EUROSEAS LTD.
Form 424B3
February 06, 2006

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-129145

EUROSEAS LTD.

This prospectus relates to offers and sales from time to time by the persons identified in this prospectus of up to 7,026,993 currently outstanding shares of our common stock, par value $0.01 per share, 1,756,743 shares of our common stock issuable upon the exercise of warrants outstanding as of the date of this prospectus and up to 818,604 shares of our common stock to be issued to certain affiliates of Cove Apparel Inc. (Cove) who are holders of outstanding common stock of Cove, in connection with the merger of Cove with our subsidiary, Euroseas Acquisition Company Inc. (EuroSub). We refer to each person that may sell shares under this prospectus as a selling shareholder. This is the initial public offering of our common stock. This prospectus does not cover the issuance of any shares of common stock by us. We have agreed to pay all expenses incurred in connection with the registration of the shares of common stock covered by this prospectus.

Our common stock is not currently listed on any United States of America national stock exchange or the Nasdaq Stock Market. We have filed an application to list our common stock on the Nasdaq National Market and have reserved the symbol ESEA. We cannot assure you that such listing will be obtained. If such listing is not obtained, we will seek to list our common stock on the OTC Bulletin Board or another exchange. On August 25, 2005, we entered into a merger agreement with Cove. Cove s common stock is traded on the OTC Bulletin Board under the symbol CVAP.OB. Under the merger agreement, the Cove stockholders will receive 0.102969 shares of our common stock for each share of Cove common stock owned. On February 2, 2006, the last reported sales price for Cove s common stock was $0.70. Based upon the exchange ratio under the merger agreement, we anticipate that the price of our common stock would be $6.80.

Based on the above, the selling shareholders will sell their shares at a price of between $5.00 to $7.00 per share until our shares are quoted on the Nasdaq National Market or the OTC Bulletin Board, and thereafter, at prevailing market prices or privately negotiated prices. The selling shareholders may sell the shares of common stock to or through underwriters, brokers or dealers or directly to purchasers. Underwriters, brokers or dealers may receive discounts, commissions or concessions from the selling shareholders, purchasers in connection with sales of the shares of common stock, or both. Additional information relating to the distribution of the shares of common stock by the selling shareholders can be found in this prospectus under the heading Plan of Distribution. If underwriters or dealers are involved in the sale of any securities offered by this prospectus, their names, and any applicable purchase price, fee, commission or discount arrangement between or among them, will be set forth, or will be calculable from the information set forth, in an updated prospectus that will be included in a post-effective amendment to the registration statement. Any other material changes to the prospectus will also be included in a post-effective amendment to the registration statement.

We will not receive any proceeds from sales of shares of our common stock by the selling shareholders.

Investing in our common stock involves risks. Please see Risk Factors beginning on page 7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 6, 2006

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC. Under this registration process, the selling shareholders referred to in this prospectus may offer and sell from time to time up to 7,026,993 currently outstanding shares of our common stock, 1,756,743 shares of our common stock issuable upon the exercise of warrants outstanding at an exercise price of $3.60 per share and held by the selling shareholders as of the date of this prospectus and 818,604 shares of our common stock to be issued to certain affiliates of Cove who are holders of outstanding common stock of Cove, in connection with the merger of Cove with EuroSub.

This prospectus does not cover the issuance of any shares of common stock by us, and we will not receive any of the proceeds from any sale of shares by the selling shareholders. We have agreed to pay all expenses incurred in connection with the registration of the shares of common stock covered by this prospectus.

Information about the selling shareholders may change over time. Any changed information given to us by the selling shareholders will be set forth in a prospectus supplement if and when necessary. Further, in some cases, the selling shareholders will also be required to provide a prospectus supplement containing specific information about the terms on which they are offering and selling our common stock. If a prospectus supplement is provided and the description of the offering in the prospectus supplement varies from the information in this prospectus, you should rely on the information in the prospectus supplement.

HOW TO OBTAIN ADDITIONAL INFORMATION

This prospectus incorporates important business and financial information about us that is not included in or delivered with the document. If you would like to receive this information or if you want additional copies of this document, such information is available without charge upon written or oral request. Please contact the following:

Euroseas Ltd.
Aethrion Center
40 Ag. Konstantinou Street
151 24 Maroussi
Greece
Attn: Aristides J. Pittas
Telephone: 011 30 210 6105110
or
Euroseas Ltd.
Mr. Anastasios Aslidis
2693 Far View Drive
Mountainside, New Jersey 07092
Telephone: (908) 301-9091

Please see Where You Can Find Additional Information to find out where you can find more information about us.

You should only rely on the information contained in this prospectus. We have not authorized anyone to give any information or to make any representations other than those contained in this prospectus. Do not rely upon any information or representations made outside of this prospectus. The information contained in this prospectus may change after the date of this prospectus. Do not assume after the date of this prospectus that the information contained in this prospectus is still correct.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus but may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire prospectus. In this prospectus, the words Euroseas, Company, we, our, ours and us refer to Euroseas Ltd., and its subsidiaries, unless otherwise stated or the context requires.

The Offering

The selling shareholders named in this prospectus are offering up to 7,026,993 currently outstanding shares of our common stock, par value $0.01 per share, 1,756,743 shares of our common stock issuable upon the exercise of warrants outstanding as of the date of this prospectus and up to 818,604 shares of our common stock to be issued to certain affiliates of Cove who are holders of outstanding common stock of Cove, in connection with the merger of Cove with EuroSub. We will not receive any of the proceeds from the sale of the shares. Each selling shareholder will sell the shares whenever it chooses to do so at varying prices to be determined at the time of each sale either based upon prevailing market conditions or at negotiated prices. Various factors were considered in determining the offering price of our securities, such as our revenues and net income, market conditions in the shipping industry and the stock prices and valuations of other dry bulk shipping companies. Other factors include the price of the shares and warrants we issued in our private placement transaction. In the private placement, we issued 7,026,993 shares of common stock at a price of $3.00 per share, as well as warrants to purchase an additional 1,756,743 shares of common stock. The warrants have a five year term and an exercise price of $3.60. In addition, on August 25, 2005, we entered into a merger agreement with Cove. Cove s common stock is traded on the OTC Bulletin Board under the symbol CVAP.OB. Under the merger agreement, the Cove stockholders will receive 0.102969 shares of our common stock for each share of Cove common stock owned. On February 2, 2006, the last reported sales price for Cove s common stock was $0.70. Based upon the exchange ratio under the merger agreement, we anticipate that the price of our common stock would be $6.80. However, we cannot predict at what prices our securities will be sold by the selling shareholders. This offering will continue until the earlier of (i) two years following the date the accompanying registration statement is declared effective, and (ii) such time as all securities covered by such registration statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) under the Securities Act.

Our Company

We are Euroseas Ltd., an independent commercial shipping company that operates in the drybulk and container shipping markets through our wholly-owned subsidiaries. We were formed on May 5, 2005 under the laws of the Republic of the Marshall Islands. Our principal offices are located in Maroussi, Greece and our telephone number is 011 30 210 6105110.

Our fleet consists of five drybulk carriers and three containerships with an aggregate of 190,904 deadweight tons, or dwt, for the five drybulk carriers and 66,100 dwt and 4,636 twenty-foot equivalent units, or teu, total capacity, for the three containerships. We own our eight vessels through eight separate wholly-owned subsidiaries. The names of our wholly-owned subsidiaries that own each vessel and the vessel each owns are as follows:

Owner	Country of Incorporation	Vessel Name	Flag
1) Diana Trading Ltd.	Republic of the Marshall Islands	IRINI	Marshall Islands
2) Alterwall Business Inc.	Republic of Panama	YM QINGDAO I	Panamanian
3) Allendale Investments S.A.	Republic of Panama	KUO HSIUNG	Panamanian
4) Alcinoe Shipping Limited	Republic of Cyprus	PANTELIS P.	Cypriot
5) Searoute Maritime Limited	Republic of Cyprus	ARIEL	Cypriot
6)	Republic of Cyprus	JOHN P.	Cypriot

	Oceanpride Shipping Limited			
7)	Oceanopera Shipping Limited	Republic of Cyprus	NIKOLAOS P.	Cypriot
8)	Salina Shipholding Corp.	Republic of the Marshall Islands	ARTEMIS	Marshall Islands

1

Table of Contents

Our Fleet

The following table presents certain information concerning our current fleet:

Vessel	Dwt	Country Built	Year Built	Type	TEU Capacity
IRINI	69,734	Japan	1988	Dry Bulk	N/A
YM QINGDAO I	18,253	Japan	1990	Containership	1,269
KUO HSIUNG	18,154	Japan	1993	Containership	1,269
PANTELIS P.	26,354	Scotland	1981	Dry Bulk	N/A
ARIEL	33,712	Japan	1977	Dry Bulk	N/A
JOHN P.	26,354	Scotland	1981	Dry Bulk	N/A
NIKOLAOS P.	34,750	Spain	1984	Dry Bulk	N/A
ARTEMIS	29,693	Croatia	1987	Containership	2,098

Management of Our Fleet

The operations of our vessels are managed by Eurobulk Ltd., or Eurobulk, an affiliated company, under management contracts with each ship-owning company. These services include technical management, such as managing day-to-day vessel operations including supervising the crewing, insuring the fleet, supplying, maintaining and drydocking of vessels, commercial management regarding identifying suitable vessel charter opportunities and certain accounting services.

Our Competitive Strengths

We believe that we possess the following competitive strengths:

Experienced Management Team. Our management team has significant experience in operating drybulk carriers and expertise in all aspects of commercial, technical, operational and financial areas of our business. Our main shareholding family has over 100 years experience in shipping and enjoys a well established reputation. The Pittas family roots in shipping go back four generations to the 19th century. Nikolaos Pittas started the family business more than 125 years ago and has been followed by his sons and his grandsons, one of whom is Mr. John Pittas, a controlling shareholder of Friends Investment Company Inc. (Friends), the largest shareholder of Euroseas. Aristides J. Pittas, his son, is the CEO, President, Chairman of the Board and a Director of Euroseas. Aristides P. Pittas, his nephew, is the Vice-Chairman of the Board and a Director of Euroseas. This experience enables management, among other things, to identify suitable shipping opportunities and time its investments in an efficient manner.

Strong Customer Relationships. Through Eurobulk, our ship management company, and Eurochart, our chartering broker, we have many long-established customer relationships with major charterers and shipping pools (Klaveness), and we believe we are well regarded within the international shipping community.

Profitable Operations to Date. The Pittas family, the principal owners of Eurobulk and of our largest shareholder, has operated vessels over the past 125 years. The vessels have been operated through various partnerships and different entities over these years. In 1995, the Pittas family separated its interests from Oceanbulk Maritime S.A. and formed Eurobulk in order to manage and operate its own vessels. Since the inception of Eurobulk, all vessel acquisitions have been profitable and the group s results, on a consolidated basis, have been profitable for each of the last five years. This was achieved by carefully selecting secondhand vessels, competitively commissioning and actively supervising cost-efficient shipyards to perform repairs, reconditioning and systems upgrading work, together with a proactive preventive maintenance program both ashore and at sea, and employing professional, well-trained masters, officers and crews. We believe that this combination allows us to minimize off-hire periods, effectively manage insurance costs, and control overall operating expenses.

2

Table of Contents

Our Business Strategy

Our business strategy is focused on providing consistent shareholder returns by carefully selecting the timing and the structure of our investments in drybulk and feeder containership vessels and by reliably, safely and competitively operating the vessels we own, through our affiliate, Eurobulk. Representing a continuous shipowning and management history that dates back to the 19th century, we believe that one of our advantages in the industry is our ability to select and safely operate dry bulk and containership vessels of any age. We continuously evaluate sale-and-purchase opportunities, as well as long term employment opportunities for our vessels. Additionally, with the proceeds from our recent private placement transaction, we plan to expand our fleet to increase our revenues and make our drybulk carrier and containership feeder fleet more cost efficient and more attractive to our customers. In furtherance of our business strategy, we signed a memorandum of agreement to purchase a containership called m/v *Roseleen* (ex *Sea Arrow*, to be renamed *Artemis*) that was built in 1987, with 2,098 teu. The vessel was delivered into our fleet on November 25, 2005. The vessel cost approximately $20.65 million and was initially paid for through the proceeds of the Private Placement and our working capital. On December 28, 2005, we concluded debt financing for $15.5 million to fund part of the acquisition of the vessel. We are presently in negotiations for the purchase of additional vessels but none of these negotiations has yet resulted in a binding contract.

Dividend Policy

Our policy is to declare and pay quarterly dividends to shareholders from our net profits each February, May, August and November, in amounts the Board of Directors may from time to time determine are appropriate. The timing and amount of dividend payments will be dependent upon our earnings, financial condition, cash requirements and availability, restrictions in our loan agreements, growth strategy, the provisions of Marshall Islands law affecting the payment of distributions to shareholders and other factors, such as the acquisition of additional vessels. However, we do not believe that the acquisition of vessels to our fleet will impact our dividend policy of paying quarterly dividends to our shareholders out of our net profits. We believe that the addition of vessels to our fleet in the future should enable us to pay a higher dividend per share than we would otherwise be able to pay without additional vessels since such additional vessels should increase our earnings. However, we cannot give any current estimate of what dividends may be in the future since any such dividend amounts will depend upon the amount of revenues those vessels are able to generate and the costs incurred in operating such vessels. The payment of dividends is not guaranteed or assured, and may be discontinued at any time at the discretion of our Board of Directors.

Recent Developments

Private Placement

On August 25, 2005, we raised approximately $21 million in gross proceeds from the Private Placement of our securities to a number of institutional and accredited investors. In the Private Placement, we issued 7,026,993 shares of common stock at a price of $3.00 per share, as well as warrants to purchase an additional 1,756,743 shares of common stock. The warrants have a five year term and an exercise price of $3.60 per share. As a condition to the Private Placement, we agreed to execute a merger agreement with Cove.

Merger with Cove

Considering the size of our company and the number of shareholders, our placement agent, Roth Capital, advised us that a merger with a public shell company, such as Cove, was necessary to have a successful Private Placement. Roth Capital advised us that the merger with Cove would give us access to a company with a public listing whose shares could trade and help develop a market for our common stock. It would also increase the number of shareholders that could participate in the merger and become Euroseas shareholders, thus increasing the likelihood of obtaining a listing on a national stock exchange and providing greater liquidity for the shareholders. This type of transaction would also reduce the uncertainty attendant to an underwritten initial public offering and the possibility that any such offering might not be successfully consummated in view

Table of Contents

of our size and the then prevailing market conditions. As part of the Private Placement transaction documents, the investors included a condition that we enter into such a merger agreement. The Private Placement would not have occurred unless we agreed to enter into the merger with Cove.

On August 25, 2005, Cove, certain stockholders of Cove, referred to as the Cove Principals, EuroSub and Euroseas, signed an Agreement and Plan of Merger (the Merger Agreement), pursuant to which we, through our wholly-owned subsidiary, EuroSub, agreed to acquire Cove in exchange for shares of our common stock (the Merger). Cove s stock is listed on the OTC Bulletin Board under the symbol CVAP.OB. . Cove has nominal operations. Its revenues from inception through June 30, 2005 have been $20,966. The Merger Agreement provides for the merger of Cove into EuroSub, with Cove stockholders receiving 0.102969 shares of Euroseas common stock for each share of Cove common stock owned. The Merger is subject to a number of conditions and we cannot assure you that the Merger will be consummated. We have filed a registration statement under Form F-4 with respect to the Merger and we refer you to that registration statement for more information about the Merger.

Declaration and Payment of Dividend

Our Board of Directors recently declared a dividend in the amount of $0.07 per share which (i) was paid on or about December 19, 2005 to those holders of record of common stock of Euroseas on December 16, 2005, and (ii) (A) is payable to the stockholders of Cove who are entitled to receive shares of Euroseas common stock in connection with Cove s merger with EuroSub, with such payment being made only to those holders of record of Cove common stock as of the effective date of the merger and such dividend payment being made upon exchange of their Cove shares for shares of Euroseas common stock (assuming such merger is consummated), or (B) is payable to Friends if such merger is not consummated since Friends will be issued the shares that would have otherwise been issued in the Merger.

Authorization Of 1:2 Reverse Stock Split

On November 2, 2005, our Board of Directors authorized a 1:2 reverse stock split. Management was authorized to decide not to proceed with the reverse stock split if it determines that it is no longer in the best interests of the Company and its shareholders. No date for the split has been set and management has not indicated whether it will or will not proceed with the split. No effect has been given in this prospectus to the proposed reverse stock split.

Acquisition of Vessel

On November 25, 2005 we took delivery of a containership called m/v *Roseleen* (ex *Sea Arrow*, to be renamed *Artemis*) that was built in 1987, with 2,098 teu and 29,693 dwt. The purchase price of the vessel was approximately $20.65 million as compared to a book value of $32.98 million of our other seven vessels as of June 30, 2005, and reflects the type and age of the vessel and market conditions at the time of the acquisition.

M/V *Artemis* is larger but older than our other two containerships. It is larger than three of our dry bulk carriers in terms of dwt capacity and younger than four of our dry bulk carriers. Generally, the larger and younger a vessel is, the higher its market value. Additionally, containerships are typically more expensive than dry bulk carriers of the same age and size (in terms of dwt capacity). Furthermore, vessel market values and rates during 2005 have been significantly higher than in the period 1993-2002 for both containerships and dry bulk carriers. All of these factors explain the higher book value of m/v *Artemis* as compared to our other vessels which were purchased over the period 1993-2002 at different market conditions and have since been depreciated as required.

The acquisition of m/v *Artemis* increases our containership fleet to three vessels, all under long term charters, and expands the fixed revenue base of our operations. The acquisition was initially to be paid for with the proceeds of the Private Placement and our working capital. On December 28, 2005, we concluded debt financing for $15.5 million to fund part of the acquisition of the vessel. We are presently in negotiations for the purchase of additional vessels but none of these negotiations has yet resulted in a binding contract.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL DATA

The following information shows summary historical financial data for Euroseas. We derived this information from our audited financial statements for the years ended December 31, 2002, 2003 and 2004 included in this prospectus and our unaudited financial statements for the six months ended June 30, 2004 and 2005 also included in this prospectus. The information is only a summary and should be read in conjunction with our historical financial statements and related notes, and our Management s Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere herein. The historical results included below and elsewhere in this prospectus are not indicative of our future performance.

Euroseas Ltd. Summary Historical Financials	Year Ended December 31, 2002	2003	2004	Six Months Ended June 30, 2004	2005
	(All amounts in U.S. dollars)				
Statement of Income Data					
Voyage revenue	15,291,761	25,951,023	45,718,006	21,321,769	23,833,736
Commissions	(420,959)	(906,017)	(2,215,197)	(1,018,218)	(1,340,228)
Voyage expenses	531,936	436,935	370,345	60,829	131,903
Vessel operating expenses	7,164,271	8,775,730	8,906,252	4,727,324	4,270,787
Management fees	1,469,690	1,722,800	1,972,252	1,007,771	965,384
Amortization and depreciation(1)	4,053,049	4,757,933	3,461,678	1,640,565	1,824,322
Net gain on sale of vessel			2,315,477	2,315,477	
Interest and finance cost	(799,970)	(793,257)	(708,284)	(297,916)	(545,719)
Derivative gain/(loss)			27,029	11,000	(82,029)
Foreign exchange gain/(loss)	2,849	(690)	(1,808)	(3,734)	312
Interest income	6,238	36,384	187,069	18,535	89,698
Other income/(expenses), net	(790,883)	(757,563)	(495,994)	(272,115)	(537,738)
Equity in earnings/(losses)	30,655	(167,433)			
Net income for the period	891,628	8,426,612	30,611,765	14,910,424	14,763,374
Balance Sheet Data (at period end)					
Current Assets	3,192,345	9,409,339	16,461,159	12,404,490	11,276,109
Vessels, net book value	45,254,226	41,096,067	34,171,164	35,434,642	32,978,300
Deferred charges, net	596,262	929,757	2,205,178	1,996,885	2,357,775
Investment in associate	1,216,289	22,856			
Total assets	50,259,121	51,458,019	52,837,501	49,836,017	46,612,184
Current liabilities, including current portion of long-term debt	10,878,488	8,481,773	13,764,846	10,332,710	18,341,155
Long-term debt, including current portion	23,845,000	20,595,000	13,990,000	15,126,220	41,400,000
Common stock	297,542	297,542	297,542	297,542	297,542
Total shareholders equity	21,285,634	27,486,246	31,112,655	30,634,170	1,651,029
Other Financial Data					
Net cash provided by operating activities	5,631,343	10,956,132	34,208,693	13,382,837	8,157,781
Net cash paid to (received from) related party	(177,169)	482,778	(3,541,236)	(108,277)	8,621,660
Net cash from investing activities	(17,036,079)	214,832	6,756,242	6,722,524	(1,230,155)
Net cash used in financing activities	12,247,355	(4,778,000)	(33,567,500)	(17,231,280)	(16,972,500)
Earnings per share, basic and diluted	0.03	0.28	1.03	0.50	0.50

Cash Dividends/Return of capital, declared per common share	0.02	0.04	0.91	0.40	1.49
Weighted average number of shares outstanding during the period	29,754,166	29,754,166	29,754,166	29,754,166	29,754,166
Cash paid for common stock dividend declared/return of capital	687,500	1,200,000	26,962,500	11,762,500	44,225,000(2)

Table of Contents

(1) In 2004, the estimated scrap value of the vessels was increased from $170 to $300 per light ton to better reflect market price developments in the scrap metal market. The effect of this change in estimate was to reduce 2004 depreciation expense by $1,400,010 and increase 2004 net income by the same amount. In addition, in 2004, the estimated useful life of the vessel m/v *Ariel* was extended from 28 years to 30 years since the vessel performed dry-docking in the current year and it is not expected to be sold until year 2007. M/V *Widar* was sold in April 2004. Depreciation expense for m/v *Widar* for the year ended December 31, 2004 amounted to $136,384 compared to $409,149 in 2003.

(2) This amount reflects a dividend in the amount of $27,525,000 and a return of capital in the amount of $16,700,000. The total payment to shareholders made in 2005 is in excess of previously retained earnings because the Company decided to distribute to its original shareholders in advance of going public most of the profits relating to the Company s operations up to that time and to recapitalize the Company. This one-time dividend cannot be considered indicative of future dividend payments and the Company refers you to the other sections in this prospectus for a clearer understanding of the Company s dividend policy.

Table of Contents

RISK FACTORS

Any investment in our stock involves a high degree of risk. You should consider carefully the following factors, as well as the other information set forth in this prospectus, before making an investment in our common stock. Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate to the securities market for and ownership of our common stock. Any of the risk factors could significantly and negatively affect our business, financial condition, operating results and common stock price. The following risk factors describe the material risks that are presently known to us.

Risk Factors Relating To Our Common Stock

There may not be an active market for our shares, which may cause our shares to trade at lower prices and make it difficult to sell your shares.

There is currently no public market for our shares. We cannot assure you that we will be successful in obtaining a public listing for our stock or that an active trading market for our shares will develop or be sustained. We cannot predict at this time how actively our shares will trade in the public market or whether the price of our shares in the public market will reflect our actual financial performance.

The price of our shares may be volatile and less than you originally paid for such shares.

The price of our shares may be volatile, and may fluctuate due to factors such as:

- actual or anticipated fluctuations in quarterly and annual results;
- mergers and strategic alliances in the shipping industry;
- market conditions in the industry;
- changes in government regulation;
- fluctuations in our quarterly revenues and earnings and those of our publicly held competitors;
- shortfalls in our operating results from levels forecasted by securities analysts;
- announcements concerning us or our competitors; and
- the general state of the securities markets.

The international drybulk and containership shipping industries have been highly unpredictable and volatile. The market for common shares of companies in these industries may be equally volatile. Our shares may trade at prices lower than you originally paid for such shares.

Our Articles of Incorporation and Bylaws contain anti-takeover provisions that may discourage, delay or prevent (1) our merger or acquisition and/or (2) the removal of incumbent directors and officers.

Our current Articles of Incorporation and Bylaws contain certain anti-takeover provisions. These provisions include blank check preferred stock, the prohibition of cumulative voting in the election of directors, a classified board of directors, advance written notice for shareholder nominations for directors, removal of directors only for cause, advance written notice of shareholder proposals for the removal of directors and limitations on action by shareholders. These provisions, either individually or in the aggregate, may discourage, delay or prevent (1) our merger or acquisition by means of a tender offer, a proxy contest or otherwise, that a shareholder may consider in its best interest and (2) the removal of incumbent directors and officers.

Table of Contents

Industry Risk Factors

The cyclical nature of the shipping industry may lead to volatile changes in freight rates which may reduce our revenues and net income.

We are an independent shipping company that operates in the drybulk and containership shipping markets. Our profitability is dependent upon the freight rates we are able to charge. The supply of and demand for shipping capacity strongly influences freight rates. The demand for shipping capacity is determined primarily by the demand for the type of commodities carried and the distance that those commodities must be moved by sea. The demand for commodities is affected by, among other things, world and regional economic and political conditions (including developments in international trade, fluctuations in industrial and agricultural production and armed conflicts), environmental concerns, weather patterns, and changes in seaborne and other transportation costs. The size of the existing fleet in a particular market, the number of new vessel deliveries, the scrapping of older vessels and the number of vessels out of active service (i.e., laid-up, drydocked, awaiting repairs or otherwise not available for hire), determines the supply of shipping capacity, which is measured by the amount of suitable tonnage available to carry cargo. The cyclical nature of the shipping industry may lead to volatile changes in freight rates which may reduce our revenues and net income.

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, normal maintenance and insurance coverage, the efficiency and age profile of the existing fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These factors influencing the supply of and demand for shipping capacity are outside of our control, and we cannot predict the nature, timing and degree of changes in industry conditions. Some of these factors may have a negative impact on our revenues and net income.

The value of our vessels may fluctuate, adversely affecting our earnings, liquidity and causing it us breach our secured credit agreements.

The market value of our vessels can fluctuate significantly. The market value of our vessels may increase or decrease depending on the following factors:

- general economic and market conditions affecting the shipping industry;
- supply of drybulk and containership vessels;
- demand for drybulk containership vessels;
- types and sizes of vessels;
- other modes of transportation;
- cost of newbuildings;
- new regulatory requirements from governments or self-regulated organizations; and
- prevailing level of charter rates.

As vessels grow older, they generally decline in value. Due to the cyclical nature of the drybulk and container vessel markets, if for any reason we sell vessels at a time when prices have fallen, we could incur a loss and our business, results of operations, cash flow, financial condition and ability to pay dividends could be adversely affected.

Due to the fact that 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, any determination that a vessel s remaining useful life and earnings requires an impairment of its value on our financial statements could result in a charge against our earnings and a reduction in our shareholders equity. Any change in the assessed value of any of our vessels might cause a violation of the covenants of each secured credit agreement which in turn

Table of Contents

might restrict our cash and affect our liquidity. All of our credit agreements provide for a minimum security maintenance ratio. If the assessed value of our vessels declines below certain thresholds, we will be deemed to have violated these covenants and may incur penalties for breach of our credit agreements. For example, these penalties could require us to prepay the shortfall between the assessed value of our vessels and the value such vessels are required to maintain pursuant to the secured credit agreement, or to provide additional security acceptable to the lenders in an amount at least equal to the amount of any shortfall. Further, future loans that we may agree to may include various other covenants, in addition to the vessel-related ones, that may ultimately depend on the assessed values of our vessels. Such covenants include, but are not limited to, maximum fleet leverage covenants and minimum fair net worth covenants. If for any reason we sell our vessels at a time when prices have fallen, the sale may be less than such vessel s carrying amount on our financial statements, and we would incur a loss and a reduction in earnings.

Although charter rates in the international shipping industry reached historic highs recently, future profitability will be dependent on the level of charter rates and commodity prices.

Charter rates for the international shipping industry have reached record highs during the past year; however, recently rates have declined. We anticipate that the future demand for our drybulk carriers and containership vessels and the charter rates of the corresponding markets will be dependent upon continued economic growth in China, India and the world economy, seasonal and regional changes in demand, and changes to the capacity of the world fleet. The capacity of the world fleet seems likely to increase and there can be no assurance that economic growth will continue. Adverse economic, political, social or other developments could also have a material adverse effect on our business and results of operations. If the number of new ships delivered exceeds the number of vessels being scrapped and lost, vessel capacity will increase. For instance, given that as of the end of 2004 the capacity of the worldwide container vessel fleet was approximately 7.4 million teu, with approximately 3.4 million teu of additional capacity on order, the growing supply of container vessels may exceed future demand, particularly in the short term. If the supply of vessel capacity increases but the demand for vessel capacity does not increase correspondingly, charter rates and vessel values could materially decline.

The factors affecting the supply and demand for vessels are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. Some of the factors that influence demand for vessel capacity include:

- supply and demand for drybulk and containership commodities, and separately for containerized cargo;
- global and regional economic conditions;
- the distance drybulk and containership commodities are to be moved by sea; and
- changes in seaborne and other transportation patterns.

Some of the factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- changes in environmental and other regulations that may limit the useful life of vessels;
- the number of vessels that are laid up; and
- changes in global drybulk and containership commodity production and manufacturing distribution patterns of finished goods.

An economic slowdown in the Asia Pacific region could materially reduce the amount and/or profitability of our business.

A significant number of the port calls made by our vessels involve the loading or discharging of raw materials and semi-finished products in ports in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, but particularly in China or India, may have an adverse effect on our business, financial position and results of operations, as well as our future prospects. In particular, in recent years, China has been one of the world s fastest growing economies in terms of gross domestic product. We cannot assure you that such growth will be sustained or that the Chinese economy will not experience contraction in the future. Moreover, any slowdown in the economies of the United States of America, the European Union or certain Asian countries may adversely effect economic growth in China and elsewhere. Our business, financial position and results of operations, as well as our future prospects, will likely be materially and adversely affected by an economic downturn in any of these countries.

We may become dependent on spot charters in the volatile shipping markets, which can result in decreased revenues and/or profitability.

Although most of our vessels are currently under longer term time charters, in the future, we may have more of these vessels and/or any newly acquired vessels on spot charters. The spot charter market is highly competitive and rates within this market are subject to volatile fluctuations, while longer-term time charters provide income at pre-determined rates over more extended periods of time. If we decide to 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 and dividends to our shareholders could be impaired.

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. 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 prices or useful lives 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.

The operation of our vessels is affected by the requirements set forth in the International Maritime Organization s (IMO s) International Management Code for the Safe Operation of Ships and Pollution Prevention (ISM Code). The ISM Code requires shipowners 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. The failure of a shipowner 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/or may result in a denial of access to, or detention in, certain ports. Currently, each of our vessels and Eurobulk, our ship management company, are ISM Code-certified, however, there can be no assurance that such certification will be maintained indefinitely.

Although the United States of America is not a party, many countries have ratified and follow the liability scheme adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (the CLC), and the Convention for the Establishment of an International Fund for Oil Pollution of 1971, as amended. Under these conventions, a vessel s registered owner is strictly liable for pollution damage caused on the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Many of the countries that have ratified the CLC have increased the liability limits through a 1992 Protocol to the CLC. The right to limit liability is also forfeited under the CLC where the spill is caused by the owner s actual fault or privity and, under the 1992 Protocol, where the spill is caused by the owner s intentional or reckless conduct. Vessels trading to contracting states

Table of Contents

must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

The United States Oil Pollution Act of 1990 (OPA) established an extensive regulatory and liability regime for the protection and clean-up of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States of America or any of its territories and possessions or whose vessels operate in waters of the United States of America, which includes the territorial sea of the United States of America and its 200 nautical mile exclusive economic zone. OPA allows for potentially unlimited liability without regard to fault of vessel owners, operators and bareboat charterers for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels, including bunkers (fuel), in the U.S. waters. OPA also expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution materials occurring within their boundaries.

While we do not carry oil as cargo, we do carry fuel oil (bunkers) in our drybulk carriers. We currently maintain, for each of our vessels, pollution liability coverage insurance of $1 billion per incident. If the damages from a catastrophic spill exceeded our insurance coverage, that would have a material adverse affect on our financial condition.

Capital expenditures and other costs necessary to operate and maintain our vessels may increase due to changes in governmental regulations, safety or other equipment standards.

Changes in governmental regulations, safety or other equipment standards, as well as compliance with standards imposed by maritime self-regulatory organizations and customer requirements or competition, may require us to make additional expenditures. In order to satisfy these requirements, we may, from time to time, be required to take our vessels out of service for extended periods of time, with corresponding losses of revenues. In the future, market conditions may not justify these expenditures or enable us to operate some or all of our vessels profitably during the remainder of their economic lives.

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

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

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

Rising fuel prices may adversely affect our profits.

Fuel (bunkers) is a significant, if not the largest, operating expense for many of our shipping operations when our vessels are under voyage charter. When a vessel is operating under a time charter, these costs are paid by the charterer. However fuel costs are taken into account by the charterer in determining the amount of time charter hire and therefore fuel costs also indirectly affect time charters. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Fuel prices have been at historically high levels recently, but shipowners have not really felt the effect of these high prices because the shipping markets have also been at high levels. Any increase in the price of fuel may adversely affect our profitability. Further, fuel may become much more expensive in future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

If our vessels fail to maintain their class certification and/or fail any annual survey, intermediate survey, drydocking or special survey, that vessel would be unable to carry cargo, thereby reducing our revenues and profitability and violating certain loan covenants of our third-party indebtedness.

The hull and machinery of every commercial vessel must be classed 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 Safety of Life at Sea Convention (SOLAS). Our vessels are currently classed with Lloyd s Register of Shipping, Bureau Veritas and Nippon Kaiji Kyokai. ISM and International Ship and Port Facilities Security (ISPS) certification have been awarded by Bureau Veritas and the Panama Maritime Authority to our vessels and Eurobulk.

A vessel must undergo annual surveys, intermediate surveys, drydockings and special surveys. In lieu of a special survey, a vessel s machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Every vessel is also required to be drydocked every two to three years for inspection of the underwater parts of such vessel.

If any vessel does not maintain its class and/or fails any annual survey, intermediate survey, drydocking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable which could cause us to be in violation of certain covenants in our loan agreements. 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. That status could cause us to be in violation of certain covenants in our loan agreements.

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 lienholder 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.

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.

World events outside our control may negatively affect our ability to operate, thereby reducing our revenues and net income or our ability to obtain additional financing, thereby restricting the implementation of our business strategy.

Terrorist attacks such as the attacks on the United States of America on September 11, 2001, on London, England on July 7, 2005, and the response to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets and may affect our business, results of operations and financial condition. The continuing conflict in Iraq 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 have a material adverse effect on our ability to obtain additional financing on terms acceptable to us or at all.

Terrorist attacks may also negatively affect our operations and financial condition and directly impact its vessels or its customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States of America and globally and could result in an economic recession in the United States of America or the world. Any of these occurrences could have a material adverse impact on our financial condition and costs.

Company Risk Factors

We will depend entirely on Eurobulk to manage and charter our fleet.

We currently contract the commercial and technical management of our fleet, including crewing, maintenance and repair, to Eurobulk, an affiliated company with which we are under common control. The loss of Eurobulk s services or its failure to perform its obligations to us could have a material adverse effect on our financial condition and results of our operations. Although we may have rights against Eurobulk if it defaults on its obligations to us, you will have no recourse against Eurobulk. Further, we expect that we will need to seek approval from our lenders to change Eurobulk as our ship manager.

Because Eurobulk is a privately held company, there is little or no publicly available information about it and we may get very little advance warning of operational or financial problems experienced by Eurobulk that may adversely affect us.

The ability of Eurobulk to continue providing services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair Eurobulk s financial strength. Because Eurobulk is privately held it is unlikely that information about its financial strength would become public unless Eurobulk began to default on its obligations. As a result, there may be little advance warning of problems affecting Eurobulk, even though these problems could have a material adverse effect on us.

We and our principal officers have affiliations with Eurobulk that could create conflicts of interest detrimental to us.

Our principal officers are also principals, officers and employees of Eurobulk, which is our ship management company. These responsibilities and relationships could create conflicts of interest between us and Eurobulk. Conflicts may also arise in connection with the chartering, purchase, sale and operations of the vessels in our fleet versus drybulk carriers that may be managed in the future by Eurobulk. Circumstances in any of these instances may make one decision advantageous to us but detrimental to Eurobulk and vice versa. Eurobulk does not presently manage any vessels other than those owned by Euroseas. In the past, Eurobulk has managed vessels where the Pittas family was a minority shareholder but never any where there was no Pittas participation at all. There have never been any conflicts of interest that were resolved in a manner unfavorable to Euroseas or its predecessors. However, it is possible that in the future Eurobulk may manage vessels which will not belong to Euroseas and in which the Pittas family may have controlling, little or even no power or participation and where such conflicts may arise. There can be no assurance that Eurobulk will resolve all conflicts of interest in a manner beneficial to us.

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

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 to you depends on our subsidiaries and their ability to distribute funds to us. If we are unable to obtain funds from our subsidiaries, we may be unable or our Board of Directors may exercise its discretion not to pay dividends.

We may not be able to pay dividends.

Subject to the limitations discussed below, we currently intend to pay cash dividends on a quarterly basis. However, we may incur other expenses or liabilities that would reduce or eliminate the cash available for distribution as dividends. Our loan agreements may also limit the amount of dividends we can pay under some circumstances based on certain covenants included in the loan agreements. Over the period January 1, 2002 to June 30, 2005, we paid substantially all of our net income as dividends usually on an annual basis without having been restricted by our loan agreements.

If we are not successful in acquiring additional vessels, any unused net proceeds from our recent private placement offering may be used for other corporate purposes or held pending investment in other vessels. Identifying and acquiring vessels may take a significant amount time. The result may be that proceeds of the offering are not invested in additional vessels, or are so invested but only after some delay. In either case, we will not be able to earn charterhire consistent with our current anticipations, and our profitability and our ability to pay dividends will be affected.

In addition, the declaration and payment of dividends will be subject at all times to the discretion of our Board of Directors. The timing and amount of dividends will depend on our earnings, financial condition, cash requirements and availability, restrictions in our loan agreements, growth strategy, the provisions of Marshall Islands law affecting the payment of dividends and other factors. Marshall Islands law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividends. However, there can be no assurance that dividends will be paid.

Companies affiliated with Eurobulk or our officers and directors may acquire vessels that compete with our fleet.

Companies affiliated with Eurobulk or our officers and directors own drybulk carriers and may acquire additional drybulk carriers in the future. These vessels could be in competition with our fleet and other companies affiliated with Eurobulk might be faced with conflicts of interest with respect to their own interests and their obligations to us.

If we are unable to fund our capital expenditures, we may not be able to continue to operate some of our vessels, which would have a material adverse effect on our business and our ability to pay dividends.

In order to fund our capital expenditures, we may be required to incur borrowings or raise capital through the sale of debt or equity securities. Our ability to access the capital markets through future offerings may be limited by our financial condition at the time of any such offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures would limit our ability to continue to operate some of our vessels and could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends. Even if we are successful in obtaining such funds through financings, the terms of such financings could further limit our ability to pay dividends.

If we fail to manage our planned growth properly, we may not be able to successfully expand our market share.

We intend to continue to grow our fleet. Our growth will depend on:

- locating and acquiring suitable vessels;
- identifying and consummating acquisitions or joint ventures;
- integrating any acquired business successfully with our existing operations;
- enhancing our customer base;

Table of Contents

- managing our expansion; and
- obtaining required financing.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations and difficulty experienced in (1) obtaining additional qualified personnel, (2) managing relationships with customers and suppliers and (3) integrating newly acquired operations into existing infrastructures. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with the execution of those growth plans.

A decline in the market value of our vessels could lead to a default under our loan agreements and the loss of our vessels.

We have incurred secured debt under loan agreements for our vessels and currently expect to incur additional secured debt in connection with our acquisition of other vessels. If the market value of our fleet declines, we may not be in compliance with certain provisions of our existing loan agreements and we may not be able to refinance our debt or obtain additional financing. If we are unable to pledge additional collateral, our lenders could accelerate our debt and foreclose on our fleet.

Our existing loan agreements contain restrictive covenants that may limit our liquidity and corporate activities.

Our existing loan agreements impose operating and financial restrictions on us. These restrictions may limit our ability to:

- incur additional indebtedness;
- create liens on our assets;
- sell capital stock of our subsidiaries;
- make investments;
- engage in mergers or acquisitions;
- pay dividends;
- make capital expenditures;
- change the management of our vessels or terminate or materially amend the management agreement relating to each vessel; and
- sell our vessels.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. The lenders interests may be different from our interests, and we cannot guarantee that we will be able to obtain the lenders permission when needed. This may prevent us from taking actions that are in our best interest.

Servicing future debt would limit funds available for other purposes.

To finance our fleet, we have incurred secured debt under loan agreements for our vessels. We also currently expect to incur additional secured debt to finance the acquisition of additional vessels. We must dedicate a portion of our cash flow from operations to pay the principal and interest on our debt. These payments limit funds otherwise available for working capital expenditures and other purposes. As of June 30, 2005, we had total bank debt of approximately $40 million. If we were unable to service our debt, it could have a material adverse effect on our financial condition and results of operations.

A rise in interest rates could cause an increase in our costs and have a material adverse effect on our financial condition and results of operations. We have purchased, and may purchase in the future, vessels under loan agreements that provide for periodic interest payments based on indices that fluctuate with changes in market interest rates. If interest rates increase significantly, it would increase our costs of financing our acquisition of vessels, which could have a material adverse effect on our financial condition and results of operations. Any increase in debt service would also reduce the funds available to us to purchase other vessels.

Our ability to obtain additional debt financing may be dependent on the performance of our then existing charters and the creditworthiness of our charterers.

The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional debt financing that we will require to purchase additional vessels or may significantly increase our costs of obtaining such financing. Our inability to obtain additional financing at all or at a higher than anticipated cost may materially affect our results of operation and our ability to implement our business strategy.

As we expand our business, we may need to upgrade our operations and financial systems, and add more staff and crew. If we cannot upgrade these systems or recruit suitable employees, our performance may be adversely affected.

Our current operating and financial systems may not be adequate if we expand the size of our fleet, and our attempts to improve those systems may be ineffective. In addition, if we expand our fleet, we will have to rely on Eurobulk to recruit suitable additional seafarers and shoreside administrative and management personnel. We cannot assure you that Eurobulk will be able to continue to hire suitable employees as we expand our fleet. If Eurobulk s unaffiliated crewing agent encounters business or financial difficulties, we may not be able to adequately staff our vessels. If we are unable to operate our financial and operations systems effectively or to recruit suitable employees, our performance may be materially adversely affected.

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

We may be subject to calls in amounts based not only on our claim records but also the claim records of 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 expense to us, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

Labor interruptions could disrupt our business.

Our vessels are manned by masters, officers and crews that are employed by third parties. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out normally and could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

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

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than us. Competition for the transportation of drybulk and containership cargoes can be intense and depends on price, location, size, 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 may be unable 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 depends to a significant extent upon the abilities and efforts of our management team. Our success will depend upon our ability to hire additional employees and to retain key members of our management team. 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 do not currently intend to maintain key man life insurance on any of our officers.

Risks involved with operating ocean going vessels could affect our business and reputation, which may reduce our revenues.

The operation of an ocean-going vessel carries inherent risks. These risks include, among others, 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, labor strikes or adverse weather conditions.

The involvement of any of the vessels in an environmental disaster may harm our reputation as a safe and reliable vessel operator. Any of these circumstances or events could increase our costs or lower our revenues.

Our vessels may suffer damage and it may face unexpected drydocking costs, which could affect our cash flow and financial condition.

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. We may have to pay drydocking costs that our insurance does not cover. The loss of earnings while these vessels are being repaired and reconditioned, as well as the actual cost of these repairs, would decrease our earnings.

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

Although we inspect the secondhand vessels prior to purchase, this inspection does not provide us with the same knowledge about their condition and cost of any required (or anticipated) repairs that it would have had if these vessels had been built for and operated exclusively by us. Generally, we do not receive the benefit of warranties on secondhand vessels.

In general, 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. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. If we sell vessels, we are not certain that the price for which we sell them will equal their carrying amount at that time.

We may not have adequate insurance to compensate us adequately for damage to, or loss of, our vessels.

We procure hull and machinery insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance and war risk insurance and freight, demurrage and defence insurance for our fleet. We do not maintain insurance against loss of hire, which covers business interruptions that result in the loss of use of a vessel. We can give no assurance that we are adequately insured against all risks. We

Table of Contents

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 contain deductibles for which we will be responsible and limitations and exclusions which may increase our costs or lower our revenue. Moreover, we cannot assure that the insurers will not default on any claims they are required to pay. If our insurance is not enough to cover claims that may arise, it may have a material adverse effect on our financial condition and results of operations.

Our operations outside the United States of America expose it to risks of mining, terrorism and piracy that may interfere with the operation of our vessels.

We are an international company and primarily conducts our operations outside the United States of America. Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered affect our operations. In the past, political conflicts, particularly in the Arabian Gulf, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. The likelihood of future acts of terrorism may increase, and our vessels may face higher risks of being attacked. We are not fully insured against any of these risks. In addition, future hostilities or other political instability in regions where our vessels trade could have a material adverse effect on our trade patterns and adversely affect our operations and performance.

Because the Republic of the Marshall Islands, where we are incorporated, does not have a well-developed body of corporate law, shareholders may have fewer rights and protections than under typical United States law, such as Delaware, and shareholders may have difficulty in protecting their interest with regard to actions taken by our Board of Directors.

Our corporate affairs are governed by our Articles of Incorporation and Bylaws and by the Marshall Islands Business Corporations Act (the BCA). The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States of America. 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 law 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 jurisdictions in the United States of America. Shareholder rights may differ as well. For example, under Marshall Islands law, a copy of the notice of any meeting of the shareholders must be given not less than 15 days before the meeting, whereas in Delaware such notice must be given not less than 10 days before the meeting. Therefore, if immediate shareholder action is required, a meeting may not be able to be convened as quickly as it can be convened under Delaware law. Also, under Marshall Islands law, any action required to be taken by a meeting of shareholders may only be taken without a meeting if consent is in writing and is signed by all of the shareholders entitled to vote, whereas under Delaware law action may be taken by consent if approved by the number of shareholders that would be required to approve such action at a meeting. Therefore, under Marshall Islands law, it may be more difficult for a company to take certain actions without a meeting even if a majority of the shareholders approve of such action. 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, public 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 jurisdiction in the United States of America.

Obligations associated with being a public company will require significant company resources and management attention

We have operated as a private company since our inception. We will be subject to the reporting requirements of the Exchange Act, and the other rules and regulations of the SEC, including the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We will have to dedicate a significant amount of time and resources to ensure compliance with these regulatory requirements. We have applied to list the common stock on the Nasdaq National Market and, if approved, will be subject to the listing requirements of the Nasdaq National Market. We cannot assure you that such listing will be obtained. If such listing is not obtained, we will seek to list our common stock on the OTC Bulletin Board or another exchange.

We will work with our legal, accounting and financial advisors to identify any areas in which changes should be made to our financial and management control systems to manage our growth and our obligations as a public company. We will evaluate areas such as corporate governance, corporate control, internal audit, disclosure controls and procedures and financial reporting and accounting systems. We will make changes in any of these and other areas, including our internal control over financial reporting, which we believe are necessary. However, these and other measures we may take may not be sufficient to allow us to satisfy our obligations as a public company on a timely and reliable basis. In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us and will require the time and attention of management. Our limited management resources may exacerbate the difficulties in complying with these reporting and other requirements while focusing on executing our business strategy. We cannot predict or estimate the amount of the additional costs we may incur, the timing of such costs or the degree of impact that our management s attention to these matters will have on our business.

Our historical financial and operating data may not be representative of our future results because we are a newly formed company with no operating history as a stand-alone entity or as a publicly traded company.

Our historical financial and operating data may not be representative of our future results because we are a newly formed company with no operating history as a stand-alone entity or as a publicly traded company. Our combined financial statements included in this prospectus have been carved out of the consolidated financial statements of shipowning companies managed by Eurobulk and majority owned by the Pittas family. Consistent with shipping industry practice, we have not obtained, nor do we present in this prospectus, historical operating data for our vessels prior to their acquisition. Although our results of operations, cash flows and financial condition reflected in we have combined financial statements include all expenses allocable to our business, due to factors such as the additional administrative and financial obligations associated with operating as a publicly traded company, they may not be indicative of the results of operations that we would have achieved had we operated as a public entity for all periods presented or of future results that we may achieve as a publicly traded company with our current holding company structure.

We depend upon a few significant charterers for a large part of our revenues. The loss of one or more of these charterers could adversely affect our financial performance.

We have historically derived a significant part of our revenue from a small number of charterers. Our top five customers accounted for approximately 68% of our total revenues for 2004 and 54% of our total revenues for 2003. During the first half of 2005, our top five customers accounted for 60% of our total revenues. If we lose any of these charterers, or if any of these charterers significantly reduce its use of our services or was unable to make charter payments to us, our results of operations, cash flows and financial condition would be adversely affected.

Exposure to currency exchange rate fluctuations will result in fluctuations in our cash flows and operating results.

We generate all our revenues in U.S. dollars, but our ship manager, Eurobulk, incurs approximately 30% of vessel operating expenses and we incur general and administrative expenses in currencies other than the U.S. dollar. This difference could lead to fluctuations in our vessel operating expenses, which would affect our financial results. Expenses incurred in foreign currencies increase when the value of the U.S. dollar falls, which would reduce our profitability. We do not currently engage in hedging transactions to minimize our exposure to currency rate fluctuations, but we may do so in the future.

Table of Contents

U.S. tax authorities could treat us as a passive foreign investment company, which could have adverse U.S. federal income tax consequences to U.S. holders.

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.

Based on our proposed method of operation, we do not believe that we will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time chartering activities does not constitute passive income, and the assets that we own and operate in connection with the production of that income do not constitute passive assets.

There is, however, no direct legal authority under the PFIC rules addressing our proposed method of operation. Accordingly, no assurance can be given that the U.S. Internal Revenue Service, or IRS, or a court of law will accept our 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 there were to be changes in the nature and extent of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under Tax Considerations 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 our common shares, as if the excess distribution or gain had been recognized ratably over the shareholder s holding period of our common shares. See Tax Considerations 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.

We may have to pay tax on United States source income, which would reduce our earnings.

Under the United States Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States may be subject to a 4% United States 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 recently promulgated thereunder.

Both before and after the offering, we expect that we and each of our subsidiaries qualify for this statutory tax exemption and we will take this position for United States federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption after the offering and thereby become subject to United States federal income tax on our United States source income. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status 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 2% United States federal income tax on the shipping income these companies derive during the year that are attributable to the transport or cargoes to or

Table of Contents

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.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of our operations or our performance . Words such as expects, intends, plans, believes, anticipates, estimates, and variations of such words and similar expressions are intended to identify the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include statements regarding:

- our future operating or financial results;
- future, pending or recent acquisitions, business strategy, areas of possible expansion, and expected capital spending or operating expenses; and
- drybulk and containership market trends, including charter rates and factors affecting vessel supply and demand.

We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, or the documents to which we refer you in this prospectus, to reflect any change in our expectations with respect to such statements or any change in events, conditions or circumstances on which any statement is based.

USE OF PROCEEDS

We will not receive any proceeds from sales of shares of our common stock by the selling shareholders.

CAPITALIZATION

The following table sets forth our consolidated capitalization at September 30, 2005 on a historical basis and as adjusted to give effect to the Merger.

As at September 30, 2005, the subsequent event that we have made adjustments for include:

(a) The Merger with Cove in which 1,079,167 newly issued shares are to be issued to the shareholders of Cove, when the Merger is consummated (or to Friends if the Merger is not consummated). Of this amount, 818,604 shares are to be issued to certain affiliates of Cove and are being registered for resale under this prospectus. However, for purposes of the calculations hereunder, we have used the full 1,079,167 amount since all of these shares are expected to be issued in connection with the Merger.

(b) Cash dividend of $2.65 million declared on November 2, 2005 to (i) our shareholders of record on December 16, 2005 and paid on or about December 19, 2005, and (ii) either Cove s shareholders that will exchange their shares to Euroseas shares, if the Merger with Cove is consummated, or, Friends which will be issued the shares that would have been issued to Cove s shareholders if the Merger is not consummated. None of the Company s warrants were exercised.

(c) New loan to finance acquisition of m/v *Artemis* of $15,500,000 which was drawn down of December 30, 2005; and repayments for loans outstanding as at September 30, 2005 amounting to $4,170,000.

	As of September 30, 2005	
	Actual	**As Adjusted for Subsequent Event and This Offering**
	(In U.S. dollars)	
Debt:		
Current portion of long term debt	12,854,998	14,430,000
Total long term debt, net of current portion	24,375,002	34,130,000
Total debt	37,230,000	48,560,000
Shareholders equity		
Common stock, $.01 par value; 100,000,000 shares authorized on an actual and as adjusted basis; 36,781,159 shares issued and outstanding on an actual basis; 37,860,326 shares issued and outstanding on an as adjusted basis	367,812	378,603
Additional paid-in capital	18,383,781	18,382,990
Retained earnings (deficit)	6,673,708	6,673,708
Dividend declared November 2, 2005		(2,650,223)
Total shareholders equity (deficit)	25,425,301	22,785,078
Total capitalization	62,655,301	71,345,078

DILUTION

Dilution information is provided for both subsequent events: the Private Placement and the Merger with Cove (if consummated, or the issuance of the same number of shares that would have been issued to Cove s stockholders to Friends otherwise).

At June 30, 2005, we had net tangible book value of $1.66 million, or $0.06 per share. After giving effect to the sale of 7,026,993 shares of common stock at the price of $3.00 per share and the issuance of 1,079,167 shares of common stock to the shareholders of Cove if the Merger with Cove is consummated, or to Friends if the Merger is not consummated at the rate of $3.00 per share, the pro forma net tangible book value at June 30, 2005 would have been $19.74 million or $0.52 per share. This represents an immediate appreciation in net tangible book value of $0.46 per share to existing shareholders and an immediate dilution of net tangible

Table of Contents

book value of $2.48 per share to new investors. The following table illustrates the pro forma per share dilution and appreciation at June 30, 2005:

Initial offering price per share in the Private Placement	$	3.00
Net tangible book value per share as of June 30, 2005	$	0.06
Increase in net tangible book value attributable to the new investors	$	0.46
Proforma net tangible book value per share after giving effect to this offering	$	0.52
Dilution per share to the new investors	$	2.48

Net tangible book value per share of our common stock is determined by dividing our tangible net worth, which consists of tangible assets less liabilities, by the number of shares of our common stock outstanding. Dilution is determined by subtracting the net tangible book value per share of common stock after this offering from the public offering price per share.

The following table summarizes, on a pro forma basis as at June 30, 2005, the differences between the number of shares of common stock acquired from us, the total amount paid and the average price per share paid by the existing holders of shares of common stock, Cove stockholders (in case the Merger is consummated; Friends will be issued the shares otherwise to be issued to the Cove shareholders without any consideration if the Merger is not consummated) and by the Private Placement investors based upon the Private Placement share price of $3.00 per share.

	Pro Forma Shares Outstanding		**Total Consideration**				
	Number	**Percent**		**Amount**	**Percent**		**Average Price per Share**
Existing shareholders	29,754,166	78.6%	$	1,651,029	7.3%	$	0.06
Cove shareholders	1,079,167	2.8%	$	10,000	0.0%	$	0.01
New investors	7,026,993	18.6%	$	21,080,979	92.7%	$	3.00
Total	37,860,326	100.0%	$	22,742,008	100.0%	$	0.60

The existing shareholders of the Company, owners of 29,754,166 shares, have acquired their shares by contributing the equity required to purchase the seven vessels the Company owned as of June 30, 2005, plus the m/v Widar which was sold on April 24, 2004 amounting to $18,920,778, or $0.64 per share. Over the period January 1, 2002 to June 30, 2005, the existing shareholders have received dividends and return of capital totaling $73,075,000, or $2.46 per share.

Table of Contents

SELECTED HISTORICAL FINANCIAL INFORMATION

The following information shows selected historical financial data for us. We derived this information from our audited financial statements for the years ended December 31, 2002, 2003 and 2004 included in this prospectus, and our unaudited financial statements for the six months ended June 30, 2004 and 2005 also included in this prospectus. The information is only a summary and should be read in conjunction with our historical financial statements and related notes, and our Management s Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere herein. The historical results included below and elsewhere in this prospectus are not indicative of our future performance.

EUROSEAS HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

	Year Ended December 31,			Six Months Ended June 30,	
Euroseas Ltd. Summary Historical Financials(1)	**2002**	**2003**	**2004**	**2004**	**2005**
			(All amounts in U.S. dollars)		
Statement of Income Data					
Voyage revenue	15,291,761	25,951,023	45,718,006	21,321,769	23,833,736
Commissions	(420,959)	(906,017)	(2,215,197)	(1,018,218)	(1,340,228)
Voyage expenses	(531,936)	(436,935)	(370,345)	(60,829)	(131,903)
Vessel operating expenses	(7,164,271)	(8,775,730)	(8,906,252)	(4,727,324)	(4,270,787)
Management fees	(1,469,690)	(1,722,800)	(1,972,252)	(1,007,771)	(965,384)
Amortization and depreciation(2)	(4,053,049)	(4,757,933)	(3,461,678)	(1,640,565)	(1,824,322)
Net gain on sale of vessel			2,315,477	2,315,477	
Interest and finance cost	(799,970)	(793,257)	(708,284)	(297,916)	(545,719)
Derivative gain/(loss)			27,029	11,000	(82,029)
Foreign exchange gain/(loss)	2,849	(690)	(1,808)	(3,734)	312
Interest income	6,238	36,384	187,069	18,535	89,698
Other income/(expenses), net	(790,883)	(757,563)	(495,994)	(272,115)	(537,738)
Equity in earnings/(losses)	30,655	(167,433)			
Net income for the period	891,628	8,426,612	30,611,765	14,910,424	14,763,374
Balance Sheet Data (at period end)					
Current Assets	3,192,345	9,409,339	16,461,159	12,404,490	11,276,109
Vessels, net book value	45,254,226	41,096,067	34,171,164	35,434,642	32,978,300
Deferred charges, net	596,262	929,757	2,205,178	1,996,885	2,357,775
Investment in associate	1,216,289	22,856			
Total assets	50,259,121	51,458,019	52,837,501	49,836,017	46,612,184
Current liabilities, including current portion of long-term debt	10,878,488	8,481,773	13,764,846	10,332,710	18,341,155
Long-term debt, including current portion	23,845,000	20,595,000	13,990,000	15,126,220	41,400,000
Common stock	297,542	297,542	297,542	297,542	297,542
Total shareholders equity	21,285,634	27,486,246	31,112,655	30,634,170	1,651,029

Table of Contents

Euroseas Ltd. Summary Historical Financials(1)	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005
	(All amounts in U.S. dollars)				
Other Financial Data					
Net cash provided by operating activities	5,631,343	10,956,132	34,208,693	13,382,837	8,157,781
Net cash paid to (received from) related party	(177,169)	482,778	(3,541,236)	(108,277)	8,621,660
Net cash from investing activities	(17,036,079)	214,832	6,756,242	6,722,524	(1,230,155)
Net cash used in financing activities	12,247,355	(4,778,000)	(33,567,500)	(17,231,280)	(16,972,500)
Earnings per share, basic and diluted	0.03	0.28	1.03	0.50	0.50
Cash Dividends/Return of capital, declared per common share	0.02	0.04	0.91	0.40	1.49
Weighted average number of shares outstanding during the period	29,754,166	29,754,166	29,754,166	29,754,166	29,754,166
Cash paid for common stock dividend declared/return of capital	687,500	1,200,000	26,962,500	11,762,500	44,225,000(3)

(1) The Company has not included financial data for the years ended 2000 and 2001 since the Company was only recently formed in May 2005 and incurred significant expense in the preparation of its consolidated financial statements for 2002, 2003 and 2004. The Company believes that it would constitute unreasonable effort or expense for it to include the first two years of the Selected Consolidated Financial Data reflecting the discussion by the Staff of the SEC in International Reporting and Disclosure Issues in the Division of Corporation Finance, dated October 1, 2003. The Company s predecessor (which is the separate ship-owning entities that became wholly-owned by the Company subsequent to its formation) prepared financial statements for the years ended December 31, 2000 and 2001 on a basis different from the financial statements included in this prospectus. The Company believes that the effort and cost involved in converting such financial statements into a basis similar to those financial statements included in this prospectus would be unreasonably burdensome.

(2) In 2004, the estimated scrap value of the vessels was increased from $170 to $300 per light ton to better reflect market price developments in the scrap metal market. The effect of this change in estimate was to reduce 2004 depreciation expense by $1,400,010 and increase 2004 net income by the same amount. In addition, in 2004, the estimated useful life of the vessel m/v *Ariel* was extended from 28 years to 30 years since the vessel performed dry-docking in the current year and it is not expected to be sold until year 2007. M/ V *Widar* was sold in April 2004. Depreciation expense for m/v *Widar* for the year ended December 31, 2004 amounted to $136,384 compared to $409,149 in 2003.

(3) This amount reflects a dividend in the amount of $27,525,000 and a return of capital in the amount of $16,700,000. The total payment to shareholders made in 2005 is in excess of previously retained earnings because the Company decided to distribute to its original shareholders in advance of going public most of the profits relating to the Company s operations up to that time and to recapitalize the Company. This one-time dividend cannot be considered indicative of future dividend payments and the Company refers you to the other sections in this prospectus for a clearer understanding of the Company s dividend policy.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and footnotes thereto contained in this prospectus. This discussion contains forward-looking statements, which are based on our assumptions about the future of our business. Our actual results will likely differ materially from those contained in the forward-looking statements. Please read Forward-Looking Statements for additional information regarding forward-looking statements used in this prospectus. Reference in the following discussion to our and us refer to Euroseas, our subsidiaries and the predecessor operations of Euroseas Ltd., except where the context otherwise indicates or requires.

General

We are Euroseas, a newly formed Marshall Islands company incorporated in May 2005. We are a provider of international seaborne transportation services, carrying various drybulk cargoes including, among others, iron ore, coal, grain, bauxite, phosphate and fertilizers, as well as containerized cargoes. As of June 30, 2005, our fleet consisted of five drybulk carriers, comprised of one Panamax drybulk carrier and four Handysize drybulk carriers, and two feeder containerships. The total cargo carrying capacity of the five bulk carriers is 190,904 deadweight tons, or dwt, and of the two containerships is 36,407 dwt and 2,538 twenty-foot equivalent units, or teu. All of our vessels were acquired before January 1, 2004 and were controlled by the Pittas family interests. On June 29, 2005, the shareholders of the seven vessels transferred their shares in each of the vessels to Euroseas in exchange for shares in Friends Investment Company, Inc. (Friends), a 100% owner of Euroseas at that time.

Recent Events

Private Placement

On August 25, 2005, we raised approximately $21 million in gross proceeds from the Private Placement of its securities to a number of institutional and accredited investors. In the Private Placement, we issued 7,026,993 shares of common stock at a price of $3.00 per share, as well as warrants to purchase an additional 1,756,743 shares of common stock. The warrants have a five year term and an exercise price of $3.60 per share. As a condition to the Private Placement, we agreed to execute a merger agreement with Cove.

Merger with Cove

Considering the size of our company and the number of shareholders, our placement agent, Roth Capital, advised us that a merger with a public shell company, such as Cove, was necessary to have a successful Private Placement. Roth Capital advised us that the merger with Cove would give us access to a company with a public listing whose shares could trade and help develop a market for our common stock. It would also increase the number of shareholders that could participate in the merger and become Euroseas shareholders, thus increasing the likelihood of obtaining a listing on a national stock exchange and providing greater liquidity for the shareholders. This type of transaction would also reduce the uncertainty attendant to an underwritten initial public offering and the possibility that any such offering might not be successfully consummated in view of our size and the then prevailing market conditions. As part of the Private Placement transaction documents, the investors included a condition that we enter into such a merger agreement. The Private Placement would not have occurred unless we agreed to enter into the merger with Cove.

On August 25, 2005, we executed a definitive agreement with Cove for the merger of Cove with EuroSub. Cove s stock is listed on the OTC Bulletin Board. Cove has nominal operations. Its revenues from inception through June 30, 2005 have been $20,966. The Merger contemplates Cove s merger with and into EuroSub, with Cove s stockholders receiving 0.102969 shares of Euroseas common stock for each share of Cove they presently own. The Merger is subject to a number of conditions, including approval of the Merger by Cove s stockholders. We cannot assure you that the Merger will be consummated.

Table of Contents

Declaration And Payment of Dividend

Our Board of Directors recently declared a dividend in the amount of $0.07 per share which (i) was paid on or about December 19, 2005 to those holders of record of common stock of Euroseas on December 16, 2005, and (ii) (A) is payable to the stockholders of Cove who are entitled to receive shares of Euroseas common stock in connection with Cove s Merger with EuroSub, with such payment being made only to those holders of record of Cove common stock as of the effective date of the Merger and such dividend payment being made upon exchange of their Cove shares for shares of Euroseas common stock (assuming such Merger is consummated), or (B) is payable to Friends if such Merger is not consummated since Friends will be issued the shares that would have otherwise been issued in the Merger.

Authorization Of 1:2 Reverse Stock Split

On November 2, 2005, our Board of Directors authorized a 1:2 reverse stock split. Management was authorized to decide not to proceed with the reverse stock split if it determines that it is no longer in the best interests of the Company and its shareholders. No date for the split has been set and management has not indicated whether it will or will not proceed with the split. No effect has been given in this prospectus to the proposed reverse stock split.

Acquisition of Vessel

On November 25, 2005 we took delivery of a containership called m/v *Roseleen* (ex *Sea Arrow*, to be renamed *Artemis*) that was built in 1987, with 2,098 teu and 29,693 dwt. The purchase price of the vessel was approximately $20.65 million as compared to a book value of $32.98 million of our other seven vessels as of June 30, 2005, and reflects the type and age of the vessel and market conditions at the time of the acquisition.

M/V *Artemis* is larger but older than our other two containerships. It is larger than three of our dry bulk carriers in terms of dwt capacity and younger than four of our dry bulk carriers. Generally, the larger and younger a vessel is, the higher its market value. Additionally, containerships are typically more expensive than dry bulk carriers of the same age and size (in terms of dwt capacity). Furthermore, vessel market values and rates during 2005 have been significantly higher than in the period 1993-2002 for both containerships and dry bulk carriers. All of these factors explain the higher book value of m/v *Artemis* as compared to other vessels which were purchased over the period 1993-2002 at different market conditions and have since been depreciated as required.

The acquisition of m/v *Artemis* increases our containership fleet to three vessels, all under long term charters, and expands the fixed revenue base of our operations. The acquisition was initially to be paid for with the proceeds of the Private Placement and our working capital. On December 28, 2005, we concluded debt financing for $15.5 million to fund part of the acquisition of the vessel. We are presently in negotiations for the purchase of additional vessels but none of these negotiations has yet resulted in a binding contract.

Operations

Lack of Historical Operating Data for Vessels Before their Acquisition

Consistent with shipping industry practice, other than inspection of the physical condition of the vessels and examinations of classification society records, we do not conduct historical financial due diligence when we acquire vessels. Accordingly, we do not obtain the historical operating data for the vessels from the sellers because that information is not material to our decision to make acquisitions, nor do we believe it would be helpful to potential investors in our common shares in assessing our business or profitability. Most vessels are sold under a standard agreement, which, among other things, provides the buyer with the right to inspect the vessel and the vessel s classification society records. The standard agreement does not give the buyer the right to inspect, or receive copies of, the historical operating data of the vessel. Prior to the delivery of a purchased vessel, the seller typically removes from the vessel all records, including past financial records and accounts related to the vessel. In addition, the technical management agreement between the seller s technical manager and the seller is automatically terminated and the vessel s trading certificates are revoked by its flag state following a change in ownership.

Consistent with shipping industry practice, we treat the acquisition of a vessel (whether acquired with or without charter) as the acquisition of an asset rather than a business. Although vessels are generally acquired free of charter, we may acquire vessels with a time charter. Where a vessel has been under a voyage charter, the vessel is delivered to the buyer free of charter, and it is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer s consent and the buyer s entering into a separate direct agreement with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter, because it is a separate service agreement between the vessel owner and the charterer.

When we purchase a vessel and assume or renegotiate a related time charter, we must take the following steps before the vessel will be ready to commence operations:

obtain the charterer s consent to us as the new owner;

obtain the charterer s consent to a new technical manager;

obtain the charterer s consent to a new flag for the vessel;

arrange for a new crew for the vessel;

replace all hired equipment on board, such as gas cylinders and communication equipment;

negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;

register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state;

implement a new planned maintenance program for the vessel; and

ensure that the new technical manager obtains new certificates for compliance with the safety and vessel security regulations of the flag state.

Factors Affecting Our Results of Operations

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

Calendar days. We define calendar days as the total number of days in a period during which each vessel in our fleet was in our possession including off-hire days associated with major repairs, drydockings or special or intermediate surveys. Calendar days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during that period.

Available days. We define available days as the total number of days in a period during which each vessel in our fleet was in our possession net of off-hire days associated with scheduled repairs, drydockings or special or intermediate surveys. The shipping industry uses available days to measure the number of days in a period during which vessels were available to generate revenues.

Voyage days. We define voyage days as the total number of days in a period during which each vessel in our fleet was in our possession net of off-hire days associated with scheduled and unscheduled repairs, drydockings or special or intermediate surveys or days waiting to find employment. The shipping industry uses voyage days to measure the number of days in a period during which vessels actually generate revenues.

Fleet utilization. We calculate fleet utilization by dividing the number of our voyage days during a period by the number of our available days during that period. The shipping industry uses fleet utilization to measure a company s efficiency in finding suitable employment for its vessels and

Table of Contents

minimizing the amount of days that its vessels are off-hire for reasons such as unscheduled repairs or days waiting to find employment.

Spot Charter Rates. Spot charter rates are volatile and fluctuate on a seasonal and year to year basis. The fluctuations are caused by imbalances in the availability of cargoes for shipment and the number of vessels available at any given time to transport these cargoes.

Time Charter Equivalent. A standard maritime industry performance measure used to evaluate performance is the daily time charter equivalent, or daily TCE. Daily TCE revenues are voyage revenues minus voyage expenses divided by the number of voyage days during the relevant time period. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by a charterer under a time charter. We believe that the daily TCE neutralizes the variability created by unique costs associated with particular voyages or the employment of drybulk carriers on time charter or on the spot market (containership are chartered on a time charter basis) and presents a more accurate representation of the revenues generated by our vessels.

Basis of Presentation and General Information

Voyage revenues. Our voyage revenues are driven primarily by the number of vessels in our fleet, the number of voyage days during which our vessels generate revenues and the amount of daily charter hire that our vessels earn under charters, which, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and disposals, the amount of time that we spend positioning our vessels, the amount of time that our vessels spend in drydock undergoing repairs, maintenance and upgrade work, the age, condition and specifications of our vessels, levels of supply and demand in the transportation market and other factors affecting spot market charter rates in both the drybulk carrier and containership markets.

Commissions. We pay commissions on all chartering arrangements of 1-1.25% to Eurochart, one of our affiliates, plus additional commission of usually up to 5% to other brokers involved in the transaction. These additional commissions, as well as changes to charter rates will cause our commission expenses to fluctuate from period to period. Eurochart also receives a fee equal to 1% calculated as stated in the relevant memorandum of agreement for any vessel bought or sold by them on our behalf.

Voyage expenses. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage which would otherwise be paid by the charterer under a time charter contract, as well as commissions. Under time charters, the charterer pays voyage expenses whereas under spot market voyage charters, we pay such expenses. The amounts of such voyage expenses are driven by the mix of charters undertaken during the period.

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. Our vessel operating expenses, which generally represent fixed costs, have historically changed in line with the size of our fleet. Other factors beyond our control, some of which may affect the shipping industry in general (including, for instance, developments relating to market prices for insurance or inflationary increases) may also cause these expenses to increase.

Management fees. These are the fees that we pay to Eurobulk, our ship manager and an affiliate, under our management agreement with Eurobulk for the technical and commercial management that Eurobulk performs on our behalf. The fee is 590 Euros per vessel per day and is payable monthly in advance.

Depreciation. We depreciate our vessels on a straight-line basis with reference to the cost of the vessel, age and scrap value as estimated at the date of acquisition. Depreciation is calculated over the remaining useful life of the vessel, which is estimated to range from 25 to 30 years from the date of original construction. Remaining useful lives of property are periodically reviewed and revised to recognize changes in conditions, new regulations or other reasons. Revisions of estimated lives are recognized over current and future periods. During 2004, management changed its estimate of the scrap value of its vessels.

Amortization of deferred drydocking costs. Our vessels are required to be drydocked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are trading. We capitalize the costs associated with drydockings as they occur and amortize these costs on a straight-line basis over the period between drydockings. Costs capitalized as part of the drydocking include actual costs incurred at the drydock yard; cost of hiring riding crews to effect repairs on a vessel and parts used in making such repairs that are reasonably made in anticipation of reducing the duration or cost of the drydocking; cost of travel, lodging and subsistence of our personnel sent to the drydocking site to supervise; and the cost of hiring a third party to oversee a drydocking. We believe that these criteria are consistent with industry practice and that our policy of capitalization reflects the economics and market values of the vessels. Commencing January 1, 2006, we have revised our policy to exclude the cost of hiring riding crews and the cost of parts used by riding crews from amounts capitalized as drydocking cost. We have not restated any historical financial statements because we determined that the impact of such a revision is not material to our operating income and net income for any periods presented.

Interest expense. We traditionally finance vessel acquisitions partly with debt on which we incur interest expense. The interest rate we pay is generally linked to the 3-month LIBOR rate, although from time to time we utilize fixed rate loans or could use interest rate swaps to eliminate our interest rate exposure. Interest due is expensed in the period is accrued. Loan cost are amortized over the period of the loan; the un-amortized portion is written-off if the loan is prepaid early.

General and administrative expenses. We will incur expenses consisting mainly of executive compensation, professional fees, directors liability insurance and reimbursement of our directors and officers travel-related expenses. General and administrative expenses will increase following the completion of our Private Placement and anticipated Merger in due to the duties typically associated with public companies. We acquire executive services, our CEO, CFO and Secretary, through Eurobulk. In 2005, executive compensation for such services to us as a public company is estimated to be $500,000 on an annualized basis starting in July 2005, incremental to the management fee.

Results from Operations

The Company operated the following types of vessel during the six month period to June 30, 2005:

Vessel Type	Bulkers	Containerships	Total
Average number of vessels	5	2	7
Number of vessels at end of period	5	2	7
Dwt (in thousands)/ teu at end of period	190.9	2,538	
Average age at end of period (years)	22.6	14.0	20.1

Table of Contents

The contributions of the vessels to the results for the six months to June 30, 2005 and 2004 and the years 2004, 2003 and 2002 were as follows:

Vessel Type	2005 H1	2004 H1	2004	2003	2002
Utilization in period	99.8%	99.4%	99.5%	99.3%	99.7%
TCE per ship per day	$ 19,099	$ 15,956	$ 17,839	$ 8,965	$ 6,049
Operating expenses per ship per day including management fees $	$ 4,133	$ 4,129	$ 4,064	$ 3,595	$ 3,467
Voyage revenues ($ thousand)	$ 23,834	$ 21,322	$ 45,718	$ 25,951	$ 15,292
Net income ($ thousand)	$ 14,763	$ 14,910	$ 30,612	$ 8,427	$ 892
Voyage days	1,239.4	1,333	2,542	2,846	2,440
Available Days	1,242	1,338	2,554	2,867	2,448
Calendar days	1,267	1,389	2,677	2,920	2,490

Six month period ended June 30, 2005 compared to six month period ending June 30, 2004.

Voyage revenues. Voyage revenues for the period were $23.83 million, up 11.8% compared to the same period in 2004 during which voyage revenues amounted to $21.32 million. The increase was primarily due to the higher charter rates our vessels achieved and despite the fact that we operate on average fewer vessels compared to the same period in 2004. Our fleet of 7 vessels had throughout the period less than 3 unscheduled offhire days and 25 days of scheduled off-hire for the drydocking of m/v *Irini*, generating an average TCE rate per vessel of $19,099 per day compared to $15,956 per day per vessel for the same period in 2004.

Commissions. Commissions for the period were $1.34 million. At 5.62% of voyage revenues, commissions were higher than in the same period in 2004. For the six months ended June 30, 2004 commissions amounted to $1.02 million, or 4.78% of voyage revenues. The higher level of commissions in 2005 is due to the fact that fewer vessels operated in pools (where commissions are paid by the pool thus reducing the commissions paid by us).

Voyage expenses. Voyage expenses for the period were $0.13 million related to expenses for certain voyage charters. For the six months ended June 30, 2004 voyage expenses amounted to $0.06 million. Because our vessels are generally chartered under time charter contracts, voyage expenses represent a small fraction of voyage revenues.

Vessel operating expenses. Vessel operating expenses were $4.27 million for the period. Daily vessel operating expenses per vessel were $3,371 per day. For the same period in 2004, vessel operating expenses were $4.73 million, or $3,403 per day.

Management fees. These are the fees we pay to Eurobulk under our management agreement with it. As of June 30, 2005, Eurobulk charged us 590 Euros per day per vessel totaling $0.97 million for the period, or $762 per day per vessel reflecting a higher US dollar per Euro exchange rate, but lower number of shipdays than in the same period of 2004. For the same period in 2004, management fees amounted to $1.01 million, or $726 per day per vessel based on the same daily rate per vessel of 590 Euros.

Depreciation and amortization. Depreciation and amortization for the period was $1.82 million. This consists of $1.19 million of depreciation and $0.63 million of amortization of deferred drydocking expenditures. Comparatively, depreciation and amortization for the same period in 2004 amounted to $1.33 million and $0.31 respectively for a total of $1.64 million. Depreciation in the six month period to June 30, 2005 is lower that in the same period in 2004 because *Widar*, a 1,000 teu containership, was sold on April 24, 2004. Amortization for the six month period to June 30, 2005 is higher than the same period in 2004 due to the amortization of additional drydocking expenditures incurred in 2004 and 2005.

Gain or Loss from vessel sales. There were no vessel sales in the six months ended June 30, 2005. During the same period in 2004, *Widar* was sold on April 24 for a gain of $2.32 million.

Table of Contents

Interest and finance costs, net. Interest and finance costs, net for the period were $0.46 million. Of this amount, $0.55 million relates to interest incurred and loan fees and expenses paid and deferred loan fees written-off during the period, partly offset by $0.09 million of interest income during the period. Comparatively, during the same period in 2004, net interest and finance costs amounted to $0.28 million, comprised by $0.30 million of interest incurred and loan fees and offset by $0.02 million of interest income. Interest incurred and loan fees are higher in six month period to June 30, 2005 due to the higher loan amount outstanding as a result of the new loans undertaken in May 2005.

Derivative and Foreign Exchange Gains or Losses. During the period, we had a derivative loss due to an interest rate swap on a notional amount of $5 million of $0.08 million, and foreign exchange gains of less than $0.01 million. In the same period in 2004, there was a net derivative gain of $0.01 million (same interest rate swap) and foreign exchange losses of less than $0.01 million.

Net income. As a result of the above, net income for the six month period ended on June 30, 2005 was $14.76 million compared to $14.91 million for the same period in 2004 representing a decrease of 1%.

Cash Flows

As of June 30, 2005, we had a cash balance of $5.45 million, funds due from related companies of $4.00 million and $1.30 million cash in restricted retention accounts. The $4.00 million due from related companies primarily reflects charter hire for m/v *Nikolaos P, John P* and *Pantelis P* up to May 31, 2005, and for m/v *Irini P* up to June 30, 2005, that is deposited in the bank accounts of Silvergold Shipping Ltd., the company that owned *Widar* which was sold on April 24, 2004. The present financial statements consolidate the accounts of Silvergold Shipping Ltd. until May 31, 2005, when Silvergold Shipping Ltd. paid a final dividend of $35,000 to its shareholders. Silvergold Shipping Ltd., as the related company, continued to perform a treasury function for us as of June 30, 2005, and therefore the cash balance at that date remained in the related party s account. The funds remained in the Silvergold Shipping Ltd. account solely for purposes of convenience as charters were effecting payments to us in that account. With the opening of new Euroseas accounts, and after completing the necessary paperwork, these funds will be transferred to our accounts or accounts of our subsidiaries. As of December 31, 2005, approximately $3.50 million of the $4.00 million had been repaid, leaving a balance of approximately $530,000, which is expected to be repaid by the end of January 2006. Working capital is current assets minus current liabilities, including the current portion of long term debt. We have a working capital deficit of $7.07 million including the current portion of long term debt which was $14.78 million as of June 30, 2005. The working capital deficit is due to the payment of dividends to our existing shareholders. All of the $44.23 million dividend declared/return of capital was paid as of June 30, 2005. We consider our liquidity sufficient for our operations.

Net cash from operating activities.

Our net cash from operating activities for the period was $8.16 million. This represents the net amount of cash, after expenses, generated by chartering our vessels. Eurobulk and another related party, on our behalf, collect our chartering revenues and pays our chartering expenses. Net income for the period was $14.76 million, which was reduced by amounts due from related parties of $8.62 million. The increase in the amounts due from related companies is primarily due to a payment of the amount due to related companies of $4.63 million as of December 31, 2004 and the accumulation of the charter hire of two of our vessels in the bank accounts of a related party. In the same period in 2004, net cash flow from operating activities was $13.38 million based on a contribution of net income of $14.91 million.

Net cash from investing activities.

We had to put in retention accounts $1.23 million to satisfy requirements of our new loan facilities. During the same period in 2004, cash flow from investing activities amounted to $6.72 million reflecting the sale of *Widar* in April 2004.

Net cash used in financing activities.

Net cash used in financing activities was $16.97 million. This mainly relates to the dividend of $44.23 million that was paid to existing shareholders on April 10, 2005 and May 15, 2005, and the net proceeds from re-financing long term debt of $27.41 million. In the same period in 2004, net cash used in financing activities amounted to $17.23 million reflecting dividend payments of $11.76 million and repayment of debt of $5.47 million.

Debt Financing

We operate in a capital intensive industry which requires significant amounts of investment, and we fund a major portion of this investment through long term debt. We maintain debt levels we consider prudent based on our market expectations, cash flow, interest coverage and percentage of debt to capital. During May 2005, we repaid loans of $1.40 million and refinanced another $8.89 million and drew down $37.70 million of new loans in addition to $3.70 million of a continuing credit facility.

As of June 30, 2005, after considering the loan refinancing and new loans discussed in the preceding paragraph, we had four outstanding loans with a combined outstanding balance of $41.4 million. These loans have maturity dates between 2008 and 2011. Our long-term debt as of June 30, 2005 comprises bank loans granted to our vessel-owning subsidiaries.

Diana Trading Ltd. (the owner of m/v *Irini*) entered into a loan agreement amounting to $4,200,000 which was drawn down on May 9, 2005. The loan is repayable in twelve consecutive quarterly installments being four installments of $450,000 each, and eight installments of $300,000 each with the last installment due in May 2008. The first installment is payable in August 2005. The interest is calculated at LIBOR plus 1.25% per annum. Diana Trading Ltd also has a continuing credit facility of $3,700,000.

Alcinoe Shipping Ltd (the owner of m/v *Pantelis P.*), Oceanpride Shipping Ltd. (the owner of m/v *John P.*), Searoute Maritime Ltd. (the owner of m/v *Ariel*) and Oceanopera Shipping Ltd. (the owner of m/v *Nikolaos P*) jointly and severally entered into a new eurodollar loan amounting to $13,500,000 which was drawn down on May 16, 2005. Prior to obtaining the loan, an amount of $1,400,000 was paid in settlement of the outstanding loans as at March 31, 2005 for Alcinoe Shipping Ltd. and Oceanpride Shipping Ltd. The new loan is repayable in twelve consecutive quarterly installments being two installments of $2,000,000 each, one installment of $1,500,000, nine installments of $600,000 each and a balloon payment of $2,600,000 payable with the last installment in May 2008. The first installment is due in August 2005. Interest is calculated on LIBOR plus 1.5% per annum.

Allendale Investments S.A. (the owner of m/ v *Kuo Hsiung*) and Alterwall Business Inc. (the owner of m/ v *HM Qingdao1* (ex *Kuo Jane*)) jointly and severally entered into a loan agreement amounting to $20,000,000 when the outstanding amount of the old loans were $3,600,000 which was drawn down on May 26, 2005. The loan is repayable in twenty-four unequal consecutive quarterly installments of $1,500,000 each in the first year, $1,125,000 each in the second year, $775,000 in the third year, $450,000 each in the forth through to the sixth year and a balloon payment of $1,000,000 payable with the last installment in May 2011. The interest is calculated at LIBOR plus 1.25% per annum as long as the outstanding amount remains below 60% of the fair market value (FMV) of the vessel and 1.375% if the outstanding amount is above 60% of the FMV of the vessel.

The loan agreements contain ship finance covenants including restrictions as to changes in management and ownership of the vessels, distribution of dividends or any other distribution of profits or assets, additional indebtedness and mortgaging of vessels without the lender s prior consent, the sale of vessels, as well as minimum requirements regarding the hull ratio cover. We are not in default of any credit facility covenant as of June 30, 2005.

Dividend Policy

Our policy is to declare and pay quarterly dividends to shareholders from our net profits each February, May, August and November, beginning after the Merger is consummated in amounts the Board of Directors may from time to time determine are appropriate. The timing and amount of dividend payments will be dependent upon our earnings, financial condition, cash requirement and availability, restrictions in its loan agreements, growth strategy, the provisions of Marshall Islands law affecting the payment of distributions to shareholders and other factors, such as the acquisition of additional vessels. However, we do not believe that the acquisition of vessels to our fleet will impact our dividend policy of paying quarterly dividends to our shareholders out of our net profits. We believe that the addition of vessels to our fleet in the future should enable us to pay a higher dividend per share than we would otherwise be able to pay without additional vessels since such additional vessels should increase our earnings. However, we cannot give any current estimate of what dividends may be in the future since any such dividend amounts will depend upon the amount of revenues those vessels are able to generate and the costs incurred in operating such vessels. The payment of dividends is not guaranteed or assured, and may be discontinued at any time at the discretion of our Board of Directors. Because we are a holding company with no material assets other than the stock of its subsidiaries, our ability to pay dividends will depend on the earnings and cash flow of its subsidiaries and their ability to pay dividends to us. If there is a substantial decline in the drybulk or containership charter market, our earnings would be negatively affected, thus limiting its ability to pay dividends. Marshall Islands law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividends. Dividends may be declared in conformity with applicable law by, and at the discretion of, our Board of Directors at any regular or special meeting. Dividends may be declared and paid in cash, stock or other property of Euroseas. Euroseas paid $687,500, $1,200,00, $26,962,500 and $44,225,000 (consisting of $27,525,000 of dividends and $16,700,000 as return of capital) in 2002, 2003, 2004 and in the first six months of 2005, respectively. Over the period January 1, 2002 to June 30, 2005, Euroseas paid substantially all of its net income as dividends. While Euroseas has paid dividends on an annual basis during the time it has been a private company, it intends to pay dividends on a quarterly basis once it has become a public company.

Euroseas Board of Directors recently declared a dividend in the amount of $0.07 per share which (i) was paid on or about December 19, 2005 to those holders of record of common stock of Euroseas on December 16, 2005, and (ii) (A) is payable to the stockholders of Cove who are entitled to receive shares of Euroseas common stock in connection with Cove s merger with EuroSub, with such payment being made only to those holders of record of Cove common stock as of the effective date of the merger and such dividend payment being made upon exchange of their Cove shares for shares of Euroseas common stock (assuming such merger is consummated), or (B) is payable to Friends if such merger is not consummated since Friends will be issued the shares that would have otherwise been issued in the Merger. The aggregate amount of such dividend is anticipated to be $2,650,223.

Liquidity and Capital Resources

Historically, our sources of funds have been equity provided by our shareholders, operating cash flows and long-term borrowings. Our principal use of funds has been capital expenditures to establish and expand our fleet, maintain the quality of our drybulk carriers and containerships, comply with international shipping standards and environmental laws and regulations, fund working capital requirements, make principal repayments on outstanding loan facilities, and pay dividends. We expect to rely upon funds raised from our recent Private Placement, operating cash flows, long term borrowings, as well as future offerings to implement our growth plan and meet our liquidity needs going forward. In our opinion, our working capital is sufficient for our present requirements.

Off-Balance Sheet Arrangements

As of June 30, 2005 we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

For the year ended December 31, 2004 compared to the year ended December 31, 2003

Voyage revenues. Voyage revenues for the year ended December 31, 2004 were $45.72 million, up 76%, compared to $25.95 million for the year ended December 31, 2003. Results for 2004 reflect contributions from *m/v Widar* up to April 24, as the vessel was sold on that day. Our fleet operated throughout the period, with less than 12 unscheduled off-hire days and about 123 days of scheduled drydocking resulting in an fleet utilization rate of 99.5% and averaging a TCE rate per vessel of $17,839 per day; the corresponding fleet utilization and average TCE equivalent for the year ended December 31, 2003 are 99.3% and $8,965 per vessel per day.

Commissions. Commissions in 2004 were $2.22 million and amounted to 4.85% of voyage revenues. Commissions for 2003 were $0.91 million amounting to 3.49% of voyage revenues. Commissions were higher as a percentage in 2004 than in 2003 due the fact that fewer vessels participated in shipping pools in 2004. Shipping pools pay most commissions before distribution of profits, and, thus the distribution to the pool participants is net of third party commissions (we paid only commission to Eurochart for our pool derived revenues).

Voyage expenses. Voyage expenses in 2004 of $0.37 million relate to expenses for certain voyage charters. Voyage expenses for 2003 were $0.44 million.

Vessel operating expenses. Vessel operating expenses in 2004 were $8.91 million reflecting the operation of an average of 7.31 vessels. Daily vessel operating expenses per vessel were $3,327 per day, about 11% higher than daily vessel operating expenses for 2003 which were $3,005 increase primarily due to higher insurance costs of $98 per vessel per day, higher costs for spare parts and consumable stores of $87 per vessel per day and an increase of $101 per vessel per day for crew and related expenses. The total operating expenses in 2003 were $8.78 million reflecting the operation of 8 vessels for the full year.

Management fees. These are the fees we pay to Eurobulk under our management agreement with it. Management fees in 2004 amounted to $1.97 million or $740 per calendar day per vessel based on our contract rate of 590 euros per day and the prevailing exchange rate of dollar to euro. In 2003, management fees amounted to $1.72 million or $590 per calendar day per vessel. The difference of the fee on a per day per vessel basis is primarily attributed to the fact that the management fee was changed from $590 in 2003 to 590 euros per day per vessel in 2004, the different number of shipdays and the U.S. dollar to Euro exchange rate.

Depreciation and amortization. Depreciation and amortization in 2004 was $3.46 million. As the vessel *Widar* was sold in April 2004, the depreciation charge was reduced for the period after the sale of the vessel and amounted to $2.53 million for the year. In 2004, we have revised upwards (from $170/ton to $300/ton) our estimate of the scrap price per lightweight ton, and, the expected life for *Ariel* from 28 to 30 years (as it had gone through a special survey and was not expected to be sold before 2007); as a result the depreciation charge was lower by $1.40 million reflecting the above adjustments and, consequently, net income for the period was $1.40 million higher or $0.05 per share. Amortization of deferred drydock expenses for the period amounted to $0.93 million, 55% higher than in 2003 due to additional drydocking expenditures during 2003 and 2004. Depreciation for 2003 was $4.16 million while amortization of deferred drydocking costs was $0.60 million.

Gain or loss on vessel sale. m/v Widar was sold on April 24, 2004 for a net gain of $2.32 million. There were no vessel sales during 2003.

Interest and finance costs, net. Interest and finance costs, net in 2004 were $0.50 million. Of this amount, $0.71 million relates to interest incurred and loan fees and expenses paid and deferred loan fees written-off during the period offset by $0.19 million of interest income during the period. Net interest expense for the period ended December 31, 2003 was $0.76 million reflecting primarily lower interest income of $0.04 million and higher interest incurred and loan fees of $0.79 million.

Derivative and Foreign Exchange Gains or Losses. During the year ended December 31, 2004, we had a derivative gain due to an interest rate swap on a notional amount of $5 million of $0.03 million, and, foreign exchange losses of less than $0.01 million. In the year ended to December 31, 2003, there was no derivative exposure and foreign exchange losses of less than $0.01 million.

Net income. Net income for the year ended December 31, 2004 was $30.61 million compared to $8.43 million for the year ended December 31, 2003, an increase of 263%.

Cash Flows

As of December 31, 2004, we had a cash balance of $15.50 million. Working capital is current assets minus current liabilities, including the current portion of long term debt. The current portion of long term debt included in our current liabilities was $6.03 million as of December 31, 2004. The working capital was $2.70 million as of December 31, 2004. All of the $26.96 million dividend declared was paid as of December 31, 2004.

Net cash from operating activities.

Our net cash from operating activities during 2004 was $34.21 million. This is primarily attributable to the favorable trading conditions which contributed net income of $30.61 million, a gain of $2.32 million from the sale of *m/v Widar* in April, deferred drydocking expenses of $2.27 million, and, a further increase of funds due to related companies by $3.54 million during the period. During 2003, net cash flow from operating activities was $10.96 million, primarily attributable to net income of $8.43 million.

Net cash from investing activities.

Net cash from investing activities during 2004 was $6.76 million reflecting the proceeds from the sale of the vessel *Widar* in April 2004 compared to no investment activities in 2003 except release of $0.21 of restricted funds.

Net cash used in financing activities.

Net cash used in financing activities during 2004 was $33.56 million. This mainly relates to a dividend of $26.96 million that was paid to existing shareholders, repayment of long term debt of $6.61 million which included the repayment of the balance of the loan of *m/v Widar* when the vessel was sold. During 2003, net cash used in financing activities was $4.78 million, reflecting primarily a dividend of $1.2 million that was paid to existing shareholders, repayment of long term debt of $6.25 million and new debt incurred of $3.00 million and a repayment of an advance from shareholders of $0.30 made in the prior year.

Liquidity and Capital Resources

Historically, our sources of funds have been equity provided by our shareholders, operating cash flows and long-term borrowings. Our principal use of funds has been capital expenditures to establish and expand our fleet, maintain the quality of our drybulk carriers, comply with international shipping standards and environmental laws and regulations, fund working capital requirements, make principal repayments on outstanding loan facilities, and pay dividends. We expect to rely upon funds raised from our recent Private Placement, operating cash flows, long term borrowings, as well as future offerings to implement our growth plan and meet our liquidity needs going forward.

Off-Balance Sheet Arrangements

As of December 31, 2004 we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

For the year ended December 31, 2003 compared to the year ended December 31, 2002

Voyage revenues. Voyage revenues for the year ended December 31, 2003 were $25.95 million, up 70%, compared to $15.29 million for the year ended December 31, 2002. This was primarily due to more favorable market conditions; also, results for 2002 reflect partial contributions from *Irini* and *Kuo Hsiung* which were bought in October and May respectively of that year. During 2003, our fleet operated throughout the period, with less than 21 unscheduled offhire days and about 53 days of scheduled drydocking resulting in an fleet utilization rate of 99.3% and averaging a TCE rate per vessel of $8,965 per day; the corresponding fleet utilization and average TCE equivalent for the year ended December 31, 2002 are 99.7% and $6,049.

Commissions. Commissions in 2003 were $0.91 million amounting to 3.49% of voyage revenues. Commissions for 2002 were $0.42 million amounting to 2.75% of voyage revenues; the lower level of commissions during 2002 is due to the fact that a larger number of vessel participated in pools where most of the commissions are paid by the pool before distribution of profits, and, thus the distribution to the pool participants is net of third party commissions (we paid only commission to Eurochart for our pool derived revenues).

Voyage expenses. Voyage expenses in 2003 were $0.44 million relate to expenses for certain voyage charters. Voyage expenses for 2002 were $0.53 million.

Vessel operating expenses. Vessel operating expenses were $8.78 million in 2003 reflecting the operation of a fleet of 8 vessels. Daily vessel operating expenses per vessel were $3,005 per day. Daily vessel operating expenses for 2002 were $2,877 for a total of $7.16 million reflecting the operation of an average of about 6.8 vessels during the year as a result of the purchase of *Irini* in November 2002 and *Kuo Hsiung* in May 2002. The increase in the operating costs was primarily due to increased insurance costs of $105 per vessel per day.

Management fees. These are the fees we pay to Eurobulk under our management agreement with it. Management fees in 2003 amounted to $1.72 million or $590 per calendar day per vessel based on our contract rate of $590 per day per vessel. In 2002, management fees amounted to $1.47 million or $590 per calendar day per vessel. The difference is due to the larger number of shipdays in 2003 compared to 2002.

Depreciation and amortization. Depreciation and amortization in 2003 was $4.76 million and consisted of $4.16 million of depreciation of vessel value and $0.60 amortization of deferred drydocking costs. In 2002, depreciation amounted to $3.51 million reflecting the fact that two vessels were purchased during 2002 and did not contribute to the depreciation for the full year. In 2002, amortization of deferred drydocking expenses amounted to $0.54 million.

Interest and finance costs, net. Interest and finance costs, net in 2003 were $0.76 million. Of this amount, $0.79 million relates to interest incurred and loan fees and expenses paid and deferred loan fees written-off during the year offset by $0.04 million of interest income during the period. Net interest expense for the year ended December 31, 2002 was $0.79 million reflecting primarily lower interest income of $0.01 million.

Net income. Net income for the year ended December 31, 2003 was $8.43 million compared to $0.89 million for the year ended December 31, 2002, an increase of 845%.

Cash Flows

As of December 31, 2003, we had a cash balance of $8.10 million. Working capital is current assets minus current liabilities, including the current portion of long term debt. The current portion of long term debt included in our current liabilities was $5.10 million as of December 31, 2003. The working capital was $0.93 million as of December 31, 2003. All of the $1.20 million dividend declared was paid as of December 31, 2003.

Net cash from operating activities.

Our net cash from operating activities during 2003 was $10.96 million. This is primarily attributable to the favorable trading conditions which contributed net income of $8.43 million. Net cash flow from operations during 2002 was $5.63 million.

Net cash from investing activities.

Net cash from investing activities during 2003 was $0.21 million reflecting release of cash from retention accounts. In 2002, net cash used in investing activities amounted to $17.04 million reflecting the purchase of vessels, *Irini* and *Kuo Hsiung*.

Net cash used in financing activities.

Net cash used in financing activities during 2003 was $4.78 million. This mainly relates to the dividend of $1.2 million that was paid to existing shareholders, repayment of long term debt of $6.25 million, new debt

Table of Contents

incurred of $3.00 million and a repayment of an advance from shareholders of $0.30 made in 2002. During 2002, net cash available from financing activities was $12.25 million reflecting new debt of $11.90 million and additional paid-in capital of $4.50 million to finance the acquisition of *Irini* and *Kuo Hsiung*, a $0.30 advance from shareholders, repayment of debt of $3.65 million and $0.69 million dividend distribution.

Liquidity and Capital Resources

Historically, our sources of funds have been equity provided by our shareholders, operating cash flows and long-term borrowings. Our principal use of funds has been capital expenditures to establish and expand our fleet, maintain the quality of our drybulk carriers, comply with international shipping standards and environmental laws and regulations, fund working capital requirements, make principal repayments on outstanding loan facilities, and pay dividends. We expect to rely upon funds raised from our recent private placement, operating cash flows, long term borrowings, as well as future offerings to implement our growth plan and meet our liquidity needs going forward.

Off-Balance Sheet Arrangements

As of December 31, 2003 we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

Contractual Obligations and Commitments

Contractual obligations are set forth in the following table as of June 30, 2005, as related to the future annual loan repayments:

In U.S. dollars	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Bank debt	$ 41,400,000	$ 14,780,000	$ 19,160,000	$ 4,660,000	$ 2,800,000
Interest Payment (1)	$ 4,295,771	$ 1,790,748	$ 2,217,505	$ 194,250	$ 93,188
Management fees (2)	$ 11,176,241	$ 2,022,192	$ 4,419,631	$ 4,734,418	

(1) Assuming the amortization of the loan described above and the an estimated average effective interest rate of 5.3%, 5.4% and 5.1% for the three periods respectively.

(2) Refers to our obligation for management fees of 590 Euros per day per vessel (approximately $718) for the seven vessels owned by Euroseas at June 30, 2005 and the eighth vessel we acquired on November 25, 2005, under our five-year management contract. For years two to five we have assumed no change in the number of vessels, an inflation rate of 3.5% per year and no changes in this US Dollar to Euro exchange rate (assumed approximately at 1.218 USD/Euro).

Critical Accounting Policies

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

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 that involve a high degree of judgment and the methods of their application.

Depreciation

We record the value of our vessels at their cost (which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. We depreciate our vessels on a straight-line basis over their estimated useful lives, estimated to range from 25 to 30 years from date of initial delivery from the shipyard. We believe that the 25 to 30 year range of depreciable life is consistent with that of other ship owners. One of our vessels has already reached an age of 28 years and continues to be employed. Depreciation is based on cost less the estimated residual scrap value. In 2004, the estimated scrap value of the vessels was increased from $170 to $300 per LWT to better reflect market price developments in the scrap metal market. An increase in the useful life of the vessel or in the residual value would have the effect of decreasing the annual depreciation charge and extending it into later periods. A decrease in the useful life of the vessel or in the residual value would have the effect of increasing the annual depreciation charge. For example, the effect of the change in estimate in 2004 was to reduce 2004 depreciation expense by $1.40 million and increase net income by the same amount or $0.05 per share.

Revenue and expense recognition

Revenues are generated from voyage and time charter agreements. Time charter revenues are recorded over the term of the charter as service is provided. Under a voyage charter the revenues and associated voyage costs are recognized on a pro-rata basis over the duration of the voyage. Probable losses on voyages are provided for in full at the time such losses can be estimated. A voyage is deemed to commence upon the completion of discharge of the vessel s previous cargo and is deemed to end upon the completion of discharge of the vessel s previous cargo and is deemed to end upon the completion of discharge of the current cargo. Demurrage income represents payments by the charterer to the vessel owner when loading or discharging time exceeded the stipulated time in the voyage charter and is recognized as incurred.

Charter revenue received in advance is recorded as a liability until charter services are rendered.

Vessels operating expenses comprise all expenses relating to the operation of the vessels, including crewing, repairs and maintenance, insurance, stores, lubricants and miscellaneous expenses. Operating expenses are recognized as incurred; payments in advance of services or use are recorded as prepaid expenses. Voyage expenses comprise all expenses relating to particular voyages, including bunkers, port charges, canal tolls, and agency fees.

For the Company s vessels operating in chartering pools, revenues and voyage expenses are pooled and allocated to each pool s participants on a time charter equivalent basis in accordance with an agreed-upon formula.

Deferred drydock costs

Our vessels are required to be drydocked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are trading. We capitalize the costs associated with drydockings as they occur and amortize these costs on a straight-line basis over the period between drydockings. Costs capitalized as part of the drydocking include actual costs incurred at the drydock yard; cost of hiring riding crews to perform specific tasks determined by us in accordance with the requirements of the classification society in connection with the drydocking and parts used in performing such tasks, cost of travel, lodging and subsistence of our personnel sent to the drydocking site to supervise; and the cost of hiring a third party to oversee a drydocking. We believe that these criteria are consistent with industry practice and that our policy of capitalization reflects the economics and market values of the vessels. Commencing January 1, 2006, we have revised our policy to exclude the cost of hiring riding crews and the cost of parts used by riding crews from amounts capitalized as drydocking cost. We have not restated any historical financial statements because we determined that the impact of such a revision is not material to our operating income and net income for any periods presented.

Table of Contents

Impairment of long-lived assets

We evaluate the carrying amounts and periods over which long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, we review certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. We determine undiscounted projected net operating cash flows for each vessel and compare it to the vessel carrying value. In the event that impairment occurred, we would determine the fair value of the related asset and we record a charge to operations calculated by comparing the asset s carrying value to the estimated fair market value. We estimate fair market value primarily through the use of third party valuations performed on an individual vessel basis.

Recent accounting pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FIN 46, Consolidation of Variable Interest Entities, which clarified the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to address perceived weaknesses in accounting for entities commonly known as special-purpose or off-balance sheet entities. It provides guidance for identifying the party with a controlling financial interest resulting from arrangements or financial interests rather than voting interests. It requires consolidation of Variable Interest Entities (VIEs) only if those VIEs do not effectively disperse the risks and benefits amount the various parties involved. On December 24, 2003, the FASB issued a complete replacement of FIN 46 (FIN 46R), which clarified certain complexities of FIN 46. FIN 46R is applicable for financial statements issued for reporting periods that end after March 5, 2004. The Company has reviewed FIN 46R and determined that the adoption of the standard will not have a material impact on the financial statements.