

INTERNATIONAL SHIPPING ENTERPRISES, INC.

Form 10-Q

August 15, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2005

or

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

For the transition period from _____ to _____

Commission file number: 000-51047

INTERNATIONAL SHIPPING ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

57-1212493
(I.R.S. Employer Identification No.)

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1225 Franklin Avenue, Suite 325,
Garden City, New York
(Address of principal executive offices)

11530
(Zip Code)

(516) 240-8025

Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 12, 2005, 39,900,000 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Reference is made to our financial statements beginning on page F-1 of this report.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, should, could, would, expect, plan, anticipate, believe, estimate, the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities and Exchange Commission filings, including our report on Form 10-K, as filed on February 2, 2005, and any amendments thereto. The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report.

Overview

We were formed on September 17, 2004, to serve as a vehicle to acquire one or more vessels or an operating business in the dry bulk sector of the shipping industry through a merger, capital stock exchange, asset acquisition or other similar business combination. Our initial business combination must be with a target whose fair market value is at least equal to 80% of net assets at the time of such acquisition.

On December 16, 2004, we consummated our initial public offering of 32,775,000 units (including the exercise of the underwriters over-allotment option). Each unit consists of one share of common stock and two redeemable common stock purchase warrants. Each warrant entitles the holder to purchase from us one share of our common stock at an exercise price of \$5.00. Our common stock and warrants started trading separately as of January 5, 2005.

Our net proceeds from the sale of our units, after deducting offering expenses of approximately \$2,230,000, including \$1,710,000 evidencing the underwriters' non-accountable expense allowance of 1% of the gross proceeds (excluding the proceeds from the underwriters' over-allotment), and underwriting discounts of approximately \$11,799,000, were approximately \$182,615,000. Of this amount, \$180,576,000 is being held in trust and the remaining \$2,039,000 is being held outside of the trust. We will use substantially all of the net proceeds of our offering to acquire a target business, including identifying and evaluating prospective acquisition candidates, selecting the target business, and structuring, negotiating, and consummating the business combination.

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We believe that the funds available to us outside of the trust fund will be sufficient to allow us to continue to operate until our prescribed liquidation date, assuming that a business combination is not consummated during that time. For the balance of the time period, we anticipate approximately \$33,000 for administrative services and support payable to unaffiliated third parties (up to \$5,500 per month for 6 months), \$30,000 of expenses in legal and accounting fees relating to our SEC reporting obligations, and \$52,000 for general working capital that will be used for miscellaneous expenses and reserves.

Since our inception, we have not engaged in any operations, generated any revenues or incurred any debt or expenses, other than in connection with our initial public offering, identifying and investigating suitable target businesses, and general and administrative matters. As explained below, we have entered into a definitive agreement to purchase a target business, and we have expended approximately \$7,695,193, \$5,022,037 of which has been advanced on our behalf by Ms. Frangou, as explained below in *Costs and*

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Expenses, in connection with the negotiation of such acquisition as well as a senior secured credit facility which will be used partially to fund the acquisition.

Acquisition of Navios Maritime Holdings Inc.

On February 28, 2005, we entered into a Stock Purchase Agreement, or purchase agreement, with Navios Maritime Holdings Inc., a Marshall Islands corporation, or Navios, and all the shareholders of Navios, or the Navios shareholders, in connection with our acquisition of Navios. Navios is headquartered in South Norwalk, Connecticut, and maintains offices in Piraeus, Greece, and Montevideo, Uruguay. It is one of the leading global brands in seaborne shipping, specializing in the worldwide carriage, trading, storing and the related logistics of international bulk cargoes. Navios's fleet carries a wide range of cargoes including iron ore, coal, grain, minor bulks (such as cement and fertilizer) and steel products. From time to time over the past two years, Navios has deployed over 50 vessels at any one time. The transaction is expected to be consummated upon receipt of the required approval by our stockholders, as discussed herein.

Purchase Price

Simultaneously with the signing of the Purchase Agreement, we deposited \$3,000,000 with an escrow agent as a deposit to be applied against the purchase price at closing. On July 15, 2004, we deposited an additional \$3,000,000 in accordance with the terms of the Purchase Agreement. In the event that the closing does not occur, any and all deposits will be returned to us, except in those cases where the closing has not occurred due to our breach of a representation, warranty, covenant or agreement made by us in the Purchase Agreement. In connection with the deposit and other costs and expenses associated with the transaction, Angeliki Frangou, our President, Chairman, and Chief Executive and Financial Officer, has agreed to loan the necessary funds to us, as described in *Costs and Expenses* below.

At the closing, the Navios shareholders will be paid an aggregate of \$607.5 million in cash for all the outstanding capital stock of Navios, subject to adjustments and certain holdbacks. The purchase price will be partially funded through a secured credit facility as described in *Financing* below. A portion of the purchase price, \$4.0 million, will be held back to secure a purchase price adjustment that may occur following the closing that will be based on an EBITDA calculation relating to Navios's operations.

Reincorporation

It is intended that, subject to stockholder approval, we will reincorporate as a Marshall Islands company by means of a merger with the newly acquired Navios.

Financing

On July 12, 2005, we entered into a senior secured credit facility with HSH Nordbank AG. Pursuant to the terms of the senior secured credit facility, we will be able to borrow up to \$520.0 million to be used for the acquisition of Navios and for general corporate and working capital purposes after the acquisition. The interest rate under the facility, depending on the tranche being borrowed, will be LIBOR or the applicable

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interest rate swap rate, plus the costs of complying with any applicable regulatory requirements and a margin ranging from 1.5% to 2.75% per annum. Amounts drawn under the facility will be secured by our assets which, upon acquisition of the outstanding securities of Navios by us, will be the assets now owned by Navios. Of the \$520.0 million, (i) \$140.0 million matures eight (8) years from the closing of the acquisition of Navios and is to be repaid in quarterly amounts over such term, and (ii) \$380.0 million matures six (6) years from the closing of the acquisition of Navios and is to be repaid in quarterly amounts during such term. Outstanding amounts under the facility may be prepaid without penalty in multiples of \$1.0 million upon 10 days written notice. The facility requires mandatory prepayment of amounts outstanding under the facility in the event of a sale or loss of the assets of Navios including the sale of a vessel in the ordinary course of business. The credit facility contains a number of covenants, including covenants limiting the power to, subject to specified exceptions, the payment of dividends and redemptions, mergers and acquisitions, the incurrence of indebtedness and liens, and transactions with

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affiliates. The credit facility also requires compliance with a number of financial covenants including tangible net worth, debt coverage ratios, specified tangible net worth to the total debt percentages and minimum liquidity. It is an event of default under the credit facility if such covenants are not complied with or if Angeliki Frangou beneficially owns less than 20% of the issued stock or does not remain actively involved in ISE's business. Ms. Frangou, has loaned to us, on an interest-free basis, approximately \$2.5 million on account of bank fees.

Costs and Expenses

In addition to the Purchase Agreement, on February 28, 2005, we entered into an agreement with Ms. Frangou, pursuant to which, prior to the closing of the acquisition of Navios, Ms. Frangou has agreed to advance funds to us to cover our transaction costs and expenses which exceed those funds currently available for our use in consummating an acquisition transaction (including funding the deposit under the Purchase Agreement and any commitment fees required by Nordbank). Any advances made shall be repaid without interest at the closing of the acquisition of Navios or on demand thereafter.

As of June 30, 2005, Ms. Frangou had advanced on our behalf a total of approximately \$5,022,037, on a non-interest bearing basis, for the payment of expenses related to the anticipated acquisition of Navios, including bank fees and deposits.

Proxy and Registration Statement

On April 19, 2005, we filed a proxy and registration statement on Form S-4, as amended, which was declared effective on July 22, 2005, in connection with the acquisition of Navios and the reincorporation of ISE as a Marshall Islands company by means of a merger with the newly acquired Navios. The proxy statement/prospectus was mailed to stockholders on or about July 22, 2005. The special meeting of ISE's stockholders is scheduled for August 23, 2005, at which time our stockholders will vote on the acquisition of Navios and the reincorporation of ISE as a Marshall Islands company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the sensitivity of income to changes in interest rates, foreign exchanges, commodity prices, equity prices, and other market-driven rates or prices. We are not presently engaged in and, if the acquisition of Navios is not consummated or an alternative suitable business target is not identified by us prior to the prescribed liquidation date of the trust fund, we may not engage in, any substantive commercial business. Accordingly, we are not and, until such time as we consummate a business combination, we will not be, exposed to risks associated with foreign exchange rates, commodity prices, equity prices or other market-driven rates or prices. The net proceeds of our initial public offering held in the trust fund have been invested only in United States government securities, defined as any Treasury Bill issued by the United States having a maturity of one hundred and eighty days or less. Given our limited risk in our exposure to U.S. Treasury Bills, we do not view the interest rate risk to be significant.

Item 4. Controls and Procedures.

Our management carried out an evaluation, with the participation of our Chief Executive Officer (principal executive, financial, and accounting officer), of the effectiveness of our disclosure controls and procedures as of June 30, 2005. Based upon that evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports

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that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There has not been any change in our internal control over financial reporting in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act that occurred during the quarter ended June 30, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

There are no material legal proceedings pending against us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

31.1 Section 302 Certification of Chief Executive Officer

31.2 Section 302 Certification of Chief Financial Officer

32.1 Section 906 Certification

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SIGNATURES

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

INTERNATIONAL SHIPPING ENTERPRISES, INC.

Date: August 15, 2005

By:

/s/ ANGELIKI FRANGOU
Angeliki Frangou
*Chairman of the Board, Chief Executive Officer
and President (Principal Executive Officer,
Principal Financial and Accounting Officer)*

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	<u>June 30, 2005</u>	<u>December 31, 2004</u>
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 172,064	\$ 2,032,478
Investment held in Trust Fund	182,798,858	180,691,163
Deferred Tax Asset	145,000	
Prepaid expenses	63,850	12,988
	<u>183,179,772</u>	<u>182,736,629</u>
Total current assets	183,179,772	182,736,629
Advances held in escrow for Acquisitions	3,016,178	
Property & Equipment (net)	9,205	7,195
Deferred Acquisitions costs	1,246,983	81,000
Deferred Finance costs	3,448,500	
	<u>190,900,638</u>	<u>182,824,824</u>
Total Assets	\$ 190,900,638	\$ 182,824,824
Liabilities & Stockholders Equity		
Current Liabilities:		
Trade payable & Accrued Expenses	\$ 1,207,127	\$ 139,177
Notes payable, stockholder	5,022,037	805
Deferred Interest at Trust account	444,349	23,021
Income taxes payable	712,000	6,700
	<u>7,385,513</u>	<u>169,703</u>
Total Current Liabilities	7,385,513	169,703
Common Stock, Subject to possible conversion	36,097,142	36,097,142
	<u>36,097,142</u>	<u>36,097,142</u>
Stockholders Equity:		
Preferred Stock - \$.0001 par value, authorized 1,000,000 shares, none issued		
Common Stock - \$.0001 par value, authorized 20,000,000 shares, issued and outstanding 39,900,000 (which includes 6,551,723 shares subject to possible conversion)	3,990	3,990
Additional paid-in capital	146,551,057	146,545,159
Earnings accumulated during the development stage	862,936	8,830
	<u>147,417,983</u>	<u>146,557,979</u>
Total stockholders equity	147,417,983	146,557,979
	<u>147,417,983</u>	<u>146,557,979</u>
Total Liabilities and Stockholders Equity	\$ 190,900,638	\$ 182,824,824
	<u>\$ 190,900,638</u>	<u>\$ 182,824,824</u>

See Notes to Unaudited Financial Statements

Table of Contents**International Shipping Enterprises, Inc.**

(a corporation in the development stage)

STATEMENT OF OPERATIONS**(unaudited)**

	<u>For the period from January 1st, 2005 to June 30, 2005</u>	<u>For the period from April 1st, 2005 to June 30, 2005</u>	<u>For the period from September 17, 2004 (inception) to June 30, 2005</u>
Net revenue from operations			
Capital based Taxes	\$ (130,000)	\$ (16,500)	\$ (184,759)
Other Operating expenses	(157,430)	(80,159)	(179,856)
	<u>(287,430)</u>	<u>(96,659)</u>	<u>(364,615)</u>
Formation & Operating Cost	(287,430)	(96,659)	(364,615)
	<u>(287,430)</u>	<u>(96,659)</u>	<u>(364,615)</u>
Income from Financing Activities			
Bank Interest Income, net	1,708,536	967,401	1,801,251
	<u>1,421,106</u>	<u>870,742</u>	<u>1,436,636</u>
Income before provision for income taxes	1,421,106	870,742	1,436,636
Provision for Income Taxes	567,000	310,000	573,700
	<u>854,106</u>	<u>560,742</u>	<u>862,936</u>
Net Income	\$ 854,106	\$ 560,742	\$ 862,936
	<u>39,900,000</u>	<u>39,900,000</u>	
Weighted average number of common shares outstanding	39,900,000	39,900,000	
Net income per share :	\$ 0.02	\$ 0.01	

See Notes to Unaudited Financial Statements

Table of Contents**International Shipping Enterprises Inc.****(a corporation in the development stage)****STATEMENT OF THE STOCKHOLDERS EQUITY****For the period from September 17th, 2004 (inception) to June 30, 2005**

	<u>Common Stock and</u>		<u>Additional</u>	<u>Earnings</u> <u>Accumulated</u> <u>During the</u> <u>Development</u> <u>Stage</u>	<u>Stockholders</u>
	<u>Shares</u>	<u>Amount</u>			
Sale of 7,125,000 shares of common stock to initial stockholders	7,125,000	\$ 713.00	\$ 24,287	\$	\$ 25,000
Sale of 32,775,000 units, net of underwriters discount and offering expenses (includes 6,551,723 shares subject to possible conversion)	32,775,000	3,277.00	182,618,014		182,621,291
Proceeds subject to possible conversion of 6,551,723 shares			(36,097,142)		(36,097,142)
Net Income				\$ 8,830	8,830
Balance at December 31, 2004	39,900,000	3,990	146,545,159	8,830	146,557,979
Unaudited:					
Finalization of estimated costs of the offering			5,898		5,898
Net Income				854,106	854,106
Balance at June 30, 2005	39,900,000	\$ 3,990.00	\$ 146,551,057	\$ 862,936	\$ 147,417,983

See Notes to Unaudited Financial Statements

Table of Contents**International Shipping Enterprises Inc.**

(a corporation in the development stage)

STATEMENT OF CASH FLOWS**(Unaudited)**

	For the period from January 1, 2005 to June 30, 2005	For the period from September 17, 2004(inception) to June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 854,106	\$ 862,936
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	1,749	1,749
Interest income on treasury bills	(2,123,873)	(2,239,036)
Changes in operating assets & liabilities :		
Increase in prepaid expenses	(50,862)	(63,850)
Increase in accounts payable and accrued expenses	1,067,950	1,207,127
Increase in deferred interest	421,328	444,349
Increase in income taxes payable	705,300	712,000
Increase in deferred tax assets	(145,000)	(145,000)
Net cash generated from operating activities	<u>730,698</u>	<u>780,275</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Treasury Bills - held in trust		(180,575,746)
Increase in cash held in trust		(254)
Purchase of property & equipment	(3,760)	(10,955)
Advance for the acquisition of a target	(3,000,000)	(3,000,000)
Payment of deferred acquisition costs	(1,165,983)	(1,246,983)
Net cash used in investing activities	<u>(4,169,743)</u>	<u>(184,833,938)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from initial public offering		196,650,000
Payment of costs of initial public offering	5,899	(14,022,810)
Proceeds from stockholders loans & advances	5,021,232	5,371,353
Payment to stockholders loans & advances		(349,316)
Proceeds from sale of common stock		25,000
Payment of deferred finance costs	(3,448,500)	(3,448,500)
Net cash provided by financing activities	<u>1,578,631</u>	<u>184,225,727</u>
Increase/decrease in cash at end of period	(1,860,414)	172,064
Cash and cash equivalents at beginning of period	2,032,478	
Cash and cash equivalents at end of period	<u>\$ 172,064</u>	<u>\$ 172,064</u>

See Notes to Unaudited Financial Statements

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International Shipping Enterprises, Inc.

(a corporation in the development stage)

Notes to Financial Statements

- 1. Organization and Business Operations** International Shipping Enterprises, Inc. (the **Company**) was incorporated in Delaware on September 17, 2004, as a blank check company, the objective of which is to acquire one or more vessels or an operating business in the dry bulk sector of the shipping industry.

All activity from January 1, 2005, through June 30, 2005, relates to the Company's search for a business combination and the negotiation of the acquisition of Navios Maritime Holdings Inc. described below. The Company has selected December 31 as its fiscal year-end.

The registration statement for the Company's initial public offering (**Offering**) was declared effective December 10, 2004. The Company consummated the Offering on December 16, 2004, and received net proceeds of approximately \$182,621,000 (Note 2). The Company's management has broad discretion with respect to the specific application of the net proceeds of this Offering, although substantially all of the net proceeds of this Offering are intended to be generally applied toward consummating a business combination with (or acquisition of) one or more vessels or an operating business in the dry bulk sector of the shipping industry (**Business Combination**). Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. An amount of \$180,576,000 of the net proceeds were placed in an interest-bearing trust account (**Trust Account**) until the earlier of (i) the consummation of a Business Combination or (ii) the liquidation of the Company. Under the agreement governing the Trust Account, funds will only be invested in United States government securities (Treasury Bills) with a maturity of 180 days or less. (Note 3) The remaining net proceeds (not held in the Trust Account) may be used to pay for business, legal, and accounting due diligence on prospective acquisitions and continuing general and administrative expenses.

The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that stockholders owning 20% or more of the shares sold in the Offering vote against the Business Combination and exercise their redemption rights described below, the Business Combination will not be consummated. All of the Company's stockholders prior to the Offering, including all of the officers and directors of the Company (**Initial Stockholders**), have agreed to vote their 7,125,000 founding shares of common stock in accordance with the vote of the majority in interest of all other stockholders of the Company (**Public Stockholders**) with respect to any Business Combination. After consummation of a Business Combination, these voting safeguards will no longer be applicable.

With respect to a Business Combination which is approved and consummated, any Public Stockholder who votes against the Business Combination may demand that the Company convert his shares. The per share conversion price will equal to the amount in the Trust Account calculated as of two business days prior to the proposed consummation of the Business Combination divided by the number of shares of common stock held by Public Stockholders at the consummation of the Offering. Accordingly, Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders may seek conversion of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Account computed without regard to the shares held by Initial Stockholders. Accordingly, a portion of the net proceeds from the offering (19.99% of the amount held in the Trust Account) has been

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classified as common stock subject to possible conversion and 19.99% of the interest earned on the amount held in the Trust Account has been recorded as deferred interest in the accompanying June 30, 2005 balance sheet.

The Company's Certificate of Incorporation provides for mandatory liquidation of the Company in the event that the Company does not consummate a Business Combination within 12 months from the date of the consummation of the Offering, or 18 months from the consummation of the Offering if certain extension criteria have been satisfied. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be less than the initial public offering price per share in the Offering due to costs related to the Offering and since no value would be attributed to the Warrants contained in the Units sold (Note 2).

In connection with a proposed acquisition (Note 4), the Company has deferred \$3,448,500 relating to bank commitment fees and \$1,246,983 of costs relating to professional fees for legal, due diligence and accounting services.

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

- 2. Initial Public Offering**
- On December 16, 2004, the Company sold 32,775,000 units (**Units**) in the Offering, which included all of the 4,275,000 Units subject to the underwriters' over-allotment option. Each Unit consists of one share of the Company's common stock, \$.0001 par value, and two Redeemable Common Stock Purchase Warrants (**Warrants**). Each Warrant entitles the holder to purchase from the Company one share of common stock at an exercise price of \$5.00 commencing the later of the completion of a Business Combination with a target business or one year from the effective date of the Offering and expiring four years from the date of the prospectus. The Warrants will be redeemable, upon prior written consent of the Company's underwriter in the Offering, Sunrise Securities Corp., at a price of \$.01 per Warrant upon 30 days' notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least \$8.50 per share for any 20 trading days within a 30 trading day period ending on the third day prior to date on which notice of redemption is given and only if the weekly trading volume of the Company's common stock has been at least 800,000 shares for each of the two calendar weeks prior to the date on which notice of redemption is given.

At June 30, 2005, 65,550,000 shares of common stock were reserved for issuance upon exercise of Warrants.

- 3. Investments Held in Trust Account**
- At June 30, 2005, the investments held in the Trust Account consist principally of short-term Treasury Bills which are treated as trading securities and recorded at their market value. The excess of market value over cost, exclusive of 19.99% of the interest which has been recorded as deferred interest as described above, is included in interest income on the accompanying income statement.
- 4. Acquisition of Navios Maritime Holdings Inc.**
- On February 28, 2005, the Company entered into a Stock Purchase Agreement (the **Purchase Agreement**) with Navios Maritime Holdings Inc., a Marshall Islands corporation (**Navios**), and all the shareholders of Navios in connection with the Company's acquisition of all of the outstanding capital of Navios. At the closing, the Navios shareholders will be paid an aggregate of \$607.5 million in cash for all the outstanding capital stock of Navios, subject to adjustments and certain holdbacks. The purchase price will be partially funded through a secured credit facility with HSH Nordbank AG.

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Simultaneously with the signing of the Purchase Agreement, the Company deposited \$3,000,000 with an escrow agent as a deposit to be applied against the purchase price at closing. On July 15, 2005, the Company deposited an additional \$3,000,000 in conjunction with the extension of closing date to August 31, 2005, in accordance with the terms and conditions of the Purchase Agreement. In the event that the closing does not occur, any and all deposits will be returned to the Company, except in those cases where the closing has not occurred due to the Company's breach of one of its representation, warranty, covenant or agreement in the Purchase Agreement. In connection with the deposit and other costs and expenses associated with the transaction, an Initial Stockholder has agreed to loan the necessary funds to the Company (Note 5).

The transaction is expected to be consummated upon receipt of the required approval by the Company's stockholders. The special meeting of the Company's stockholders is currently scheduled for August 23, 2005.

- 5. Note Payable, Stockholder** The Company issued a \$4,022,037 unsecured promissory note to an Initial Stockholder, who is also an officer, on April 18, 2005. The amount of \$5,022,037, including additional advances of \$1,000,000, is due to the Initial Stockholder as of June 30, 2005. The amount due to the Initial Stockholder is non interest-bearing and is payable on demand at any time on or after the closing date of the acquisition of Navios.
- 6. Commitment** The Company presently has certain office and secretarial services made available to it by unaffiliated third parties, as may be required by the Company from time to time. Under its agreement with its underwriters, the Company is permitted to pay up to an aggregate of \$5,500 per month for office space and all such services on an ongoing basis. The statement of operations for the period ended June 30, 2005 includes approximately \$9,672 related to this agreement.