving credit and term facilities and any amount available for drawing under the revolving facility, less the aggregate amount of all deposits maintained.

In addition to these financial covenants, we must also ensure that certain members of the Restis family, who are affiliates of our major shareholders, and the family of our former chairman Mr. George Koutsolioutsos (or companies affiliated with them) together own at all times an aggregate of at least 10% of our issued share capital. A violation of this covenant constitutes an event of default under our credit facility and would provide Piraeus Bank (ex CPB) with various remedies.

On February 15, 2012, we sold the vessel African Zebra for gross proceeds of \$4.1 million, of which \$4 million was used to repay part of the outstanding amounts under this facility. Following such repayment, the remaining outstanding balance of the facility is repayable in twenty two installments with a balloon payment equal to \$50.8 million due concurrently with the final installment in December 2018.

As of December 31, 2012, the Company has defaulted on aggregate interest payments of \$1.6 million on both facilities of Piraeus Bank (ex CPB). In addition, events of default have occurred under the Piraeus Bank (ex CPB) facility as a result of among other things, such payment defaults and the borrowers having become insolvent. To date, the Company has not obtained waivers of these defaults from the lenders. The Company is currently in negotiations to amend the terms of the loan agreement with Piraeus Bank (ex CPB) to enable the Company to comply with certain covenants on an ongoing basis. There are no assurances the Company will be able to complete such an agreement.

The credit facility is secured by a first priority or preferred ship mortgage on five vessels of the Company's fleet, assignment of all freights, earnings, insurances and requisition compensation. The lenders may also require additional security in the event the Company breaches certain covenants under the credit facility.

### **Citibank Loan Facility**

The vessels owned by BET had been financed with the proceeds of a loan facility from Citibank International plc ("Citibank"), as agent for a syndicate of banks and financial institutions.

The applicable margin was USD LIBOR plus 3.00% per annum as per Fifth Supplemental Agreement dated February 7, 2012. The weighted average interest rate on the Citibank loan facility, including the spread, for the period ended December 30, 2012 and for the years ended December 31, 2011 and 2010, was approximately 3.49%, 2.30% and 1.94%, respectively.

During the year ended December 31, 2012, the Company sold the vessel BET Scouter, BET Fighter, BET Intruder and BET Prince, the latter at IMI's initiative, for gross aggregate proceeds of \$34.4 million. All the proceeds from the disposals were used to repay part of the outstanding amounts under this facility.

On December 30, 2012, the Company completed the sale of its 100% ownership interest in BET to IMI together with all its liabilities under the Citibank Facility.

### ***MCS Loan Agreements***

#### **HSBC loan facility**

The loan facility, with HSBC as agent, was used to partly finance the cost of acquisition of two vessels. Following a supplemental agreement dated May 21, 2010 and prepayment of \$7.6 million, the remaining loan amounts were repayable in thirteen quarterly installments plus balloon payments through July 2013.

The applicable margin was USD LIBOR plus 3.25% per annum until July 21, 2012 and thereafter was USD LIBOR plus 2.75% per annum unless there was breach of the compliance of the security requirement or there was an event of default under the loan agreement.

On September 4, 2012, MCS obtain a waiver letter for the period until December 31, 2012, whereby HSBC agreed to waive any default which had occurred or would occur under the HSBC Facility. On October 15, 2012 and December 4, 2012, we successfully sold the vessels Clipper Grace and Clipper Glory, respectively, with gross sale proceeds of \$22.5 million. Part of the sale proceeds of \$17.1 million were applied towards the full and final satisfaction of all liabilities owed to HSBC. HSBC has also released us from all the liabilities and obligations under the HSBC Facility.

#### **DVB loan facility**

The loan facility with DVB, as agent, was used to partly finance the cost of the acquisition of four vessels through one senior and one junior facility. The loan was repayable in sixteen quarterly installments plus balloon payment through October 2015. On January 2012, we prepaid the entire balloon of \$6.8 million related to Maritime Freeway Shipping Limited and a portion of the balloon related to Maritime Fiesta Shipping Limited, an amount of \$1.4 million.

The applicable margin was USD LIBOR plus 2.10% per annum on the senior loan and USD LIBOR plus 4.90% per annum on the junior loan.

As of December 31, 2012, we were in breach with the security value covenant under the DVB loan facility and on January 25, 2013, we entered into a settlement agreement with DVB, for the sale of the four vessel-owning subsidiaries to a third party entity nominated by DVB. We successfully closed the sale of the vessel owning subsidiaries on January 29, 2013 and the outstanding debt was discharged. DVB also released us from all the liabilities and obligations under the DVB Facility Agreement. As of December 31, 2012 the outstanding debt was classified as current.

#### **UOB loan facility**

The loan facility, with UOB, was used to partly finance the cost of the acquisition of three vessels. The remaining balance of the subordinated debt as of December 31, 2012 of \$10.8 million is repayable up to the final balloon payment date of the original UOB loan facility. The remaining loan amounts as of December 31, 2012 are repayable in quarterly installments plus balloon payments through May 2016.

The applicable margin is USD LIBOR plus 2.50% per annum in relation to the senior loan and USD LIBOR plus 3.50% per annum in relation to the subordinated loan. In the event of our failure to pay any amount on the date on which such amount is due and payable, we are obligated to pay default interest on such amount on demand from the date of such default up to the date of actual payment at the per annum rate which is the aggregate of 2% plus applicable margin and LIBOR.

As of December 31, 2012, we were in breach with certain covenants under the UOB loan facility, including the failure to make principal installments, interest and interest swap payments and the failure to satisfy minimum liquidity reserves and mandatory term deposit undertaking. In addition, events of default have occurred under the UOB facility agreement as a result of, among other things, such failures and because our liabilities exceed the value of our assets, however the lender has not taken action to accelerate the UOB senior loan. We are currently in discussions with the lender as part of the restructuring effort. To date, we have not obtained waivers of these defaults from UOB. As of December 31, 2012 the outstanding debt was classified as current.

The UOB loan facility is secured by the following: first priority mortgages on each of the MCS vessels; MCS guaranties on each of the loans; a general assignment or deed of covenant of any and all earnings, insurances and requisition compensation of each of the vessels; pledges over the earnings accounts and retention accounts held in the name of each borrower and undertakings by the technical managers of the MCS vessels, among others. Under the UOB loan agreement, no other person other than the Restis family or affiliated companies with the Restis family or Seanergy may become the beneficial owner of more than 30% of MCS's issued voting share capital. In addition, under the UOB loan agreement, the MCS subsidiaries are subject to operating and financial covenants that may

affect MCS's business. These restrictions may, subject to certain exceptions, limit the MCS subsidiaries' ability to engage in many of the activities listed above. Under the UOB loan, the aggregate market value of the underlying vessels may not be less than 133% of the outstanding amount of the UOB senior loan. If the market value of the vessels is less than this amount, the MCS subsidiaries must prepay an amount that will result in the market value of the vessels meeting this requirement or offer additional security to the lenders, and a portion of the debt may be required to be classified as current. As of the date of this annual report we are in breach of this security value requirement.

The ship security documents include covenants, among others, that require the borrowers to maintain vessel insurance for an aggregate amount equal to the greater of the vessels' aggregate market value or an amount equal to 120 of the UOB loan as described above. The relevant covenant in the UOB loan takes effect after December 31, 2012. The vessels' insurance is to include as a minimum cover fire and usual marine risks, war risk and protection and indemnity insurance, and oil pollution. In addition, the borrowers agree to reimburse the mortgagee for mortgagees' interest insurance on the vessels in an amount of 110% of the outstanding amount under the loan of UOB.

In addition, if a vessel is sold or becomes a total loss, MCS is required to repay such part of the loan as is equal to the greater of the relevant amount for such vessel, or such amount as is necessary to maintain compliance with the relevant minimum security covenant in the loan agreements.

We are currently negotiating with UOB for an agreement by which UOB will release us from all debt obligations under the UOB related facility in exchange for the sale of either 100% ownership interest in the three MCS subsidiaries which are the borrowers under the UOB loan facility or the vessels under the facility. There can be no assurance that we will be able to complete such documentation on these terms or at all.

### **Debt Repayment and Terms**

All of the outstanding debt of \$208.6 million is classified as current as of December 31, 2012, for the reasons discussed above.

### **Capital Requirements**

Our capital expenditures relate to the routine drydocking of our vessels.

The following table summarizes our next anticipated surveys, as of December 31, 2012:

<b>Vessel</b>	<b>Next Scheduled Survey</b>	<b>Estimated Cost</b>
African Oryx	Apr 2013	\$ 800,000
Bremen Max	May 2013	\$ 1,750,000
Davakis G.	May 2013	\$ 500,000
African Glory	Jun 2013	\$ 650,000
Delos Ranger	Aug 2013	\$ 50,000
African Joy	Oct 2013	\$ 700,000
Hamburg Max	Feb 2014	\$ 1,750,000
Asian Grace	May 2014	\$ 750,000

### **C. Research and development, patents and licenses, etc. Not applicable.**

### **D. Trend Information**

Our results of operations depend primarily on the charter hire rates that we are able to realize for our owned vessels, which depend on the demand and supply dynamics characterizing the dry bulk freight market at any given time.

After reaching historical highs in May 2008, the freight market reversed sharply in the fourth quarter of the same year. Since then, freight rates have been quite volatile yet they have remained at lower levels than those witnessed before 2009. For industry trends refer to industry disclosure under "Risk Factors" and "Item 4 – Business Overview." For company-specific trends refer to "Item 5. Operating and Financial Review and Prospects – Operating Results."

### **E. Off-balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

## F. Tabular Disclosure of Contractual Obligations

The following tables summarize our contractual obligations as of December 31, 2012, based on the contractual terms of the loan agreements and rental arrangements. The table reflects the potential acceleration due to non-compliance with covenant terms of our loan agreements.

<i>Contractual Obligations</i>	<i>Total</i>	<i>less than 1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>more than 5 years</i>
Long-term debt	\$ 208,649	\$ 208,649	\$ -	\$ -	\$ -
Interest expense (1)	\$ 8,389	\$ 8,389	\$ -	\$ -	\$ -
Office rent (2)	\$ 528	\$ 462	\$ 66	\$ -	\$ -
Total	\$ 217,566	\$ 217,500	\$ 66	\$ -	\$ -

1. The Piraeus Bank (ex CPB) revolving facility bears interest at LIBOR plus a spread of 4.5%. The Piraeus Bank (ex CPB) term facility bears interest at LIBOR plus a spread of 4.0%. The UOB senior term facility bears interest at LIBOR plus a spread of 2.50% and the UOB subordinated term facility bears interest at LIBOR plus a spread of 3.50%. The DVB senior facility bears interest at LIBOR plus a spread of 2.10% and the DVB junior facility bears interest at LIBOR plus a spread of 4.90%. On January 25, 2013, MCS entered into a settlement agreement with *inter alios*, DVB and the MCS subsidiaries under the facility agreement with DVB, for the sale of the four MCS subsidiaries to a third party entity nominated by DVB. The Company successfully closed the sale of the subsidiaries on January 29, 2013 and the outstanding debt was discharged. DVB also released the Company from all the liabilities and obligations under the DVB Facility Agreement.
2. The office rent reflects our agreement with Waterfront S.A. for the rent of our executive offices. The initial lease term is from November 17, 2008 to November 16, 2011. Seenergy has the option to extend the term until February 28, 2014. The monthly lease payment is EUR 42,000. As of December 20, 2010, the monthly lease payment was amended to EUR 35,000 and as of January 1, 2012 the monthly lease payment was amended to EUR 25,000. The monthly payment due under the office rent in U.S. dollars has been computed by using the Euro/U.S. dollar exchange rate as of December 31, 2012, which was €1.00:\$1.3193. The office rent also includes the rent for the office of MCS in Hong Kong. The MCS offices were relocated in 2011. The monthly payment under the old tenancy agreement was HK\$ 688,680 per month. The monthly payment under the new tenancy agreement is HK\$ 95,600 until the expiration of the agreement on May 8, 2013. The monthly payment due under the office rent in Hong Kong dollars has been computed by using the U.S. dollar/ HK dollar exchange rate as of December 31, 2012, which was \$1.00:HK\$ 7.7503.

## G. Safe Harbor

See the section titled “Cautionary Statement Regarding Forward-Looking Statements” at the beginning of this annual report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

Set forth below are the names, ages and positions of our current directors and executive officers. Members of our board of directors are elected annually on a staggered basis, and each director elected holds office for a three-year term. Officers are elected from time to time by vote of our board of directors and hold office until a successor is elected. The business address of each of our directors and executive officers listed below is 1-3 Patriarchou Grigoriou Street, 166 74 Glyfada, Athens, Greece.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Class</b>
Dale Ploughman	65	Chairman of the board of directors	B (term expires in 2014)
Stamatis Tsantanis	40	Chief Executive Officer and Director	A (term expires in 2013)
Christina Anagnostara	41	Chief Financial Officer and Director	B (term expires in 2014)
Elias Culucundis	69	Director	A (term expires in 2013)
Dimitris Anagnostopoulos	65	Director	C (term expires in 2015)
George Tsimpis	66	Director	C (term expires in 2015)

Biographical information with respect to each of our directors and executive officers is set forth below.

**Dale Ploughman** has served as a member of our board of directors since May 20, 2008, as our Chief Executive Officer from May 2008 until October 1, 2012 and as the Chairman of our board of directors since July 21, 2010. He has over 48 years of shipping industry experience. From 1999 until 2011, Mr. Ploughman had been the chairman of the Bahamas Ship Owners Association, and from 2000 to 2005 he was the chairman of South African Marine Corporation (Pty) Ltd., a dry bulk shipping company based in South Africa. In addition,

from 2005 to 2010, Mr. Ploughman served as president, chief executive officer and director of Golden Energy Marine Corp. Mr. Ploughman also served as president and chief executive officer of numerous private shipping companies controlled by members of the Restis family. From 1989 to 1999, Mr. Ploughman was the president of Great White Fleet, a fleet owned by Chiquita Brands International Inc., which was one of the largest shipping carriers to and from Central America. Mr. Ploughman has previously worked as president and chief executive officer of Lauritzen Reefers A.S., a shipping company based in Denmark, the managing director of Dammers and Vander Hiede Shipping and Trading Inc., a shipping company based in the Netherlands and as the chairman of Mackay Shipping, a shipping company based in New Zealand. He holds degrees in Business Administration and Personnel Management and Master's level Sea Certificates and was educated at the Thames Nautical Training College, HMS Worcester.

**Stamatis Tsantanis** has been a member of our board of directors and our chief executive officer since October 1, 2012. Mr. Tsantanis brings more than 14 years of experience in shipping and finance and held senior management positions in prominent shipping companies. Prior to joining us, from September 2008 he served as Group Chief Financial Officer of Target Marine S.A. and was responsible for its corporate and financial strategy. Mr. Tsantanis previously served as the Chief Financial Officer and as a Director of Top Ships Inc. from its initial public offering and listing on NASDAQ in 2004 until September 2008. Prior to that, he was an investment banker at Alpha Finance, a member of the Alpha Bank Group, with active role in a number of shipping corporate finance transactions. Mr. Tsantanis holds a Masters degree in Shipping Trade and Finance from the City University Business School in London, and a Bachelors degree in Shipping Economics from the University of Piraeus.

**Christina Anagnostara** has served as our chief financial officer since November 17, 2008 and as a member of our board of directors since December 2008. Prior to joining us, she served as chief financial officer and a board member for Global Oceanic Carriers Ltd, a dry bulk shipping company listed on the Alternative Investment Market of the London Stock Exchange, or AIM, since February 2007. Between 1999 and 2006, she was a senior manager at EFG Audit & Consulting Services, the auditors of the Geneva-based EFG Group, an international banking group specializing in global private banking and asset management. Prior to EFG Group, she worked from 1998 to 1999 in the internal audit group of Eurobank EFG, a bank with a leading position in Greece; and between 1995 and 1998 as a senior auditor at Ernst & Young Hellas, SA, Greece, the international auditing firm. Ms. Anagnostara studied Economics in Athens and is a Certified Chartered Accountant since 2002.

**Elias Culucundis** has been a member of our board of directors since our inception. From 2002 until 2010, Mr. Culucundis had been a member of the board of directors of Folli Follie S.A. and since 2006 an executive member of the board of directors of Hellenic Duty Free Shops S.A. Since 1999, Mr. Culucundis has been president, chief executive officer and director of Equity Shipping Company Ltd., a company specializing in starting, managing and operating commercial and technical shipping projects. Additionally, from 1996 to 2000, he was a director of Kassian Maritime Shipping Agency Ltd., a vessel management company operating a fleet of ten bulk carriers. During this time, Mr. Culucundis was also a director of Point Clear Navigation Agency Ltd, a marine project company. From 1981 to 1995, Mr. Culucundis was a director of Kassos Maritime Enterprises Ltd., a company engaged in vessel management. While at Kassos, he was initially a technical director and eventually ascended to the position of chief executive officer, overseeing a large fleet of Panamax, Aframax and VLCC tankers, as well as overseeing new vessel building contracts, specifications and the construction of new vessels. From 1971 to 1980, Mr. Culucundis was a director and the chief executive officer of Off Shore Consultants Inc. and Naval Engineering Dynamics Ltd. Off Shore Consultants Inc. He worked in Floating Production, Storage and Offloading vessel, or FPSO, design and construction and responsible for the technical and commercial supervision of a pentagon-type drilling rig utilized by Royal Dutch Shell plc. Seven FPSOs were designed and constructed that were subsequently utilized by Pertamina, ARCO, Total and Elf-Aquitaine. Naval Engineering Dynamics Ltd. was responsible for purchasing, rebuilding and operating vessels that had suffered major damage. From 1966 to 1971, Mr. Culucundis was employed as a Naval Architect for A.G. Pappadakis Co. Ltd., London, responsible for tanker and bulk carrier new buildings and supervising the technical operation of our fleet. He is a graduate of Kings College, Durham University, Great Britain, with a degree in Naval Architecture and Shipbuilding. He is a member of several industry organizations, including the Council of the Union of Greek Shipowners and American Bureau of Shipping. Mr. Culucundis is a fellow of the Royal Institute of Naval Architects and a Chartered Engineer.

**George Tsimpis** has been a member of our board of directors since December 2008. Since March 2009, Mr. Tsimpis is also member of the board of directors of FBB-First Business Bank S.A., of Greece, a bank affiliated with members of the Restis family. Mr. Tsimpis served as shipping advisor at BNP Paribas, Greece, from 2006 through 2007, upon retiring as Head of the Greek Shipping Desk from BNP Paribas in 2006, a position he had held since 1992. From 1986 to 1992, Mr. Tsimpis served as chief financial officer of Pirelli Tyres. From 1978 to 1986, Mr. Tsimpis was Delegate Manager and Treasurer at Bank of America, Greece. Mr. Tsimpis joined Citibank, Greece in 1971, where he served as chief trader from 1974 to 1978. Mr. Tsimpis holds a Bachelor of Arts Degree in Economics from the University of Piraeus.

**Dimitrios Anagnostopoulos** has been a member of our board of directors since May 2009. Mr. Anagnostopoulos has over forty years of experience in shipping and ship finance. His career began in the 1970's at Athens University of Economics followed by four years with the Onassis Group in Monaco. Mr. Anagnostopoulos also held various posts at the National Investment Bank of Industrial Development (ETEBA), Continental Illinois National Bank of Chicago, the Greyhound Corporation, and with ABN AMRO, where he has spent nearly two decades with the Bank as Senior Vice-President and Head of Shipping. In June 2010 he was elected a board member of the Aegean Baltic Bank S.A. Mr. Anagnostopoulos has been a speaker and panelist in various shipping conferences in Europe, and a regular guest lecturer at the City University Cass Business School in London and the Erasmus University in Rotterdam. He is a member (and ex-vice chairman) of the Association of Banking and Financial Executives of Greek Shipping. In 2008 he was named by the Lloyd's Organization as Shipping Financier of the Year.

On November 30, 2009, we announced the resignations of Messrs. Ioannis Tsigkounakis and Alexander Papageorgiou from our board. On May 20, 2010 and on July 20, 2010, Mr. Alexis Komninos and Mr. George Koutsolioutsos, respectively, resigned from our board. Following these resignations, the Board determined to reduce its size from thirteen to nine members. On November 17, 2010 and November 22, 2010, Messrs. Kostas Koutsoubelis and Kyriakos Dermatis, respectively, resigned from our board, and the Board determined at the time to reduce its size from nine to seven members. On May 11, 2012 we announced the resignations of Mr. George Taniskidis and Mr. Dimitris Panagiotopoulos. On October 1, 2012 we announced that Mr. Dale Ploughman stepped down as Chief Executive Officer and Mr. Stamatis Tsantanis was appointed as Chief Executive Officer and Director of the Company. Mr. Ploughman has remained as our Chairman and Director.

No family relationships exist among any of the directors and executive officers.

## **B. Compensation**

For the year ended December 31, 2012, we paid our executive officers and directors aggregate compensation of \$1.2 million. Our executive officers are employed by us pursuant to employment and consulting contracts.

Each member of our board of directors received a fee of \$40,000 per year. In addition, each member of the Shipping Committee received a fee of \$60,000 per year. Effective October 1, 2012, the board of directors reduced by 15% the fees of the Board and the Shipping Committee. The aggregate director fees paid by us for the years ended December 31, 2012, 2011 and 2010 totaled \$403,000, \$460,000 and \$568,000, respectively.

## **C. Board Practices**

Our board of directors has an audit committee, a compensation committee, a nominating committee and a shipping committee. Our board of directors has adopted a charter for each of these committees.

### **Audit Committee**

Our audit committee consists of Messrs. Dimitris Anagnostopoulos, Elias Culucundis and George Tsimpis. Our board of directors has determined that the members of the audit committee meet the applicable independence requirements of the Commission and the NASDAQ Marketplace Rules. Our board of directors has determined that Mr. Dimitris Anagnostopoulos is an "Audit Committee Financial Expert" under the Commission's rules and the corporate governance rules of the NASDAQ Capital Market.

The audit committee has powers and performs the functions customarily performed by such a committee (including those required of such a committee by NASDAQ and the Commission). The audit committee is responsible for selecting and meeting with our independent registered public accounting firm regarding, among other matters, audits and the adequacy of our accounting and control systems.

### **Compensation Committee**

Our compensation committee consists of Messrs. Dimitris Anagnostopoulos, Elias Culucundis and George Tsimpis, each of whom is an independent director. The compensation committee reviews and approves the compensation of our executive officers.

### **Nominating Committee**

Our nominating committee consists of Messrs. Elias Culucundis, Dimitris Anagnostopoulos and George Tsimpis, each of whom is an independent director. The nominating committee is responsible for overseeing the selection of persons to be nominated to serve on our board of directors.

### **Shipping Committee**

We have established a shipping committee. The purpose of the shipping committee is to consider and vote upon all matters involving shipping and vessel finance in order to accelerate the pace of our decision making in respect of shipping business opportunities, such as the acquisition of vessels or companies. The shipping industry often demands very prompt review and decision-making with respect to business opportunities. In recognition of this, and in order to best utilize the experience and skills that our directors bring to us, our board of directors has delegated all such matters to the shipping committee. Transactions that involve the issuance of our securities or transactions that involve a related party, however, shall not be delegated to the shipping committee but instead shall be considered by the entire board of directors. The shipping committee consists of three directors. In accordance with the Amended and Restated Charter of the Shipping Committee, two of the directors on the shipping committee are nominated by the Restis affiliate shareholders and one of the directors on the shipping committee is nominated by a majority of our board of directors and is an independent member of the board of directors. The members of the shipping committee are Mr. Dale Ploughman and Ms. Christina Anagnostara, who are the Restis affiliate shareholders' nominees, and Mr. Elias Culucundis, who is the Board's nominee.

In order to assure the continued existence of the shipping committee, our board of directors has agreed that the shipping committee may not be dissolved and that the duties or composition of the shipping committee may not be altered without the affirmative vote of not less than 80% of our board of directors. In addition, the duties of our chief executive officer, who is currently Mr. Tsantanis, may not be altered without a similar vote. These duties and powers include voting the shares of stock that Seanergy owns in its subsidiaries. In addition to these agreements, we have amended certain provisions in its articles of incorporation and by-laws to incorporate these requirements.

As a result of these various provisions, in general, all shipping-related decisions will be made by the Restis family appointees to our board of directors unless 80% of the board members vote to change the duties or composition of the shipping committee.

#### D. Employees

We currently have two executive officers, Mr. Stamatis Tsantanis, our chief executive officer, and Ms. Christina Anagnostara, our chief financial officer. In addition, we employ Ms. Theodora Mitropetrou, our general counsel, and a support staff of fourteen employees. In addition, EST, M/S Fleet and Wallem are responsible for identifying, screening and recruiting, directly or through crewing agents, the seafarers that crew the vessels in our fleet.

#### E. Share Ownership

The shares of our common stock beneficially owned by our directors and senior managers are disclosed below in “Item 7. Major Shareholders and Related Party Transactions.”

### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### A. Major Shareholders

The following table sets out information, as of the date of this annual report, regarding (i) the owners of more than five percent of outstanding common shares that we are aware of and (ii) the total number of common shares owned by all of our directors and senior management. All of the shareholders, including the shareholders listed in this table, are entitled to one vote for each common share held.

Title of Class	Identity of Person or Group	Number of Shares Owned	Percent of Class
Common shares, par value \$0.0001 per share			
	United Capital Investments Corp.(1)	2,622,727	21.9%
	Atrion Shipholding S.A.(1)	2,522,149	21.1%
	Plaza Shipholding Corp.(1)	2,526,388	21.1%
	Comet Shipholding Inc.(1)	2,522,168	21.1%
	Dale Ploughman	12,000	*
	Christina Anagnostara	667	*
	All directors and executive officers as a group (7 individuals)	12,667	*

\* Less than one percent.

All shares owned by the shareholders listed in the table above have the same voting rights as other shares of our common stock.

(1) Each of United Capital Investments Corp., Atrion Shipholding S.A., Plaza Shipholding Corp, and Comet Shipholding Inc., is an affiliate of members of the Restis family.

#### B. Related Party Transactions BET Sale

As of December 30, 2012, after entering into a share purchase agreement with IMI, a company controlled by members of the Restis family, we completed the final documentation for the sale of our 100% interest in BET for a nominal consideration. The sale was treated as a transaction between entities under common control, and as such, the transaction was recorded at historical carrying values on the date of sale and no gain or loss was recognized.

#### Share Purchase Agreement

On January 31, 2012, we completed an equity injection plan with four entities affiliated with the Restis family. In exchange for \$10 million, we issued an aggregate of 4,641,620 of our common shares to the four entities at a price of \$2.15442. The price was determined

as the average closing price of the five trading days preceding the execution of the purchase plan. Following the issuance of the shares and as of the date of this annual report we have 11,959,282 outstanding common shares.

### **Purchase of 100% Ownership Interest in MCS**

On April 30, 2010, Maritime Capital, a company controlled by members of the Restis family, acquired 100% of MCS. On May 28, 2010, we further expanded our fleet by acquiring a 51% ownership interest in MCS for consideration of \$33.0 million paid to Maritime Capital. On September 15, 2010, we acquired the remaining 49% ownership interest in MCS from Maritime Capital for consideration of approximately \$29.0 million, which was paid to Maritime Capital in the form of: (i) \$3.0 million in cash and (ii) 24,761,905 shares of our common stock (or 1,650,793 shares as adjusted for the Reverse Stock Split), at an agreed price of \$1.05 per share (or \$15.75 per share as adjusted for the Reverse Stock Split) totaling \$26.0 million, that were issued to the Restis affiliate shareholders, as nominees of Maritime Capital.

### **Registration Rights**

#### *2010 Secondary Public Offering - Concurrent sale of shares to shareholders affiliated with the Restis family*

With respect to the additional 277,778 shares of common stock purchased in February 2010 by the four of the Company's major shareholders affiliated with the Restis family, the Company entered into a Registration Rights Agreement on March 26, 2010. Pursuant to such Registration Rights Agreement, the Company filed a registration statement on Form F-3 (File No. 333-166697) with the Commission on May 10, 2010 registering the resale of the 277,778 shares.

#### *Shares issued under the acquisition of the remaining 49% of MCS*

On September 15, 2010, in relation to the 1,650,794 shares in connection with the acquisition of the remaining 49% of MCS, the Company entered into a Registration Rights Agreement. Pursuant to such Registration Rights Agreement, on or prior to the 120th day following the closing date of the public offering the Company filed a registration statement with the Commission registering the resale of the 1,650,794 shares. The Company filed with the Commission the Registration Statement on Form F-3 (File No. 333-169813) on October 7, 2010, which was further amended by Amendment No. 1 and 2, was declared effective on November 12, 2010.

#### *Shares issued under the acquisition of the remaining 50% of BET*

On October 22, 2010, in relation to the 1,650,794 shares in connection with the acquisition of the remaining 50% of BET, the Company entered into a Registration Rights Agreement. Pursuant to such Registration Rights Agreement, the Company filed on October 29, 2010 an Amendment No. 1 to the previously filed Form F-3 with No. 333-169813 registering the resale of the 1,650,794 shares issued from the BET acquisition, which was further amended by an Amendment No. 2 filed on November 9, 2010 and which was declared effective on November 12, 2010.

#### *2012 Equity Injection shares*

On January 4, 2012, we entered into a registration rights agreement in connection with a share purchase agreement, discussed above, under which we sold 4,641,620 of our common shares to United Capital Investments Corp., Atrion Shipholding S.A., Plaza Shipholding Corp. and Comet Shipholding Inc., which are all companies affiliated with the Restis family, for \$10 million. The common shares were sold at a price of \$2.15442, which was the average closing price of our common shares for the five trading days preceding the execution of the share purchase agreement. Pursuant to the registration rights agreement, we filed a registration statement on Form F-1 with the Commission on March 29, 2012 (file no. 33-180444), which was withdrawn with effective date July 16, 2012.

### **Management Agreement**

Under the terms of the management agreement entered into by EST, a company controlled by members of the Restis family, as manager of the initial fleet of six vessels owned by our subsidiaries (which now consists of four vessels following the sale of the African Zebra and African Oryx), with Seanergy Management, and EST, as manager of all vessels owned by Seanergy, and BET (our former subsidiary), EST performs certain duties that include general administrative and support services necessary for the operation and employment of all vessels owned by all subsidiaries of Seanergy and BET (our former subsidiary), including, without limitation, crewing and other technical management, insurance, freight management, accounting related to vessels, provisions, bunkering, operation and, subject to our instructions, sale and purchase of vessels.

### **Brokerage Agreement**

Under the terms of the brokerage agreements entered into by Seanergy Management, with Safbulk, a company controlled by members of the Restis family, Safbulk provides commercial management services for our initial fleet of six vessels (which now consists of four vessels following the sale of the African Zebra and the African Oryx) and provided commercial management for the BET vessels, which include, among other things, seeking and negotiating employment for the vessels owned by the vessel-owning subsidiaries in

accordance with the instructions of Seanergy Management and BET, as the case may be. Safbulk is entitled to receive a commission of 1.25% calculated on the collected gross hire/freight/demurrage payable when such amounts are collected. The brokerage agreement with Safbulk is expiring in May 2013 and the brokerage agreement with Safbulk Maritime was automatically renewed until August 2013. With the sale of BET, the BET fleet has been divested since December 31, 2012.

### **Time Charters with Swissmarine**

Pursuant to charter party agreements dated June 16, 2011, each of the BET Fighter and BET Scouter were chartered to Swissmarine for a period of about 11 to about 13 months, at a gross daily rate equal to the adjusted time charter average of the Baltic Capesize Index. Seanergy has a right to convert this to a fixed daily rate throughout the life of the contract, subject to the charterer's mutual consent. Pursuant to charter party agreement dated June 16, 2011, the BET Intruder was chartered to Swissmarine for a period of about 11 to about 13 months, at a gross daily rate of \$12,250. Pursuant to a charter party agreement dated October 7, 2011, the BET Prince was chartered to Swissmarine for a period of about 11 to about 13 months, at a gross daily rate equal to the adjusted time charter average of the Baltic Capesize Index. Seanergy has a right to convert this to a fixed daily rate throughout the life of the contract, subject to the charterer's mutual consent. All charter rates for the BET fleet with Swissmarine were inclusive of a commission of 1.25% payable to Safbulk Maritime commercial broker and 3.75% to Swissmarine as charterer. With the sale of BET, the BET fleet has been divested since December 31, 2012.

### **Consultancy Agreement**

On August 9, 2012, Seanergy Management entered into an addendum to the agreement with C.K.A. Company S.A., a related party entity incorporated in the Marshall Islands, which was dated December 15, 2008, for the termination of the services. On August 9, 2012 Seanergy Management entered into a consultancy agreement with Belgrave Services Ltd. for the services of the individual who serves as the Chief Financial Officer of the Company, on the same terms with the previous agreement. The agreement is for \$220,000 per annum, payable monthly on the last working day of every month in 12 installments. The agreement may be terminated by either party on six-months notice.

### **Commercial Real Estate Sublease Agreement**

We lease our executive office space in Athens, Greece pursuant to the terms of a sublease agreement between Seanergy Management and Waterfront S.A., a company affiliated with a member of the Restis family. The initial sublease fee is EUR 504,000 per annum, or EUR 42,000 per month. The initial term is from November 17, 2008 to November 16, 2011. We have the option to extend the term until February 28, 2014. On December 20, 2010 we entered into an amendment which provides that for the remaining of the term of the sublease agreement the sublease fee will be EUR 35,000 per month and on January 1, 2012 we entered into an amendment which provides that for the remaining of the term of the sublease agreement the sublease fee will be EUR 25,000 per month. Seanergy Management has been granted Ministerial Approval (issued in the Greek Government Gazette) for the establishment of an office in Greece under Greek Law 89/67 (as amended).

### **C. Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. Consolidated Statements and Other Financial Information**

See Item 18.

### **Legal Proceedings**

On December 30, 2010, certain of our shareholders who are resident in Greece (including Mr. George Koutsolioutsos, the former Chairman of the Board of the Company) brought suit in the First Instance Court of Athens against certain other shareholders of the Company and other individuals who are resident in Greece, including our Chairman and CFO. Neither we nor any of our subsidiaries is named as a defendant. The complaint alleges that the defendants engaged in willful unlawful conduct under Greek law and that the plaintiffs sustained losses therefrom, including diminution in the value of their shares in the Company and reputational damage. The defendants have advised us that they do not believe the action has merit, and that they intend to vigorously defend it. The presiding judge, at the court hearing on November 28, 2012, decided the continuance of the trial on December 11, 2014.

### **Dividend Policy**

We had initially expressed an intent to pay dividends in the aggregate amount of \$1.20 per common share on a quarterly basis during the one-year period commencing with the second full quarter following the initial closing of the acquisition of the six vessels that composed our initial fleet, which was the quarter ending March 31, 2009. We have, however, determined to temporarily suspend the pay-

ment of any dividends based on restrictions imposed on us by Piraeus Bank (ex CPB). We have not yet determined when any dividend payments will be resumed, if at all. In the event we determine to resume any dividend payments, under the terms of the waiver obtained with respect to our loan facilities' security margin clause, the written approval of Piraeus Bank (ex CPB) will be required before the payment of any dividends. The declaration and payment of any dividend is subject to the discretion of our board of directors. The timing and amount of dividend payments will be in the discretion of our board of directors and be dependent upon our earnings, financial condition, cash requirements and availability, fleet renewal and expansion, restrictions in our loan agreements, the provisions of Marshall Islands law affecting the payment of dividends to shareholders, overall market conditions, and other factors. Our board of directors may review and amend our dividend policy from time to time in light of our plans for future growth and other factors.

## B. Significant Changes

See "Item 5 – Operating and Financial Review and Prospects – Recent Developments."

## ITEM 9. THE OFFER AND LISTING

### A. Offer and Listing Details

Our shares of common stock are currently listed on the NASDAQ Capital Market under the symbol "SHIP."

The table below sets forth the high and low closing prices for each of the periods indicated for our shares of common stock on the American Stock Exchange, the NASDAQ Global Market, or the NASDAQ Capital Market as adjusted for the 15-for-1 reverse stock split effective June 24, 2011. Seanergy Maritime's shares of common stock were originally listed on the American Stock Exchange. On October 15, 2008, Seanergy Maritime's shares of common stock commenced trading on the NASDAQ Global Market. Following the dissolution of Seanergy Maritime, our shares of common stock started trading on the NASDAQ Global Market on January 28, 2009. On December 21, 2012, Seanergy Maritime's shares of common stock commenced trading on the NASDAQ Capital Market.

	<b>High</b>	<b>Low</b>
For the Fiscal Year Ended December 31, 2008	\$ 150.00	\$ 64.95
For the Fiscal Year Ended December 31, 2009	\$ 80.25	\$ 43.95
For the Fiscal Year Ended December 31, 2010	\$ 44.85	\$ 13.50
For the Fiscal Year Ended December 31, 2011	\$ 14.84	\$ 2.06
For the Fiscal Year Ended December 31, 2012	\$ 4.23	\$ 1.09
<b>For the Quarter Ended</b>		
March 31, 2011	\$ 14.83	\$ 9.18
June 30, 2011	\$ 9.30	\$ 4.95
September 30, 2011	\$ 5.90	\$ 3.00
December 31, 2011	\$ 3.57	\$ 2.06
March 31, 2012	\$ 4.23	\$ 2.15
June 30, 2012	\$ 4.04	\$ 1.97
September 30, 2012	\$ 2.30	\$ 1.66
December 31, 2012	\$ 1.90	\$ 1.04
<b>For the Month Ended</b>		
October 2012	\$ 1.90	\$ 1.53
November 2012	\$ 1.64	\$ 1.21
December 2012	\$ 1.39	\$ 1.04
January 2013	\$ 2.46	\$ 1.13
February 2013	\$ 2.20	\$ 1.95
March 2013	\$ 2.10	\$ 1.49
April 1, 2013 through April 25	\$ 2.04	\$ 1.38

## **B. Plan of Distribution**

Not applicable.

## **C. Markets**

Our common stock trades on the NASDAQ Capital Market under the symbol “SHIP.”

## **D. Selling Shareholders**

Not applicable.

## **E. Dilution**

Not applicable.

## **F. Expenses of the Issue**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association Articles of Incorporation**

Our amended and restated articles of incorporation and our amended and restated bylaws have been filed in the Annex to Seenergy Maritime’s proxy statement filed with the Commission on Form 6-K on July 31, 2008. The information contained in these exhibits is incorporated by reference herein. Our second amended and restated bylaws have been filed with the Commission on Form 6-K on July 20, 2011.

Information regarding the rights, preferences and restrictions attaching to each class of the shares is described in the section titled “Description of Capital Stock” in our Registration Statement on Form F-3 (Registration No. 333-169813), declared effective by the Commission on November 12, 2010, and incorporated by reference herein.

### **C. Material contracts**

For a full description of our loan agreements, please see “Item 5. Operating and Financial Review and Prospects–B. Liquidity and Capital Resources–Credit Facilities.” Other than as discussed in this annual report, we have no material contracts, other than contracts entered into in the ordinary course of business, to which we are a party.

### **D. Exchange controls**

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 shares of our common stock.

### **E. Taxation**

The following is a summary of the material U.S. federal and Marshall Islands income tax consequences of the ownership and disposition of our common stock as well as the material U.S. federal and Marshall Islands income tax consequences applicable to us and our operations. The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to a beneficial owner of our common stock that is treated for U.S. federal income tax purposes as:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) that is created or organized (or treated as created or organized) in or under the laws of the United States, any state thereof or the District of Columbia; or
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or a trust if (i) a U.S. court can exercise primary supervision over the trust’s administration and one or more U.S. persons are authorized

to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are not described as a U.S. Holder and are not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, you will be considered a “Non-U.S. Holder.” The U.S. federal income tax consequences applicable to Non-U.S. Holders is described below under the heading “United States Federal Income Taxation of Non-U.S. Holders.”

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change, possibly on a retroactive basis.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to any particular holder based on such holder’s individual circumstances. In particular, this discussion considers only holders that will own and hold our common stock as capital assets within the meaning of Section 1221 of the Code and does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to holders that are subject to special rules, including:

- financial institutions or “financial services entities”;
- broker-dealers;
- taxpayers who have elected mark-to-market accounting;
- tax-exempt entities;
- governments or agencies or instrumentalities thereof;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- certain expatriates or former long-term residents of the United States;
- persons that actually or constructively own 10% or more of our voting shares;
- persons that hold our warrants;
- persons that hold our common stock or warrants as part of a straddle, constructive sale, hedging, conversion or other integrated transaction; or
- persons whose functional currency is not the U.S. dollar.

This summary does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold our common stock through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our common stock, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership.

We have not sought, nor will we seek, a ruling from the Internal Revenue Service, or the IRS, as to any U.S. federal income tax consequence described herein. The IRS may disagree with the description herein, and its determination may be upheld by a court.

Because of the complexity of the tax laws and because the tax consequences to any particular holder of our common stock may be affected by matters not discussed herein, each such holder is urged to consult with its tax advisor with respect to the specific tax consequences of the ownership and disposition of our common stock, including the applicability and effect of state, local and non-U.S. tax laws, as well as U.S. federal tax laws.

## **United States Federal Income Tax Consequences**

### ***Taxation of Operating Income: In General***

Unless exempt from United States federal income taxation under the rules discussed below, a foreign corporation is subject to United States federal income taxation in respect of any income that is derived from the use of vessels, from the hiring or leasing of ves-

sels for use on a time, voyage or bareboat charter basis, from the participation in a shipping pool, partnership, strategic alliance, joint operating agreement, code sharing arrangements or other joint venture it directly or indirectly owns or participates in that generates such income, or from the performance of services directly related to those uses, which we refer to as “shipping income,” to the extent that the shipping income is derived from sources within the United States. For these purposes, 50% of the gross shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States, exclusive of certain U.S. territories and possessions, constitutes income from sources within the United States, which we refer to as “U.S.-Source Gross Transportation Income” or “USSGTI.”

Shipping income attributable to transportation that both begins and ends in the United States is considered to be 100% from sources within the United States. We are prohibited by law from engaging in transportation that produces income considered to be 100% from sources within the United States.

Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to any United States federal income tax.

In the absence of exemption from tax under Section 883 of the Code, our USSGTI would be subject to a 4% tax imposed without allowance for deductions as described below.

### ***Exemption of Operating Income from United States Federal Income Taxation***

Under Section 883 of the Code and the regulations thereunder, we will be exempt from United States federal income taxation on our U.S.-source shipping income if:

- we are organized in a foreign country (our “country of organization”) that grants an “equivalent exemption” to corporations organized in the United States; and

either

- more than 50% of the value of our stock is owned, directly or indirectly, by “qualified shareholders,” that are persons (i) who are “residents” of our country of organization or of another foreign country that grants an “equivalent exemption” to corporations organized in the United States, and (ii) who comply with certain documentation requirements, which we refer to as the “50% Ownership Test;” or
- our stock is primarily and regularly traded on one or more established securities markets in our country of organization, in another country that grants an “equivalent exemption” to United States corporations, or in the United States, which we refer to as the “Publicly-Traded Test.”

The jurisdictions where we and our ship-owning subsidiaries are incorporated grant “equivalent exemptions” to United States corporations. Therefore, we will be exempt from United States federal income taxation with respect to our U.S.-source shipping income if we satisfy either the 50% Ownership Test or the Publicly-Traded Test.

As discussed in more detail below, we believe that we satisfied the Publicly-Traded Test for our 2012 taxable year since, on more than half the days of the taxable year, our common shares were primarily and regularly traded on an established securities market in the United States, namely the NASDAQ Global Market up to December 20, 2012.

The regulations provide, in pertinent part, that the stock of a foreign corporation will be considered to be “primarily traded” on an established securities market in a country if the number of shares of each class of stock that is traded during the taxable year on all established securities markets in that country exceeds the number of shares in each such class that is traded during that year on established securities markets in any other single country. Our common stock, our sole class of our issued and outstanding stock, was “primarily traded” on the NASDAQ Global Market up to December 20, 2012 and, effective December 21, 2012, on the Nasdaq Capital Market, which are both established securities markets for these purposes.

The regulations also require that our stock be “regularly traded” on an established securities market. Under the regulations, our stock will be considered to be “regularly traded” if one or more classes of our stock representing 50% or more of our outstanding shares, by total combined voting power of all classes of stock entitled to vote and by total combined value of all classes of stock, are listed on one or more established securities markets, which we refer to as the “listing threshold.” Our common stock, our sole class of issued and outstanding stock, was listed on the NASDAQ Global Market up to December 20, 2012 and is now listed on the NASDAQ Capital Market. Accordingly, we will satisfy this listing requirement.

The regulations further require that with respect to each class of stock relied upon to meet the listing requirement: (i) such class of the stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or 1/6 of the days in a short taxable year; and (ii) the aggregate number of shares of such class of stock traded on such market is at least 10% of the average

number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year. We believe we will satisfy the trading frequency and trading volume tests. Even if we do not satisfy both tests, the regulations provide that the trading frequency and trading volume tests will be deemed satisfied by a class of stock if, as we expect to be the case with our common stock, such class of stock is traded on an established market in the United States and such class of stock is regularly quoted by dealers making a market in such stock.

Notwithstanding the foregoing, the regulations provide, in pertinent part, that a class of stock will not be considered to be “regularly traded” on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class of stock are owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons who each own directly or indirectly 5% or more of the vote and value of such class of stock, who we refer to as “5% Shareholders.” We refer to this restriction in the regulations as the “Closely-Held Rule.” The Closely-Held Rule will not disqualify us, however, if we can establish that our qualified 5% Shareholders own sufficient shares in our closely-held block of stock to preclude the shares in the closely-held block that are owned by non-qualified 5% Shareholders from representing 50% or more of the value of such class of stock for more than half of the days during the tax year, which we refer to as the exception to the Closely-Held Rule.

For purposes of being able to determine our 5% Shareholders, the regulations permit us to rely on Schedule 13G and Schedule 13D filings with the Securities and Exchange Commission. The regulations further provide that an investment company that is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Shareholder for such purposes.

Based on our Schedule 13G and 13D filings for the 2012 taxable year, we believe that we triggered the Closely-Held Rule for the 2012 taxable year. Although we believe that the status of our 5% Shareholders as “qualified shareholders” makes us eligible for the exception to the Closely-Held Rule, to qualify for the benefits of Section 883 our 5% Shareholders, and each intermediary in the chain of ownership, would have to provide us with certain beneficial ownership and intermediary statements substantiating the 5% Shareholders’ beneficial ownership and status as “qualified shareholders.” The Company expects to obtain the required statements from 5% Shareholders who own collectively more than 50% of shares of the Company. Thus, we expect to meet the requirement of the exemption to the Closely-Held Rule for the 2012 taxable year. Due to the factual nature of the issues involved, there can be no assurance that we or any of our subsidiaries will qualify for the benefits of Section 883 of the Code for the 2012 or any future taxable year.

### ***Taxation in Absence of Exemption***

To the extent the benefits of Section 883 are unavailable, our USSGTI, to the extent not considered to be “effectively connected” with the conduct of a U.S. trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, otherwise referred to as the “4% Tax.” Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being derived from U.S. sources, the maximum effective rate of U.S. federal income tax on our shipping income would never exceed 2% under the 4% Tax.

To the extent the benefits of the Section 883 exemption are unavailable and our USSGTI is considered to be “effectively connected” with the conduct of a U.S. trade or business, as described below, any such “effectively connected” U.S.-source shipping income, net of applicable deductions, would be subject to the U.S. federal corporate income tax currently imposed at rates of up to 35%. In addition, we may be subject to the 30% “branch profits” tax 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 U.S. trade or business.

Our U.S.-source shipping income would be considered “effectively connected” with the conduct of a U.S. trade or business only if:

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

We do not intend to have, or permit circumstances that would result in having, any vessel operating to the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our U.S.-source shipping income will be “effectively connected” with the conduct of a U.S. trade or business.

### ***United States Taxation of Gain on Sale of Vessels***

Regardless of whether we qualify for exemption under Section 883, we will not be subject to United States federal 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 under United States federal income 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, pass to the buyer outside of the United States. It is expected that any sale of a vessel by us will be considered to occur outside of the United States.

## ***United States Taxation Related to the BET Fleet***

As further described in “Item 4. Information on the Company – A. History and Development of the Company” of this annual report, on August 12, 2009, we closed on the acquisition of a 50% controlling interest in BET from Constellation Bulk Energy Holdings, Inc., and on October 22, 2010, we purchased the remaining 50% non-controlling interest in BET from Mineral Transport. Concurrent with our August 12, 2009 acquisition of a 50% interest in BET, BET and its ship-owning subsidiaries requested and received the IRS’ permission to make a check-the-box election after the fact as if the check-the-box election was made at the formation of BET. Without this check-the-box election, the USSGTI of each ship-owning corporation in the BET fleet would have been subject to the 4% Tax on its USSGTI for the 2008 and 2009 tax years since the ship-owning corporations would not otherwise qualify for Section 883 relief under the Section 883 regulations. Our ability to obtain a Section 883 exemption for our 50%, and subsequently 100%, interests in the USSGTI generated by operation of the BET fleet depends on our ability to qualify for the benefits of the Section 883 exemption for each of the relevant tax years as further discussed above in this section. On June 21, 2010 and August 6, 2010 the IRS granted BET’s and its ship-owning subsidiaries’ requests to make retroactive check-the-box elections, effective as of the date of their respective incorporations. With the grant of BET’s and its ship-owning subsidiaries’ requests as described above, we were able to qualify for the benefits of the Section 883 exemption for each of these taxable years.

### **United States Federal Income Taxation of U.S. Holders**

#### ***Taxation of Distributions Paid on Common Stock***

Subject to the passive foreign investment company, or PFIC, rules discussed below, any distributions made by us with respect to common shares to a U.S. Holder will generally constitute dividends, which may be taxable as ordinary income or “qualified dividend income” as described in more detail below, to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. Holder’s tax basis in his common shares on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividends-received deduction with respect to any distributions they receive from us.

Dividends paid on common shares to a U.S. Holder which is an individual, trust, or estate (a “U.S. Non-Corporate Holder”) will generally be treated as “qualified dividend income” that is taxable to such shareholders at preferential U.S. federal income tax rates provided that (1) the common shares are readily tradable on an established securities market in the United States (such as the NASDAQ Global Market on which the common shares were listed and the Nasdaq Capital Market on which the common shares are currently listed); (2) we are not a passive foreign investment company, or PFIC, for the taxable year during which the dividend is paid or the immediately preceding taxable year (which we do not believe we are, have been or will be); (3) the U.S. Non-Corporate Holder has owned the common shares for more than 60 days in the 121-day period beginning 60 days before the date on which the common shares become ex-dividend; and (4) certain other conditions are met.

Any dividends paid by us which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Holder.

Special rules may apply to any “extraordinary dividend”—generally, a dividend in an amount which is equal to or in excess of 10% of a shareholder’s adjusted basis in a common share—paid by us. If we pay an “extraordinary dividend” on our common stock that is treated as “qualified dividend income,” then any loss derived by a U.S. Non-Corporate Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

#### ***Sale, Exchange or other Disposition of Common Shares***

Assuming we do not constitute a PFIC for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common shares in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder’s tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder’s holding period in the common shares is greater than one year at the time of the sale, exchange or other disposition. A U.S. Holder’s ability to deduct capital losses is subject to certain limitations.

#### ***3.8% Tax on Net Investment Income***

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual, estate, or, in certain cases, a trust, will generally be subject to a 3.8% tax on the lesser of (1) the U.S. Holder’s net investment income for the taxable year and (2) the excess of the U.S. Holder’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000). A U.S. Holder’s net investment income will generally include distributions made by us which constitute a dividend for U.S. federal income tax purposes and gain realized from the sale, exchange or other disposition of our common stock. This tax is in addition to any income taxes due on such investment income.

If you are a U.S. Holder that is an individual, estate or trust, you are encouraged to consult your tax advisors regarding the applicability of the 3.8% tax on net investment income to the ownership and disposition of our common stock.

## ***Passive Foreign Investment Company Rules***

Special U.S. federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a PFIC for U.S. federal income tax purposes. In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such holder held our common shares, either:

- 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
- at least 50% of the average value of the assets held by the corporation during such taxable year 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 its proportionate share of the income and assets, respectively, of any of its subsidiary corporations in which it owns at least 25% of the value of the subsidiary's stock (including, for example, BET). Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute "passive income" unless we are treated under specific rules as deriving its rental income in the active conduct of a trade or business.

Based on our current operations and future projections, we do not believe that we are, nor do we expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on point, our belief is based principally on the position that, for purposes of determining whether we are a PFIC, the gross income we derive or are deemed to derive from the time chartering and voyage chartering activities of our wholly-owned subsidiaries should constitute services income, rather than rental income. Correspondingly, we believe that such income does not constitute passive income, and the assets that we or our wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, do not constitute passive assets for purposes of determining whether we are a PFIC. We believe there is substantial legal authority supporting its position consisting of case law and Internal Revenue Service pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. It should be noted that in the absence of any legal authority specifically relating to the statutory provisions governing PFICs, the Internal Revenue Service or a court could disagree with this position. In addition, although we intend to conduct its affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, there can be no assurance that the nature of our operations will not change in the future.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a "Qualified Electing Fund," which election is referred to as a "QEF election." As an alternative to making a QEF election, a U.S. Holder should be able to make a "mark-to-market" election with respect to the common shares, as discussed below. In addition, if we were to be treated as a PFIC for any taxable year after 2010, a U.S. Holder would be required to file an annual report with the IRS for that year with respect to such holder's common stock.

### ***Taxation of U.S. Holders Making a Timely QEF Election***

If a U.S. Holder makes a timely QEF election, which U.S. Holder is referred to as an "Electing Holder," the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of the our ordinary earnings and its net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder's adjusted tax basis in the common shares will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common shares and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of the common shares.

### ***Taxation of U.S. Holders Making a "Mark-to-Market" Election***

Alternatively, if we were to be treated as a PFIC for any taxable year and, as anticipated, our common shares is treated as "marketable stock," a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our common shares. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common shares at the end of the taxable year over such holder's adjusted tax basis in the common shares. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common shares 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. A U.S. Holder's tax basis in his common shares would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of the common shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

### ***Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election***

Finally, if we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a “mark-to-market” election for that year, whom we refer to as a “Non-Electing Holder,” would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our common stock in a taxable year in excess of 125 percent of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder’s holding period for the common stock), and (2) any gain realized on the sale, exchange or other disposition of our common stock. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holders’ aggregate holding period for the common stock;
- the amount allocated to the current taxable year and any taxable year before we became a passive foreign investment company would be taxed as ordinary income; and
- 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.

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of our common stock. If a Non-Electing Holder who is an individual dies while owning our common stock, such holder’s successor generally would not receive a step-up in tax basis with respect to such stock.

### ***United States Federal Income Taxation of Non-U.S. Holders***

Dividends paid to a Non-U.S. Holder with respect to our common stock generally should not be subject to U.S. federal income tax, unless the dividends are effectively connected with the Non-U.S. Holder’s conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains in the United States).

In addition, a Non-U.S. Holder generally should not be subject to U.S. federal income tax on any gain attributable to a sale or other disposition of our common stock unless such gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such holder maintains in the United States) or the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of sale or other disposition and certain other conditions are met (in which case such gain from United States sources may be subject to tax at a 30% rate or a lower applicable tax treaty rate).

Dividends and gains that are effectively connected with the Non-U.S. Holder’s conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base in the United States) generally should be subject to tax in the same manner as for a U.S. Holder and, if the Non-U.S. Holder is a corporation for U.S. federal income tax purposes, it also may be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

### ***Backup Withholding and Information Reporting***

In general, information reporting for U.S. federal income tax purposes should apply to distributions made on our common stock within the United States to a non-corporate U.S. Holder and to the proceeds from sales and other dispositions of our common stock to or through a U.S. office of a broker by a non-corporate U.S. Holder. Payments made (and sales and other dispositions effected at an office) outside the United States will be subject to information reporting in limited circumstances.

In addition, backup withholding of U.S. federal income tax, currently at a rate of 28%, generally should apply to distributions paid on our common stock to a non-corporate U.S. Holder and the proceeds from sales and other dispositions of our common stock by a non-corporate U.S. Holder, who:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that backup withholding is required; or
- in certain circumstances, fails to comply with applicable certification requirements.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding generally should be allowed as a credit against a U.S. Holder's or a Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS.

Pursuant to recently enacted legislation, individuals who are U.S. Holders (and to the extent specified in applicable Treasury regulations, certain individuals who are Non-U.S. Holders and certain U.S. entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury regulations). Specified foreign financial assets would include, among other assets, the common shares, unless the shares held through an account maintained with a U.S. financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event an individual U.S. Holder (and to the extent specified in applicable Treasury regulations, an individual Non-U.S. Holder or a U.S. entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. U.S. Holders (including U.S. entities) and Non-U.S. Holders are encouraged consult their own tax advisors regarding their reporting obligations under this legislation.

### **Marshall Islands Tax Consequences**

Seanergy is incorporated in the Marshall Islands. Under current Marshall Islands law, Seanergy is not subject to tax on income or capital gains, no Marshall Islands withholding tax will be imposed upon payment of dividends by Seanergy to its shareholders, and holders of common stock of Seanergy that are not residents of or domiciled or carrying on any commercial activity in the Marshall Islands will not be subject to Marshall Islands tax on the sale or other disposition of such common stock.

### **F. Dividends and paying agents**

Not applicable.

### **G. Statement by experts**

Not applicable.

### **H. Documents on display**

We file annual reports and other information with the Commission. You may inspect and copy any report or document we file, including this annual report and the accompanying exhibits, at the Commission's public reference facilities located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference facilities by calling the Commission at 1-800-SEC-0330, and you may obtain copies at prescribed rates. Our SEC filings are also available to the public at the website maintained by the Commission at <http://www.sec.gov>, as well as on our website at <http://www.seanergymaritime.com>. This web address is provided as an inactive textual reference only. Information on our website does not constitute a part of this annual report.

We will also provide without charge to each person, including any beneficial owner, upon written or oral request of that person, a copy of any and all of the information that has been incorporated by reference in this annual report. Please direct such requests to Investor Relations, Seanergy Maritime Holdings Corp., 1-3 Patriarchou Grigoriou Street, 166 74 Glyfada, Athens, Greece, telephone number 011 30 210 8931507 or facsimile number 011 30 210 9638450.

### **I. Subsidiary information**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Interest Rate Risk***

We are subject to interest-rate risk relating to the floating-rate interest on our credit facilities with Piraeus Bank (ex CPB) and UOB, and were subject to interest rate risk with respect to our credit facilities with Citibank, DBV and HSBC, prior to the release of our liabilities under those facilities. Each of these facilities bears interest at LIBOR plus a spread. For the year ended December 31, 2012, the weighted average interest rate was 4.92%, 4.39% and 3.49% for the Piraeus Bank (ex CPB) revolving facility, the Piraeus Bank (ex CPB) term facility and the Citibank term facility, respectively. For the DVB, HSBC and UOB term facilities respectively, the weighted average interest rate was 3.12%, 3.23% and 3.24% for the year ended December 31, 2012. A 1% increase in LIBOR would have resulted in an increase in interest expense for the twelve months ended December 31, 2012, of approximately \$0.5 million, \$1.0 million and \$0.7 million on the Piraeus Bank (ex CPB) revolving credit facility, the Piraeus Bank (ex CPB) term facility and the Citibank term facility, respectively. A 1% increase in LIBOR would have resulted in an increase in interest expense for the twelve months ended December 31, 2012, of approximately \$0.4 million, \$0.2 million and \$0.4 million on the DVB, HSBC and UOB facilities, respectively.

For a description of our derivatives, see “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Derivatives.”

### ***Interest Rate Swaps***

We are exposed to interest rate fluctuations associated with our variable rate borrowings, and our objective is to manage the impact of such fluctuations on earnings and cash flows of our borrowings. In this respect, we use interest rate swaps to manage net exposure to interest rate fluctuations related to our borrowings and to lower our overall borrowing costs. As of December 31, 2012 we had one interest rate swap outstanding, originally entered into by MCS, with a total notional amount of approximately \$25.77 million. This interest rate swap agreement does not qualify for hedge accounting, and changes in its fair value are reflected in our earnings.

### ***Foreign Exchange Rate Fluctuation***

We generate all of our revenue in U.S. dollars. The majority of our operating expenses are in U.S. dollars except primarily for our management fees and our executive office rental expenses which are denominated in Euros and Hong Kong dollars. During the year ended December 31, 2012, approximately 3% of our expenses were in currencies other than U.S. dollars, the majority of which are denominated in Euros and Hong Kong dollars. For accounting purposes, expenses incurred in other currencies are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. We have not hedged currency exchange risks associated with our expenses. However due to our relatively low percentage exposure to currencies other than our base currency which is the U.S. dollar, we believe that such currency movements will not have a material effect on us.

### ***Inflation***

We do not consider inflation to be a significant risk to direct expenses in the current and foreseeable future. However, in the event that inflation becomes a significant factor in the global economy, inflationary pressures would result in increased operating, voyage and financing costs.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Events of default have occurred under the Piraeus Bank facility agreement (formerly, the two credit facilities with CPB) as a result of, among other things (i) the failure of the borrowers (all of which are our subsidiaries) and us, as the corporate guarantor) to make interest payments since the fourth quarter of 2012. As of the date of this annual report, the unpaid and accrued interest is \$4.3 million.

Events of default have occurred under the UOB loan facility as a result of, among other things (i) the failure of the borrowers and guarantor (all of which are our subsidiaries) to make related principal installment, interest and swap payments since the fourth quarter of 2012, and (ii) such subsidiaries' liabilities having exceeded their assets. As of the date of this annual report, the unpaid principal amount under this loan facility is \$1.6 million, with accrued and unpaid interest of \$0.5 million.

As of the date of this annual report, the lenders in respect of these facilities have not exercised their remedies, including making demand for immediate payment of all amounts due and owing to them.

We refer you to the section under the heading "Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS - A. Operating Results – Recent Developments – Restructuring of our Indebtedness – Piraeus Bank (ex CPB) Facility Agreement" and "- UOB Facility Agreement" for a discussion of our restructuring efforts in respect of these loan facilities.

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

None.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **a) Disclosure Controls and Procedures**

Management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this annual report (as of December 31, 2012). The term disclosure controls and procedures is defined under SEC rules as controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial Officer, 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 that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of the evaluation date.

#### **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 such term is identified in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. GAAP.

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 transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with the authorization of our management and directors; 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 consolidated financial statements.

Management, including our Chief Executive Officer and our Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, it used the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published in its report entitled Internal Control-Integrated

Framework. Based on this assessment, management has determined that the Company’s internal control over financial reporting is effective as of December 31, 2012.

However, it should be noted that because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements with certainty even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. 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 and procedures may deteriorate.

Ernst & Young (Hellas) Certified Auditors Accountants S.A., our independent registered public accounting firm, has audited the consolidated 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, 2012.

**c) Attestation Report of the Registered Public Accounting Firm**

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting, appearing under Item 18. This report appears on page F-2 of the consolidated financial statements, and such report is included herein.

**d) Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the year covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Mr. Dimitrios Anagnostopoulos, an independent director and a member of our audit committee, is an “Audit Committee Financial Expert” under Commission rules and the corporate governance rules of the NASDAQ Capital Market.

**ITEM 16B. CODE OF ETHICS**

We have adopted a Code of Business Conduct and Ethics that applies to our employees, officers and directors. Our Code of Business Conduct and Ethics is available on the Corporate Governance section of our website at [www.seanergymaritime.com](http://www.seanergymaritime.com). We will also provide a hard copy of our Code of Business Conduct and Ethics free of charge upon written request. We intend to disclose any waivers to or amendments of the Code of Business Conduct and Ethics for the benefit of any of our directors and executive officers, within 5 business days of such waiver or amendment. Shareholders may direct their requests to the attention of Investor Relations, Seanergy Maritime Holdings Corp., 1-3 Patriarchou Grigoriou Street, 16674 Glyfada, Athens, Greece, telephone number 011 30 210 8931507 or facsimile number 011 30 210 9638450.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Our principal accountants are Ernst & Young (Hellas) Certified Auditors Accountants S.A., or E&Y. Prior to E&Y, our principal accountant was PricewaterhouseCoopers, S.A., or PWC. Together, E&Y and PWC have billed us for audit, audit-related and non-audit services as follows:

	2012	2011
Audit fees	\$ 463,600	\$ 767,788
Audit related fees	-	-
Tax fees	-	-
All other fees	-	-
<b>Total fees</b>	<b>\$ 463,600</b>	<b>\$ 767,788</b>

Audit fees for 2012 and 2011 of \$463,600 and \$767,788, respectively, related to professional services rendered for the audit of our financial statements for the years ended December 31, 2012 and 2011, respectively. Our audit committee pre-approves all audit, audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees prior to the engagement of the independent auditor with respect to such services.

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

Not applicable.

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

Issuer purchases of equity securities for the year ended December 31, 2012

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Amount in U.S. \$ that may Yet Be Expected on Share Repurchases Under Programs
January 2012	4,641,620	\$2.15442	4,641,620	\$0

On January 31, 2012, we completed an equity injection plan with four entities affiliated with the Restis family. In exchange for \$10 million, we issued an aggregate of 4,641,620 of our common shares to the four entities at a price of \$2.15442. The price was determined as the average closing price of the five trading days preceding the execution of the purchase plan. Following the issuance of the shares and as of the date of this annual report we have 11,959,282 outstanding common shares.

## ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On July 25, 2012, the Audit Committee of the board of directors (the "Audit Committee") approved the appointment of Ernst & Young (Hellas) Certified Auditors Accountants S.A. ("Ernst & Young") as the Company's independent auditors for the fiscal year ending December 31, 2012. The Company's previous independent registered public accounting firm, PricewaterhouseCoopers, S.A. ("PwC"), did not stand for re-election at the Company's annual general meeting of shareholders, at which the appointment of Ernst & Young was ratified by the shareholders.

The reports of PwC on the Company's financial statements for each of the fiscal years ended December 31, 2010 and 2011 did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. For the fiscal years ended December 31, 2010 and 2011 and through July 25, 2012, there were no reportable events, as that term is described in paragraphs (A) through (D) of Item 16F(a)(1)(v) of Form 20-F.

In connection with the audits of the Company's financial statements for each of the fiscal years ended December 31, 2010 and 2011, and through July 25, 2012, there have been no disagreements with PwC on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which such disagreements, if not resolved to the satisfaction of PwC, would have caused PwC to make reference to the subject matter of such disagreements in their reports. The Company has requested PwC to furnish it a letter addressed to the Commission stating whether it agrees with the above statements.

In connection with the audits of the Company's financial statements for each of the fiscal years ended December 31, 2010 and 2011, and through July 25, 2012, neither the Company nor anyone on its behalf has consulted with Ernst & Young on the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or any matter that was the subject of a disagreement, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F of Form 20-F, or a reportable event, as that term is defined in Item 16F(a)(1)(v) of Form 20-F.

## ITEM 16G. CORPORATE GOVERNANCE

As a foreign private issuer, as defined in Rule 3b-4 under the Exchange Act, the Company is permitted to follow certain corporate governance rules of its home country in lieu of NASDAQ's corporate governance rules. The Company's corporate governance practices deviate from NASDAQ's corporate governance rules in the following two ways:

- In lieu of obtaining shareholder approval, under specified circumstances, prior to the issuance of securities in connection with: (i) the acquisition of the stock or assets of another company, (ii) equity-based compensation of officers, directors, employees or consultants, (iii) a change of control, or (iv) private placements, the Company complies with provisions of the BCA providing that the board of directors may approve share issuances.
- The Company's Board is not required to be composed of a majority of independent directors.

Other than as noted above, we are in full compliance with all other applicable NASDAQ corporate governance standards.

## ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

### PART III

#### ITEM 17. FINANCIAL STATEMENTS

See Item 18.

#### ITEM 18. FINANCIAL STATEMENTS

The financial information required by this item, together with the reports of PricewaterhouseCoopers, S.A. and Ernst & Young (Hellas) Certified Auditors Accountants S.A., is set forth on pages F-1 through F-32 and are filed as part of this annual report.

#### ITEM 19. EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
1.1	Amended and Restated Articles of Incorporation (1)
1.2	Second Amended and Restated Bylaws (2)
1.3	Amendment to Amended and Restated Articles of Incorporation (3)
1.4	Second Amendment to Amended and Restated Articles of Incorporation (4)
1.5	Third Amendment to Amended and Restated Articles of Incorporation (5)
1.6	Fourth Amendment to Amended and Restated Articles of Incorporation (6)
2.1	Specimen Common Stock Certificate(7)
2.2	Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (8)
2.3	Unit Purchase Option (8)
2.4	Specimen Unit Certificate (9)
2.5	Form of Underwriters Warrant (10)
4.1	Master Agreement dated as of May 20, 2008 (1)
4.2	Amendment to Master Agreement dated July 25, 2008 (1)
4.3	Brokerage Agreement dated as of May 20, 2008 (1)
4.4	Form of Convertible Unsecured Promissory Note(1)
4.5	Amendment to Convertible Promissory Note dated August 28, 2009(11)
4.6	Memorandum of Agreement relating to the African Zebra dated January 30, 2012 between Expedition International Limited, as buyers and Waldeck Maritime Co., as sellers, as amended (19)
4.7	Management Agreement dated as of May 20, 2008 (1)
4.8	Amendment No.1 to Management Agreement dated October 1, 2011 (19)
4.9	Management Agreement with BET dated August 12, 2009 (19)
4.10	Amendment No. 1 to Management Agreement with BET dated October 1, 2011 (19)
4.11	Share Purchase Agreement dated July 14, 2009 between registrant and Constellation Bulk Energy Holdings, Inc.(12)
4.12	Shareholders' Agreement dated August 12, 2009 between Seanergy and Mineral Transport Holdings (11)
4.13	Share Purchase Agreement dated May 27, 2010 between Seanergy and Maritime Capital (13)
4.14	Shareholders' Agreement dated May 28, 2010 between Seanergy and Maritime Capital (13)
4.15	Share Purchase Agreement dated September 3, 2010 between Seanergy and Maritime Capital (14)
4.16	Share Purchase Agreement dated September 3, 2010 between Seanergy and Mineral Transport (15)
4.17	Share Purchase Agreement dated January 4, 2012 between registrant and United Capital Investments Corp., Atrion Shipholding S.A., Plaza Shipholding Corp. and Comet Shipholding Inc. (18)
4.18	Seanergy Maritime Holdings Corp. 2011 Equity Incentive Plan (16)
4.19	Loan Agreement dated August 27, 2008 between Seanergy and Piraeus Bank (ex CPB) (11)
4.20	Amendment No. 1 to Piraeus Bank (ex CPB) Loan Agreement dated September 9, 2009(11)
4.21	Amendment No. 2 to Piraeus Bank (ex CPB) Loan Agreement dated November 13, 2009(12)

<b>Exhibit Number</b>	<b>Description</b>
4.22	Amendment No. 3 to Piraeus Bank (ex CPB) Loan Agreement dated June 2, 2010(13)
4.23	Amendment No. 4 to Piraeus Bank (ex CPB) Loan Agreement dated January 31, 2012 (19)
4.24	Second Supplement Agreement dated September 30, 2009 relating to and including the Loan Agreement dated June 26, 2007 between BET and Citibank(11)
4.25	Supplemental Letter Agreement dated August 4, 2010 relating to the Loan Agreement dated June 26, 2007 between BET and Citibank (14)
4.26	Third Supplemental Agreement dated December 23, 2010 relating to the Loan Agreement dated June 26, 2007 between BET and Citibank(17)
4.27	Fourth Supplemental Agreement dated March 31, 2011 relating to the Loan Agreement dated June 26, 2007 between BET and Citibank (17)
4.28	Fifth Supplemental Agreement dated February 7, 2012 relating to the Loan Agreement dated June 26, 2007 between BET and Citibank (19)
4.29	Restated Loan Agreement originally dated June 26, 2007 between BET and Citibank (19)
4.30	Loan Agreement dated October 19, 2007 between MCS and DVB(13)
4.31	Loan Agreement dated June 5, 2008 between MCS and HSBC(13)
4.32	Supplemental Agreement dated May 20, 2010 relating to the Loan Agreement dated October 19, 2007 between MCS and DVB(13)
4.33	Supplemental Agreement dated May 21, 2010 relating to the Loan Agreement dated June 5, 2008 between MCS and HSBC(13)
4.34	Supplemental Letter and Amended and Restated Agreement dated May 24, 2010 relating to and including the Loan Agreement dated March 6, 2008 between MCS and UOB (17)
4.35	Share Purchase Agreement with I.M.I. Holdings Corp., dated November 9, 2012 and Addendums
4.36	Settlement Agreement with DVB Group Merchant Bank (Asia) Ltd. dated January 25, 2013
4.37	HSBC Waiver Letter dated September 4, 2012 and Extension Waiver Letter dated October 24, 2012
8.1	List of Subsidiaries
12.1	Certificate of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act
12.2	Certificate of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act
13.1	Certificate of Principal Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certificate of Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of PricewaterhouseCoopers, S.A.
15.2	Consent of Ernst & Young (Hellas) Certified Auditors Accountants S.A.
15.3	Letter of PricewaterhouseCoopers, S.A., regarding change in the Company's certifying accountant.

- (1) Incorporated herein by reference to the corresponding exhibit in the Annex filed with Seanergy Maritime's proxy statement on Form 6-K submitted to the Commission on July 31, 2008.
- (2) Incorporated herein by reference to our Company's report on Form 6-K submitted to the Commission on July 20, 2012.
- (3) Incorporated herein by reference to the corresponding exhibit filed with our Company's registration statement on Form F-1MEF filed with the Commission on August 28, 2009 (File No. 333161595).
- (4) Incorporated herein by reference to the corresponding exhibit to our Company's report on Form 6-K submitted to the Commission on September 16, 2010.
- (5) Incorporated herein by reference to the corresponding exhibit to our Company's report on Form 6-K submitted to the Commission on June 27, 2011.
- (6) Incorporated herein by reference to the corresponding exhibit to our Company's report on Form 6-K submitted to the Commission on August 5, 2011.
- (7) Incorporated herein by reference to the corresponding exhibit filed with our Company's registration statement on Form F-1/A filed with the Commission on January 15, 2009 (File No. 333154952).

- (8) Incorporated herein by reference to the corresponding exhibit filed with Seanergy Maritime's report on Form 8-K filed with the Commission on October 4, 2007.
- (9) Incorporated herein by reference to the corresponding exhibit filed with Seanergy Maritime's registration statement on Form F-1/A filed with the Commission on July 10, 2007 (File No. 333144436).
- (10) Incorporated herein by reference to the corresponding exhibit filed with our Company's registration statement on Form F-1/A filed with the Commission on January 26, 2010 (File No. 333161961).
- (11) Incorporated herein by reference to the corresponding exhibit filed with our Company's registration statement on Form F-1/A filed with the Commission on October 16, 2009 (File No. 333161961).
- (12) Incorporated herein by reference to the corresponding exhibit filed with our Company's registration statement on Form F-1/A filed with the Commission on November 18, 2009 (File No. 333161961).
- (13) Incorporated herein by reference to the corresponding exhibit filed with our Company's registration statement on Form F-1/A filed with the Commission on July 21, 2010 (File No. 333166872).
- (14) Incorporated herein by reference to the corresponding exhibit filed with our Company's post-effective amendment no. 1 to the registration statement on Form F-1 filed with the Commission on September 24, 2010 (File No. 333-166872).
- (15) Incorporated herein by reference to the corresponding exhibit to our Company's report on Form 6-K submitted to the Commission on October 29, 2010.
- (16) Incorporated herein by reference to the corresponding exhibit to our Company's report on Form 6-K submitted to the Commission on February 7, 2011.
- (17) Incorporated herein by reference to the corresponding exhibit filed with our Company's annual report on Form 20-F submitted to the Commission on March 31, 2011.
- (18) Incorporated herein by reference to the corresponding exhibit filed with a Schedule 13D/A relating to our Company submitted to the Commission on March 18, 2012.
- (19) Incorporated herein by reference to the corresponding exhibit filed with our Company's annual report on Form 20-F submitted to the Commission on March 19, 2012.

## **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.

### **SEANERGY MARITIME HOLDINGS CORP.**

By: \_\_\_\_\_

Name: Stamatis Tsantanis

Title: Chief Executive Officer

Date: April 26, 2013

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Board of Directors and Shareholders of Seenergy Maritime Holdings Corp.

We have audited the accompanying consolidated balance sheet of Seenergy Maritime Holdings Corp. (the “Company”) as of December 31, 2012, and the related consolidated statement of loss, shareholders’ equity, and cash flows for the year then ended. 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 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seenergy Maritime Holdings Corp. at December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Seenergy Maritime Holdings Corp.’s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 26, 2013 expressed an unqualified opinion thereon.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1b to the financial statements, the Company has not complied with the principal and interest repayment schedule and with certain covenants of its loan agreements, which in turn gives the lenders the right to call the debt. In addition, the Company has a working capital deficit, recurring losses from operations, accumulated deficit and inability to generate sufficient cash flow to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1b. The 2012 consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/Ernst & Young (Hellas) Certified Auditors Accountants S.A.

April 26, 2013  
Athens, Greece

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

**The Board of Directors and Shareholders of Seenergy Maritime Holdings Corp.**

We have audited Seenergy Maritime Holdings Corp.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Seenergy Maritime Holdings Corp.'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 for the year ended December 31, 2012. 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 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 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 our opinion, Seenergy Maritime Holdings Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Seenergy Maritime Holdings Corp. as of December 31, 2012, and the related consolidated statement of loss, shareholders' equity, and cash flows for the year then ended and our report dated April 26, 2013, expressed an unqualified opinion thereon.

/s/Ernst & Young (Hellas) Certified Auditors Accountants S.A.

April 26, 2013 Athens, Greece

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of  
Seanergy Maritime Holdings Corp:

In our opinion, the consolidated balance sheet as of December 31, 2011 and the related consolidated statements of income, changes in equity and cash flows for each of the two years in the period ended December 31, 2011 present fairly, in all material respects, the financial position of Seanergy Maritime Holdings Corp, and its subsidiaries at December 31, 2011, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers S.A.

PricewaterhouseCoopers S.A.

Athens, Greece

March 19, 2012

**Seanergy Maritime Holdings Corp.**

Consolidated Balance Sheets

December 31, 2012 and 2011

*(In thousands of US Dollars, except for share and per share data, unless otherwise stated)*

	Notes	2012	2011
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	4,298	17,734
Restricted cash	5	2,000	19,560
Accounts receivable trade, net		2,287	1,764
Due from related parties	6	-	405
Inventories	7	471	2,512
Other current assets	8	2,190	1,457
Vessels held for sale	9, 10, 13	39,750	-
Deferred charges	10	1,090	-
<b>Total current assets</b>		<b>52,086</b>	<b>43,432</b>
<b>Fixed assets:</b>			
Vessels, net	9	68,511	381,129
Office equipment, net		2	15
<b>Total fixed assets</b>		<b>68,513</b>	<b>381,144</b>
<b>Other assets</b>			
Goodwill		-	4,365
Deferred charges	10	220	7,358
Other non-current assets	3	141	177
<b>TOTAL ASSETS</b>		<b>120,960</b>	<b>436,476</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Current portion of long-term debt	11	208,649	45,817
Trade accounts and other payables	12	2,514	2,595
Due to related parties	6	6,135	1,097
Accrued expenses		1,159	2,428
Accrued interest		3,543	1,936
Financial instruments	13	491	4,092
Deferred revenue – related party	14	-	142
Deferred revenue	14	86	590
<b>Total current liabilities</b>		<b>222,577</b>	<b>58,697</b>
Long-term debt, net of current portion	11	-	300,586
Financial instruments, net of current portion	13	-	270
<b>Total liabilities</b>		<b>222,577</b>	<b>359,553</b>
<b>Commitments and contingencies</b>	15	-	-
<b>EQUITY</b>			
<b>Seanergy shareholders' equity</b>			
Preferred stock, \$0.0001 par value; 25,000,000 shares authorized; none issued		-	-
Common stock, \$0.0001 par value; 500,000,000 authorized shares as at December 31, 2012 and 2011; 11,959,282 and 7,317,662 shares issued and outstanding as at December 31, 2012 and 2011, respectively	16	1	1
Additional paid-in capital		294,520	279,292
Accumulated deficit		(396,138)	(202,370)
<b>Total equity</b>		<b>(101,617)</b>	<b>76,923</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>120,960</b>	<b>436,476</b>

**Seanergy Maritime Holdings Corp.**

Consolidated Balance Sheets

December 31, 2012 and 2011

*(In thousands of US Dollars, except for share and per share data, unless otherwise stated)*

	Notes	2012	2011	2010
<b>Revenues:</b>				
Vessel revenue - related party	3, 6	8,221	35,684	44,175
Vessel revenue		49,026	71,555	54,777
Commissions – related party	3, 6	(298)	(1,327)	(1,546)
Commissions		(1,333)	(1,852)	(1,550)
<b>Vessel revenue, net</b>		<b>55,616</b>	<b>104,060</b>	<b>95,856</b>
<b>Expenses:</b>				
Direct voyage expenses	17	(13,587)	(2,541)	(2,399)
Vessel operating expenses	17	(26,983)	(34,727)	(30,667)
Voyage expenses - related party	3, 6	(532)	(661)	(434)
Management fees - related party	3, 6	(1,625)	(2,415)	(2,328)
Management fees		(588)	(576)	(316)
General and administration expenses	18	(6,337)	(8,070)	(7,606)
General and administration expenses - related party	3, 6, 19	(402)	(603)	(697)
Loss on bad debts		(327)	-	-
Amortization of deferred dry-docking costs	10	(3,648)	(7,313)	(3,657)
Depreciation	9	(15,606)	(28,856)	(29,328)
Loss on sale of vessels	9	(15,590)	-	-
Impairment loss for vessels and deferred charges	9, 10	(147,143)	(188,995)	-
Impairment loss for goodwill		(4,365)	(12,910)	-
<b>Operating (loss) / income</b>		<b>(181,117)</b>	<b>(183,607)</b>	<b>18,424</b>
<b>Other income / (expense), net:</b>				
Interest and finance costs	20	(12,480)	(13,482)	(12,931)
Interest income		59	60	358
Loss on interest rate swaps	13	(189)	(641)	(4,164)
Foreign currency exchange (losses) gains, net		(43)	(46)	14
		(12,653)	(14,109)	(16,723)
<b>Net (loss) / income before taxes</b>		<b>(193,770)</b>	<b>(197,716)</b>	<b>1,701</b>
Income taxes		2	(40)	(60)
<b>Net (loss) / income</b>		<b>(193,768)</b>	<b>(197,756)</b>	<b>1,641</b>
Less: Net income attributable to the noncontrolling interest		-	-	(1,509)
<b>Net (loss) / income attributable to Seanergy Maritime Holdings Corp.</b>		<b>(193,768)</b>	<b>(197,756)</b>	<b>132</b>
<b>Net (loss) / income per common share</b>				
Basic and diluted	21	(16.74)	(27.04)	0.02
<b>Weighted average common shares outstanding</b>				
Basic and diluted	21	11,576,576	7,314,636	5,861,129

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

**Seanergy Maritime Holdings Corp.**

Consolidated Balance Sheets

December 31, 2012 and 2011

*(In thousands of US Dollars, except for share and per share data, unless otherwise stated)*

	Common stock		Additional paid-in capital	Accumulated deficit	Total Seanergy shareholders' equity	Noncontrolling interest	Total equity
	# of Shares	Par Value					
Balance, January 1, 2010	2,217,011	-	213,235	(4,746)	208,489	18,330	226,819
Issuance of common stock	1,796,333	1	28,525	-	28,526	-	28,526
Subsidiaries acquired	3,301,587	-	37,518	-	37,518	(19,839)	17,679
Net income for the year ended December 31, 2010	-	-	-	132	132	1,509	1,641
Balance, December 31, 2010	7,314,931	1	279,278	(4,614)	274,665	-	274,665
Issuance of non-vested shares (Note 16 & 22)	3,332	-	-	-	-	-	-
Redemption of partial shares due to reverse stock split	(601)	-	-	-	-	-	-
Stock based compensation	-	-	14	-	14	-	14
Net loss for the year ended December 31, 2011	-	-	-	(197,756)	(197,756)	-	(197,756)
Balance, December 31, 2011	7,317,662	1	279,292	(202,370)	76,923	-	76,923
Issuance of common stock (Notes 3a & 16)	4,641,620	-	10,000	-	10,000	-	10,000
Stock based compensation (Note 22)	-	-	15	-	15	-	15
Sale of subsidiary to entity under common control (Note 1a)	-	-	5,213	-	5,213	-	5,213
Net loss for the year ended December 31, 2012	-	-	-	(193,768)	(193,768)	-	(193,768)
Balance, December 31, 2012	11,959,282	1	294,520	(396,138)	(101,617)	-	(101,617)

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

**Seanergy Maritime Holdings Corp.**

Consolidated Balance Sheets

December 31, 2012 and 2011

*(In thousands of US Dollars, except for share and per share data, unless otherwise stated)*

	2012	2011	2010
<b>Cash flows from operating activities:</b>			
Net (loss) / income	(193,768)	(197,756)	1,641
<i>Adjustments to reconcile net (loss) / income to net cash provided by operating activities:</i>			
Depreciation	15,606	28,856	29,328
Amortization of deferred finance charges	466	989	738
Amortization of deferred dry-docking costs	3,648	7,313	3,657
Payments for dry-docking	(1,607)	(6,414)	(5,519)
Change in fair value of financial instruments	(2,038)	(4,202)	(27)
Amortization of acquired time charters	-	(266)	(319)
Stock based compensation	15	14	-
Loss on sale of vessels	15,590	-	-
Loss on bad debt	327	-	-
Impairment of vessels and deferred charges	147,143	188,995	-
Impairment of goodwill	4,365	12,910	-
<i>Changes in operating assets and liabilities:</i>			
Due from related parties	405	(405)	265
Inventories	1,152	(1,053)	(70)
Accounts receivable trade, net	(1,193)	(765)	(493)
Other current assets	(2,013)	371	904
Other non-current assets	36	3	-
Trade accounts and other payables	2,291	255	37
Due to underwriters	-	-	(19)
Accrued expenses	486	1,356	(2,071)
Due to related parties	10,205	(2,928)	4,025
Accrued interest	1,948	927	(1,002)
Deferred revenue – related party	(142)	(899)	148
Deferred revenue	(504)	(862)	314
<b>Net cash provided by operating activities</b>	<b>2,418</b>	<b>26,439</b>	<b>31,537</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of vessels	58,933	-	-
Disposal of BET (Note 1 (a))	(3,531)	-	-
Acquisition of businesses, including of cash acquired	-	-	17,913
Additions to office furniture and equipment	-	-	(28)
Acquisition of noncontrolling interest	-	-	(10,000)
<b>Net cash provided by investing activities</b>	<b>55,402</b>	<b>-</b>	<b>7,885</b>
<b>Cash flows from financing activities:</b>			
Deemed distribution upon acquisition of MCS	-	-	(2,054)
Net proceeds from issuance of common stock	10,000	-	28,526
Repayments of long term debt	(98,816)	(53,145)	(67,941)
Deferred finance charges	-	(172)	(841)
Restricted cash released / (retained)	17,560	(9,175)	(6,932)
<b>Net cash used in financing activities</b>	<b>(71,256)</b>	<b>(62,492)</b>	<b>(49,242)</b>
Net decrease in cash and cash equivalents	(13,436)	(36,053)	(9,820)
<b>Cash and cash equivalents at beginning of period</b>	<b>17,734</b>	<b>53,787</b>	<b>63,607</b>
<b>Cash and cash equivalents at end of period</b>	<b>4,298</b>	<b>17,734</b>	<b>53,787</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid for interest	9,481	11,045	11,070
<b>Non-cash investing and financing activities:</b>			
Issuance of common shares at fair value for the acquisition of BET	-	-	30,952
Issuance of common shares at fair value for the acquisition of MCS	-	-	26,743
Deemed distribution to controlling shareholder – BET acquisition	-	-	(18,113)
Deemed distribution to controlling shareholder – MCS acquisition	-	-	(10)
Issuance of warrants for offering	-	-	1,053

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

**SEANERGY MARITIME HOLDINGS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(All amounts in footnotes in thousands of US Dollars, except for share and per share data)

**1. Basis of Presentation and General Information:**

Seanergy Maritime Holdings Corp. (the “Company” or “Seanergy”) was formed under the laws of the Republic of the Marshall Islands on January 4, 2008, with executive offices located in Athens, Greece. The Company provides global transportation solutions in the dry bulk shipping sector through its vessel-owning subsidiaries for a broad range of dry bulk cargoes, including coal, iron ore, and grains or major bulks, as well as bauxite, phosphate, fertilizers and steel products or minor bulks.

The accompanying consolidated financial statements include the accounts of Seanergy Maritime Holdings Corp. and its subsidiaries (collectively, the “Company” or “Seanergy”).

**a. Disposal of Subsidiary:**

On November 9, 2012, the Company entered into an agreement with I.M.I. Holdings Corp. (the “Buyer” or “IMI), to sell its 100% ownership interest in Bulk Energy Transport (Holdings) Limited (“BET”), for a nominal cash consideration of \$0.001. In addition, the Company released BET from all of its obligations and liabilities towards the Company, which accrued to \$3,508 as of the date of sale. The transaction was consummated on December 30, 2012 upon finalization of all the required documentation. On December 18, 2012, at the direction of IMI, the Company sold the vessel BET Prince for gross proceeds of \$8,330, which were used to repay part of the then outstanding debt.

IMI is ultimately controlled by entities controlled by members of the Restis family and is under common control with the Company. In connection with the sale of BET, the Company’s Board of Directors obtained a fairness opinion from an independent third party. The sale of BET was treated as a transaction between entities under common control, and as such, asset and liability values were transferred at historical cost, with the resulting gains from the extinguishment of BET’s net liabilities amounting to \$5,213 recognized as an equity transaction within Additional paid-in capital.

The estimated historical carrying values of the assets and liabilities that were agreed to be transferred were as follows:

Cash and restricted cash	3,531
Vessels and other assets	49,444
Long-term debt and other liabilities, net of BET’s obligation towards the Company	(58,188)
Effect on equity from disposal of subsidiary	<u>(5,213)</u>

**b. Going Concern:**

Over the past year, the Company has experienced significant losses and reduction in cash and cash equivalents, which has affected, and which the Company expects will continue to affect, its ability to satisfy its obligations. As charter rates for bulkers have experienced a high degree of volatility and the Company had to re-charter its vessels at low prevailing market rates, the Company experienced significant reduction in cash flow, which in turn further impaired the Company’s liquidity. At December 31, 2012, the Company reported a working capital deficit of \$170,491.

As a result of the conditions set out above, over a period of time, the Company defaulted under the facility agreements set forth in Note 11 in respect of certain covenants (including, in some cases, the failure to make principal installments and interest payments and the failure to satisfy financial covenants). To date, the Company has not obtained satisfactory waivers of these defaults from its lenders. The Company’s lenders have not exercised their remedies; however, they could change their position at any time. As of December 31, 2012, long-term debt has been classified under current liabilities in the consolidated balance sheet as a result of the above violations of the debt terms and covenants.

The Company has entered into restructuring discussions with each of the lenders under its loan facility agreements. As part of the restructuring, the Company appointed Houlihan Lokey and Axia Ventures Group to act as financial advisors in respect of the overall restructuring. The aim of the restructuring is to increase liquidity, normalize trade vendor payments and deleverage the Company on a going forward basis.

During 2012 and up to the date of issuance of these financial statements, the Company has sold, disposed of, or otherwise handed control over to its lenders (through the transfer of ownership of certain of its ship owning subsidiaries) a total of 13 vessels in connection with the restructuring Note 11. See Note 23 for a discussion of the recent developments relating to the Company’s restructuring negotiations.

**SEANERGY MARITIME HOLDINGS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in footnotes in thousands of US Dollars, except for share and per share data)

Proceeds from the sale of additional vessels are not expected to be sufficient to fully repay the related debt outstanding; therefore, it is likely that the Company will continue to have significant debt unless it enters into satisfactory arrangements with its lenders for the discharge of a portion of such obligations.

While the Company continues to use its best efforts to complete the restructuring, there can be no assurance that a successful resolution can be reached with its lenders or that the restructuring will be successfully completed. Furthermore, there is no assurance that the Company will obtain the releases from certain of its indebtedness as proposed in the restructuring and failure to obtain such releases could materially and adversely affect its business and operations. In addition, the ultimate accounting impact of the restructuring is unknown and will not be determined until the final terms of the restructuring are reached with the Company's lenders. The outcome could negatively impact the trading of the Company's common shares and its ability to remain listed on NASDAQ.

All of the above raise substantial doubt regarding the Company's ability to continue as a going concern.

These financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**c. Subsidiaries in Consolidation:**

Seanergy's subsidiaries included in these consolidated financial statements as of December 31, 2012 are as follows:

<u>Company</u>	<u>Country of Incorporation</u>	<u>Date of Incorporation</u>	<u>Vessel name</u>	<u>Date of Delivery</u>	<u>Date of Sale/ Disposal</u>	<u>Financed by</u>
Seanergy Management Corp.(1) (3)	Marshall Islands	May 9, 2008	N/A	N/A	N/A	N/A
Amazons Management Inc.(1)	Marshall Islands	April 21, 2008	Davakis G.	August 28, 2008	N/A	Piraeus Bank (ex CPB)
Lagoon Shipholding Ltd.(1)	Marshall Islands	April 21, 2008	Delos Ranger	August 28, 2008	N/A	Piraeus Bank (ex CPB)
Cynthera Navigation Ltd.(1)	Marshall Islands	March 18, 2008	African Oryx	August 28, 2008	April 10, 2013	Piraeus Bank (ex CPB)
Martinique International Corp.(1)	British Virgin Islands	May 14, 2008	Bremen Max	September 11, 2008	N/A	Piraeus Bank (ex CPB)
Harbour Business International Corp.(1)	British Virgin Islands	April 1, 2008	Hamburg Max	September 25, 2008	N/A	Piraeus Bank (ex CPB)
Waldeck Maritime Co.(1)	Marshall Islands	April 21, 2008	African Zebra	September 25, 2008	February 15, 2012	Piraeus Bank (ex CPB)
Maritime Capital Shipping Limited (1)	Bermuda	April 30, 2007	N/A	May 21, 2010	N/A	N/A
Maritime Capital Shipping (HK) Limited (3)	Hong Kong	June 16, 2006	N/A	May 21, 2010	N/A	N/A
Maritime Fiesta Shipping Limited (2)	Liberia	August 14, 2007	Fiesta	May 21, 2010	January 29, 2013	DVB
Maritime Fantasy Shipping Limited (2)	Liberia	August 14, 2007	Pacific Fantasy	May 21, 2010	January 29, 2013	DVB
Maritime Fighter Shipping Limited (2)	Liberia	August 14, 2007	Pacific Fighter	May 21, 2010	January 29, 2013	DVB
Maritime Freeway Shipping Limited (2)	Liberia	August 14, 2007	Clipper Freeway	May 21, 2010	January 29, 2013	DVB
African Joy Shipping Limited (2)	British Virgin Islands	February 13, 2008	African Joy	May 21, 2010	N/A	UoB
African Glory Shipping Limited (2)	British Virgin Islands	October 24, 2007	African Glory	May 21, 2010	N/A	UoB
Asian Grace Shipping Limited (2)	British Virgin Islands	January 18, 2008	Asian Grace	May 21, 2010	N/A	UoB

**SEANERGY MARITIME HOLDINGS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in footnotes in thousands of US Dollars, except for share and per share data)

Company	Country of Incorporation	Date of Incorporation	Vessel name	Date of Delivery	Date of Sale/ Disposal	Financed by
Maritime Glory Shipping Limited (2)	British Virgin Islands	April 8, 2008	Clipper Glory	May 21, 2010	December 4, 2012	HSBC
Maritime Grace Shipping Limited (2)	British Virgin Islands	April 8, 2008	Clipper Grace	May 21, 2010	October 15, 2012	HSBC
Atlantic Grace Shipping Limited (4)	British Virgin Islands	October 9, 2007	N/A	May 21, 2010	N/A	

- (1) Subsidiaries wholly owned
- (2) Vessel owning subsidiaries owned by Maritime Capital Shipping Limited (“MCS”)
- (3) Management company
- (4) Dormant company

**2. Significant Accounting Policies:**

***(a) Principles of Consolidation***

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and include the accounts and operating results of Seanergy and its wholly-owned subsidiaries where Seanergy has control. Control is presumed to exist when Seanergy through direct or indirect ownership retains the majority of voting interest. In addition, Seanergy evaluates its relationships with other entities to identify whether they are variable interest entities and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. The Company deconsolidates a subsidiary or derecognizes a group of assets when the Company no longer controls the subsidiary or group of assets, and a gain or loss is recognized. When the Company does not have a controlling interest in an entity, but exerts a significant influence over the entity, the Company applies the equity method of accounting. All significant intercompany balances and transactions and any intercompany profit or loss on assets remaining with the Group have been eliminated in the accompanying consolidated financial statements.

A parent company deconsolidates a subsidiary or derecognizes a group of assets when that parent company no longer controls the subsidiary or group of assets specified in ASC 810-10-40-3A. When control is lost, the parent-subsidiary relationship no longer exists and the parent derecognizes the assets and liabilities of the qualifying subsidiary or group of assets. The FASB concluded that the loss of control and the related deconsolidation of a subsidiary or derecognition of a group of assets specified in ASC 810-10-40-3A is a significant economic event that changes the nature of the investment held in the subsidiary or group of assets. Based on this consideration, a gain or loss is recognized upon the deconsolidation of a subsidiary or derecognition of a group of assets.

***(b) Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include evaluation of relationships with other entities to identify whether they are variable interest entities, determination of vessel useful lives, allocation of purchase price in a business combination, determination of vessels impairment and determination of goodwill impairment.

***(c) Foreign Currency Translation***

Seanergy’s functional currency is the United States dollar since the Company’s vessels operate in international shipping markets and therefore primarily transact business in US Dollars. The Company’s books of accounts are maintained in US Dollars. Transactions involving other currencies are translated into the United States dollar using exchange rates, which are in effect at the time of the transaction. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are translated to United States dollars at the foreign exchange rate prevailing at year-end. Gains or losses resulting from foreign currency translation are reflected in the consolidated statements of income/(loss).

**SEANERGY MARITIME HOLDINGS CORP.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in footnotes in thousands of US Dollars, except for share and per share data)

***(d) Concentration of Credit Risk***

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and cash equivalents, trade accounts receivable and derivative contracts (interest rate swaps). The Company places its cash and cash equivalents, consisting mostly of deposits, with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of the financial institutions in which it places its deposits. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition. Customers individually accounting for more than 10% of the Company's voyage revenues during the years ended December 31, 2012, 2011 and 2010 were:

Customer	2012	2011	2010
A	19%	15%	15%
B	14%	17%	11%
C*	14%	10%	-
D*	-	24%	45%
E	-	10%	10%
F	-	10%	-
Total	47%	86%	81%

\* Customers C and D are related parties.

The Company does not obtain rights to collateral to reduce its credit risk in the event of non-performance by counter parties to charter agreements; however, the Company limits its exposure by diversifying among counter parties with high credit ratings.

***(e) Cash and Cash Equivalents***

Seanergy considers time deposits and all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash is excluded from cash and cash equivalents. Restricted cash at December 31, 2012, does not include an amount of \$3,735, relating to not pledged retention accounts and other compensating cash balances, which the Company should maintain with the accounts of each of the lending banks (Note 11).

***(f) Accounts Receivable Trade, Net***

Accounts receivable trade, net at each balance sheet date, includes receivables from charterers for hire, freight and demurrage billings, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. The provision for doubtful accounts at December 31, 2012 and 2011 amounted to \$631 and \$NIL, respectively.

***(g) Inventories***

Inventories consist of lubricants and bunkers which are stated at the lower of cost or market value. Cost is determined by the first in, first out method.

***(h) Insurance Claims***

The Company records insurance claim recoveries for insured losses incurred on damage to fixed assets and for insured crew medical expenses. Insurance claim recoveries are recorded, net of any deductible amounts, at the time the Company's fixed assets suffer insured damages or when crew medical expenses are incurred, recovery is probable under the related insurance policies, the claim is not subject to litigation and the Company can make an estimate of the amount to be reimbursed. The classification of the insurance claims into current and non-current assets is based on management's expectations as to their collection dates.

***(i) Vessels***

Vessels acquired as a part of a business combination are recorded at fair market value on the date of acquisition. Vessels acquired as asset acquisitions are stated at historical cost, which consists of the contract price less discounts, plus any material expenses incurred upon acquisition (delivery expenses and other expenditures to prepare for the vessel's initial voyage). Vessels acquired from entities under common control are recorded at historical cost. Subsequent expenditures for conversions and major improvements are capitalized, when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. Expenditures for routine maintenance and repairs are expensed as incurred.

**SEANERGY MARITIME HOLDINGS CORP.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in footnotes in thousands of US Dollars, except for share and per share data)

***(j) Vessel Depreciation***

Depreciation is computed using the straight-line method over the estimated useful life of the vessels, after considering the estimated salvage value. Management estimates the useful life of the Company's vessels to be 30 years from the date of initial delivery from the shipyard. Salvage value is estimated by the Company by taking the cost of steel times the weight of the ship noted in lightweight ton (LWT). Salvage values are periodically reviewed and revised to recognize changes in conditions, new regulations or other reasons. Revisions of salvage values affect the depreciable amount of the vessels and affects depreciation expense in the period of the revision and future periods. Up to September 30, 2011, management estimated the salvage value of its vessels at \$0.270 per LWT. Effective October 1, 2011, following management's reassessment of the residual values of the company's vessels, the estimated salvage value per LWT was increased to \$0.435. This change reduced depreciation expense by \$729 (approximately \$0.10 per share) for the year ended December 31, 2011.

***(k) Long-lived Assets Classified as Held for Sale***

The Company classifies long lived assets and disposal groups as being held for sale in accordance with ASC 360, "Property, Plant and Equipment", when: (i) management, having the authority to approve the action, commits to a plan to sell the asset; (ii) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (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 cost to sell. These long lived assets are not depreciated once they meet the criteria to be classified as held for sale and are classified in current assets on the consolidated balance sheet.

***(l) Impairment of Long-Lived Assets (Vessels)***

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances, such as undiscounted projected operating cash flows, business plans to dispose a vessel earlier than the end of its useful life and prevailing market conditions, indicate that the carrying amount of the assets may not be recoverable. The current conditions in the dry bulk market with decreased charter rates and decreased vessel market values are conditions that the Company considers indicators of a potential impairment for its vessels.

The Company determines undiscounted projected operating cash flows, for each vessel and compares it to the vessel's carrying value. When the undiscounted projected operating cash flows, excluding interest charges, expected to be generated by the use of the vessel and its eventual disposition are less than its carrying amount, the Company impairs the carrying amount of the vessel. Measurement of the impairment loss is based on the fair value of the asset as determined by independent valuers. The undiscounted projected operating cash inflows are determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the median of the trailing 10-year historical charter rates available for each type of vessel) adjusted for brokerage commissions and expected outflows for scheduled vessels' maintenance. The undiscounted projected operating cash outflows are determined by reference to Company's actual vessel operating expenses, assuming an average annual inflation rate of 2.5%. Effective fleet utilization is assumed to 98% in the Company's exercise.

The Company recorded an impairment loss of \$147,143, \$188,995 and \$NIL for the years ended December 31, 2012, 2011 and 2010, respectively (Note 9).

***(m) Goodwill***

Goodwill represents the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in business combinations accounted for under the purchase method. The Company tests its goodwill for potential impairment at year end or whenever there is an indication of impairment. The goodwill impairment test is a two-step process. Under the first step, the fair value of the reporting unit is compared to the carrying value of the reporting unit (including goodwill). If the fair value of the reporting unit is less than the carrying value of the reporting unit, goodwill impairment may exist, and the second step of the test is performed. Under the second step, the implied fair value of the goodwill is compared to the carrying value of the goodwill and an impairment loss is recognized to the extent that the carrying value of goodwill exceeds the implied fair value of goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis and market capitalization analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not have to be performed.

**SEANERGY MARITIME HOLDINGS CORP.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in footnotes in thousands of US Dollars, except for share and per share data)

The fair value for goodwill impairment testing is estimated using the expected present value of future cash flows, using judgments and assumptions that management believes are appropriate in the circumstances. The future cash flows from operations are determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the median of the trailing 10-year historical charter rates available for each type of vessel).

The Company has one reporting unit and tested its goodwill for potential impairment, and concluded that indication of impairment existed as of September 30, 2012 and 2011. The fair value for goodwill impairment test was estimated using the expected present value of future cash flows, using judgments and assumptions that management believes were appropriate in the circumstances and using the market capitalization approach. The future cash flows from operations were determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the non-fixed days (based on a combination of 2-year forward freight agreements and the median of the trailing 10-year historical charter rates available for each type of vessel). The weighted average cost of capital used was 7.42%, 8.16% and 8.46% for the nine month periods ended September 30, 2012 and 2011, and the year ended December 31, 2011, respectively. As a result, an impairment loss for goodwill of \$4,365, \$12,910 and \$NIL was recorded, for the years ended December 31, 2012, 2011 and 2010, respectively.

***(n) Dry-Docking and Special Survey Costs***

The Company follows the deferral method of accounting for dry-docking costs and special survey costs whereby actual costs incurred are deferred and are amortized on a straight-line basis over the period through the expected date of the next dry-docking which is scheduled to become due in 2 to 3 years. Dry-docking costs which are not fully amortized by the next dry-docking period are expensed.

***(o) Commitments and Contingencies***

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines and penalties, environmental and remediation obligations and other sources are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

***(p) Revenue Recognition***

Voyage revenues are generated from time charters, bareboat charters and voyage charters. A time charter is a contract for the use of a vessel for a specific period of time and a specified daily charter hire rate, which is generally payable in advance. Some of the time charters also include profit sharing provisions, under which additional revenue can be realized in the event the spot rates are higher than the base rates under the time charters. A bareboat charter is a contract in which the vessel is provided to the charterer for a fixed period of time at a specified daily rate, which is generally payable in advance. Voyage charter agreements are charter hires, where a contract is made in the spot market for the use of a vessel for a specific voyage at a specified charter rate per ton of cargo.

Time charter revenue, including bareboat hire, is recorded over the term of the charter agreement as the service is provided and collection of the related revenue is reasonably assured. Under a time charter, revenue is adjusted for a vessel's off hire days due to major repairs, dry dockings or special or intermediate surveys. Voyage charter revenue is recognized on a pro-rata basis over the duration of the voyage, when a voyage agreement exists, the price is fixed or determinable, service is provided and the collection of the related revenue is reasonably assured. A voyage is deemed to commence when a vessel is available for loading and is deemed to end upon the completion of the discharge of the delivered cargo.

Revenue earned from related parties is included in Vessel revenue – related party.

Deferred revenue represents cash received prior to the balance sheet date and is related to revenue applicable to periods after such date.

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***(q) Commissions***

Commissions, which include address and brokerage commissions, are recognized in the same period as the respective charter revenues. Address commissions to third parties are included in Commissions. Brokerage commissions to related parties are included in Voyage expenses – related party. Brokerage commissions to third parties are included in Direct voyage expenses.

***(r) Vessel Voyage Expenses***

Vessel voyage expenses primarily consist of port, canal, bunker expenses and brokerage commissions that are unique to a particular charter and are paid for by the charterer under time charter agreements and other non-specified voyage expenses.

***(s) Repairs and Maintenance***

All repair and maintenance expenses, including major overhauling and underwater inspection expenses are expensed in the year incurred. Such costs are included in Vessel operating expenses.

***(t) Financing Costs***

Underwriting, legal and other direct costs incurred with the issuance of long-term debt or to refinance existing debt are deferred and amortized to interest expense over the life of the related debt using the effective interest method. Unamortized fees relating to loans repaid are expensed in the period the repayment is made.

***(u) Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized, when applicable, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in general and administration expenses.

Maritime Capital Shipping (HK) Limited, the Company's management office in Hong Kong, is subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profit for the year.

Seanergy Management Corp. ("Seanergy Management"), the Company's management company, established in Greece under Greek Law 89/67 (as amended to date), is subject to an annual contribution calculated on the total amount of foreign exchange annually imported and converted to Euros during 2012-2015 according to a new tax bill passed in 2013 under the laws of the Republic of Greece. The new tax bill retroactive to 2012 and the contribution to be paid in 2013 by Seanergy Management for 2012 is estimated at approximately \$47.

Additionally, effective January 1, 2013 onwards, each foreign flagged vessel managed in Greece by Greek or foreign ship management companies is subject to Greek tonnage tax, under the laws of the Republic of Greece. The Company's vessels' technical management company, Enterprises Shipping and Trading, S.A. ("EST"), an affiliate (Note 3(c)) is responsible for the filing and payment of the respective tonnage tax on behalf of Seanergy. The tonnage tax will be recorded within Vessel operating expenses in the consolidated statements of income/(loss). The 2013 tonnage tax is estimated at approximately \$144 and Seanergy will be liable to reimburse EST.

Pursuant to the Internal Revenue Code of the United States (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the company operating the ships meets both of the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exception to corporations organized in the United States and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (50% Ownership Test) or (ii) the Company's 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 (Publicly-Traded Test).

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Notwithstanding the foregoing, the regulations provide, in pertinent part, that each class of the Company's stock will not be considered to be "regularly traded" on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the value of such class of the Company's outstanding stock ("5 Percent Override Rule").

The Company and each of its subsidiaries expects to qualify for this statutory tax exemption for the 2012, 2011 and 2010 taxable years, and the Company takes this position for United States federal income tax return reporting purposes. However, there are factual circumstances beyond the Company's control that could cause it to lose the benefit of this tax exemption in future years and thereby become subject to United States federal income tax on its United States source income such as if, for a particular taxable year, other shareholders with a five percent or greater interest in the Company's stock were, in combination with the Company's existing 5% shareholders, to own 50% or more of the Company's outstanding shares of its stock on more than half the days during the taxable year.

The Company estimates that since no more than the 50% of its shipping income would be treated as being United States source income, the effective tax rate is expected to be 2% and accordingly it anticipates that the impact on its results of operations will not be material. The Company has assessed that it satisfies the Publicly-Traded Test and all of its United States source shipping income is exempt from U.S. federal income tax for the years ended December 31, 2012, 2011 and 2010. Based on its U.S. source Shipping Income for 2012, 2011 and 2010, the Company would be subject to U.S. federal income tax of approximately \$85, \$261 and \$378, respectively, in the absence of an exemption under Section 883.

***(v) Stock-based Compensation***

Stock-based compensation represents vested and non-vested common stock granted to directors and employees for their services. The Company calculates stock-based compensation expense for the award based on its fair value on the grant date and recognizes it on a straight-line basis over the vesting period.

***(w) Earnings (Losses) per Share***

Basic earnings (losses) per common share are computed by dividing net income (loss) available to Seanergy's shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (losses) per share, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e. those that increase income per share or decrease loss per share) are excluded from the calculation of diluted earnings per share.

***(x) Segment Reporting***

Seanergy reports financial information and evaluates its operations by total charter revenues and not by the length of vessel employment, customer, or type of charter. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet and thus, Seanergy has determined that it operates under one reportable segment. Furthermore, when Seanergy charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, disclosure of geographic information is impracticable.

***(y) Financial Instruments***

Derivative instruments (including certain derivative instruments embedded in other contracts) are recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivatives' fair value recognized currently in earnings unless specific hedge accounting criteria are met. The Company is party to interest swap agreements where it receives a floating interest rate and pays a fixed interest rate for a certain period in exchange. These contracts do not qualify for hedge accounting and as such changes in their fair values are reported to earnings. The fair value of these agreements equates to the amount that would be paid by the Company if the agreements were cancelled at the reporting date, taking into account current interest rates.

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**(z) Fair Value Measurements**

In May 2011, the FASB issued new guidance for fair value measurements intended to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”). The amended guidance provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amended guidance was effective for the Company beginning January 1, 2012. The adoption of the new guidance for fair value measurements had no effect on the Company’s consolidated financial statements.

**(aa) Recent Accounting Pronouncements**

There are no recent accounting pronouncements issued during 2012 whose adoption would have a material effect on the Company’s consolidated financial statements in the current year or expected to have an impact on future years.

**3. Transactions with Related Parties:**

**a. Equity Injection:**

On January 4, 2012, the Company entered into a share purchase agreement under which the Company sold 4,641,620 of its common shares to United Capital Investments Corp., Atrion Shipholding S.A., Plaza Shipholding Corp. and Comet Shipholding Inc., companies affiliated with the Restis family, for \$10,000. The common shares were sold at a price of \$2.15442 per share, which was the average closing price of Seenergy’s common shares for the five trading days preceding the execution of the share purchase agreement. On January 31, 2012, the Company completed the equity injection plan with the four abovementioned entities. The shares to the four entities were issued on January 31, 2012.

**b. Subsidiary Disposal:**

On December 30, 2012, the Company completed the sale of its 100% ownership interest in BET to IMI, a company controlled by members of the Restis family, for a nominal consideration (Note 1(a)).

**c. Technical Management Agreement:**

A management agreement has been signed between the Company and EST for the provision of technical management services relating to certain vessels. The agreement is automatically extended annually, unless three months written notice of termination by either party is given prior to commencement of the next period. The fixed daily fee per vessel for the year ended December 31, 2012, was \$0.45 and for the year ended December 31, 2011, was EUR 0.46 up to September 30, 2011 and was amended to \$0.45 effective October 1, 2011.

The related expense for the years ended December 31, 2012, 2011 and 2010, amounted to \$1,625, \$2,415 and \$2,328, respectively, and is included under management fees - related party.

**d. Charter Agreements:**

Pursuant to charter party agreements dated July 7, 2009, each of the vessels BET Commander, the BET Prince, the BET Fighter, BET Scouter and the BET Intruder were chartered to South African Marine Corporation S.A. (“SAMC”), an affiliate, at daily charter rates of \$24, \$25, \$25, \$26 and \$15.5, respectively, for charters expired in August 2011, November 2011, June 2011, June 2011 and September 2011, respectively. For 2011, all charter rates for the BET fleet were subject to an address commission of 3.75% to SAMC.

Pursuant to charter party agreements dated June 16, 2011, each of the vessels BET Fighter and BET Scouter were chartered to Swissmarine Services S.A. (“Swissmarine”), an affiliate, for a period of 11 to 13 months, at a gross daily rate equal to the adjusted time charter average of the Baltic Capesize Index. Both charters commenced in June 2011, and were subject to an address commission of 3.75% to Swissmarine and a brokerage commission of 1.25% payable to Safbulk Pty Ltd (“Safbulk Pty”), an affiliate.

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Pursuant to charter party agreement dated June 16, 2011, the vessel BET Intruder was chartered to Swissmarine for a period of 11 to 13 months, at a gross daily rate of \$12.3. The charter commenced on September 16, 2011. The charter rate for the BET Intruder was subject to an address commission of 3.75% to Swissmarine and a brokerage commission of 1.25% payable to Safbulk Pty. Employment under the agreement ended July 29, 2012.

Pursuant to a charter party agreement dated October 7, 2011, the vessel BET Prince was chartered to Swissmarine for a period of 11 to 13 months, at a gross daily rate equal to the adjusted time charter average of the Baltic Capesize Index. The charter commenced in November 2011 and was subject to an address commission of 3.75% to Swissmarine and a brokerage commission of 1.25% payable to Safbulk Pty.

Pursuant to a charter party agreement dated July 24, 2012, the vessel BET Commander was chartered to Swissmarine, for a voyage from Brazil to Malaysia. Employment under the agreement was subject to an address commission of 3.75% to Swissmarine and a brokerage commission of 1.25% payable to Safbulk Pty. Employment under the charter commenced on August 23, 2012.

During the years ended December 31, 2012, 2011 and 2010, revenue from related parties amounted to \$8,221, \$35,684 and \$44,175, respectively, and is shown net of off-hire expenses of \$261, \$362 and \$394, respectively.

The address commissions amounted to \$298, \$1,327 and \$1,546 for the years ended December 31, 2012, 2011 and 2010, respectively, and is recorded under commissions - related party in the accompanying consolidated statements of income/(loss). BET was sold on December 30, 2012 (Note 1 (a)).

***e. Brokerage Agreement:***

Under the terms of the brokerage agreements, Safbulk Pty and Safbulk Maritime S.A., also an affiliate, together referred to as "Safbulk," provide commercial brokerage services for certain vessels in accordance with the instructions of Seanergy Management. Safbulk is entitled to receive a commission of 1.25% calculated on the collected gross hire/freight/demurrage payable when such amounts are collected. Under the same agreement, Safbulk is entitled to brokerage commissions whenever it assists the Company with vessel sales and purchases. The brokerage agreements with Safbulk are automatically renewed annually, unless either party is provided with three months' written notice prior to the termination of such period.

The fees charged by Safbulk amounted to \$532, \$661 and \$434 for the years ended December 31, 2012, 2011 and 2010, respectively, and are separately reflected as voyage expenses — related party.

In addition, Safbulk charged the Company commission for services provided in connection to the disposal of the vessels amounting to \$392 for the year ended December 31, 2012, and included in loss on sale of vessels.

***f. Property Lease Agreement:***

On November 17, 2008, a lease agreement was entered into with Waterfront S.A., a company affiliated with a member of the Restis family, for the lease of Seanergy's executive offices. The initial lease term was from November 17, 2008 to November 16, 2011. On January 1, 2012, Seanergy exercised its option to extend the term until February 28, 2014. In accordance with the initial agreement, the monthly lease payment was EUR 42. As of December 20, 2010, the monthly lease payment was amended to EUR 35, and as of January 1, 2012, the monthly lease payment was amended to EUR 25. A three month rent guarantee of \$99 and \$135 as of December 31, 2012 and 2011, respectively is included in other non-current assets.

The rent charged by Waterfront S.A. for the years ended December 31, 2012, 2011 and 2010, amounted to \$402, \$603 and \$697, respectively, and is included under general and administration expenses - related party (Notes 15 and 19).

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**4. Cash and Cash Equivalents:**

Cash and cash equivalents in the accompanying consolidated balance sheets are analyzed as follows:

	2012	2011
Cash at bank	4,276	13,603
Term deposits	10	4,110
Cash in hand	12	21
Total	4,298	17,734

**5. Restricted Cash:**

Restricted cash consists of bank deposits that are required to be maintained with certain banks under the Company's borrowing arrangements which includes cash collateralized as well as retention accounts which can only be used for the purposes of loan repayment.

Restricted cash at December 31, 2012, does not include an amount of \$3,735, relating to retention accounts and other compensating cash balances that are not pledged, which the Company should maintain with the accounts of each of the lending banks (Note 11).

**6. Due from / Due to Related Parties:**

As of December 31, 2011, due from related parties of \$405 represents a receivable of \$264 from SAMC and \$141 from Swissmarine.

As of December 31, 2012, due to related parties of \$6,135 consists of liabilities of \$5,925 to EST for working capital purposes, liabilities of \$168 to Waterfront S.A. for common expenses for the leasehold property, and liabilities of \$42 to Safbulk for commissions. As of December 31, 2011, due to related parties of \$1,097 represents liabilities of \$989 to EST for working capital purposes mainly for dry-docking works performed during the fourth quarter of the year and liabilities of \$108 to Waterfront S.A. for expenses paid for the leased property.

**7. Inventories:**

Inventories in the accompanying consolidated balance sheets are analyzed as follows:

	2012	2011
Lubricants	471	1,468
Bunkers	-	1,044
Total	471	2,512

**8. Other Current Assets:**

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	2012	2011
Prepaid expenses	481	1,118
Insurance claims	1,458	49
Other	251	290
Total	2,190	1,457

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**9. Vessels, Net:**

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	2012	2011
<b>Cost:</b>		
<b>Beginning balance</b>	<b>663,412</b>	<b>663,412</b>
- Disposals	(149,930)	-
- Transfers to held for sale	(55,361)	-
<b>Ending balance</b>	<b>458,121</b>	<b>663,412</b>
<b>Accumulated depreciation:</b>		
<b>Beginning balance</b>	<b>(94,882)</b>	<b>(66,040)</b>
- Additions	(15,593)	(28,842)
- Disposals	38,333	-
- Transfers to held for sale	15,897	-
<b>Ending balance</b>	<b>(56,245)</b>	<b>(94,882)</b>
<b>Impairment loss:</b>		
<b>Beginning balance</b>	<b>(187,401)</b>	-
- Additions	(145,964)	(187,401)
<b>Ending balance</b>	<b>(333,365)</b>	<b>(187,401)</b>
<b>Net book value</b>	<b>68,511</b>	<b>381,129</b>

***Vessel Disposals:***

During the year ended December 31, 2012, the Company proceeded with the disposal of the vessels African Zebra, BET Scouter, BET Fighter, Clipper Grace, BET Intruder and Clipper Glory, with an aggregate carrying value of \$65,269 (after adjustments previously made for impairment), for aggregate gross proceeds of \$52,626, realizing an aggregate loss on sale of \$15,590. In addition, as a result of the sale of BET to an entity under common control (Note 1(a)), the carrying values of the vessels owned by BET at the date of the agreement, amounting to \$46,328 were transferred to their new owners in 2012. No vessels were disposed in prior periods.

***Vessels Held for Sale:***

With reference to the Company's restructuring plan (Note 1(b)), the vessels Fiesta, Pacific Fantasy, Pacific Fighter and Clipper Freeway, or the "vessels financed by the DVB Group Merchant Bank (Asia) Ltd ("DVB") loan facility" (Note 1(c)), and the vessels African Joy, African Glory and Asian Grace, or the "vessels financed by the United Overseas Bank Limited ("UOB") loan facility" (Note 1(c)), were classified (together with the associated deferred dry-docking costs amounting to \$286 (Note 10)) as held for sale as of December 31, 2012 and their values were adjusted to their lower of their carrying amount or fair value less costs to sell as of December 31, 2012. On January 29, 2013, the subsidiaries owning the vessels financed by the DVB loan facility (Note 1(c)) were sold to a third party entity nominated by the lenders (Note 23). No vessels were classified as held for sale in prior periods.

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**Impairment Loss:**

The Company recorded an impairment loss of \$54,611 for all of its vessels disposed during the year except for the vessel African Zebra and the vessel BET Scouter. The impairment loss was measured as the amount by which the carrying amount of the vessels exceeded their fair value. Fair value was determined using the agreed sale price adjusted for selling costs. In addition, an impairment loss of \$67,275 and \$24,078 was recognized upon classification of the vessels financed by the DVB and UOB loan facilities (Note 1(c)) as held for sale and as a result of the Company's impairment test exercise at December 31, 2012 for the remainder of its fleet, respectively. The impairment loss was measured as the amount by which the carrying amount of the vessels exceeded their fair value, which was determined using the valuation derived from market data available at December 31, 2012. In the context of the Company's impairment test exercise, an additional amount of \$1,179 of unamortized deferred dry-docking costs associated with the impaired vessels was written off in 2012.

For the year ended December 31, 2011, as a result of its impairment test exercise, the Company had recorded an impairment loss of \$187,401 for the six initial vessels acquired in 2008, and an additional amount of \$1,594 of unamortized deferred dry-docking costs associated with the impaired vessels was written off.

All of the Company's vessels have been provided as collateral (Note 1(c)) to secure the loans discussed under Note 11.

**10. Deferred Charges:**

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	<b>Dry-Docking</b>	<b>Financing Costs</b>	<b>Total</b>
<b>Balance as of December 31, 2010</b>	<b>10,713</b>	<b>2,373</b>	<b>13,086</b>
- Additions	3,996	172	4,168
- Amortization and write-offs	(8,907)	(989)	(9,896)
<b>Balance as of December 31, 2011</b>	<b>5,802</b>	<b>1,556</b>	<b>7,358</b>
- Additions	1,481	-	1,481
- Amortization and write-offs	(6,777)	(466)	(7,243)
- Transfers to held for sale	(286)	-	(286)
<b>Subtotal</b>	<b>220</b>	<b>1,090</b>	<b>1,310</b>
Less: Current portion	-	(1,090)	(1,090)
<b>Balance as of December 31, 2012</b>	<b>220</b>	<b>-</b>	<b>220</b>

During the year ended December 31, 2012, the Company incurred dry-docking and special survey costs of \$1,481 in connection to the dry-docking of the vessels Hamburg Max, Clipper Glory and Asian Grace. The amortization charge for the year amounted to \$3,648, and is separately reflected in amortization of deferred dry-docking costs. During the same period, the Company wrote off \$1,095 of the unamortized balance of deferred dry-docking costs and \$89 of deferred financing costs as a result of the vessels' sales and loan prepayments made during the year ended December 31, 2012.

During the year ended December 31, 2011, the Company incurred dry-docking and special survey costs of \$3,996. The amortization charge for the year amounted to \$5,401, and is separately reflected in amortization of deferred dry-docking costs. During the same period, the Company wrote-off \$1,177 and \$735 of the unamortized balance of deferred dry-docking costs associated with the vessels African Zebra and BET Commander, respectively, since the latest dry-dockings occurred earlier than projected, resulting in a shortened amortization period for the prior dry-dockings.

During the year ended December 31, 2010, the Company incurred dry-docking and special survey costs of \$8,296. The amortization charge for the year amounted to \$3,657, and is separately reflected in amortization of deferred dry-docking costs.

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**11. Long-Term Debt:**

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	2012	2011
(a) Piraeus Bank (ex CPB) reducing revolving credit facility	44,800	48,000
(a) Piraeus Bank (ex CPB) term facility	93,982	98,000
(b) Citibank loan facility	-	87,459
(c) HSBC loan facility	-	24,867
(d) DVB loan facility	31,872	48,397
(e) UOB loan facility	37,995	39,680
<b>Total</b>	<b>208,649</b>	<b>346,403</b>
<b>Less - current portion</b>	<b>(208,649)</b>	<b>(45,817)</b>
<b>Long-term portion</b>	<b>-</b>	<b>300,586</b>

**a. Piraeus Bank (ex CPB)**

A long term debt (the “Facility”) of up to \$255,000 has been provided by Piraeus Bank S.A., of Athens, Greece, the special successor of former Cyprus Popular Bank Public Co Ltd (“CPB”), formerly known as Marfin Popular Bank Public Co Ltd, successor by way of cross-border merger of Marfin Egnatia Bank Societe Anonyme, or Piraeus Bank (ex CPB), being available in two facilities as described below (Note 23). The Facility is guaranteed by Seanergy, as corporate guarantor. An arrangement fee of \$2,550 was paid on the draw-down date and is included net of amortization in deferred charges in the accompanying consolidated balance sheet (Note 10).

***Reducing Revolving Credit Facility:***

As of December 31, 2011, the Company had fully utilized the \$48,000 of the available reducing revolving credit facility that was provided to partly finance the vessels and to provide corporate liquidity. As per Addendum no. 4, dated January 31, 2012, the Company made a payment of \$3,200 on the outstanding revolving credit facility. As of December 31, 2012, the reducing revolving credit facility amounted to \$44,800.

The revolving credit facility bears interest at USD LIBOR plus 4.50% and the weighted average interest rate on the revolving credit facility, including the spread, for the years ended December 31, 2012, 2011 and 2010, was approximately 4.92%, 4.26% and 4.06%, respectively.

On April 10, 2013, the Company sold the vessel African Oryx for gross proceeds of \$4,073, of which \$3,871 was used to repay part of the outstanding amount under this facility (Note 23(b)).

***Term Facility:***

Certain vessel acquisitions (Note 1(c)) were financed by Piraeus Bank (ex CPB) by an amortizing term facility equal to \$165,000, to partly finance the vessels aggregate acquisition costs, excluding any amounts associated with an earn-out provision.

The credit facility is secured by a first priority or preferred ship mortgage on five vessels of the Company’s fleet (Note 1(c)), assignment of all freights, earnings, insurances and requisition compensation. The lenders may also require additional security in the event the Company breaches certain covenants under the credit facility.

As per the amended loan agreement dated June 2, 2010, the term facility bore interest at USD LIBOR plus 3.50% until January 3, 2012. After January 3, 2012, interest was reinstated at USD LIBOR plus 1.5% if the Company’s ratio of total assets to total liabilities was greater than 165%, or USD LIBOR plus 1.75% if the ratio was equal or less than 165%. The weighted average interest rate on the term facility, including the spread, for the years ended December 31, 2012, 2011 and 2010, was approximately 4.39%, 3.79% and 3.55%, respectively.

The Piraeus Bank (ex CPB) Facility includes covenants, among others, that require the borrowers and the corporate guarantor, Seanergy, to maintain vessel insurance value for an aggregate amount greater than the vessels’ aggregate market value or an amount equal to 130% of the aggregate of (a) the outstanding amount under both the revolving credit and term facilities and (b) the amount available for drawing under the revolving facility. The vessels’ insurance value is required to include as a minimum coverage for hull and machinery, war risk and protection and indemnity insurance, \$1,000,000 for oil pollution and for excess oil spillage and pollution liability insurance. In addition, mortgagees’ interest insurance on the vessels is required with the insured value to be at least 110% of the aggregate of the revolving credit and term facility.

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On January 31, 2012, the Company entered into an Addendum no. 4 for the amendment of certain terms of its Facility agreement with Piraeus Bank (ex CPB). The amendments include (i) the extension of the Facility's maturity date from September 2015 to December 2018, (ii) principal installment payment holiday for 2012, payment of \$3,200 on the outstanding credit facility and amendment of the amortization schedule for 2013 onwards, (iii) waiver of all financial covenants as of December 31, 2011 (iv) waiver of all financial covenants (including the security margin) for the period commencing from January 1, 2012 through December 31, 2013, and (v) amendment of the financial undertakings and the security margin to apply from 2014 onwards. Furthermore, the applicable margin has been increased by 50 basis points to 4.50% starting from February 1, 2012, installment payments under the revolving credit facility were deferred to December 2018 and any surplus of funds greater than \$5,000 over requirements associated with the operation and maintenance of the vessels during each fiscal quarter will be applied to the prepayment of the revolving credit facility.

On February 15, 2012, the Company sold the vessel African Zebra for gross proceeds of \$4,100, of which \$4,018 was used to repay part of the outstanding amounts under this facility. Following such repayment, the remaining outstanding balance of the facility is repayable in twenty two installments with a balloon payment equal to \$50,782 due concurrently with the final installment in December 2018.

As of December 31, 2012, the Company has defaulted on aggregate interest payments of \$1,635 on both facilities of Piraeus Bank (ex CPB). To date, the Company has not obtained waivers of this default from the lenders. The Company is currently in negotiations to amend the terms of the loan agreement with Piraeus Bank (ex CPB) to enable the Company to comply with certain covenants on an ongoing basis. There are no assurances the Company will be able to complete such an agreement. Please refer to Note 23 for further information on recent developments. As of December 31, 2012 the outstanding facilities were classified as current.

**b. Citibank Loan Facility**

The vessels owned by BET had been financed with the proceeds of a loan facility from Citibank International plc ("Citibank") (Note 1(c)), as agent for a syndicate of banks and financial institutions.

The applicable margin was USD LIBOR plus 3.00% per annum as per Fifth Supplemental Agreement dated February 7, 2012. The weighted average interest rate on the Citibank loan facility, including the spread for the years ended December 31, 2012, 2011 and 2010, was approximately 3.49%, 2.30% and 1.94%, respectively.

During the year ended December 31, 2012, the Company sold the vessels BET Scouter, BET Fighter, BET Intruder and BET Prince, the latter at IMI's initiative (Note 1(a)), for net aggregate proceeds of \$33,278. All the proceeds from the disposals were used to repay part of the outstanding amounts under this facility.

On December 30, 2012, the Company completed the sale of its 100% ownership interest in BET to IMI together with all its liabilities under the Citibank Facility Agreement (Note 1(a)).

**c. HSBC Loan Facility**

The loan facility, with Hong Kong and Shanghai Banking Corporation Limited ("HSBC") as agent, was used to partly finance the cost of acquisition of two vessels (Note 1(c)). Following a supplemental agreement dated May 21, 2010 and prepayment of \$7,560 at that date, the remaining loan amounts were repayable in thirteen quarterly installments plus balloon payments through July 2013.

The applicable margin was USD LIBOR plus 3.25% per annum until July 21, 2012, and thereafter, was USD LIBOR plus 2.75% per annum unless there was breach of the compliance of the security requirement or there was an event of default under the loan agreement. The weighted average interest rate on the HSBC loan facility, including the spread, for the years ended December 31, 2012 and 2011 and for the period from May 21, 2010 to December 31, 2010, was approximately 3.23%, 3.35% and 3.58%, respectively.

On September 4, 2012, MCS, a wholly owned subsidiary of the Company, obtained a waiver letter for the period until December 31, 2012, whereby HSBC agreed to waive any default which had occurred or would occur under the HSBC Facility. On October 15, 2012 and December 4, 2012, the Company successfully sold the vessels Clipper Grace and Clipper Glory, respectively, with gross sale proceeds of \$22,500. Part of the sale proceeds of \$17,051 were applied towards the full and final satisfaction of all liabilities owed to HSBC. HSBC has also released the Company from all the liabilities and obligations under the HSBC Facility.

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**d. DVB Loan Facility**

The loan facility with DVB, as agent, was used to partly finance the cost of the acquisition of four vessels (Note 1(c)) through one senior and one junior facility. The loan was repayable in sixteen quarterly installments plus balloon payment through October 2015. On January 2012, the Company prepaid the entire balloon of \$6,765 related to Maritime Freeway Shipping Limited and a portion of the balloon related to Maritime Fiesta Shipping Limited, an amount of \$1,435.

The applicable margin was USD LIBOR plus 2.10% per annum on the senior loan and USD LIBOR plus 4.90% per annum on the junior loan. The weighted average interest rate on the DVB loan facility, including the spread, for the years ended December 31, 2012 and 2011 and for the period from May 21, 2010 to December 31, 2010, was approximately 3.12%, 2.92% and 2.99%, respectively.

As of December 31, 2012, the Company was in breach with the security value covenant under the DVB loan facility and on January 25, 2013, entered into a settlement agreement with DVB, for the sale of the four vessel owning subsidiaries to a third party entity nominated by DVB. The Company successfully closed the sale of the vessel owning subsidiaries on January 29, 2013 and the outstanding debt was discharged (Note 23(a)). DVB also released the Company from all the liabilities and obligations under the DVB Facility Agreement. As of December 31, 2012, the outstanding debt was classified as current.

**e. UOB Loan Facility**

The loan facility with UOB was used to partly finance the cost of the acquisition of three vessels (Note 1(c)). The remaining balances of the subordinated debt as of December 31, 2012 and 2011, of \$10,821 and \$10,397, respectively, are repayable up to the final balloon payment date of the original UOB loan facility. The remaining loan amounts as of December 31, 2012 are repayable in quarterly installments plus balloon payments through May 2016.

The applicable margin was USD LIBOR plus 2.50% per annum in relation to the senior loan and USD LIBOR plus 3.50% per annum in relation to the subordinated loan. The weighted average interest rate on the UOB loan facility, including the spread, for the years ended December 31, 2012 and 2011 and for the period from May 21, 2010 to December 31, 2010, was approximately 3.24%, 3.06% and 3.14%, respectively.

As of December 31, 2012 the Company was in breach with certain covenants under the UOB loan facility, including the failure to make principal installments, interest and interest swap payments and the failure to satisfy minimum liquidity reserves and the mandatory term deposit undertaking. To date, the Company has not obtained waivers of these defaults from UOB. As of December 31, 2012 the outstanding facility was classified as current.

**12. Trade Accounts and Other Payables:**

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	2012	2011
Creditors	2,013	2,431
Insurances	228	136
Other	273	28
Total	<u>2,514</u>	<u>2,595</u>

**13. Financial Instruments:**

**(a) Significant Risks and Uncertainties, including Business and Credit Concentration**

The Company cannot predict whether its charterers will, upon the expiration of their charters, re-charter the Company's vessels on favorable terms or at all. This decision is likely to depend upon prevailing charter rates in the months prior to charter expiration. If the Company's charterers decide not to re-charter its vessels, the Company may not be able to re-charter them on similar terms. The Company employs vessels in the spot market, which is subject to greater rate fluctuation than the time charter market. If the Company receives lower charter rates under replacement charters or are unable to re-charter all of its vessels, the Company's net revenue will decrease.

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The Company places its temporary cash investments, consisting mostly of deposits, primarily with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. 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 accounts receivable and does not have any agreements to mitigate credit risk. The Company limits the exposure of non-performance by counterparties to derivative instruments by diversifying among counterparties with high credit ratings, and performing periodic evaluations of the relative credit standing of the counterparties.

**(b) Interest Rate Risk**

The Company's interest rates and long-term loan repayment terms are described in Note 11. *Fair Value of Financial Instruments*

The fair values of the financial instruments shown in the consolidated balance sheets as of December 31, 2012 and 2011 represent management's best estimate of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances.

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

- a. Cash and cash equivalents, restricted cash, accounts receivable trade, net, due from related parties, trade accounts and other payables, due to related parties, accrued expenses, and accrued interest: The carrying amounts approximate fair value because of the short maturity of these instruments. Restricted cash includes bank deposits that are required under the Company's borrowing arrangements which are used to fund the loan installments coming due under the loan agreements. The funds can only be used for the purposes of loan repayment.
- b. Long-term debt: The carrying value approximates the fair market value as the long-term debt bears interest at floating interest rate.
- c. As of December 31, 2012 and 2011, the Company had outstanding one and four interest rate swap agreements, respectively. These contracts do not qualify for hedge accounting and as such changes in their fair values are reported to earnings. The fair value of these agreements equates to the amount that would be paid by the Company to transfer the remaining rights and obligations under these contracts to a market participant of comparable credit standing taking into account relevant market factors.

The Company's interest rate swaps have the following characteristics:

As of December 31, 2012, the Company had one unexpired interest rate swap maturing on June 10, 2013 for a notional principal amount of \$25,775. Under the provisions of the agreement, the Company pays a fixed rate of 3.96% and receives the three month USD LIBOR quarterly.

During 2012, the Company had one unexpired interest rate swap maturing on January 25, 2013 for a notional amount of \$50,000 associated with BET which was disposed (Note 1(a)). Under the provisions of the agreement, the Company paid a fixed rate of 3.13% and received the six month USD LIBOR semiannually.

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During 2012, the Company had two interest rate swaps that matured. The total notional principal amount of those interest rate swaps was \$54,297, and under the provisions of the agreements the Company paid a fixed rate of 4.84% and 4.80% and received the six month USD LIBOR semiannually and the three month USD LIBOR quarterly, respectively.

During the year ended December 31, 2011, the Company had two interest rate swaps that matured. The total notional principal amount of those interest rate swaps was \$74,927, and under the provisions of the agreements the Company paid a fixed rate of 3.2925% and 2.96% respectively and received the three month USD LIBOR quarterly.

**(c) Fair Value Hierarchy**

The Company adopted the guidance under ASC820 as amended by ASU 2011-04, for fair value measurements of financial assets and financial liabilities and for fair value measurements of non-financial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This statement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurement involving significant unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

*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.

The Company's financial and nonfinancial items measured at fair value on a recurring basis at December 31, 2012 were:

	Level 1	Level 2	Level 3	Total
Interest Rate Swap – Current liabilities	-	(491)	-	(491)
	-	(491)	-	(491)

As of December 31, 2012 the Company has defaulted payments of interest on its swap agreements.

The Company's financial and nonfinancial items measured at fair value on a recurring basis at December 31, 2011 were:

	Level 1	Level 2	Level 3	Total
Interest Rate Swap – Current liabilities	-	(4,092)	-	(4,092)
Interest Rate Swap – Net of current portion	-	(270)	-	(270)
	-	(4,362)	-	(4,362)

The Company's items that are measured at fair value on a non-recurring basis at December 31, 2012 were:

	Level 1	Level 2	Level 3	Total
Vessels held for sale (1)	-	-	39,750	39,750
Vessels held and used (2)	-	-	16,322	16,322
Deferred charges (3)	-	-	178	178
	-	-	56,250	56,250

- (1) In accordance with the provisions of relevant guidance, as of December 31, 2012, the Company compared the carrying values of the vessels which were classified as held for sale in the accompanying consolidated balance sheet for the year ended December 31, 2012 (Note 9), with their estimated fair market values less costs to sell and recognized an impairment loss of \$67,275 in the accompanying consolidated statements of operations.
- (2) In addition to the vessels which were classified as held for sale in the accompanying consolidated balance sheet for the year ended December 31, 2012 (Note 9), the Company also tested for impairment the remaining vessels of its fleet and recognized an impairment loss of \$24,078. The impairment loss was measured as the amount by which the carrying amount of the vessels exceeded their fair value, which was determined using the valuation derived from market data available at December 31, 2012.
- (3) Represents unamortized dry-docking costs of vessels classified as held and used for which impairment loss was recognized at December 31, 2012.

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The Company's nonfinancial items that are measured at fair value on a non-recurring basis at December 31, 2011 were:

	Level 1	Level 2	Level 3	Total
Vessels, net	-	-	103,863	103,863
Deferred charges	-	-	1,137	1,137
Goodwill	-	-	4,365	4,365
	-	-	109,365	109,365

The Company recorded an impairment loss of \$188,995 on its six initial vessels as of September 30, 2011, thus reducing the vessels' carrying value and their respective unamortized dry-docking costs at September 30, 2011 from \$291,264 and \$2,731, respectively, to \$103,863 and \$1,137, respectively (see Notes 9 and 10). The Company recorded an impairment loss on its goodwill as of September 30, 2011, thus reducing its goodwill at September 30, 2011 to \$4,365 (Note 2).

The effect of financial instruments on the consolidated statements of income/(loss) for the years ended December 31, 2012, 2011 and 2010 are:

Derivatives not designated as hedging instruments	Location of loss recognized	Amount of loss		
		2012	2011	2010
Interest rate swaps	Loss on financial instruments	(189)	(641)	(4,164)

**14. Deferred Revenue:**

Deferred revenue in the accompanying consolidated balance sheet as at December 31, 2012 and 2011 was \$86 and \$590, respectively. The amounts represent cash received from charterers prior to the balance sheet date and relates to revenue applicable to periods after such date.

Deferred revenue - related party in the accompanying consolidated balance sheet as at December 31, 2012 and 2011 was \$NIL and \$142, respectively. The December 31, 2011 amount represents cash received from Swissmarine prior to the balance sheet date and relates to revenue applicable to periods after such date.

**15. Commitments and Contingencies:**

Various claims, lawsuits, 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, insurance and other claims with suppliers relating to the operations of the Company's vessels. Currently, 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.

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. Currently, 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 minimum of up to \$1,000,000 of liabilities associated with the individual vessels actions, mainly for sea pollution, are covered by the Protection and Indemnity (P&I) Club insurance.

Rental expense for the years ended December 31, 2012, 2011 and 2010 was \$514, \$1,164 and \$1,351, respectively (Note 3(f)). Fixed future minimum rent commitments as of December 31, 2012, based on a Euro/U.S. dollar exchange rate of €1.00:\$1.3193 and on a U.S. dollar/Hong Kong dollar exchange rate of \$1.00:HK\$7.7503, were as follows:

Rental commitments

Rental commitments	
2013	462
2014	66
Total	528

Future minimum time charter revenue collections from vessels committed to non-cancelable time charter contracts, net of commissions, are expected to be \$2,818 for 2013.

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**16. Capital Structure:**

**(a) Common Stock**

On July 21, 2010, the Company approved and amended its Articles of Incorporation to increase the number of authorized shares of common stock, par value \$0.0001 per share, from 200,000,000 to 500,000,000 shares.

On January 28, 2010, the Company priced a public offering of 1,388,889 shares of common stock, an additional 208,333 shares of common stock to cover over-allotments and 277,778 shares which were acquired by the Restis family. The shares were offered to the public at \$18.00 per share and the offering was concluded on February 3, 2010, raising net proceeds amounted to \$26,381. On March 19, 2010, an additional 129,667 shares of the Company's common stock were acquired by the underwriters which resulted in additional net proceeds to the Company of approximately \$2,145.

On September 15 and October 22, 2010, the Company issued 1,650,794 shares in connection with the acquisition of the remaining 49% of MCS and 1,650,794 shares in connection with the acquisition of the remaining 50% of BET.

On June 23, 2011, the Board of Directors approved a reverse split of the Company's common stock at a ratio of one-for-fifteen. The reverse stock split became effective on June 24, 2011 and the Company's common stock began trading on a split-adjusted basis at the opening of trading on June 27, 2011. There was no change in the number of authorized shares or the par value of the Company's common stock. Following the effectiveness of the reverse stock split, the number of common shares issued, earnings per share, warrants and share options were retrospectively adjusted in accordance with the 1:15 ratio for all periods presented.

On February 23, 2011, the Company issued 3,332 unvested shares in connection with the Equity Incentive Plan (Note 22). On January 10, 2012 and on January 10, 2013, 1,114 and 1,110 shares of common stock out of the 3,332 unvested shares that were issued on February 23, 2011, vested to the respective shareholders.

On January 4, 2012, the Company entered into a registration rights agreement in connection with a share purchase agreement under which the Company sold 4,641,620 of its common shares to four entities affiliated with the Restis family, for \$10,000 (Note 3(a)).

On January 24, 2012, the Company was notified by NASDAQ that it was no longer in compliance with NASDAQ Listing Rule 5450(b)(1)(C) because the market value of the publicly held shares of its common stock for 30 consecutive business days, from December 6, 2011 to January 23, 2012 had been below the minimum \$5,000 market value of publicly held shares requirement for continued listing on the NASDAQ Global Market. This notification had no effect on the listing of the Company's common stock, and the applicable grace period to regain compliance was 180 calendar days, expiring on July 23, 2012. The Company regained compliance at the end of February 2012, when during the applicable grace period the Company's minimum market value of the publicly held shares was \$5,000 or greater for a minimum of ten consecutive business days.

On June 29, 2012, the Company was notified by NASDAQ that it was no longer in compliance with NASDAQ Listing Rule 5450(b)(1)(C) because the market value of the publicly held shares of its common stock for 30 consecutive business days, from May 16, 2012 to June 28, 2012, had been below the minimum \$5,000 market value of publicly held shares requirement for continued listing on the NASDAQ Global Market. The applicable grace period to regain compliance was 180 calendar days, expiring on December 26, 2012. Prior to the expiration of this grace period, the Company transferred the listing of its common stock to the NASDAQ Capital Market, effective on December 21, 2012.

**(b) Warrants and Unit Purchase Option**

In connection with the public offering of January 28, 2010, the Company granted 1,041,667 warrants with an exercise price of \$19.80 each on February 3, 2010 and on March 19, 2010, Seanergy granted 97,250 additional warrants. The fair value of these warrants amounted to \$1,053. The warrants were exercisable beginning on August 3, 2010 and expire on February 2, 2015. No expenses were recorded in connection with these warrants which were classified in equity.

Following the Company's reverse stock split in June 2011, with respect to the warrants from the Company's 2010 secondary offering, as a result of the reverse stock split, each warrant now reflects an increase in the per share exercise price and a decrease in the number of warrant shares at the same proportion as the reverse stock split. Accordingly, each warrant is now exercisable for one-fifteenth of a share, following the reverse stock split at an exercise price of \$19.80 for each such warrant share.

The underwriters of the Company's initial public offering on September 28, 2007, did not exercise the Unit Purchase Option offered by the Company in connection to that initial public offering and the option expired on September 24, 2012.

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As of December 31, 2012, the Company had outstanding underwriters' warrants exercisable to purchase an aggregate of approximately 75,927 shares of Seanergy's common stock.

**(c) Preferred Stock**

On August 4, 2011, the Company amended its Articles of Incorporation to increase the number of authorized preferred stock with par value \$0.0001 per share from 1,000,000 to 25,000,000, with such designations, voting and other rights and preferences, as may be determined from time to time by the Board of Directors. As of December 31, 2012 and as of December 31, 2011, no shares of preferred stock have been issued.

**(d) Dividends**

The declaration and payment of any dividend is subject to the discretion of Seanergy's board of directors and is dependent upon its earnings, financial condition, cash requirements and availability and restrictions in its loan agreements. As of December 31, 2012 and December 31, 2011, no dividends were declared.

**17. Direct Voyage Expenses and Vessel Operating Expenses:**

Direct voyage expenses are analyzed as follows:

	2012	2011	2010
Bunkers	10,736	905	1,638
Port expenses	1,609	901	495
Commissions	266	437	159
Other	976	298	107
<b>Total</b>	<b>13,587</b>	<b>2,541</b>	<b>2,399</b>

Vessel operating expenses are analyzed as follows:

	2012	2011	2010
Crew wages and related costs	13,670	16,423	14,095
Chemicals and lubricants	2,831	3,546	3,412
Repairs and maintenance	6,592	9,735	9,475
Insurance	2,791	3,490	2,825
Miscellaneous expenses	1,099	1,533	860
<b>Total</b>	<b>26,983</b>	<b>34,727</b>	<b>30,667</b>

**18. General and Administration Expenses:**

General and administrative expenses are analyzed as follows:

	2012	2011	2010
Auditors' and accountants' fees	712	752	994
Professional services	2,142	1,844	1,615
Salaries, BOD remuneration and other compensation	2,210	3,219	3,159
Directors and Officers Insurance	137	173	166
Other	1,136	2,082	1,672
<b>Total</b>	<b>6,337</b>	<b>8,070</b>	<b>7,606</b>

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Other expenses are analyzed as follows:

	2012	2011	2010
Seanergy's executive office expenses	136	110	134
MCS office rent	112	561	654
Travel and transportation	132	236	116
Subscriptions	94	146	118
Other	662	1,029	650
Total	<u>1,136</u>	<u>2,082</u>	<u>1,672</u>

**19. General and Administration Expenses – Related Party:**

General and administrative expenses-related party are analyzed as follows:

	2012	2011	2010
Office rental (Note 3(d))	402	603	697
Total	<u>402</u>	<u>603</u>	<u>697</u>

**20. Interest and Finance Costs:**

Interest and finance costs are analyzed as follows:

	2012	2011	2010
Interest on long-term debt	9,602	9,926	9,078
Interest on revolving credit facility	2,252	2,330	2,259
Amortization of debt issuance costs	466	657	738
Restructuring fees on acquired debt	-	407	705
Other	160	162	151
Total	<u>12,480</u>	<u>13,482</u>	<u>12,931</u>

**21. (Loss) / Earnings per Share:**

The calculation of net (loss) / earnings per common share is summarized below:

	2012	2011	2010
Net (loss) / income attributable to Seanergy Maritime Holdings Corp.	<u>(193,768)</u>	<u>(197,756)</u>	<u>132</u>
Weighted average common shares outstanding – basic and diluted	<u>11,576,576</u>	<u>7,314,636</u>	<u>5,861,129</u>
Net (loss) / earnings per common share – basic and diluted	<u>\$ (16.74)</u>	<u>\$ (27.04)</u>	<u>\$ 0.02</u>

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Non-vested shares issued under the Equity Incentive Plan (Note 22) of 2,218 and 3,332 are excluded from the diluted EPS calculation for the years ended December 31, 2012 and 2011, respectively, due to their anti-dilutive effect.

As of December 31, 2012, 2011 and 2010 all outstanding warrants to acquire 1,138,917, 1,138,917 and 2,674,906 shares of common stock, respectively, were anti-dilutive. The underwriters' purchase options (common shares of 66,667 and warrants of 1,000,000 which expired in September 24, 2012 were also anti-dilutive for the years ended December 31, 2011 and 2010.

Thus, as of December 31, 2012, 2011 and 2010, securities that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS as mentioned above are:

Private warrants	1,138,917
Non-vested shares	2,218
Total	<u>1,141,135</u>

**22. Equity Incentive Plan:**

On January 12, 2011, the Board adopted the Seanergy Maritime Holdings Corp. 2011 Equity Incentive Plan ("Plan"). A total of 8,750,000 shares of common stock were reserved for issuance under the Plan, which is administered by the Compensation Committee of the Board of Directors.

On February 16, 2011, the Compensation Committee granted an aggregate of 3,332 restricted shares of common stock, pursuant to the Plan. Of the total 3,332 shares, 2,667 shares were granted to Seanergy's two executive directors and the other 665 shares were granted to certain of Seanergy's other employees. The fair value of each share on the grant date was \$13.28 and is expensed over three years. All the shares vest proportionally over a period of three years, commencing on January 10, 2012. On January 10, 2012, 1,114 shares were issued and on January 10, 2013, 1,110 shares were issued.

In May 2012, the total number of shares originally reserved under the Plan was adjusted to 583,334 shares to reflect the Reverse Stock Split. Under the Plan, officers, key employees, directors, consultants and service providers may be granted incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, unrestricted stock and restricted stock units at the discretion of the Compensation Committee.

The amortization of stock based compensation for the years ended December 31, 2012 and 2011 amounted to \$15 and \$14, respectively and is recorded in general and administrative expenses (Note 18).

**23. Subsequent Events:**

The Company has evaluated subsequent events that occurred after the balance sheet date but before the issuance of these consolidated financial statements and, where it was deemed necessary, appropriate disclosures have been made.

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- a) On January 29, 2013, MCS sold its 100% ownership interest in the four subsidiaries that owned the Handysize dry bulk carriers Fiesta, Pacific Fantasy, Pacific Fighter and Clipper Freeway. The buyer is a third-party nominee of the lenders under the senior secured credit facility with DVB, as agent. MCS had provided a guarantee under this facility, and in exchange for the sale, approximately \$30,287 of outstanding debt was discharged. In addition, the guarantee provided by MCS was fully released. In connection with the sale of the subsidiaries, the Company's Board of Directors obtained a fairness opinion from an independent third party.

The Company estimated the historical carrying values of the assets and liabilities sold on the date of the sale which were as follows:

Cash and restricted cash	1,902
Vessels and other assets	22,883
Long-term debt and other liabilities	(30,401)
Net liabilities	(5,616)

The Company expects to record a gain in the 2013 from the sale of the four MCS subsidiaries under the facility agreement with DVB, of \$ 5,536.

- b) On April 10, 2013, the Company sold the African Oryx, a 24,112 dwt Handysize drybulk vessel, built in 1997, at a gross price of \$4,073. The Company used the sale proceeds to repay bank debt. The sale is expected to result in an additional impairment loss of \$865 that will be recorded in 2013.
- c) The Company is currently negotiating with UOB for an agreement by which UOB will release the Company from all debt obligations of \$37,995 as of December 31, 2012 under the UOB related facility in exchange for the sale of either its 100% ownership interest in the MCS subsidiaries under the UOB loan facility or the vessels under the UOB loan facility.

In addition the Company has been negotiating with Piraeus Bank (ex CPB) to amend the terms of the term and the revolving credit facility to enable the Company to comply with certain covenants on an ongoing basis after the closing of the restructuring. The Company had outstanding indebtedness of \$138,782 as of December 31, 2012, under the two facilities with CPB., The 2012-2013 Cypriot financial crisis resulted to the downgrading of the Cyprus economy to junk and the country's inability to fund its expenses and to restructure its troubled Cypriot banks. On March 25, 2013, as part of the Cyprus international bail-in plan, Piraeus Bank of Greece has taken over the operations of the Cypriot banks in Greece, including the Greek branches of CPB. Following the takeover of CPB by Piraeus Bank the negotiations are now taking place between the Company and Piraeus Bank.

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