DHI GROUP, INC.
Form 10-Q
November 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended September 30, 2018

OR
£ TRANSITION PERIOD PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
Commission File Number: 001-33584

DHI Group, Inc.
(Exact name of Registrant as specified in its Charter)

Delaware	20-3179218
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1040 Avenue of the Americas, 8th Floor	
New York, New York	10018
(Address of principal executive offices)	(Zip Code)

(212) 725-6550
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

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

Large accelerated filer £ Accelerated filer £ Non-accelerated filer £
Smaller Reporting Company R Emerging Growth Company £

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No R

As of October 26, 2018, there were 52,890,453 shares of the registrant’s common stock, par value $.01 per share, outstanding.

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SIGNATURES
Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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PART I
ITEM 1. Financial Statements

DHI GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except per share data)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	$ 4,659	$ 12,068
Accounts receivable, net of allowance for doubtful accounts of $646 and $1,688	19,080	38,769
Income taxes receivable	2,284	2,617
Prepaid and other current assets	7,440	5,086
Total current assets	33,463	58,540
Fixed assets, net	14,552	16,147
Acquired intangible assets, net	39,000	45,737
Capitalized contract costs	6,313	—
Goodwill	155,348	170,791
Deferred income taxes	231	469
Other assets	2,498	4,034
Total assets	$ 251,405	$ 295,718
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 19,035	$ 22,196
Deferred revenue	55,057	83,646
Income taxes payable	1,197	1,129
Total current liabilities	75,289	106,971
Long-term debt, net	16,596	41,450
Deferred income taxes	9,667	8,245
Deferred revenue	1,368	—
Income taxes payable	—	1,489
Unrecognized tax benefits	3,241	2,859
Other long-term liabilities	1,308	2,063
Total liabilities	107,469	163,077
Commitments and contingencies (Note 9)		
Stockholders’ equity		
Convertible preferred stock, $.01 par value, authorized 20,000 shares; no shares issued and outstanding	—	—
Common stock, $.01 par value, authorized 240,000; issued 86,545 and 83,125 shares, respectively; outstanding: 53,188 and 50,480 shares, respectively	866	831
Additional paid-in capital	381,878	375,537
Accumulated other comprehensive loss	(29,761)	(27,330)
Accumulated earnings	68,490	59,776
Treasury stock, 33,357 and 32,645 shares, respectively	(277,537)	(276,173)
Total stockholders’ equity	143,936	132,641
Total liabilities and stockholders’ equity	$ 251,405	$ 295,718

See accompanying notes to the condensed consolidated financial statements.

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DHI GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	$38,917	$52,424	$123,583	$157,014
Operating expenses:				
Cost of revenues	4,424	7,616	14,330	22,681
Product development	5,219	6,423	15,811	19,230
Sales and marketing	13,974	19,988	46,628	59,638
General and administrative	8,843	9,454	28,012	30,779
Depreciation	2,540	2,576	7,155	7,703
Amortization of intangible assets	—	554	482	1,686
Impairment of fixed assets	—	2,226	—	2,226
Disposition related and other costs (Note 11)	2,085	1,049	5,214	2,236
Total operating expenses	37,085	49,886	117,632	146,179
Gain (loss) on sale of businesses, net (Note 4)	(365)	—	3,435	—
Operating income	1,467	2,538	9,386	10,835
Interest expense	(335)	(1,173)	(1,370)	(2,777)
Other expense	(9)	(3)	(42)	(10)
Income before income taxes	1,123	1,362	7,974	8,048
Income tax expense	193	304	3,746	3,828
Net income	$930	$1,058	$4,228	$4,220
Basic earnings per share	$0.02	$0.02	$0.09	$0.09
Diluted earnings per share	$0.02	$0.02	$0.09	$0.09
Weighted-average basic shares outstanding	48,780	48,021	48,589	47,858
Weighted-average diluted shares outstanding	50,390	48,502	49,707	48,397

See accompanying notes to the condensed consolidated financial statements.

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DHI GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$930	$1,058	$4,228	$4,220
Foreign currency translation adjustment	(894)	1,782	(2,431)	4,653
Total other comprehensive income (loss)	(894)	1,782	(2,431)	4,653
Comprehensive income	$36	$2,840	$1,797	$8,873

See accompanying notes to the condensed consolidated financial statements.

DHI GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$4,228	$4,220
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	7,155	7,703
Amortization of intangible assets	482	1,686
Deferred income taxes	1,830	(23)
Amortization of deferred financing costs	146	642
Stock based compensation	5,362	6,275
Impairment of fixed assets	—	2,226
Change in unrecognized tax benefits	382	2,358
Gain on sale of businesses, net	(3,435)	—
Changes in operating assets and liabilities:		
Accounts receivable	15,772	10,607
Prepaid expenses and other assets	1,709	(1,041)
Capitalized contract costs	(1,587)	—
Accounts payable and accrued expenses	(4,180)	(152)
Income taxes receivable/payable	(1,021)	(3,599)
Deferred revenue	(18,622)	(3,774)
Other, net	469	51
Net cash flows from operating activities	8,690	27,179
Cash flows from (used in) investing activities:		
Net cash received from sale of businesses	17,542	—
Purchases of fixed assets	(6,604)	(10,160)
Purchase of cost method investments	—	(500)
Net cash flows from (used in) investing activities	10,938	(10,660)
Cash flows used in financing activities:		
Payments on long-term debt	(30,000)	(17,000)
Proceeds from long-term debt	5,000	—
Payments under stock repurchase plan	(828)	—
Proceeds from stock option exercises	—	403
Purchase of treasury stock related to vested restricted stock	(547)	(1,125)
Net cash flows used in financing activities	(26,375)	(17,722)
Effect of exchange rate changes	(662)	302
Net change in cash for the period	(7,409)	(901)
Cash, beginning of period	12,068	22,987
Cash, end of period	$4,659	$22,086

See accompanying notes to the condensed consolidated financial statements.

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DHI GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of DHI Group, Inc. ("DHI" or the "Company") have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual audited consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been omitted and condensed pursuant to such rules and regulations. In the opinion of the Company's management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the financial position, results of operations and cash flows of the Company for the periods presented. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "Annual Report on Form 10-K"). Operating results for the nine month period ended September 30, 2018 are not necessarily indicative of the results to be achieved for the full year.

Preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. Management believes the most complex and sensitive judgments, because of their significance to the condensed consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results could differ materially from management's estimates reported in the condensed consolidated financial statements and footnotes thereto. There have been no significant changes in the Company's assumptions regarding critical accounting estimates during the nine month period ended September 30, 2018.

2. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09 ("Topic 606"), Revenue from Contracts with Customers. Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and requires entities to measure and recognize revenue and the related cash flows it expects to be entitled for the transfer of promised goods or services to customers and requires an entity to recognize the incremental costs of obtaining a contract with a customer as an asset if the entity expects to recover those costs over time. Topic 606 became effective for reporting periods beginning after December 15, 2017. Topic 606 provides companies with two implementation methods. Companies can choose to apply the standard retrospectively to each prior reporting period presented (full retrospective application) or retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that include the date of initial application (modified retrospective application). The Company has chosen the modified retrospective application method and has implemented Topic 606 effective January 1, 2018. The Company has determined that the January 1, 2018 cumulative effect to its revenue streams was an increase of approximately $0.2 million to deferred revenues, and the cumulative effect to its contract acquisition costs was an increase to contract acquisition cost assets of approximately $6.1 million, with a net after tax increase to retained earnings of approximately $4.5 million. The cumulative impact on contract acquisition costs was computed based on contracts in force as of December 31, 2017 using average commission rates on both new business sales to be amortized over approximately two years and the remaining sales contracts to be amortized over approximately one year. See Note 3 to the Notes to the Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new standard aims to improve existing U.S. GAAP and will change certain aspects of accounting for equity investments, financial instruments, financial liabilities,

and the presentation and related disclosures. The updated standard becomes effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the new standard in the first quarter of 2018, and has determined the adoption did not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard has requirements on how to account for leases by both the lessee and the lessor and adds clarification for what constitutes a lease, among other items. The updated standard becomes effective for fiscal years beginning after December 15, 2018 and interim periods the following year, with early adoption permitted. The new standard must be applied using a modified retrospective transition. In July 2018, the FASB issued updated guidance which allows an additional transition method to adopt the new standard at the adoption date, as compared to the beginning of the earliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings in the

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period of adoption. The Company expects to elect this transition method at the adoption date of January 1, 2019. The Company is currently finalizing its lease portfolio analysis to determine the impact to its consolidated financial statements. Adoption of this standard will result in a right-of-use asset and a related lease liability being established to reflect the present value of the future lease payments of the lease. The Company is implementing processes and tools to assist in the ongoing lease data collection and analysis, and updating accounting policies and internal controls that would be impacted by the new guidance, to ensure readiness for adoption in the first quarter of 2019.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. The new standard requires entities that are customers in cloud computing arrangements to defer implementation costs if they would be capitalized by the entity in software licensing arrangements under the internal-use software guidance. ASU No. 2018-15 is effective for fiscal years beginning after December 15, 2019 and interim periods within those years and early adoption is permitted. The amendments allow either a retrospective or prospective approach to all implementation costs incurred after adoption. The Company is evaluating the expected impact of this standard on its consolidated financial statements.

3. REVENUE RECOGNITION

On January 1, 2018, we adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 will be presented under Topic 606, while prior period amounts will not be adjusted and will continue to be reported under the accounting standards in effect for the period presented.

We recorded a net increase to opening retained earnings of $4.5 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606.

Changes in accounting policies as a result of adopting Topic 606 and nature of goods

The Company recognizes revenue when control of the promised goods or services is transferred to our customers at an amount that reflects the consideration to which we expect to receive in exchange for those goods or services. Revenue is recognized net of customer discounts ratably over the service period. Customer billings delivered in advance of services being rendered are recorded as deferred revenue and recognized over the service period. The Company generates revenue from the following sources:

Recruitment packages. Recruitment package revenues are derived from the sale to recruiters and employers of a combination of job postings and access to a searchable database of candidates on the Dice, ClearanceJobs, eFinancialCareers, and Rigzone (sold the RigLogix portion of the Rigzone business on February 20, 2018 and transferred majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018) websites. Certain of the Company’s arrangements include multiple performance obligations, which primarily consists of the ability to post jobs and access to a searchable database of candidates. The Company determines the units of accounting for multiple performance obligations in accordance with Topic 606. Specifically, the Company considers a performance obligation as a separate unit of accounting if it has value to the customer on a standalone basis. The Company’s arrangements do not include a general right of return. Services to customers buying a package of available job postings and access to the database are delivered over the same period and revenue is recognized ratably over the length of the underlying contract, typically from one to twelve months. The separation of the package into two deliverables results in no change in revenue recognition since delivery of the two services occurs over the same time

period.

Advertising revenue. Advertising revenue is recognized over the period in which the advertisements are displayed on the websites or at the time a promotional e-mail is sent out to the audience.

Classified revenue. Classified job posting revenues are derived from the sale of job postings to recruiters and employers. A job posting is the ability to list a job on the website for a specified time period. Revenue from the sale of classified job postings is recognized ratably over the length of the contract or the period of actual usage.

Data services revenue. Access to the Company's database of energy industry data is provided to customers for a fee. Data services revenue is recognized ratably over the length of the underlying contract, typically from one to twelve months. The data services business, called RigLogix, was sold on February 20, 2018.

Career fair and recruitment event booth rentals. Career fair and recruitment event revenues are derived from renting booth space to recruiters and employers. Revenue from these sales are recognized when the career fair or recruitment event is held.

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DHI GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Disaggregation of revenue

Our brands serve various economic professions, such as technology, financial, hospitality (the Hcareers business was sold on May 22, 2018), and energy (sold the RigLogix portion of the Rigzone business on February 20, 2018 and transferred majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018). The following table provides information about disaggregated revenue by brand and includes a reconciliation of the disaggregated revenue with reportable segments (in thousands):

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Tech-Focused	Corporate & Other	Total	Tech-Focused	Corporate & Other	Total
Dice	$23,715	$ —	$23,715	$70,486	$ —	$70,486
ClearanceJobs	5,422	—	5,422	15,359	—	15,359
Dice Europe (2)	461	—	461	3,008	—	3,008
eFinancial Careers	8,388	—	8,388	25,418	—	25,418
Hcareers (1)	—	—	—	—	5,329	5,329
Rigzone (1)	—	931	931	—	3,771	3,771
BioSpace (1)	—	—	—	—	212	212
Total	$37,986	$ 931	$38,917	$114,271	$ 9,312	$123,583

(1) The Company sold the RigLogix portion of the Rigzone business on February 20, 2018 and transferred majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018. Hcareers was sold on May 22, 2018 and the Company transferred majority ownership of BioSpace to BioSpace management on January 31, 2018.
(2) The Company ceased Dice Europe operations on August 31, 2018.

Revenue for periods ending prior to January 1, 2018 have not been presented under Topic 606.

Contract Balances

The following table provides information about opening and closing balances of receivables and contract liabilities from contracts with customers as required under Topic 606 (in thousands):

	As of September 30, 2018	As of January 1, 2018
Receivables	$ 19,080	$38,769
Short-term contract liabilities (deferred revenue)	55,057	83,810
Long-term contract liabilities (deferred revenue)	1,368	—

We receive payments from customers based upon contractual billing schedules; accounts receivable is recorded when customers are invoiced per the contractual billings schedules. As the Company's standard payment terms are less than one year, the Company elected the practical expedient, where applicable. As a result, the Company did not consider

the effects of a significant financing component. Contract liabilities include customer billings delivered in advance of performance under the contract, and associated revenue is realized when services are rendered under the contract.

Receivables increase due to customer billings and decrease by cash collected from customers along with business divestitures. Included in January 1, 2018 is $4.4 million of receivables related to businesses divested during the nine months ended September 30, 2018. Contract liabilities increase due to customer billings and are decreased as performance obligations are satisfied under the contracts. Included in January 1, 2018 is $8.4 million of short-term contract liabilities related to the businesses divested during the nine months ended September 30, 2018.

During the three and nine months ended September 30, 2018, the Company recognized the following revenues as a result of changes in the contract liability balances in the respective periods (in thousands):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Revenue recognized in the period from:		
Amounts included in the contract liability at the beginning of the period	$ 28,933	$ 69,897

Transaction price allocated to the remaining performance obligations

Under the guidance of Topic 606, the following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period (in thousands):

	Remainder of 2018	2019	2020	Total
Tech-focused	$ 27,991	$27,872	$562	$56,425

Contract acquisition costs

In connection with the adoption of Topic 606, we are required to capitalize certain contract acquisition costs consisting primarily of commissions paid when contracts are signed. As allowed for by the practical expedient, the Company is using a portfolio approach for contract acquisition costs, which allows the new revenue guidance to be applied to a portfolio of contracts with similar characteristics. As a result, the Company has applied the portfolio approach to new business contracts and recurring or remaining business contracts. The Company reasonably expects that the effects of applying the portfolio approach would not differ materially from applying Topic 606 at the individual contract level. As of January 1, 2018, the date we adopted Topic 606, we capitalized $6.1 million in contract acquisition costs related to contracts that were not completed. The cumulative effect for contract acquisition costs was computed based on contracts in force as of December 31, 2017 using the average commission rates on both new business sales contracts, to be amortized over approximately two years, and the remaining sales contracts to be amortized over approximately one year. For costs incurred to obtain new business sales contracts, we will record these costs over an average customer life, which was determined using customer renewal rates; for the remaining sales contracts, we will record these costs over the weighted average contract term. For the three and nine months ended September 30, 2018, the Company recorded $2.7 million and $7.5 million of expense, respectively, related to the amortization of contract acquisition costs and there was no impairment loss incurred. During the three and nine months ended September 30, 2018, $0.3 million and $1.2 million of contract acquisition costs were removed, respectively, due to the sale of BioSpace and RigLogix in the first quarter of 2018, the sale of Hcareers in the second quarter of 2018, and the transfer of majority ownership of the remaining Rigzone business to Rigzone management in the third quarter of 2018.

In accordance with Topic 606, the impact of adoption to our condensed consolidated statements of operations was as follows:

Three Months Ended
September 30, 2018

(in thousands, except per share amounts)	As Reported	Balance Without Adoption of Topic 606	Effect of Change- Higher (Lower)
Revenues	$ 38,917	$ 38,917	$ —
Operating expenses	$ 37,085	$ 36,914	$ 171
Loss on sale of business	$ (365)	$ (63)	$ 302
Operating income	$ 1,467	$ 1,940	$ (473)
Net income	$ 930	$ 1,285	$ (355)
Basic earnings per share	$ 0.02	$ 0.03	$ (0.01)
Diluted earnings per share	$ 0.02	$ 0.03	$ (0.01)

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DHI GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended September 30, 2018		
(in thousands, except per share amounts)	As Reported	Balance Without Adoption of Topic 606	Effect of Change-Higher (Lower)
Revenues	$123,583	$123,545	$38
Operating expenses	$117,632	$119,058	$(1,426)
Gain on sale of businesses	$3,435	$4,634	$(1,199)
Operating income	$9,386	$9,121	$265
Net income	$4,228	$4,029	$199
Basic earnings per share	$0.09	$0.08	$0.01
Diluted earnings per share	$0.09	$0.08	$0.01

In accordance with Topic 606, the impact of adoption to our condensed consolidated balance sheets was as follows:

	As of September 30, 2018		
(in thousands)	As Reported	Balance Without Adoption of Topic 606	Effect of Change-Higher (Lower)
ASSETS			
Capitalized contract costs	$6,313	$—	$ 6,313
Total assets	$251,405	$245,092	$ 6,313
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deferred revenue	$55,057	$55,095	$ (38)
Deferred income taxes	$9,667	$8,001	$ 1,666

Total liabilities	$107,469	$105,841	$ 1,628
Stockholders equity			
Accumulated earnings	$68,490	$63,805	$ 4,685
Total stockholders' equity	$143,936	$139,251	$ 4,685
Total liabilities & stockholders' equity	$251,405	$245,092	$ 6,313

In accordance with Topic 606, the impact of adoption to our condensed consolidated statements of cash flows was as follows:

	Nine Months Ended September 30, 2018		
	As Reported	Balance Without Adoption of Topic 606	Effect of Change-Higher (Lower)
Cash flows from operating activities:			
Net income	$4,228	$4,029	$ 199
Adjustments to reconcile net income to net cash flows from operating activities:			
Deferred income taxes	$1,830	$1,603	$ 227
Gain on sale of businesses, net	$(3,435)	$(4,634)	$ 1,199
Capitalized contract costs	$(1,587)	$—	$ (1,587)
Deferred revenue	$(18,622)	$(18,584)	$ (38)
Net cash flows from operating activities	$8,690	$8,690	$ —

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4. SALE OF BUSINESSES

The Company transferred a majority ownership of the Rigzone business to Rigzone management on August 31, 2018. The Company retained a 40% common share interest in Rigzone. The Company incurred approximately $0.4 million in selling costs and recognized a $0.4 million loss on sale in the third quarter of 2018.

The Company sold the Hcareers business on May 22, 2018 for $16.5 million and incurred approximately $1.5 million in selling costs, with $1.7 million of the purchase price placed in escrow (recorded in prepaid and other current assets), to be released twelve months after the closing date, subject to the terms and conditions of the transaction agreement, including certain contingencies. Additionally, the Company recorded a receivable of $0.2 million (recorded in prepaid and other current assets) related to working capital to be released four months after the closing date, subject to the terms and conditions of the transaction agreement. As of September 30, 2018, working capital had not been finalized. Net cash proceeds of $14.0 million were received on the date of sale of Hcareers. As a result of the sale, a $0.8 million loss was recognized in the second quarter of 2018.

The Company sold the RigLogix portion of the Rigzone business on February 20, 2018 for $4.2 million and incurred approximately $0.6 million in selling costs. $0.4 million of the purchase price was placed in escrow (recorded in prepaid and other current assets) and will be released twelve months after the closing date, subject to the terms and conditions of the transaction agreement. As a result of the sale, a $4.6 million gain was recognized in the first quarter of 2018. The gain on sale exceeded net proceeds as liabilities transferred in the transaction exceeded assets, primarily due to deferred revenues of $1.2 million.

The Company transferred a majority ownership of the BioSpace business to BioSpace management on January 31, 2018. The Company retained a preferred share interest in BioSpace, Inc., representing a 20% diluted interest. The Company incurred approximately $0.3 million in selling costs and recognized a $0.1 million gain on sale in the first quarter of 2018.

The Company sold the Health eCareers business on December 4, 2017 for $15 million, with $1.5 million of the purchase price placed in escrow (recorded in prepaid and other current assets), to be released eighteen months after the closing date, subject to the terms and conditions of the transaction agreement.

5. FAIR VALUE MEASUREMENTS

The FASB ASC topic on Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value and requires certain disclosures for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. As a basis for considering assumptions, a three-tier fair value hierarchy is used, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.
- Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The carrying amounts reported in the Condensed Consolidated Balance Sheets for cash, accounts receivable, other assets, accounts payable and accrued expenses and long-term debt approximate their fair values. The fair value of the long-term debt was estimated using present value techniques and market based interest rates and credit spreads. The estimated fair value of long-term debt is based on Level 2 inputs.

Certain assets and liabilities are measured at fair value on a non-recurring basis. These assets include investments (included in other assets), goodwill and intangible assets which result as acquisitions occur. Items valued using such

internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable. Such instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment.

6. INVESTMENTS

During 2017, the Company purchased preferred stock representing an additional 2.3% interest in the fully diluted shares of a leading tech skills assessment company for $0.5 million, which brought the Company's total interest to 10.0%. As of September 30, 2018, it was not practicable to estimate the fair value of the preferred stock as the shares are not traded. The investment is

carried at its original cost of $2.0 million, which is included in the other assets section of the Condensed Consolidated Balance Sheets.

On January 31, 2018, the Company transferred a majority ownership of the BioSpace business to BioSpace management with zero proceeds received from the transfer. The Company retained a 20% preferred share interest in the BioSpace business. The fair value of the investment was estimated to be zero at the time of the transfer. As of September 30, 2018, it was not practicable to estimate the fair value of the preferred stock investment as the shares are not traded. The investment is recorded at cost, which is zero. Upon a liquidation, sale or change in control of BioSpace within five years of January 31, 2018, the Company has the right to the first $1.0 million of proceeds or the option to convert its 20% preferred stock interest to a 20% common stock interest. On January 31, 2023, the 20% preferred share interest will convert to a 20% common share interest.

On August 31, 2018, the Company transferred a majority ownership of the Rigzone business to Rigzone management, while retaining a 40% common share interest, with zero proceeds received from the transfer. The Company has agreed to provide $0.4 million of funding to the Rigzone business, which is recorded in accounts payable and accrued expenses on the condensed consolidated balance sheets. The Company has no further funding requirements to the Rigzone business. The Company has evaluated the 40% common share interest in the Rigzone business and has determined the investment meets the definition and criteria of a variable interest entity ("VIE"). The Company evaluated the VIE and determined that the Company does not have a controlling financial interest in the VIE, as the Company does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. The common share interest is being accounted for under the equity method of accounting as the Company has the ability to exercise significant influence over Rigzone. The investment is recorded at cost, which was zero at September 30, 2018.

Rigzone is a website dedicated to delivering online content, data, and career services in the oil and gas industry in North America, Europe, the Middle East, and Asia Pacific. Oil and gas companies, as well as companies that serve the energy industry, use Rigzone to find talent for roles such as petroleum engineers, sales professionals with energy industry expertise and skilled tradesmen.

7. ACQUIRED INTANGIBLE ASSETS, NET

As a result of the sale of Hcareers (sold May 22, 2018), the Company disposed of all its remaining unamortized acquired intangible assets. Acquired intangible assets disposed of in conjunction with the sale had costs of $12.9 million and accumulated amortization of $6.7 million. Therefore, as of September 30, 2018, the net value of all finite-lived assets was zero.

Below is a summary of the major acquired intangible assets (in thousands) as of December 31, 2017:

	Total Cost	Accumulated Amortization	Foreign Currency Translation Adjustment	Acquired Intangible Assets, Net
Technology	$4,561	$ (3,930)	$ (631)	$ —
Trademarks and brand names—Dice	39,000	—	—	39,000
Trademarks and brand names—Other	11,103	(7,260)	(2,185)	1,658
Customer lists	12,887	(5,696)	(2,112)	5,079
Candidate and content database	8,857	(8,354)	(503)	—
Acquired intangible assets, net	$76,408	$ (25,240)	$ (5,431)	$ 45,737

As of September 30, 2018, the Company had an indefinite-lived asset of $39.0 million related to the Dice trademark and brand name. The Company evaluates the indefinite-lived asset for impairment on an annual basis. No impairment has been recorded during the three or nine month periods ended September 30, 2018. The Company is currently performing its annual impairment testing analysis as of October 1, 2018.

We determine whether the carrying value of recorded indefinite-lived acquired intangible assets is impaired on an annual basis or more frequently if indicators of potential impairment exist. The impairment review process compares the fair value of the indefinite-lived acquired intangible assets to its carrying value. If the carrying value exceeds the fair value, an impairment loss is recorded. The impairment test performed as of October 1, 2017 resulted in the fair value of the Dice trademark and brand name exceeding the carrying value by 4%.

Revenues attributable to the Dice trademarks and brand name have declined due to competition in the technology recruiting market, challenges in developing and introducing new products and product enhancements to the market, and the Company's ability to attribute value delivered to customers. Revenues related to the Dice trademark and brand name, excluding Dice Europe, which ceased operations on August 31, 2018, declined 13% and 5% for the years ended December 31, 2017 and 2016, respectively. As of September 30, 2018, revenue projections for the year ending December 31, 2018 include a 7% decline, demonstrating anticipated improvement to the rate of decline experienced in the year ended December 31, 2017. The rate of revenue decline during the year ending December 31, 2018 has consistently decreased with the first quarter declining 11%, the second quarter declining 8%, the third quarter declining 6%, and the fourth quarter projected to decline approximately 4%. Projections for the year ending December 31, 2019 are expected to decline approximately 1% and then grow in the subsequent years. The Company's ability to achieve these revenue projections may be impacted by, among other things, the factors noted above that have contributed to the decline in recent periods. Projected future cash flows attributable to the Dice trademark and brand name declined as a result of the lower projected revenue, as well as increased spending focused on new and enhanced products and marketing campaigns. Operating expenses, excluding amortization expense, impairment charges and disposition related and other costs in the projections are expected to remain approximately consistent for the year ending December 31, 2018 as compared to the year ended December 31, 2017 and then increase at levels that allow for modest operating margin improvements. The Company utilized a relief from royalty rate method to value the Dice trademarks and brand name using a royalty rate of 5.0%.

The determination of whether or not indefinite-lived acquired intangible assets have become impaired involves a significant level of judgment in the assumptions underlying the approach used to determine the value of the indefinite-lived acquired intangible assets. Fair values are determined using a profit allocation methodology which estimates the value of the trademark and brand name by capitalizing the profits saved because the company owns the asset. We consider factors such as historical performance, anticipated market conditions, operating expense trends and capital expenditure requirements. Changes in our strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of intangible assets.

8. INDEBTEDNESS

Credit Agreement—The Company, together with Dice, Inc. (a wholly-owned subsidiary of the Company) and its wholly-owned subsidiary, Dice Career Solutions, Inc. (collectively, the "Borrowers"), maintains an Amended and Restated Credit Agreement (the "Credit Agreement"), which matures in November 2020. The Credit Agreement, when entered into during November 2015, provided for a revolving loan facility of $250.0 million, which was subsequently reduced to $150.0 million in August 2017, as permitted under the Credit Agreement.

Borrowings under the Credit Agreement bear interest, at the Company's option, at a LIBOR rate or a base rate plus a margin. The margin ranges from 1.75% to 2.50% on LIBOR loans and 0.75% to 1.50% on base rate loans, determined by the Company's most recent consolidated leverage ratio. The facility may be prepaid at any time without penalty.

The Credit Agreement contains various customary affirmative and negative covenants and also contains certain financial covenants, including a consolidated leverage ratio and a consolidated interest coverage ratio. Borrowings are allowed under the Credit Agreement to the extent the consolidated leverage ratio, calculated on a pro forma basis, is equal to or less than 3.0 to 1.0. Negative covenants include restrictions on incurring certain liens; making certain payments, such as stock repurchases and dividend payments; making certain investments; making certain acquisitions; making certain dispositions; and incurring additional indebtedness. Restricted payments are allowed under the Credit Agreement to the extent the consolidated leverage ratio, calculated on a pro forma basis, is equal to or less than 2.0 to 1.0, plus an additional $5.0 million of restricted payments. The Credit Agreement also provides that the payment of obligations may be accelerated upon the occurrence of customary events of default, including, but not limited to, non-payment, change of control, or insolvency. As of September 30, 2018, the Company was in compliance with all

of the financial covenants under the Credit Agreement.
The obligations under the Credit Agreement are guaranteed by two of the Company’s wholly-owned subsidiaries, eFinancialCareers, Inc. and Targeted Job Fairs, Inc. and secured by substantially all of the assets of the Borrowers and the guarantors and stock pledges from certain of the Company’s foreign subsidiaries.

The amounts borrowed as of September 30, 2018 and December 31, 2017 are as follows (dollars in thousands):

	September 30, 2018	December 31, 2017
Amounts borrowed:		
Revolving credit facility	$ 17,000	$ 42,000
Less: deferred financing costs, net of accumulated amortization of $1,674 and $1,529	(404)	(550)
Total borrowed	$ 16,596	$ 41,450
Available to be borrowed under revolving facility, subject to certain limitations	$ 133,000	$ 108,000
Interest rates:		
LIBOR rate loans:		
Interest margin	1.75 %	2.25 %
Actual interest rates	3.88 %	3.88 %

There are no scheduled payments until maturity of the Credit Agreement in November 2020.

9. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases equipment and office space under operating leases expiring at various dates through December 2026. Future minimum lease payments under non-cancellable operating leases as of September 30, 2018 are as follows (in thousands):

October 1, 2018 through December 31, 2018	$ 1,013
2019	3,646
2020	3,078
2021	2,512
2022	2,231
2023 and thereafter	6,543
Total minimum payments	$ 19,023

Rent expense was $0.7 million and $3.0 million for the three and nine month periods ended September 30, 2018, respectively, and $1.2 million and $3.6 million for the three and nine month periods ended September 30, 2017, respectively, and is included in General and Administrative expense in the Condensed Consolidated Statements of Operations.

Litigation

The Company is subject to various claims from taxing authorities, lawsuits and other complaints arising in the ordinary course of business. The Company records provisions for losses when claims become probable and the amounts are reasonably estimable. Although the outcome of these legal matters, except as described below and recorded in the condensed consolidated financial statements, cannot be determined, it is the opinion of management that the final resolution of these matters will not have a material effect on the Company’s financial condition, operations or liquidity.

During the first quarter of 2018, the Company recorded a $1.0 million liability related to a class action lawsuit regarding the applicability of provisions of the Fair Credit Reporting Act (the "FCRA") to one of our products. The recorded liability reflects a tentative settlement, which upon execution and final approval by the court, will resolve all remaining claims subject to the lawsuit. The lawsuit was brought by Ian Douglas, individually, as a representative of the class and on behalf of the general public, against DHI Group, Inc. and Dice Inc. asserting six claims under the FCRA that the Company’s Open Web profiles are “consumer reports” and Dice is a “consumer reporting agency” under the

FCRA, including claims pursuant to the private right of action in 15 U.S.C. Section 1681n for alleged willful violations of the FCRA. The action was originally filed in a federal district court on July 26, 2017, but as a part of the settlement process, the action has been re-filed and is pending in the Superior Court of Santa Clara County, California (Case No. 18CV331732).

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Tax Contingencies
The Company operates in a number of tax jurisdictions and is routinely subject to examinations by various tax authorities with respect to income taxes and indirect taxes. The determination of the Company’s worldwide provision for taxes requires judgment and estimation. The Company has reserved for potential examination adjustments to our provision for income taxes and accrual of indirect taxes in amounts which the Company believes are reasonable.

10. EQUITY TRANSACTIONS
Stock Repurchase Plans—In May 2018, the Board of Directors authorized a stock repurchase program that permits the purchase of up to $7 million of the Company's common stock through May 2019. Under the plan, management has discretion in determining the conditions under which shares may be purchased from time to time.
During the quarter ended September 30, 2018 purchases of the Company's common stock pursuant to the Stock Repurchase Plan was as follows:

Total Number of Shares Purchased	Average Price Paid per Share	Approximate Dollar Value of Shares Purchased	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
347,280	$2.08	$714,642	$6,183,521

During the nine month period ended September 30, 2018, purchases of the Company's common stock pursuant to the Stock Repurchase Plan was as follows:

Total Number of Shares Purchased	Average Price Paid per Share	Approximate Dollar Value of Shares Purchased	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
402,297	$1.79	$808,433	$6,183,521

There were 10,500 unsettled share repurchases as of September 30, 2018.
Unclaimed Shareholder Liability - Prior to the third quarter of 2018, other long-term liabilities included $1.0 million due to former shareholders of the Company under a Joint Plan of Reorganization that was agreed to by the Company and two of its creditors, and confirmed by the U.S. Bankruptcy Court of the Southern District Court of New York on June 24, 2003. During the three-month period ending September 30, 2018, the Company concluded the amounts owed were no longer due and payable and further, the amounts owed represent additional equity of the Company. Accordingly, the Company reclassified $1.0 million from other long-term liabilities to additional paid-in capital during the quarter.

11. DISPOSITION RELATED AND OTHER COSTS
In May 2017, the Company announced plans to divest a number of its non-tech businesses to achieve greater focus and resource allocation toward its core tech-focused business. The planned divestitures include: Health eCareers (sold December 4, 2017), BioSpace (transferred majority ownership to BioSpace management on January 31, 2018), Hcareers (sold May 22, 2018), and Rigzone (sold the RigLogix portion of the Rigzone business on February 20, 2018 and transferred majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018). Additionally, the Company ceased the Dice Europe operations on August 31, 2018. In connection with the planned divestitures and focus on the tech business, the Company incurred certain severance, reorganization, and other related costs to further these strategic objectives.
The following table displays a roll forward of the disposition related and other costs and related liability balances (in thousands):

Three Months Ended September 30, 2018	Accrual at June 30, 2018	Expense	Cash Payments	Accrual at September 30, 2018
Severance and retention	$ 1,522	$ 932	$ (711)	$ 1,743
Professional fees and other costs	451	508	(557)	402
Lease exit costs	259	645	(308)	596
Total disposition related and other costs	$ 2,232	$ 2,085	$ (1,576)	$ 2,741

Nine Months Ended September 30, 2018	Accrual at December 31, 2017	Expense	Cash Payments	Non-cash Impairment	Accrual at September 30, 2018
Severance and retention	$ 1,237	$ 2,702	$ (2,196)	$ —	$ 1,743
Professional fees and other costs	825	1,440	(1,863)	—	402
Lease exit and related asset impairment	—	1,072	(308)	(168)	596
Total disposition related and other costs	$ 2,062	$ 5,214	$ (4,367)	$ (168)	$ 2,741

Three Months Ended September 30, 2017	Accrual at June 30, 2017	Expense	Cash Payments	Accrual at September 30, 2017
Severance and retention	$ 853	$ 676	$ (844)	$ 685
Professional fees and other costs	70	373	(179)	264
Total disposition related and other costs	$ 923	$ 1,049	$ (1,023)	$ 949

Nine Months Ended September 30, 2017	Accrual at December 31, 2016	Expense	Cash Payments	Accrual at September 30, 2017
Severance and retention	$ —	$ 1,793	$ (1,108)	$ 685
Professional fees and other costs	—	443	(179)	264
Total disposition related and other costs	$ —	$ 2,236	$ (1,287)	$ 949

12. STOCK BASED COMPENSATION

Under the 2012 Omnibus Equity Award Plan, the Company has granted stock options, restricted stock and Performance-Based Restricted Stock Units ("PSUs") to certain employees and directors. Beginning January 1, 2017, as a result of ASU No. 2016-09, the Company recorded expense based upon the number of awards outstanding with no estimate for forfeitures, which are recorded as they occur.

The Company recorded total stock based compensation expense of $1.3 million and $5.4 million during the three and nine month periods ended September 30, 2018, respectively, and $1.7 million and $6.3 million during the three and nine month periods ended September 30, 2017, respectively. At September 30, 2018, there was $8.9 million of unrecognized compensation expense related to unvested awards, which is expected to be recognized over a weighted-average period of approximately 1.5 years.

During the three months ended June 30, 2018, the Company granted 1,750,000 shares of restricted stock as an Inducement Grant Under NYSE Rule 303A.08 in connection with the employment agreement for the Company's new Chief Executive Officer. The Chief Executive Officer is also entitled to an award of 750,000 performance based restricted stock units, which will be made in accordance with a performance-based restricted stock unit program created by the Company.

Restricted Stock—Restricted stock is granted to employees of the Company and its subsidiaries, and to non-employee members of the Company's Board. These shares are part of the compensation plan for services provided by the employees or Board members. The closing price of the Company's stock on the date of grant is used to determine the fair value of the grants. The expense related to the restricted stock grants is recorded over the vesting period. There was no cash flow impact resulting from the grants.

The restricted stock vests in various increments on the anniversaries of each grant, subject to the recipient's continued employment or service through each applicable vesting date. Vesting occurs over one year for Board members and over two to four years for employees.

A summary of the status of restricted stock awards as of September 30, 2018 and 2017 and the changes during the periods then ended is presented below:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Shares	Weighted-Average Fair Value at Grant Date	Shares	Weighted-Average Fair Value at Grant Date
Non-vested at beginning of the period	4,896,447	$ 2.48	2,417,300	$ 6.38
Granted	7,440	$ 2.05	38,000	$ 2.80
Forfeited	(180,000)	$ 3.63	(183,375)	$ 6.71
Vested	(118,690)	$ 2.92	(35,125)	$ 8.93
Non-vested at end of period	4,605,197	$ 2.41	2,236,800	$ 6.25

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	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Shares	Weighted-Average Fair Value at Grant Date	Shares	Weighted-Average Fair Value at Grant Date
Non-vested at beginning of the period	2,393,257	$ 5.48	2,226,375	$ 7.87
Granted	3,770,440	$ 1.68	1,262,500	$ 4.72
Forfeited	(350,375)	$ 4.25	(438,000)	$ 6.87
Vested	(1,208,125)	$ 5.73	(814,075)	$ 7.98
Non-vested at end of period	4,605,197	$ 2.41	2,236,800	$ 6.25

PSUs—PSUs are granted to employees of the Company and its subsidiaries. These shares are part of the compensation plan for services provided by the employees. The expense related to the PSUs is recorded over the vesting period. These shares will vest on the dates the Compensation Committee certifies the Company's achievement of stock price performance relative to the Russell 2000 Index, provided that the recipient remains employed through such date. Performance will be measured over three separate measurement periods: a one-year measurement period, a two-year measurement period and a three-year measurement period. For performance periods one and two, vesting is not to exceed total grant divided by three. For performance period three, vesting is no less than zero and no greater than 150% of initial grant less shares vested in performance periods one and two. There was no cash flow impact resulting from the grants. There were no PSUs granted during the nine months ended September 30, 2018.
The fair value of PSUs granted during the nine months ended September 30, 2017 is measured using the Monte Carlo pricing model using the following assumptions:

Weighted average fair value of PSUs granted	$5.38
Dividend yield of DHI Group, Inc. stock	—%
Dividend yield of Russell 2000 Index	1.4%
Risk free interest rate	1.5%
Volatility of DHI Group, Inc. stock	41.0%
Volatility of Russell 2000 Index	16.7%

A summary of the status of PSUs as of September 30, 2018 and 2017 and the changes during the periods then ended is presented below:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017	
	Shares	Weighted-Average Fair Value at Grant Date	Shares	Weighted-Average Fair Value at Grant Date
Non-vested at beginning of the period	505,000	$ 6.24	890,838	$ 6.92
Forfeited	—	$ —	(84,167)	$ 6.86
Non-vested at end of period	505,000	$ 6.24	806,671	$ 6.93

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	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	Shares	Weighted-Average Fair Value at Grant Date	Shares	Weighted-Average Fair Value at Grant Date
Non-vested at beginning of the period	760,003	$ 6.92	580,004	$ 8.02
Granted	—	$ —	397,500	$ 5.38
Forfeited	(255,003)	$ 8.27	(170,833)	$ 7.04
Non-vested at end of period	505,000	$ 6.24	806,671	$ 6.93

Stock Options—The fair value of each option grant is estimated using the Black-Scholes option-pricing model using the weighted-average assumptions in the table below. This valuation model requires the Company to make assumptions and judgments about the variables used in the calculation, including the fair value of the Company’s common stock, the expected life (the period of time that the options granted are expected to be outstanding), the volatility of the Company’s common stock, a risk-free interest rate and expected dividends. The expected life of options granted is derived from historical exercise behavior. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury rates in effect at the time of grant. The stock options vest 25% after one year, beginning on the first anniversary date of the grant, and 6.25% each quarter following the first anniversary. There was no cash flow impact resulting from the grants. No stock options were granted during the nine months ended September 30, 2018 and 2017.

A summary of the status of options previously granted as of September 30, 2018 and 2017, and the changes during the periods then ended is presented below:

	Three Months Ended September 30, 2018		
	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at beginning of the period	807,562	$ 8.67	$ —
Forfeited	(472,187)	$ 8.90	$ —
Options outstanding at end of period	335,375	$ 8.35	$ —
Exercisable at end of period	334,125	$ 8.35	$ —

	Three Months Ended September 30, 2017		
	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at beginning of the period	1,273,088	$ 9.29	$ —
Forfeited	(136,875)	$ 9.42	$ —
Options outstanding at end of period	1,136,213	$ 9.28	$ —

	Nine Months Ended September 30, 2018		
	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at beginning of the period	1,101,875	$ 9.28	$ —
Forfeited	(766,500)	$ 9.68	$ —

Options outstanding at end of period	335,375	$ 8.35	$	—
Exercisable at end of period	334,125	$ 8.35	$	—

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	Nine Months Ended September 30, 2017		
	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at beginning of the period	1,779,613	$ 8.46	$ 50,869
Exercised	(66,188)	$ 6.08	$ 12,821
Forfeited	(577,212)	$ 7.14	$ —
Options outstanding at end of period	1,136,213	$ 9.28	$ —
Exercisable at end of period	1,086,743	$ 9.36	$ —

The weighted-average remaining contractual term of options exercisable at September 30, 2018 is 1.8 years. The following table summarizes information about options outstanding as of September 30, 2018:

	Options Outstanding		Options Exercisable
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Number Exercisable
$ 7.00 - $ 7.99	157,375	2.4	157,375
$ 8.00 - $ 8.99	98,000	1.1	96,750
$ 9.00 - $ 9.99	80,000	1.4	80,000
	335,375		334,125

13. SEGMENT INFORMATION

The Company previously had two reportable segments which was reduced to one reportable segment when Health eCareers (Healthcare reportable segment) was sold on December 4, 2017. The remaining Tech-focused reportable segment includes the Dice, Dice Europe (ceased operations on August 31, 2018), ClearanceJobs, eFinancialCareers (formerly in the Global Industry Group segment), and Brightmatter (absorbed into Tech-focused in the third quarter of 2017 and formerly in Corporate & Other) services. Management has organized its reportable segment based upon our internal management reporting.

The Company has other services and activities that individually are not significant in relation to consolidated revenues, operating income or total assets. These include Hcareers (sold May 22, 2018), Rigzone (sold the RigLogix portion of the Rigzone business on February 20, 2018 and transferred majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018), Biospace (majority ownership transferred to BioSpace management on January 31, 2018) (each formerly in the Global Industry Group segment) and getTalent services (discontinued in the third quarter of 2017), which were recorded in the "Corporate & Other" category, along with corporate-related costs which are not considered in a segment.

The Company’s foreign operations are comprised of the Dice Europe (ceased operations on August 31, 2018) operations and a portion of the eFinancialCareers and Rigzone services (sold the RigLogix portion of the Rigzone business on February 20, 2018 and transferred majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018), which operate in Europe, the financial centers of the gulf region of the Middle East, and Asia Pacific. The Company’s foreign operations also include Hcareers (sold May 22, 2018), which operated in Canada. Revenue by geographic region, as shown in the table below, is based on the location of each of the Company’s subsidiaries.

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The following table shows the segment information (in thousands and recast for the change in reportable segments):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
By Segment:				
Revenues:				
Tech-focused	$37,986	$39,814	$114,271	$118,638
Healthcare	—	6,462	—	19,741
Corporate & Other	931	6,148	9,312	18,635
Total revenues	$38,917	$52,424	$123,583	$157,014
Depreciation:				
Tech-focused	$2,481	$1,789	$6,832	$5,144
Healthcare	—	406	—	1,451
Corporate & Other	59	381	323	1,108
Total depreciation	$2,540	$2,576	$7,155	$7,703
Amortization:				
Tech-focused	$—	$28	$—	$108
Healthcare	—	162	—	487
Corporate & Other	—	364	482	1,091
Total amortization	$—	$554	$482	$1,686
Operating income (loss):				
Tech-focused	$6,313	$9,485	$19,726	$30,700
Healthcare	—	(187)	—	(1,279)
Corporate & Other	(4,846)	(6,760)	(10,340)	(18,586)
Operating income	1,467	2,538	9,386	10,835
Interest expense	(335)	(1,173)	(1,370)	(2,777)
Other expense	(9)	(3)	(42)	(10)
Income before income taxes	$1,123	$1,362	$7,974	$8,048
Capital expenditures:				
Tech-focused	$2,363	$1,931	$6,539	$7,544
Healthcare	—	366	—	996
Corporate & Other	41	248	221	1,813
Total capital expenditures	$2,404	$2,545	$6,760	$10,353

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
By Geography:				
Revenues:				
United States	$30,468	$38,869	$90,673	$117,026

United Kingdom	3,626	4,541	12,517	13,886
EMEA, APAC and Canada (1)	4,823	9,014	20,393	26,102
Non-United States	8,449	13,555	32,910	39,988
Total revenues	$38,917	$52,424	$123,583	$157,014

(1) Europe (excluding United Kingdom), the Middle East and Africa ("EMEA") and Asia-Pacific ("APAC")

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DHI GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	September 30, 2018	December 31, 2017
Total assets:		
Tech-focused	$ 239,261	$ 266,390
Corporate & Other	12,144	29,328
Total assets	$ 251,405	$ 295,718

The following table shows the carrying amount of goodwill by segment as of December 31, 2017 and September 30, 2018 and the changes in goodwill for the nine month period ended September 30, 2018 (in thousands):

	Tech-focused	Corporate & Other	Total
Goodwill at December 31, 2017	$ 157,477	$ 13,314	$ 170,791
Foreign currency translation adjustment	(2,129)	—	(2,129)
Sale of business	—	(13,314)	(13,314)
Goodwill at September 30, 2018	$ 155,348	$ —	$ 155,348

The Company is currently performing its annual impairment testing analysis as of October 1, 2018. The fair value of the Tech-focused reporting unit was not substantially in excess of the carrying value as of the most recent annual impairment testing date of October 1, 2017. The percentage by which the estimated fair value exceeded the carrying value for the Tech-focused reporting unit was 1%. Revenue projections for the Tech-focused reporting unit have declined due to competition in the technology recruiting market, challenges in developing and introducing new products and product enhancements to the market, the Company's ability to attribute value delivered to customers, and continued uncertainty around Brexit. Additionally, the Company ceased operations for Dice Europe on August 31, 2018. Tech-focused revenues excluding Dice Europe, declined 7% and 4% for the years ended December 31, 2017 and 2016, respectively. Revenue projections for the year ended December 31, 2018 include a 1% decline, demonstrating an anticipated modest improvement to the rate of decline experienced in the year ended December 31, 2017, and is expected to grow revenue for the year ended December 31, 2019. The Company's ability to achieve these projections may be impacted by, among other things, the factors noted above that have contributed to the decline in recent periods. Operating expenses, excluding amortization expense, impairment charges and disposition related and other costs in the projections are expected to remain approximately consistent for the year ending December 31, 2018 as compared to the year ended December 31, 2017 and then increase at levels that allow for modest operating margin improvements.

The Tech-focused reporting unit has gone through a period of revenue declines as a result of increasing competition for finance and technology professionals in the markets we serve, while our market for security cleared technology professionals through our ClearanceJobs brand continues to experience strong growth. Increased competition and any future declines in demand could significantly decrease the use of our finance and technology industry job posting websites and related services, which may adversely affect the Tech-focused reporting unit's financial condition and results of operations.

During the second quarter of 2018, continuing the Company's Tech-focused strategy of targeting and investing in areas of growth for the Tech-focused business, the Company announced its intention to terminate the Dice Europe offering. Dice Europe represented 4% and 3% of the Tech-focused revenues for the year ended December 31, 2017 and the nine months ended September 30, 2018, respectively. The impact of closing the Dice Europe offering did not have a material impact on the projected financial results of the Tech-focused business.

Results for the Tech-focused reporting unit since October 1, 2017 and estimated future results as of September 30, 2018 are consistent or slightly improved compared to the projections used in the October 1, 2017 analysis. Additionally, the Tax Cuts and Jobs Act, as described in Note 15, reduced the U.S. statutory federal tax rate from 35% to 21%, thereby increasing the reporting unit's projected cash flows and the percentage by which the estimated fair value exceeded the carrying value of the reporting unit. As a result, the Company believes it is not more likely than not that the fair value of the reporting units is less than the carrying value as of September 30, 2018. Therefore, no interim impairment testing was performed as of September 30, 2018.

The amount of goodwill as of September 30, 2018 allocated to the Tech-focused reporting unit was $155.3 million. Determining the fair value of a reporting unit is judgmental in nature and requires the use of estimates and key assumptions, particularly assumed discount rates and projections of future operating results. The discount rate applied for the Tech-focused

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reporting unit was 12.9% as of the October 1, 2017 testing date. An increase to the discount rate applied or reductions to future projected operating results could result in future impairment of the Tech-focused reporting unit's goodwill. It is reasonably possible that changes in judgments, assumptions and estimates the Company made in assessing the fair value of goodwill could cause the Company to consider some portion or all of the goodwill of the Tech-focused reporting unit to become impaired. In addition, a future decline in the overall market conditions and/or changes in the Company's market share could negatively impact the estimated future cash flows and discount rates used to determine the fair value of the reporting unit and could result in an impairment charge in the foreseeable future. If events and circumstances change resulting in significant reductions in actual operating income or projections of future operating income, the Company will test this reporting unit for impairment prior to the annual impairment test.

14. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed based on the weighted-average number of shares of common stock outstanding. Diluted EPS is computed based on the weighted-average number of shares of common stock outstanding plus common stock equivalents assuming exercise of stock options, where dilutive. Stock-based awards of approximately 1.5 million and 2.1 million were outstanding during the three and nine month periods ended September 30, 2018, respectively, and approximately 3.0 million and 3.3 million shares were outstanding during the three and nine month periods ended September 30, 2017, respectively, but were excluded from the calculation of diluted EPS for the periods then ended because the effect of the awards is anti-dilutive. The following is a calculation of basic and diluted earnings per share and weighted-average shares outstanding (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$930	$1,058	$4,228	$4,220
Weighted-average shares outstanding—basic	48,780	48,021	48,589	47,858
Add shares issuable from stock-based awards	1,610	481	1,118	539
Weighted-average shares outstanding—diluted	50,390	48,502	49,707	48,397
Basic earnings per share	$0.02	$0.02	$0.09	$0.09
Diluted earnings per share	$0.02	$0.02	$0.09	$0.09

15. INCOME TAXES

The Company's effective tax rate was 17% and 47% for the three and nine months ended September 30, 2018, respectively, and 22% and 48% for the three and nine months ended September 30, 2017, respectively. The following items caused the effective tax rate to differ from the U.S. federal statutory rate:

- Tax deficiency of $0.5 million and $2.2 million during the three and nine months ended September 30, 2018, respectively, related to the vesting or settlement of share-based compensation awards.
- Tax benefit of $1.0 million and $0.7 million during the three and nine months ended September 30, 2018, respectively, related to the sale of businesses.
- Tax expense of $0.4 million during the three and nine months ended September 30, 2018 related to the transition tax on the deemed repatriation of foreign earnings.
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- Tax deficiency of $0.1 million and $0.9 million during the three and nine months ended September 30, 2017, respectively, related to the vesting or settlement of share-based compensation awards.
- Tax benefit of $0.2 million and $0.1 million during the three and nine months ended September 30, 2017, respectively, related to a change in the valuation allowance for U.S. foreign tax credits.

H.R.1, commonly known as the Tax Cuts and Jobs Act (“TCJA”), was signed into law in December 2017 and made significant changes to the Internal Revenue Code. Changes included a reduction in the U.S. statutory federal tax rate from 35% to 21%; the transition of U.S. international taxation from a worldwide tax system to a territorial system; a one-time transition tax on the deemed repatriation of undistributed earnings from foreign subsidiaries; and a tax on global intangible low-taxed income earned by foreign subsidiaries.

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Subsequent to enactment of the TCJA in December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to provide guidance regarding accounting for the TCJA’s impact. SAB 118 requires companies to recognize those tax items for which accounting can be completed. For items whose accounting has not been completed, companies must recognize provisional amounts to the extent they are reasonably estimable, with subsequent adjustments over a measurement period as more information is available and calculations are finalized.

As of December 31, 2017, the Company applied the guidance of SAB 118 and recorded a provisional decrease of $3.3 million in its deferred tax liabilities to reflect the new U.S. statutory tax rate of 21%; and recorded a liability of $3.0 million less tax credits of $1.4 million for a $1.6 million provisional estimate of the one-time transition tax on the deemed repatriation of foreign earnings.

In the three months ended March 31, 2018, the Company completed its analysis of the impact of the TCJA on its deferred tax liabilities without any additional adjustments to the liabilities. In the three months ended September 30, 2018, the Company made a provisional adjustment to its transition tax on deemed repatriation. On the basis of revised foreign earnings computations that were updated during the reporting period, as well as additional guidance issued by the U.S. tax authorities, the Company recognized a measurement-period adjustment which increased the transition tax liability to $2.0 million, resulting in tax expense of $0.4 million. The Company is continuing its analysis of the transition tax computation, including the review of any further guidance issued by the U.S. tax authorities and expects to finalize its accounting within the measurement period provided by SAB 118.

Because of the transition tax on deemed repatriation, the Company was subject to tax in 2017 on the entire amount of its previously undistributed earnings from foreign subsidiaries. Beginning in 2018, the TCJA generally provides a 100% deduction for U.S. federal tax purposes of dividends received by the Company from its foreign subsidiaries. However, the Company is currently evaluating the potential foreign and U.S. state tax liabilities that would result from future repatriations, if any, and how the TCJA will affect the Company's existing accounting position with regard to the indefinite reinvestment of undistributed foreign earnings. The Company expects to complete this evaluation, implement proper internal controls and determine the impact which the legislation may have on its indefinite reinvestment assertion within the measurement period provided by SAB 118.

The TCJA established new tax rules designed to tax U.S. companies on global intangible low-taxed income (GILTI) earned by foreign subsidiaries. Companies can make an accounting policy election either to recognize deferred taxes for temporary basis differences related to GILTI; or to recognize tax expense as a current period cost in the period when the tax related to GILTI is incurred. The Company has elected to treat any potential GILTI tax as a current period cost. The Company has recorded an estimate of GILTI, which increased tax expense for the nine months ended September 30, 2018 by $0.3 million. There was no impact to the three months ended September 30, 2018. The Company is continuing to evaluate the impact of GILTI and expects to complete this evaluation and determine the impact which the legislation may have within the measurement period provided by SAB 118.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this report. See also our consolidated financial statements and the notes thereto and the section entitled “Note Concerning Forward-Looking Statements” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Information contained herein contains forward-looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business

environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include, without limitation, information concerning our possible or assumed future results of operations. These statements often include words such as “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “intend,” “plan,” “esti similar expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, our ability to execute our tech-focused strategy, competition from existing and future competitors in the highly competitive markets in which we operate, failure to adapt our business model to keep pace with rapid changes in the recruiting and career services business, failure to maintain and develop our reputation and brand recognition, failure to increase or maintain the number of customers who purchase recruitment packages, cyclicality or downturns in the economy or industries we serve, the uncertainty surrounding the UK’s future departure from the European Union (“EU”), including uncertainty in respect of the regulation of data protection and data privacy, failure to attract qualified professionals to our websites or grow the number of qualified professionals who use our websites, failure to successfully identify or integrate acquisitions, U.S. and foreign government regulation of the Internet and taxation, our ability to borrow funds

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under our revolving credit facility or refinance our indebtedness and restrictions on our current and future operations under such indebtedness. These factors and others are discussed in more detail in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, under the headings "Risk Factors," "Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Information contained herein contains certain non-GAAP financial measures. These measures are not in accordance with, or an alternative for, measures in accordance with U.S. GAAP. Such measures presented herein include adjusted earnings before interest, taxes, depreciation, amortization, non-cash stock based compensation expense, and other non-recurring income or expense ("Adjusted EBITDA"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

You should keep in mind that any forward-looking statement made by us herein, or elsewhere, speaks only as of the date on which it is made. New risks and uncertainties come up from time to time, and it is impossible to predict these events or how they may affect us. We have no obligation to update any forward-looking statements after the date hereof, except as required by federal securities laws.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and other material information concerning us are available free of charge on the Investors page of our website at www.dhigroupinc.com. Our reports filed with the SEC are also available at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, by calling 1-800-SEC-0330, or by visiting http://www.sec.gov.

Overview

We are a leading provider of data, insights and employment connections through our specialized services for professional communities including the following industry groups: technology, security clearance, energy, and financial services. The Company exited the energy industry with the transfer of majority ownership of the remaining Rigzone business on August 31, 2018. Our mission is to empower professionals and organizations to compete and win through specialized insights and relevant employment connections. Employers and recruiters use our websites and services to source and hire the most qualified professionals in select and highly-skilled occupations, while professionals use our websites and services to find the best employment opportunities in, and the most timely news and information about, their respective areas of expertise.

In online recruitment, we target employment categories in which there has been a long-term scarcity of highly skilled, highly qualified professionals relative to market demand. Our websites serve as online marketplaces where employers and recruiters find and recruit prospective employees, and where professionals find relevant job opportunities and information to further their careers.

Our websites offer job postings, news and content, career development and recruiting services tailored to the specific needs of the professional community that each website serves.

Through our predecessors, we have been in the recruiting and career development business for more than 25 years.

Based on our operating structure, we have identified one reportable segment as follows:

- Tech-focused— Dice, Dice Europe (ceased operations on August 31, 2018), ClearanceJobs, eFinancialCareers, Brightmatter excluding getTalent (absorbed into Tech-focused in the third quarter of 2017 and formerly in Corporate & Other) services.

The Company's reportable segments were reduced to one reportable segment when Health eCareers (Healthcare reportable segment) was sold on December 4, 2017.

Dice, Dice Europe (ceased operations August 31, 2018), ClearanceJobs, and eFinancialCareers are aggregated into the Tech-focused reportable segment primarily because the Company does not have discrete financial information for those brands.

We have other services and activities that individually are not a significant portion of consolidated revenues, operating income or total assets. These include Hospitality (sold May 22, 2018), Rigzone (sold the RigLogix portion of the Rigzone business on February 20, 2018 and transferred majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018), BioSpace (transferred majority ownership to BioSpace management on January 31, 2018) and getTalent services (discontinued in the third quarter of 2017), which are reported in the

"Corporate & Other" category, along with corporate-related costs, which are not considered a segment.

Recent Developments

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The Company completed the divestiture process of its non-tech businesses with the transfer of majority ownership of the remaining Rigzone business to Rigzone management on August 31, 2018. As a result of the divestiture, the Company recorded a $0.4 million loss for the three months ended September 30, 2018.

The Company ceased the Dice Europe operations effective August 31, 2018 to focus efforts on eFinancialCareers, where the Company has a strong competitive opportunity to serve professionals in the financial services industry globally.

Our Revenues and Expenses

We derive the majority of our revenues from customers who pay fees, either annually, quarterly or monthly, to post jobs on our websites and to access our searchable databases of resumes. Our fees vary by customer based on the number of individual users of our databases of resumes, the number and type of job postings and profile views purchased and the terms of the packages purchased. Our Tech-focused segment sells recruitment packages that can include access to our databases of resumes and job posting capabilities. Our Healthcare segment (sold December 4, 2017) as well as Hcareers (sold May 22, 2018 and included in Corporate & Other) sold job postings and access to our resume databases either as part of a package or individually. We believe the key metrics that are material to an analysis of our businesses are our total number of Dice recruitment package customers and the revenue, on average, that these customers generate. Average monthly revenue per recruitment package customer is calculated by dividing recruitment package customer revenue by the daily average count of recruitment package customers during the month, adjusted to reflect a thirty day month. We use the simple average of each month to derive the quarterly amount. At September 30, 2018 and 2017, Dice had approximately 6,200 and 6,600 total recruitment package customers in the U.S., respectively, and the average monthly revenue per U.S. recruitment package customer increased from $1,108 and $1,109 for the three and nine months ended September 30, 2017, respectively, to $1,125 and $1,116 for the three and nine months ended September 30, 2018, respectively. Deferred revenue is a key metric of our business as it indicates a level of sales already made that will be recognized as revenue in the future. Deferred revenue reflects the impact of our ability to sign customers to longer term contracts. We recorded deferred revenue of $56.4 million at September 30, 2018 and $83.6 million at December 31, 2017. The reduction in deferred revenue is primarily due to the sale of RigLogix, BioSpace, Hcareers, and Rigzone, which comprise approximately $8.4 million of the decline, and increased flexibility in the Company's billing terms to customers to bring them in line with market standards.

We also generate revenue from advertising on our various websites or from lead generation and marketing solutions provided to our customers. Advertisements include various forms of rich media and banner advertising, text links, sponsorships, and custom content marketing solutions. Lead generation information utilizes advertising and other methods to deliver leads to a customer.

The Company’s revenues declined $13.5 million, or 26%, for the three months ended September 30, 2018 compared to the same period of the prior year. Of the decline, $11.7 million, or 22%, is primarily related to divested businesses. The Tech-focused segment declined $1.8 million, or 5%, compared to the third quarter of 2017. The decline was primarily driven by Dice Europe (ceased operations on August 31, 2018), which declined $1.4 million. ClearanceJobs growth of 22%, was offset by a 6% decline at Dice due to many factors including competition and evolution in the digital recruitment market. Our business continues to be challenged by attribution, which reflects our ability to receive the proper credit for value delivered to customers based on our customers’ internal tracking systems, contributing to lower renewal rates in recruitment packages. For eFinancialCareers, revenues increased 2% over the same period of the prior year.

The Company continues to evolve and present new products and features to attract and engage qualified professionals and match them with employers, such as the Dice Talent Search, MyDiceHome, Dice Salary Predictor, eFC Job Search Platform, and Lengo. Our ability to grow our revenues will largely depend on our ability to grow our customer bases in the markets in which we operate by acquiring new recruitment package customers and advertisers while retaining a high proportion of the businesses we currently serve, and to expand the breadth of services our customers purchase from us. We continue to make investments in our business and infrastructure to help us achieve our long-term growth objectives, such as the innovative products noted above.

Other material factors that may affect our results of operations include our ability to attract qualified professionals that become engaged with our websites and our ability to attract customers with relevant job opportunities. The more qualified professionals that use our websites, the more attractive our websites become to employers and advertisers, which in turn makes them more likely to become our customers, resulting positively on our results of operations. If we are unable to continue to attract qualified professionals to engage with our websites, our customers may no longer find our services attractive, which could have a negative impact on our results of operations. Additionally, we need to ensure that our websites remain relevant in order to attract qualified professionals to our websites and to engage them in high-value tasks, such as posting resumes and/or applying to jobs.

The largest components of our expenses are personnel costs and marketing and sales expenditures. Personnel costs consist of salaries, benefits, and incentive compensation for our employees, including commissions for salespeople. Personnel costs are categorized in our statement of operations based on each employee’s principal function. Marketing expenditures primarily consist of online advertising, brand promotion and lead generation to employers and job seekers.

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Critical Accounting Policies

There have been no material changes to our critical accounting policies other than ASU No. 2014-09 as described in Note 2 in the Notes to the Condensed Consolidated Financial Statements, as compared to the critical accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

Revenues

	Three Months Ended September 30,		Increase (Decrease)	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Tech-focused				
Dice (1)	$23,715	$25,237	$(1,522)	(6)%
eFinancialCareers	8,388	8,232	156	2%
ClearanceJobs	5,422	4,460	962	22%
Dice Europe	461	1,885	(1,424)	(76)%
Tech-focused	37,986	39,814	(1,828)	(5)%
Healthcare	—	6,462	(6,462)	n.m.
Corporate & Other				
Hcareers	—	3,519	(3,519)	(100)%
Rigzone	931	1,869	(938)	(50)%
BioSpace	—	746	(746)	n.m.
getTalent	—	14	(14)	n.m.
Corporate and Other	931	6,148	(5,217)	(85)%
Total revenues	$38,917	$52,424	$(13,507)	(26)%

(1) Includes Dice U.S. and Targeted Job Fairs

We experienced a decrease in revenue in the Tech-focused segment of $1.8 million, or 5%. Revenue at Dice decreased by $1.5 million compared to the same period in 2017, primarily due to the decline in recruitment package customer count in the U.S. from 6,600 at September 30, 2017 to 6,200 at September 30, 2018 because of competition. Revenues for ClearanceJobs increased by $1.0 million, or 22%, for the three months ended September 30, 2018 as compared to the same period in 2017, primarily driven by increased volume and pricing supported by favorable market conditions and high demand for professionals with government clearance. eFinancialCareers revenue increased by $0.2 million, or 2%, as compared to the same period in 2017. Dice Europe declined $1.4 million due to its closure on August 31, 2018. Foreign exchange did not have a material impact on the comparison year over year.

The Healthcare segment revenue decreased $6.5 million due to the sale of Health eCareers on December 4, 2017. Revenues for Corporate & Other decreased $5.2 million, or 85%, primarily due to the transfer of ownership of BioSpace on January 31, 2018, the sale of the RigLogix portion of the Rigzone business on February 20, 2018, the transfer of majority ownership of the remaining Rigzone business on August 31, 2018, and the sale of Hcareers on May 22, 2018.

Cost of Revenues

	Three Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Cost of revenues	$4,424	$7,616	$(3,192)	(42)%
Percentage of revenues	11.4%	14.5%		

Cost of revenues decreased $3.2 million, or 42%, as the Healthcare segment decreased $2.2 million due to the sale of Health eCareers on December 4, 2017. In Corporate & Other, the divested businesses accounted for $0.9 million of the decrease.

Product Development Expenses

	Three Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Product development	$5,219	$6,423	$(1,204)	(19)%
Percentage of revenues	13.4 %	12.3 %		

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Product development expenses decreased $1.2 million, or 19%. Corporate & Other decreased $0.8 million, due to the divested businesses in 2018 and the discontinuation of getTalent in the third quarter of 2017. The Healthcare segment decreased $0.5 million due to the sale of Health eCareers on December 4, 2017.

Sales and Marketing Expenses

	Three Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Sales and marketing	$13,974	$19,988	$(6,014)	(30)%
Percentage of revenues	35.9 %	38.1 %		

Sales and marketing expenses decreased $6.0 million, or 30%. The Healthcare segment decreased $2.4 million due to the sale of Health eCareers on December 4, 2017. Corporate & Other decreased $2.3 million due to the divested businesses. Tech-focused decreased $1.3 million, primarily due to a decrease in discretionary marketing spend.

General and Administrative Expenses

	Three Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
General and administrative	$8,843	$9,454	$(611)	(6)%
Percentage of revenues	22.7 %	18.0 %		

General and administrative expenses decreased $0.6 million, or 6%. The Healthcare segment decreased $0.7 million due to the sale of Health eCareers on December 4, 2017. Corporate & Other decreased $1.2 million, of which $0.6 million was related to the divested businesses, $0.5 million was due to lower stock based compensation, and $0.2 million was due to lower rent expense. Tech-focused increased by $1.3 million, of which $0.9 million was due to increased professional fees and $0.2 million was due to higher stock based compensation expense.

Depreciation

	Three Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Depreciation	$2,540	$2,576	$(36)	(1)%
Percentage of revenues	6.5 %	4.9 %		

Depreciation was approximately flat compared to the same period in 2017. The Healthcare segment decreased $0.4 million due to the sale of Health eCareers on December 4, 2017. Corporate & Other decreased $0.3 million, primarily from the discontinuation of getTalent in the third quarter of 2017. These decreases were partially offset by an increase in the Tech-focused segment of $0.7 million in connection with the development and release of new products and features.

Amortization of Intangible Assets

	Three Months Ended September 30,		Decrease	Percent Change
	2018	2017		

	(in thousands, except percentages)			
Amortization	$—	$554	$ (554)	(100)%
Percentage of revenues	—%	1.1 %		

Amortization expense decreased due to certain intangible assets at the Tech-focused segment and at Corporate & Other becoming fully amortized during the year ended December 31, 2017 and the removal of intangible assets related to the divested businesses.

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Disposition Related and Other Costs

	Three Months Ended September 30,		Increase	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Disposition related and other costs	$2,085	$1,049	$ 1,036	n.m.
Percentage of revenues	5.4 %	2.0 %		

The disposition related and other costs, as described in Note 11 to the Condensed Consolidated Financial Statements, of $2.1 million in 2018 are primarily due to the divestitures and focus on the tech business, which incurred certain severance, reorganization, and other related costs to further these strategic objectives.

The disposition related and other costs of $1.1 million in 2017 are primarily due to severance and other related costs in connection with the divestiture process and the reorganization to the tech-focused strategy.

Operating Income

Operating income for the three months ended September 30, 2018 was $1.5 million, a margin of 3.8%, compared to $2.5 million, a margin of 4.8%, for the same period in 2017, a decrease of $1.1 million. The decreased operating income and margin are primarily due to the loss on sale of Rigzone of $0.4 million in 2018 and the increase in disposition related costs in connection with the current divestiture process and the continuation of the Company's tech-focused strategy.

Interest Expense

	Three Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Interest expense	$335	$1,173	$ (838)	(71)%
Percentage of revenues	0.9 %	2.2 %		

Interest expense for the three months ended September 30, 2018 decreased due to the lower weighted-average debt outstanding during the three months ended September 30, 2018, partially offset by higher average interest rates.

Income Taxes

	Three Months Ended September 30,	
	2018	2017
	(in thousands, except percentages)	
Income before income taxes	$1,123	$1,362
Income tax expense	193	304
Effective tax rate	17.2 %	22.3 %

Our effective tax rate of 17% for the three months ended September 30, 2018 was lower than the 21% U.S. federal statutory rate mainly due to a $1.0 million tax benefit on losses related to the divestiture of businesses, partially offset by a tax deficiency related to the vesting or settlement of share-based compensation awards and tax expense related to the SAB 118 measurement-period adjustment of the transition tax on deemed repatriation. The tax rate of 22% for the three months ended September 30, 2017 was lower than the 35% U.S. federal statutory rate due to a tax benefit from a decrease in the valuation allowance related to U.S. foreign tax credits.

Earnings per Share

Diluted earnings per share was $0.02 for the three month periods ended September 30, 2018 and 2017.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017
Revenues

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	Nine Months Ended September 30, 2018	2017	Increase (Decrease)	Percent Change
	(in thousands, except percentages)			
Tech-focused				
Dice (1)	$70,486	$76,541	$(6,055)	(8)%
eFinancialCareers	25,418	24,068	1,350	6 %
ClearanceJobs	15,359	12,637	2,722	22 %
Dice Europe	3,008	5,392	(2,384)	(44)%
Tech-focused	114,271	118,638	(4,367)	(4)%
Healthcare	—	19,741	(19,741)	n.m.
Corporate & Other				
Hcareers	5,329	10,880	(5,551)	(51)%
Rigzone	3,771	5,315	(1,544)	(29)%
BioSpace	212	2,365	(2,153)	(91)%
getTalent	—	75	(75)	n.m.
Corporate & Other	9,312	18,635	(9,323)	(50)%
Total revenues	$123,583	$157,014	$(33,431)	(21)%

(1) Includes Dice U.S., Dice Europe, and Targeted Job Fairs

We experienced a decrease in revenue in the Tech-focused segment of $4.4 million, or 4%. Revenue at Dice decreased by $6.1 million compared to the same period in 2017, primarily due to the decline in recruitment package customer count in the U.S. from 6,600 at September 30, 2017 to 6,200 at September 30, 2018. eFinancialCareers revenue increased by $1.4 million compared to the same period in 2017, of which $1.1 million was due to a positive impact of foreign currency exchange. Revenue at ClearanceJobs increased by $2.7 million as compared to the same period in 2017, primarily due to increased volume and pricing supported by favorable market conditions and enhanced product offerings. Dice Europe declined $2.4 million due to its closure on August 31, 2018.

The Healthcare segment decreased by $19.7 million due to the sale of Health eCareers on December 4, 2017. Corporate & Other decreased by $9.3 million, or 50%, primarily due to the divested businesses during 2018 and the discontinuation of getTalent in the third quarter of 2017.

Cost of Revenues

	Nine Months Ended September 30, 2018	2017	Decrease	Percent Change
	(in thousands, except percentages)			
Cost of revenues	$14,330	$22,681	$(8,351)	(37)%
Percentage of revenues	11.6 %	14.4 %		

Cost of revenues decreased $8.4 million, or 37%, as the Healthcare segment decreased $7.0 million as a result of the sale of Health eCareers on December 4, 2017. Corporate & Other cost of revenues decreased $1.2 million primarily due to the divested businesses and the discontinuance of getTalent in the third quarter of 2017. Tech-focused segment decreased $0.2 million.

Product Development Expenses

	Nine Months Ended September 30, 2018	2017	Decrease	Percent Change
	(in thousands, except percentages)			
Product development	$15,811	$19,230	$(3,419)	(18)%
Percentage of revenues	12.8 %	12.2 %		

Product Development expenses decreased $3.4 million, or 18%, as the Healthcare segment decreased $1.9 million due to the sale of Health eCareers on December 4, 2017. Corporate & Other decreased $3.1 million, of which $2.0 million related to divested businesses and $1.1 million was due to the discontinuation of getTalent in the third quarter of 2017. These decreases were

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partially offset by an increase in the Tech-focused segment of $1.5 million primarily due to compensation related costs as the segment develops new products and features.

Sales and Marketing Expenses

	Nine Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Sales and marketing	$46,628	$59,638	$(13,010)	(22)%
Percentage of revenues	37.7 %	38.0 %		

Sales and marketing expenses decreased $13.0 million, or 22%, as costs decreased $7.3 million in the Healthcare segment as a result of the Health eCareers sale on December 4, 2017. Corporate & Other decreased $5.9 million, of which $5.0 million was related to the divested businesses in 2018, and the remainder primarily due to the discontinuation of getTalent in the third quarter of 2017.

General and Administrative Expenses

	Nine Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
General and administrative	$28,012	$30,779	$(2,767)	(9)%
Percentage of revenues	22.7 %	19.6 %		

General and administrative costs decreased $2.8 million or 9%. The Healthcare segment decreased $2.6 million due to the sale of Health eCareers on December 4, 2017. Corporate & Other decreased $2.6 million, of which $1.2 million was related to the divested businesses in 2018, $1.0 million was due to lower legal and professional fees.

The decreases in the Healthcare segment and Corporate & Other were partially offset by a $2.4 million increase in the Tech-focused segment, which was primarily due to an increase in legal and other professional fees, including our expected settlement of $1.0 million for the Fair Credit Reporting Act lawsuit.

Depreciation

	Nine Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Depreciation	$7,155	$7,703	$ (548)	(7)%
Percentage of revenues	5.8 %	4.9 %		

Depreciation expense for the nine months ended September 30, 2018 decreased $0.5 million or 7%. Depreciation in the Healthcare segment decreased $1.5 million due to the sale of Health eCareers on December 4, 2017 and depreciation in Corporate & Other decreased $0.8 million primarily due to the discontinuance of getTalent in the third quarter of 2017. These decreases were partially offset by increased depreciation of $1.7 million in the Tech-focused segment in connection with the development and release of new products and features.

Amortization of Intangible Assets

	Nine Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			

Amortization	$482	$1,686	$(1,204)	(71)%
Percentage of revenues	0.4 %	1.1 %		

Amortization expense decreased by $1.2 million, or 71% due to the divestiture of businesses in the Healthcare segment and Corporate & Other.

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Disposition Related and Other Costs

	Nine Months Ended September 30,		Increase	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Disposition related and other costs	$5,214	$2,236	$2,978	133 %
Percentage of revenues	4.2 %	1.4 %		

The disposition related and other costs, as described in Note 11 to the Condensed Consolidated Financial Statements, of $5.2 million in 2018 are primarily due to the divestitures and focus on the tech business, which incurred certain severance, reorganization, and other related costs to further these strategic objectives.

The disposition related and other costs of $2.2 million in 2017 are primarily due to severance and other related costs in connection with the divestiture process and the reorganization to the tech-focused strategy.

Operating Income

Operating income for the nine months ended September 30, 2018 was $9.4 million, for a margin of 7.6%, as compared to $10.8 million, a margin of 6.9%, for the same period in 2017. The percentage margin increase was primarily due to the asset impairment of $2.2 million in 2017 and the gain of $3.4 million recognized on the divested businesses in 2018. This was partially offset by higher legal fees related to the Fair Credit Reporting Act lawsuit, higher disposition costs in 2018 related to divestitures and focus on the tech business, and lower tech-focused revenues in 2018.

Interest Expense

	Nine Months Ended September 30,		Decrease	Percent Change
	2018	2017		
	(in thousands, except percentages)			
Interest expense	$1,370	$2,777	$(1,407)	(51)%
Percentage of revenues	1.1 %	1.8 %		

Interest expense for the nine months ended September 30, 2018 decreased from the same period in 2017 due to lower weighted-average debt outstanding during the nine months ended September 30, 2018, partially offset by higher average interest rates.

Income Taxes

	Nine Months Ended September 30,	
	2018	2017
	(in thousands, except percentages)	
Income before income taxes	$7,974	$8,048
Income tax expense	3,746	3,828
Effective tax rate	47.0 %	47.6 %

The excess of our effective tax rate over the U.S. federal statutory rate of 21% in 2018 and 35% in 2017 was caused by tax deficiency of $2.2 million and $0.9 million during the nine months ended September 30, 2018 and 2017, respectively, related to the vesting or settlement of share-based compensation awards. The rate for the nine months ended September 30, 2018 was also impacted by a tax benefit of $0.7 million related to the sale of businesses and tax expense of $0.4 million related to the SAB 118 measurement-period adjustment of the transition tax on deemed repatriation.

Earnings per Share

Diluted earnings per share was $0.09 for both the nine month periods ended September 30, 2018 and 2017.

Liquidity and Capital Resources
Non-GAAP Measures

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We have provided certain non-GAAP financial information as additional information for our operating results. These measures are not in accordance with, or an alternative for, measures in accordance with GAAP and may be different from similarly titled non-GAAP measures reported by other companies. We believe the presentation of non-GAAP measures, such as Adjusted EBITDA, provides useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP metric used by management to measure operating performance. Management uses Adjusted EBITDA as a performance measure for internal monitoring and planning, including preparation of annual budgets, analyzing investment decisions and evaluating profitability and performance comparisons between us and our competitors. We also use this measure to calculate amounts of performance based compensation under the senior management incentive bonus program. Adjusted EBITDA represents net income plus (to the extent deducted in calculating such net income) interest expense, income tax expense, depreciation and amortization, non-cash stock based compensation, losses resulting from certain dispositions outside the ordinary course of business including prior negative operating results of those divested businesses, certain writeoffs in connection with indebtedness, impairment charges with respect to long-lived assets, expenses incurred in connection with an equity offering or any other offering of securities by the Company, extraordinary or non-recurring non-cash expenses or losses, transaction costs in connection with the credit agreement, deferred revenues written off in connection with acquisition purchase accounting adjustments, writeoff of non-cash stock based compensation, severance and retention costs related to dispositions or reorganizations of the Company, losses related to legal claims and fees that are unusual in nature or infrequent, and business interruption insurance proceeds, minus (to the extent included in calculating such net income) non-cash income or gains, and interest income, and any income or gain resulting from certain dispositions outside the ordinary course of businesses, including prior positive operating results of those divested businesses, and gains related to legal claims that are unusual in nature or infrequent.

The Company changed its definition of Adjusted EBITDA during the first quarter of 2018 to exclude severance and retention costs related to dispositions or reorganizations of the Company, the prior operating results of divested businesses, and losses related to legal claims and fees that are unusual in nature or infrequent. The Company changed its definition of Adjusted EBITDA to provide a more transparent and comparable view of its financial performance. Accordingly, all prior periods have been recast to reflect the current definition.

We also consider Adjusted EBITDA, as defined above, to be an important indicator to investors because it provides information related to our ability to provide cash flows to meet future debt service, capital expenditures and working capital requirements and to fund future growth. We present Adjusted EBITDA as a supplemental performance measure because we believe that this measure provides our board of directors, management and investors with additional information to measure our performance, provide comparisons from period to period and company to company by excluding potential differences caused by variations in capital structures (affecting interest expense) and tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), and to estimate our value.

Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our profitability or liquidity.

We understand that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our liquidity or results as reported under GAAP. Some limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
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Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements; and

- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

To compensate for these limitations, management evaluates our liquidity by considering the economic effect of excluded expense items independently, as well as in connection with its analysis of cash flows from operations and through the use of other financial measures, such as capital expenditure budget variances, investment spending levels and return on capital analysis.

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A reconciliation of Adjusted EBITDA for the nine months ended September 30, 2018 and 2017 follows (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Reconciliation of Net Income to Adjusted EBITDA:		
Net income	$4,228	$4,220
Interest expense	1,370	2,777
Income tax expense	3,746	3,828
Depreciation	7,155	7,703
Amortization of intangible assets	482	1,686
Non-cash stock based compensation	5,362	6,275
Impairment of fixed assets	—	2,226
Gain on sale of businesses, net	(3,435)	—
Costs related to strategic alternatives process	—	807
Disposition related and other costs	5,214	2,236
Legal contingencies and related fees	1,777	628
Divested businesses	(2,243)	(3,020)
Other	42	10
Adjusted EBITDA	$23,698	$29,376
Reconciliation of Operating Cash Flows to Adjusted EBITDA:		
Net cash provided by operating activities	$8,690	$27,179
Interest expense	1,370	2,777
Amortization of deferred financing costs	(146)	(642)
Income tax expense	3,746	3,828
Deferred income taxes	(1,830)	23
Change in unrecognized tax benefits	(382)	(2,358)
Change in accounts receivable	(15,772)	(10,607)
Change in deferred revenue	18,622	3,774
Costs related to strategic alternatives process	—	807
Disposition related and other costs	5,214	2,236
Legal contingencies and related fees	1,777	628
Divested businesses	(2,243)	(3,020)
Changes in working capital and other	4,652	4,751
Adjusted EBITDA	$23,698	$29,376

Cash Flows

We have summarized our cash flows for the nine months ended September 30, 2018 and 2017 (in thousands).

	Nine Months Ended September 30,	
	2018	2017
Cash from operating activities	$8,690	$27,179
Cash from (used in) investing activities	10,938	(10,660)
Cash used in financing activities	(26,375)	(17,722)

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We have financed our operations primarily through cash provided by operating activities and borrowings under our revolving credit facility. At September 30, 2018, we had cash of $4.7 million compared to $12.1 million at December 31, 2017. Cash held by foreign subsidiaries totaled approximately $3.3 million and $9.6 million at September 30, 2018 and December 31, 2017, respectively. Cash balances and cash generation in the United States, along with the unused portion of our revolving credit facility, are sufficient to maintain liquidity and meet our obligations without being dependent on cash and earnings from our foreign subsidiaries.

Liquidity

Our principal internal sources of liquidity are cash, as well as the cash flow that we generate from our operations. In addition, we had $133 million in borrowing capacity under our $150 million Credit Agreement at September 30, 2018, subject to certain availability limits including our consolidated leverage ratio, which generally limits borrowings to three times annual Adjusted EBITDA levels, as defined in the Credit Agreement. We believe that our existing U.S. cash, cash generated from operations and available borrowings under our Credit Agreement will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months and the foreseeable future thereafter. However, it is possible that one or more lenders under the Credit Agreement may refuse or be unable to satisfy their commitment to lend to us, we may violate one or more of our covenants or financial ratios contained in our Credit Agreement or we may need to refinance our debt and be unable to do so. In addition, our liquidity could be negatively affected by a decrease in demand for our products and services. We may also make acquisitions and may need to raise additional capital through future debt financings or equity offerings to the extent necessary to fund such acquisitions, which we may not be able to do on a timely basis or on terms satisfactory to us or at all.

Operating Activities

Net cash flows from operating activities primarily consist of net income adjusted for certain non-cash items, including depreciation, amortization, changes in deferred tax assets and liabilities, stock based compensation, and the effect of changes in working capital. Net cash flows from operating activities were $8.7 million and $27.2 million for the nine month periods ended September 30, 2018 and 2017, respectively. Cash inflow from operations is driven by earnings and is dependent on the amount and timing of billings and cash collection from our customers. Cash provided by operating activities during the 2018 period decreased $18.5 million due to $8.9 million lower earnings, which includes cash flows from operating activities, excluding changes in working capital, and $9.6 million from changes in working capital. The changes in working capital are primarily due to increased flexibility in the Company's billing terms to customers to bring them in line with market standards and the timing of payments to vendors.

Investing Activities

During the nine month period ended September 30, 2018, cash provided by investing activities was $10.9 million compared to $10.7 million of cash used in the same period in 2017. Cash from investing activities in the nine month period ended September 30, 2018 was attributable to the net cash received from the sale of businesses of $17.5 million, partially offset by the acquisition of fixed assets, including costs of internally developed software, of $6.6 million. Cash used in investing activities in the nine month period ended September 30, 2017 was primarily attributable to the acquisition of fixed assets, including costs of internally developed software. The $3.6 million decrease in the acquisition of fixed assets was primarily due to the discontinuation of getTalent and the sale of Health eCareers.

Financing Activities

Cash used in financing activities during the nine month period ended September 30, 2018 was $26.4 million primarily due to $25.0 million of net repayments on long-term debt. Cash used during the nine month period ended September 30, 2017 was $17.7 million primarily due to $17.0 million of repayments on long-term debt. The higher repayments in the 2018 period was primarily due to cash received from sale of businesses.

Credit Agreement

In November 2015, we entered into a Credit Agreement, which provided for a revolving loan facility of $250.0 million, maturing in November 2020. The facility was reduced from $250.0 million to $150.0 million in the third quarter of 2017.

Borrowings under the Credit Agreement bear interest, at the Company's option, at a LIBOR rate or base rate plus a margin. The margin ranges from 1.75% to 2.50% on LIBOR loans and 0.75% to 1.50% on base rate loans, determined by the Company's most recent consolidated leverage ratio. The facility may be prepaid at any time without penalty. The Credit Agreement contains various customary affirmative and negative covenants and also contains certain financial covenants, including a consolidated leverage ratio and a consolidated interest coverage ratio. Negative covenants include restrictions on incurring certain liens; making certain payments, such as stock repurchases and dividend payments; making certain investments; making certain acquisitions; and incurring additional indebtedness. Restricted payments are allowed under the Credit Agreement

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to the extent the consolidated leverage ratio, calculated on a pro forma basis, is equal to or less than 2.0 to 1.0, plus an additional $5.0 million of restricted payments. The Credit Agreement also provides that the payment of obligations may be accelerated upon the occurrence of customary events of default, including, but not limited to, non-payment, change of control, or insolvency. As of September 30, 2018, the Company was in compliance with all of the financial covenants under the Credit Agreement. Refer to Note 8 in the Notes to the Condensed Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Commitments and Contingencies

The following table presents certain minimum payments due and the estimated timing under contractual obligations with minimum firm commitments as of September 30, 2018:

	Payments Due By Period				
	Total	Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
	(in thousands)				
Credit Agreement	$17,000	$—	$17,000	$—	$—
Operating lease obligations	19,023	1,013	6,724	4,743	6,543
Total contractual obligations	$36,023	$1,013	$23,724	$4,743	$6,543

We make commitments to purchase advertising from online vendors which we pay for on a monthly basis. We have no significant long-term obligations to purchase a fixed or minimum amount with these vendors.

Our principal commitments consist of obligations under operating leases for office space and equipment and long-term debt. As of September 30, 2018, we had $17.0 million outstanding under our Credit Agreement. Interest payments are due at varying, specified periods (to a maximum of three months) based on the type of loan (LIBOR or base rate loan) we choose. See Note 8 “Indebtedness” in our condensed consolidated financial statements for additional information related to our Credit Agreement.

Future interest payments on our Credit Agreement are variable due to our interest rate being based on a LIBOR rate or a base rate. Assuming an interest rate of 3.88% (the rate in effect on September 30, 2018) on our current borrowings, interest payments are expected to be $0.3 million for October through December 2018 and $2.6 million in 2019-2020.

As of September 30, 2018, we had approximately $3.2 million of unrecognized tax benefits as liabilities, and it is uncertain if or when such amounts may be settled. Related to the unrecognized tax benefits considered permanent differences, we have also recorded a liability for potential penalties and interest. Included in the balance of unrecognized tax benefits at September 30, 2018 are $3.2 million of tax benefits that if recognized, would affect the effective tax rate. The Company believes it is reasonably possible that as much as $0.8 million of its unrecognized tax benefits may be recognized in the next twelve months.

Cyclicality

The labor market and certain of the industries that we serve have historically experienced short-term cyclicality. However, we believe that online career websites continue to provide economic and strategic value to the labor market and industries that we serve.

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Any slowdown in recruitment activity that occurs could negatively impact our revenues and results of operations. Alternatively, a decrease in the unemployment rate or a labor shortage, including as a result of an increase in job turnover, generally means that employers (including our customers) are seeking to hire more individuals, which would generally lead to more job postings and database licenses and have a positive impact on our revenues and results of operations. Based on historical trends, improvements in labor markets and the need for our services generally lag behind overall economic improvements. Additionally, there has historically been a lag from the time customers begin to increase purchases of our recruitment services and the impact to our revenues due to the recognition of revenue occurring over the length of the contract, which can be several months to over a year.

From the second half of 2011 into 2014, we saw tougher market conditions in our finance segment and a less urgent recruiting environment for technology professionals. If recruitment activity slows in the industries in which we operate during 2018 and beyond, our revenues and results of operations could be negatively impacted.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have exposure to financial market risks, including changes in foreign currency exchange rates, interest rates, and other relevant market prices.

Foreign Exchange Risk

We conduct business serving multiple markets, in four languages, mainly across Europe, Asia, Australia, and North America. For the nine months ended September 30, 2018 and 2017, approximately 27% and 25% of our revenues were earned outside the United States, respectively, and certain of these amounts are collected in local currency. We are subject to risk for exchange rate fluctuations between such local currencies and the British Pound Sterling, primarily, and the United States dollar and the translation of these. We currently do not hedge currency risk. A decrease in foreign exchange rates during a period would result in decreased amounts reported in our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Comprehensive Income (loss), and of Cash Flows. For example, if foreign exchange rates between the British Pound Sterling and United States dollar decreased by 1.0%, the impact on our revenues and expenses for the nine months ended September 30, 2018 would have been a decrease of approximately $168,000 and $169,000, respectively.

On June 23, 2016, the UK held a referendum in which British citizens approved an exit from the EU, commonly referred to as “Brexit.” As a result of the referendum, the global markets and currencies have been adversely impacted, including a decline in the value of the British Pound Sterling as compared to the United States dollar. Volatility in exchange rates may occur as the UK negotiates its exit from the EU. We currently do not hedge our British Pound Sterling exposure and therefore are susceptible to currency risk. Any impact from Brexit on us will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations. Although it is unknown what the result of those negotiations will be, it is possible that new terms may adversely affect our operations and financial results.

The financial statements of our non-United States subsidiaries are translated into United States dollars using current exchange rates, with gains or losses included in the cumulative translation adjustment account, which is a component of stockholders’ equity. As of September 30, 2018 and December 31, 2017, our cumulative translation adjustment decreased stockholders’ equity by $29.8 million and $27.3 million, respectively. The change from December 31, 2017 to September 30, 2018 is primarily attributable to the position of the British Pound sterling against the United States dollar.

Interest Rate Risk

We have interest rate risk primarily related to borrowings under our Credit Agreement. Borrowings under our Credit Agreement bear interest, at our option, at a LIBOR rate or base rate plus a margin. The margin ranges from 1.75% to 2.50% on the LIBOR loans and 0.75% to 1.50% on the base rate, as determined by our most recent consolidated leverage ratio. As of September 30, 2018, we had outstanding borrowings of $17.0 million under our Credit Agreement. If interest rates increased by 1.0%, interest expense in 2018 on our current borrowings would increase by less than $0.1 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established a system of controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified by the Exchange Act and in the rules and forms of the Securities and Exchange Commission (the “SEC”). These disclosure controls and procedures have been evaluated under the direction of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) as of September 30, 2018. Based on such evaluations, our CEO and CFO have concluded that the disclosure controls and procedures are effective to provide reasonable assurance that

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information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

From time to time we may be involved in disputes or litigation relating to claims arising out of our operations. Except as noted in Part 1, Item 1 of this form 10-Q, we are currently not a party to any material pending legal proceedings.

Item 1A. Risk Factors

We have disclosed under the heading “Risk Factors” in our Annual Report on Form 10-K the risk factors which materially affect our business, financial condition or results of operations. As of November 1, 2018 there have been no material changes from the risk factors previously disclosed. You should carefully consider the risk factors set forth in the Annual Report on Form 10-K and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Repurchases of Equity Securities

In May 2018, the Board of Directors authorized a stock repurchase program that permits the purchase of up to $7 million of the Company's common stock through May 2019. Under the plan, management has discretion in determining the conditions under which shares may be purchased from time to time.

During the quarter ended September 30, 2018, purchases of the Company's common stock pursuant to the Stock Repurchase Plan were follows:

Period	(a) Total Number of Shares Purchased [1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31, 2018	—	—	—	6,905,000
August 1 through August 31, 2018	175,387	$ 2.12	175,387	6,533,777
September 1 through September 30, 2018	171,893	$ 2.04	347,280	6,183,521
Total	347,280	$ 2.08	402,297	

[1] No shares of our common stock were purchased other than through a publicly announced plan or program.

Item 5. Other Information

None.

Item 6. Exhibits

10.1*	Employment Agreement and Addendum to Employment Agreement dated as of September 9, 2018 between DHI Group, Inc. and Christian Dwyer.
31.1*	Certifications of Art Zeile, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certifications of Luc Grégoire, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Art Zeile, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certifications of Luc Grégoire, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date:	November 1, 2018	DHI Group, Inc.	
		Registrant	
		By:	/S/ Art Zeile
			Art Zeile
			President and Chief Executive Officer
			(Principal Executive Officer)
			/S/ Luc Grégoire
			Luc Grégoire
			Chief Financial Officer
			(Principal Financial Officer)

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EXHIBIT INDEX

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32.1*	Certifications of Art Zeile, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certifications of Luc Grégoire, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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* Filed herewith.

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f">$15.88 $5.412013 $13.83 $4.392012 $14.70 $4.572011 $32.67 $10.032010 $37.68 $25.84

The following table sets forth, for each full financial quarter for the two most recent fiscal years, the high and low prices of the common stock on the Nasdaq Global Select Market.

Fiscal year ended December 31, 2014	**High**	**Low**
1st Quarter ended March 31, 2014	$15.88	$10.76
2nd Quarter ended June 30, 2014	$14.95	$10.00
3rd Quarter ended September 30, 2014	$15.62	$10.21
4th Quarter ended December 31, 2014	$11.40	$5.41

Fiscal year ended December 31, 2013	**High**	**Low**
1st Quarter ended March 31, 2013	$5.75	$4.44
2nd Quarter ended June 30, 2013	$7.75	$4.39
3rd Quarter ended September 30, 2013	$11.53	$5.37
4th Quarter ended December 31, 2013	$13.83	$7.72

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The following table sets forth, for the most recent six months, the high and low prices for the common stock on the Nasdaq Global Select Market.

	High	Low
April 2015 (through and including April 6, 2015)	$3.76	$3.47
March 2015	$4.54	$3.05
February 2015	$4.80	$4.01
January 2015	$6.66	$3.67
December 2014	$8.32	$5.41
November 2014	$10.49	$7.90
October 2014	$11.40	$8.28

Item 10. Additional Information

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

Our Articles of Incorporation were filed as Exhibit 1 to our Report on Form 6-K filed with the Commission on October 15, 2012 and are incorporated by reference into Exhibit 1.1 to of this Annual Report. Pursuant to the Articles of Incorporation, we effected a 15-for-1 reverse stock split of our issued and outstanding common shares, par value $0.01 per share, effective as of October 15, 2012. The reverse stock split was approved by shareholders at our annual general meeting of shareholders held on September 7, 2012. The reverse stock split reduced the number of our issued and outstanding common shares from 81,012,403 common shares to 5,400,810 common shares and affected all issued and outstanding common shares. The number of our authorized common shares was not affected by the reverse split. No fractional shares were issued in connection with the reverse stock split.

Under our Articles of Incorporation, our authorized capital stock consists of 325,000,000 registered shares of stock:

- 300,000,000 common shares, par value $0.01 per share; and

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25,000,000 preferred shares, par value $0.01 per share. Our board of directors shall have the authority to issue all or any of the preferred shares in one or more classes or series with such voting powers, designations, preferences and relative, participating, optional or special rights and qualifications, limitations or restrictions as shall be stated in the resolutions providing for the issue of such class or series of preferred shares.

As of the date of this annual report, we had issued and outstanding 161,691,380 common shares. No preferred shares are issued or outstanding.

In addition, our Articles of Incorporation grant the Chairman of our board of directors a tie- breaking vote in the event the directors vote is evenly split or deadlocked on a matter presented for vote.

Our Articles of Incorporation and Bylaws

Our purpose, as stated in Section B of our Articles of Incorporation, is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the Marshall Islands Business Corporations Act (the MIBCA).

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Directors

Our directors are elected by a majority of the votes cast by shareholders entitled to vote in an election. Our Articles of Incorporation provide that cumulative voting shall not be used to elect directors. Our board of directors must consist of at least three members. The exact number of directors is fixed by a vote of at least 66 2/3% of the entire board of directors. Our Articles of Incorporation provide for a staggered board of directors whereby directors shall be divided into three classes: Class A, Class B and Class C, which shall be as nearly equal in number as possible. Shareholders, acting as at a duly constituted meeting, or by unanimous written consent of all shareholders, initially designated directors as Class A, Class B or Class C with only one class of directors being elected in each year and following the initial term for each such class, each class will serve a three-year term. The term of our board of directors is as follows: (i) the term, of our Class A directors expires in 2017; (ii) the term of Class B directors expires in 2015; and (iii) the term of Class C director expires in 2016. Each director serves his respective term of office until his successor has been elected and qualified, except in the event of his death, resignation, removal or the earlier termination of his term of office. Our board of directors has the authority to fix the amounts which shall be payable to the members of the board of directors for attendance at any meeting or for services rendered to us.

Shareholder Meetings

Under our Bylaws, annual shareholder meetings will be held at a time and place selected by our board of directors. The meetings may be held in or outside of the Marshall Islands. Special meetings may be called by the board of directors, chairman of the board of directors or by the president. Our board of directors may set a record date between 10 and 60 days before the date of any meeting to determine the shareholders that will be eligible to receive notice and vote at the meeting.

Dissenters Rights of Appraisal and Payment

Under the MIBCA, our shareholders have the right to dissent from various corporate actions, including any merger or consolidation, sale of all or substantially all of our assets not made in the usual course of our business, and receive payment of the fair value of their shares. In the event of any further amendment of our Articles of Incorporation, a shareholder also has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. The dissenting shareholder must follow the procedures set forth in the MIBCA to receive payment. In the event that we and any dissenting shareholder fail to agree on a price for the shares, the MIBCA procedures involve, among other things, the institution of proceedings in the high court of the Republic of the Marshall Islands or in any appropriate court in any jurisdiction in which our shares are primarily traded on a local or national securities exchange.

Shareholders Derivative Actions

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

Indemnification of Officers and Directors

Our Bylaws include a provision that entitles any our directors or officers to be indemnified by us upon the same terms, under the same conditions and to the same extent as authorized by the MIBCA if the director or officer acted in good faith and in a manner reasonably believed to be in and not opposed to our best interests, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

We are also authorized to carry directors and officers insurance as a protection against any liability asserted against our directors and officers acting in their capacity as directors and officers regardless of whether we would have the power to indemnify such director or officer against such liability bylaw or under the provisions of our Bylaws. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

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

Anti-takeover Provisions of our Charter Documents

Several provisions of our Articles of Incorporation and our Bylaws may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our board of directors to maximize shareholder value in connection with any unsolicited offer to acquire us. However, these anti -takeover provisions, which are summarized below, could also discourage, delay or prevent (1) the merger or acquisition of our company 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 officers and directors.

Blank Check Preferred Stock

Under the terms of our Articles of Incorporation, our board of directors has authority, without any further vote or action by our shareholders, to issue up to 25.0 million shares of blank check preferred stock. Our board of directors may issue shares of preferred stock on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management.

Classified Board of Directors

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

Election and Removal of Directors

Our Articles of Incorporation prohibit cumulative voting in the election of directors. Our Articles of Incorporation also require shareholders to give advance written notice of nominations for the election of directors. Our Articles of Incorporation further provide that our directors may be removed only for cause and only upon affirmative vote of the holders of at least 70% of our outstanding voting shares. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

Limited Actions by Shareholders

Our Bylaws provide that if a quorum is present, and except as otherwise expressly provided by law, the affirmative vote of a majority of the shares of stock represented at the meeting shall be the act of the shareholders. Shareholders may act by way of written consent in accordance with the provisions of Section 67 of the MIBCA.

Advance Notice Requirements for Shareholder Proposals and Director Nominations

Our Articles of Incorporation provide that shareholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of shareholders must provide timely notice of their proposal in writing to the corporate secretary. Generally, to be timely, a shareholder s notice must be received at our principal executive offices not less than 120 days nor more than 180 days prior to the one year anniversary of the preceding year s annual meeting. Our Articles of Incorporation also specify requirements as to the form and content of a shareholder s notice. These provisions may impede shareholders ability to bring matters before an annual meeting of shareholders or make nominations for directors at an annual meeting of shareholders.

C. Material Contracts

As of December 31, 2014, we had 19 credit facilities with lenders, including Commerzbank A.G., Credit Agricole Corporate and Investment Bank, HSH Nordbank, ABN AMRO Bank N.V., Deutsche Bank AG, HSBC Bank plc., Export-Import Bank of China, NIBC Bank N.V., BNP Paribas, DVB Bank SE, CiT Finance LLC, Deutsche Bank (China) Co., Ltd., Citibank, N.A., and DNB Bank ASA, as agent and as lender. In addition, we had one binding term-sheet with Deutsche Bank (China) Co., Ltd. Beijing Branch and HSBC Bank plc (the Sinosure FACILITY). For a discussion of our facilities, please see the section of this annual report entitled Item 5. Operating and Financial Review—B. Liquidity and Capital Resources—Senior Secured Credit Facilities.

As of December 31, 2014, we were also a party to a senior indenture with U.S. Bank National Association, as trustee. For a discussion of the indenture, please see the section of this annual report entitled Item 5. Operating and Financial Review—B. Liquidity and Capital Resources—2019 Senior Notes Offering.

As of December 31, 2014, we are a party to a services agreement with Interchart, the Oaktree Shareholders Agreement, the Pappas Shareholders Agreement and the Registration Rights Agreement. For a discussion of these agreements, please see the section of this annual report entitled Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions.

We have no other material contracts, other than contracts entered into in the ordinary course of business, to which we are a party.

D. Exchange Controls

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

E. Taxation

The following is a discussion of the material Marshall Islands and U.S. federal income tax regimes relevant to an investment decision with respect to our common stock.

Marshall Islands Tax Consequences

We are incorporated in the Marshall Islands. Under current Marshall Islands law, we are not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by us to our shareholders.

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Material United States Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences to us of our activities and to our shareholders of the ownership and disposition of our common shares. This discussion is not a complete analysis or listing of all of the possible tax consequences to our shareholders of the ownership and disposition of our common shares and does not address all tax considerations that might be relevant to particular holders in light of their personal circumstances or to persons that are subject to special tax rules. In particular, the information set forth below deals only with shareholders that will hold common shares as capital assets for U.S. federal income tax purposes (generally, property held for investment) and that do not own, and are not treated as owning, at any time, 10% or more of the total combined voting power of all classes of our stock entitled to vote. In addition, this description of the material U.S. federal income tax consequences does not address the tax treatment of special classes of shareholders, such as (i) financial institutions, (ii) regulated investment companies, (iii) real estate investment trusts, (iv) tax-exempt entities, (iv) insurance companies, (v) persons holding the common shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle, (vi) persons that acquired common shares through the exercise or cancellation of employee stock options or otherwise as compensation for their services, (vii) U.S. expatriates, (viii) persons subject to the alternative minimum tax, (ix) dealers or traders in securities or currencies and (x) U.S. shareholders whose functional currency is not the U.S. dollar. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or non-U.S. law of the ownership of our common shares.

U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences to us of our activities and to U.S. Holders and Non-U.S. Holders (as defined below) of the ownership and disposition of our common shares.

The following discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), U.S. judicial decisions, administrative pronouncements and existing and proposed Treasury Regulations, all as in effect as of the date hereof. All of the preceding authorities are subject to change, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. We have not requested, and will not request, a ruling from the U.S. Internal Revenue Service (the IRS) with respect to any of the U.S. federal income tax consequences described below, and as a result there can be no assurance that the IRS will not disagree with or challenge any of the conclusions we have reached and describe herein.

This summary does not address estate and gift tax consequences or tax consequences under any state, local or non-U.S. laws.

Tax Classification of the Company

Star Maritime was a Delaware corporation which merged into the Company pursuant to the Redomiciliation Merger as more specifically described in Item 4.A Information on the Company – History and development of the Company.

Section 7874(b) of the Code, or Section 7874(b), provides that a corporation organized outside the United States, such as the Company, which acquires (pursuant to a plan or a series of related transactions) substantially all of the assets of a corporation organized in the United States, such as Star Maritime, will be treated as a U.S. domestic corporation for U.S. federal income tax purposes if shareholders of the U.S. corporation whose assets are being acquired own at least 80% of the non-U.S. acquiring corporation after the acquisition. If Section 7874(b) were to apply to Star Maritime and the Redomiciliation Merger, then the Company, as the surviving entity of the Redomiciliation Merger, would be subject to U.S. federal income tax as a U.S. domestic corporation on its worldwide income after the Redomiciliation Merger. In addition, as a U.S. domestic corporation, any dividends paid by us to a Non-U.S. Holder, as defined below, would be subject to a U.S. federal income tax withholding at the rate of 30% or such lower rate as provided by an applicable U.S. income tax treaty.

After the completion of the Redomiciliation Merger, the shareholders of Star Maritime owned less than 80% of the Company. Star Maritime received an opinion of its counsel, Seward & Kissel LLP or Seward & Kissel , that Star Bulk should not be subject to Section 7874(b) after the Redomiciliation Merger. Based on the structure of the Redomiciliation Merger, the Company believes that it is not subject to U.S. federal income tax as a U.S. domestic corporation on its worldwide income for taxable years after the Redomiciliation Merger. However, there is no authority directly addressing the application of Section 7874(b) to a transaction such as the Redomiciliation Merger where shares in a foreign corporation, such as the Company, are issued concurrently with (or shortly after) a merger. In particular, since there is no authority directly applying the series of related transactions or plan provisions to the post-acquisition stock ownership requirements of Section 7874(b), there is no assurance that the U.S. Internal Revenue Service (IRS) or a court will agree with Seward & Kissel s opinion on this matter. Moreover, Star Maritime has not sought a ruling from the IRS on this point. Therefore, there is no assurance that the IRS would not seek to assert that the Company is subject to U.S. federal income tax on its worldwide income after the Redomiciliation Merger, although the Company believes that such an assertion should not be successful.

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The remainder of this discussion assumes that the Company will not be treated as a U.S. domestic corporation for any taxable year.

U.S. Federal Income Taxation of the Company

U.S. Tax Classification of the Company

We are treated as a corporation for U.S. federal income tax purposes. As a result, U.S. Holders will not be directly subject to U.S. federal income tax on our income, but rather will be subject to U.S. federal income tax on distributions received from us and dispositions of common shares as described below.

U.S. Federal Income Taxation of Operating Income: In General

We anticipate that we will earn substantially all our income from the hiring or leasing of vessels for use mostly on a voyage or time charter basis or from the performance of services directly related to those uses, all of which we refer to as shipping income.

Unless a non-U.S. corporation qualifies for an exemption from U.S. federal income taxation under Section 883 of the Code, such corporation will be subject to U.S. federal income taxation on its shipping income that is treated as derived from sources within the United States. For U.S. federal income tax purposes, 50% of shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States constitutes income from sources within the United States (United States source gross transportation income or USSGTI), and, in the absence of exemption from tax under Section 883 of the Code, such USSGTI generally will be subject to a 4% U.S. federal income tax imposed without allowance for deductions.

Shipping income of a non-U.S. corporation attributable to transportation that both begins and ends in the United States is considered to be derived entirely from sources within the United States. However, U.S. law prohibits non-U.S. corporations, such as us, from engaging in transportation that produces income considered to be derived entirely from U.S. sources.

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

Exemption of Operating Income from U.S. Federal Income Taxation

Under Section 883 of the Code and the Treasury Regulations thereunder, a non-U.S. corporation will be exempt from U.S. federal income taxation on its U.S. source shipping income if:

(1) it is organized in a country that grants an equivalent exemption from tax to corporations organized in the United States in respect of each category of shipping income for which exemption is being claimed under Section 883 of the Code (a qualified foreign country); and

(2) one of the following tests is met: (A) more than 50% of the value of its shares is beneficially owned, directly or indirectly, by qualified shareholders, which term includes individuals that (i) are residents of qualified foreign countries and (ii) comply with certain substantiation requirements (the 50% Ownership Test); (B) it is a “controlled foreign corporation” and it satisfies an ownership test (the “CFC Test”); or (C) its shares are primarily and regularly traded on an established securities market in a qualified foreign country or in the United States (the Publicly-Traded Test).

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The Republic of the Marshall Islands has been officially recognized by the IRS as a qualified foreign country that grants the requisite equivalent exemption from tax in respect of each category of shipping income we earn and currently expect to earn in the future.

We believe that for 2014 we satisfied the Publicly-Traded Test, although for 2015 and the foreseeable future we will not satisfy such test, as discussed below. Beginning in 2015 we do not currently anticipate circumstances under which we would be able to satisfy the 50% Ownership Test of the CFC Test. Accordingly, we do not believe we will be exempt from U.S. federal income tax on our U.S. source shipping income beginning in 2015 and for the foreseeable future.

Publicly-Traded Test. The Treasury Regulations under Section 883 of the Code provide, in pertinent part, that shares of a non-U.S. corporation will be considered to be primarily traded on an established securities market in a country if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. Our common stock is primarily traded on the NASDAQ Global Select Market.

Under the Treasury Regulations, stock of a non-U.S. corporation will be considered to be regularly traded on an established securities market if (1) one or more classes of stock of the corporation that represent more than 50% of the total combined voting power of all classes of stock of the corporation entitled to vote and of the total value of the stock of the corporation, are listed on such market and (2) (A) such class of stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or one-sixth of the days in a short taxable year and (B) the aggregate number of shares of such class of stock traded on such market during the taxable year must be at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year.

Notwithstanding the foregoing, the Treasury Regulations provide, in pertinent part, that a class of shares will not be considered to be regularly traded on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under specified share attribution rules, on more than half the days during the taxable year by persons that each own 5% or more of the vote and value of such class of outstanding stock (the 5% Override Rule).

For purposes of determining the persons that actually or constructively own 5% or more of the vote and value of our common shares (5% Shareholders), the Treasury Regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the U.S. Securities and Exchange Commission, as owning 5% or more of our common shares. The Treasury Regulations further provide that an investment company which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Shareholder for such purposes.

In the event the 5% Override Rule is triggered, the Treasury Regulations provide that the 5% Override Rule will nevertheless not apply if we can establish that within the group of 5% Shareholders, qualified shareholders (as defined for purposes of Section 883) own sufficient number of shares to preclude non-qualified shareholders in such group from owning 50% or more of the total value of the class of stock of the closely held block that is a part of our common shares for more than half the number of days during the taxable year.

On July 11, 2014, pursuant to the transaction with Oceanbulk discussed above, Oaktree became a 5% Shareholder that holds 50% or more of the vote and value of our common shares. Because the Oceanbulk transaction occurred more than halfway through 2014, we do not expect the 5% Override Rule was triggered for 2014. However, for 2015 and the foreseeable future, we do not expect to be able to establish that a sufficient number of our common shares are indirectly held by indirect owners of Oaktree that are qualified shareholders to preclude indirect owners of Oaktree that are not qualified shareholders from owning 50% or more of our common shares. Accordingly, we do not expect to satisfy the Publicly-Traded Test and to qualify for an exemption under Section 883 for 2015 or for the foreseeable future.

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Taxation in Absence of Section 883 Exemption

So long as Oaktree owns 50% or more of our common shares, we do not expect to qualify for the Section 883 exemption. For any taxable year in which we are not eligible for the benefits of Section 883 exemption, our USSGTI will be subject to a 4% tax imposed by Section 887 of the Code without the benefit of deductions to the extent that such income is not considered to be effectively connected with the conduct of a U.S. trade or business, as described below. Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as derived from sources within the United States, the maximum effective rate of U.S. federal income tax on our shipping income would never exceed 2% under this regime.

To the extent our shipping income derived from sources within the United States is considered to be effectively connected with the conduct of a U.S. trade or business, as described below, any such effectively connected shipping income, net of applicable deductions, would be subject to U.S. federal income tax, currently imposed at rates of up to 35%. In addition, we would generally be subject to the 30% branch profits tax on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of our U.S. trade or business.

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

(1) we have, or are considered to have, a fixed place of business in the United States involved in the earning of U.S. source shipping income; and

(2) substantially all of our U.S. source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

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

U.S. Taxation of Gain on Sale of Vessels

Regardless of whether we qualify for exemption under Section 883, we will not be subject to U.S. federal income tax with respect to gain realized on a sale of a vessel, provided that (i) the sale is considered to occur outside of the United States under U.S. federal income tax principles and (ii) such sale is not attributable to an office or other fixed place of

business in the United States. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. We intend to conduct our operations so that the gain on any sale of a vessel by us will not be taxable in the United States.

U.S. Federal Income Taxation of U.S. Holders

As used herein, a U.S. Holder is a beneficial owner of a common share that is: (1) a citizen of or an individual resident of the United States, as determined for U.S. federal income tax purposes; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (4) a trust (A) if a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust or (B) that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

If a pass-through entity, including a partnership or other entity classified as a partnership for U.S. federal income tax purposes, is a beneficial owner of our common shares, the U.S. federal income tax treatment of an owner or partner will generally depend upon the status of such owner or partner and upon the activities of the pass-through entity. Owners or partners of a pass-through entity that is a beneficial owner of common shares are encouraged to consult their tax advisors.

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U.S. Holders are urged to consult their tax advisors as to the particular consequences to them under U.S. federal, state and local, and applicable non-U.S. tax laws of the ownership and disposition of common shares.

Distributions

Subject to the discussion of passive foreign investment companies (PFICs) below, any distributions made by us with respect to our common shares to a U.S. Holder will generally constitute foreign-source dividends to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of such earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder s tax basis in its common shares and thereafter as capital gain. Because we are not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us.

If, as expected, the common shares are readily tradable on an established securities market in the United States within the meaning of the Code and if certain holding period and other requirements (including a requirement that we are not a PFIC in the year of the dividend or the preceding year) are met, dividends received by non-corporate U.S. Holders will be qualified dividend income to such U.S. Holders. Qualified dividend income received by non-corporate U.S. Holders (including an individual) will be subject to U.S. federal income tax at preferential rates.

Sale, Exchange or Other Disposition of Common Shares

Subject to the discussion of PFICs below, a U.S. Holder generally will recognize capital gain or loss upon a sale, exchange or other disposition of our common shares in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder s tax basis in such shares. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder s holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as U.S. source income or loss, as applicable, for U.S. foreign tax credit purposes. Long-term capital gains of certain non-corporate U.S. Holders are currently eligible for reduced rates of taxation. A U.S. Holder s ability to deduct capital losses is subject to certain limitations.

Passive Foreign Investment Company Considerations

The foregoing discussion assumes that we are not, and will not be, a PFIC. If we are classified as a PFIC in any year during which a U.S. Holder owns our common shares, the U.S. federal income tax consequences to such U.S. Holder of the ownership and disposition of common shares could be materially different from those described above. A non-U.S. corporation will be considered a PFIC for any taxable year in which (i) 75% or more of its gross income is passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business) or (ii) 50% or more of the average value of its assets produce (or are held for the production of) passive income. For this purpose, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiaries that are treated as pass-through entities for U.S. federal income tax purposes.

Further, we will be treated as holding directly our proportionate share of the assets and receiving directly the proportionate share of the income of corporations of which we own, directly or indirectly, at least 25%, by value. For purposes of determining our PFIC status, income earned by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute passive income unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business. We intend to take the position that income we derive from our voyage and time chartering activities is services income, rather than rental income, and accordingly, that such income is not passive income for purposes of determining our PFIC status. We believe that there is substantial legal authority supporting our position consisting of case law and IRS pronouncements concerning the characterization of income derived from voyage and time charters as services income for other tax purposes. Additionally, we believe that our contracts for newbuilding vessels are not assets held for the production of passive income, because we intend to use these vessels for voyage and time chartering activities.

Assuming that it is proper to characterize income from our voyage and time chartering activities as services income and based on the expected composition of our income and assets, we believe that we currently are not a PFIC, and we do not expect to become a PFIC in the future. However, our characterization of income from voyage and time charters and of contracts for newbuilding vessels is not free from doubt. Moreover, the determination of PFIC status for any year must be made only on an annual basis after the end of such taxable year and will depend on the composition of our income, assets and operations during such taxable year. Because of the above described uncertainties, there can be no assurance that the IRS will not challenge the determination made by us concerning our PFIC status or that we will not be a PFIC for any taxable year.

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If we were treated as a PFIC for any taxable year during which a U.S. Holder owns common shares, the U.S. Holder would be subject to special adverse rules (described in —*Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election*) unless the U.S. Holder makes a timely election to treat us as a Qualified Electing Fund (a QEF election) or marks its common shares to market, as discussed below. We intend to promptly notify our shareholders if we determine that we are a PFIC for any taxable year. A U.S. Holder generally will be required to file IRS Form 8621 if such U.S. Holder owns common shares in any year in which we are classified as a PFIC.

Taxation of U.S. Holders Making a Timely QEF Election. If a U.S. Holder makes a timely QEF election, such U.S. Holder must report for U.S. federal income tax purposes its pro-rata share of our ordinary earnings and net capital gain, if any, for each of our taxable years during which we are a PFIC that ends with or within the taxable year of such U.S. Holder, regardless of whether distributions were received from us by such U.S. Holder. No portion of any such inclusions of ordinary earnings will be treated as qualified dividend income. Net capital gain inclusions of certain non-corporate U.S. Holders might be eligible for preferential capital gains tax rates. The U.S. Holder s adjusted tax basis in the common shares will be increased to reflect any income included under the QEF election. Distributions of previously taxed income will not be subject to tax upon distribution but will decrease the U.S. Holder s tax basis in the common shares. An electing U.S. Holder would not, however, be entitled to a deduction for its pro-rata share of any losses that we incur with respect to any taxable year. An electing U.S. Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common shares. A U.S. Holder would make a timely QEF election for our common shares by filing IRS Form 8621 with its U.S. federal income tax return for the first year in which it held such shares when we were a PFIC. If we determine that we are a PFIC for any taxable year, we would provide each U.S. Holder with all necessary information in order to make the QEF election described above.

Taxation of U.S. Holders Making a Mark-to-Market Election. Alternatively, if we were treated as a PFIC for any taxable year and, as we anticipate, our common shares are treated as marketable stock, a U.S. Holder would be allowed to make a mark-to-market election with respect to our common shares. If that election is properly and timely made, the U.S. Holder generally would include as ordinary income in each taxable year that we are a PFIC the excess, if any, of the fair market value of the common shares at the end of the taxable year over such U.S. Holder s adjusted tax basis in the common shares. The U.S. Holder would also be permitted an ordinary loss in each such year in respect of the excess, if any, of the U.S. Holder s adjusted tax basis in the common shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s tax basis in its common shares would be adjusted to reflect any such income or loss amount recognized. Any gain realized on the sale, exchange or other disposition of our common shares in a year that we are a PFIC would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common shares in such a year would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election. If we were treated as a PFIC for any taxable year, a U.S. Holder that does not make either a QEF election or a mark-to-market election (a Non-Electing Holder) would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on the common shares in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder s holding period for the common shares), and (2) any gain realized on the sale, exchange or

other disposition of our common shares. Under these special rules:

(1) the excess distribution or gain would be allocated ratably over the Non-Electing Holder s aggregate holding period for the common shares;

(2) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, would be taxed as ordinary income and would not be qualified dividend income ; and

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(3) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed tax deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

U.S. Holders are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding common shares if we are considered a PFIC in any taxable year.

*Additional Tax on Net Investment Incom*e

Certain U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds may be subject to a 3.8% tax on all or a portion of their net investment income, which includes dividends on our common shares and net gains from the disposition of our common shares. U.S. Holders that are individuals, estates or trusts should consult their tax advisors regarding the applicability of this tax to any of their income or gains in respect of our common shares.

U.S. Federal Income Taxation of Non-U.S. Holders

As used herein, a Non-U.S. Holder is any beneficial owner of a common share that is, for U.S. federal income tax purposes, an individual, corporation, estate or trust and that is not a U.S. Holder.

If a pass-through entity, including a partnership or other entity classified as a partnership for U.S. federal income tax purposes, is a beneficial owner of our common shares, the U.S. federal income tax treatment of an owner or partner will generally depend upon the status of such owner or partner and upon the activities of the pass-through entity. Owners or partners of a pass-through entity that is a beneficial owner of common shares are encouraged to consult their tax advisors.

Distributions

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received from us with respect to our common shares, unless that income is effectively connected with the Non-U.S. Holder s conduct of a trade or business in the United States. In general, if the Non-U.S. Holder is entitled to the benefits of an applicable U.S. income tax treaty with respect to those dividends, that income is taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States.

Sale, Exchange or Other Disposition of Common Shares

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized upon the sale, exchange or other disposition of our common shares, unless:

(1) the gain is effectively connected with the Non-U.S. Holder s conduct of a trade or business in the United States; in general, in the case of a Non-U.S. Holder entitled to the benefits of an applicable U.S. income tax treaty with respect to that gain, that gain is taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; or

(2) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

Income or Gains Effectively Connected with a U.S. Trade or Business

If the Non-U.S. Holder is engaged in a U.S. trade or business for U.S. federal income tax purposes, dividends on the common shares and gain from the sale, exchange or other disposition of the shares, that is effectively connected with the conduct of that trade or business (and, if required by an applicable U.S. income tax treaty, is attributable to a U.S. permanent establishment), will generally be subject to regular U.S. federal income tax in the same manner as discussed in the previous section relating to the taxation of U.S. Holders. In addition, in the case of a corporate Non-U.S. Holder, its earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional U.S. federal branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable U.S. income tax treaty.

Information Reporting and Backup Withholding

Information reporting might apply to dividends paid in respect of common shares and the proceeds from the sale, exchange or other disposition of common shares within the United States. Backup withholding (currently at a rate of 28%) might apply to such payments made to a U.S. Holder unless the U.S. Holder furnishes its taxpayer identification number, certifies that such number is correct, certifies that such U.S. Holder is not subject to backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. Certain U.S. Holders, including corporations, are generally not subject to backup withholding and information reporting requirements, if they properly demonstrate their eligibility for exemption. United States persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Each Non-U.S. Holder must submit an appropriate, properly completed IRS Form W-8 certifying, under penalties of perjury, to such Non-U.S. Holder s non-U.S. status in order to establish an exemption from backup withholding and information reporting requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your U.S. federal income tax liability, provided that the required information is furnished to the IRS in a timely manner.

Certain U.S. Holders who are individuals are required to report information relating to our common shares, subject to certain exceptions (including an exception for common shares held in accounts maintained by certain financial institutions). U.S. Holders are urged to consult their tax advisors regarding their reporting requirements.

F. Dividends and paying agents

Not Applicable.

G. Statement by experts

Not Applicable.

H. Documents on display

You may read and copy any document that we file, including this annual report, and obtain copies at prescribed rates from the Commission s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling 1 (800) SEC-0330. The Commission maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the Commission. Our filings are also available on our website at

http://www.starbulk.com. The information on our website, however, is not, and should not be deemed to be a part of this annual report. You may also obtain copies of the incorporated documents, without charge, upon written or oral request to Star Bulk Carriers Corp., c/o Star Bulk Management Inc., 40 Agiou Konstantinou Str., Maroussi, 15124, Athens, Greece.

I. Subsidiary information

Not Applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

Our exposure to market risk for changes in interest rate relates primarily to our long-term debt. The international dry bulk industry is a capital intensive industry, requiring significant amounts of investment. Much of this investment is provided in the form of secured long-term debt. Our debt contains interest rates that fluctuate with LIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to service our debt.

From time to time, we may take positions in interest rate derivative contracts to manage interest costs and risk associated with changing interest rates with respect to our variable interest loans and credit facilities. Generally, our approach is to economically hedge a portion of the floating-rate debt associated with our vessels. We manage the exposure to the rest of our debt based on our outlook for interest rates and other factors.

We are exposed to credit loss in the event of non-performance by the counterparties to the interest rate derivative contracts. In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that bear an investment grade rate at the time of the transaction. In addition, to the extent possible and practical, we enter into interest rate derivative contracts with different counterparties to reduce concentration risk.

In June 2013, we entered into two interest rate derivative contracts with Credit Agricole Corporate and Investment Bank (the "Credit Agricole Swaps") to fix forward our floating interest rate liabilities under the two tranches of the Credit Agricole $70.0 million Facility. The Credit Agricole Swaps were based on an amortizing notional amount beginning from $26.8 million and $28.6 million, for the Star Borealis and Star Polaris tranches, respectively. The Credit Agricole Swaps came into effect in November and August 2014, and will mature in August and November 2018, for the Star Borealis and Star Polaris tranches, respectively. Under the terms of the Credit Agricole Swaps, we pay on a quarterly basis a fixed rate of 1.720% and 1.705% per annum for the Star Borealis and Star Polaris tranches, respectively, while receiving a variable amount equal to the three month LIBOR, both applied on the notional amount of the swaps outstanding at each settlement date. As of December 31, 2014, the notional amount of these swaps was $26.8 million and $28.1 million, for Star Borealis and Star Polaris, respectively.

In addition, on April 28, 2014, we entered into two interest rate derivative contracts (the "HSH Swaps") to fix forward 50% of our floating interest rate derivative contracts for the HSH Nordbank $35.0 million Facility. The HSH Swaps came into effect in September 2014 and mature in September 2018. Under the terms of the HSH Swaps, we pay on a quarterly basis a fixed rate of 1.765% per annum, while receiving a variable amount equal to the three month LIBOR, both applied on the notional amount of the swaps outstanding at each settlement date. As of December 31, 2014, the notional amount of these swaps was $16.6 million.

Up to August 31, 2014, because the Credit Agricole Swaps and the HSH Swaps were not designated as accounting hedges, changes in their fair value at each reporting period up to that date were reported in earnings as a loss under "Gain/(loss) on derivative financial instruments, net" in the consolidated statements of operations.

On August 31, 2014, we designated the Credit Agricole Swaps and the HSH Swaps as cash flow hedges in accordance with ASC Topic 815, "Derivatives and Hedging." Accordingly, the effective portion of these cash flow hedges, from September 1, 2014 to December 31, 2014, was reported in "Accumulated other comprehensive loss".

As part of the Merger, we acquired five swap agreements that Oceanbulk Shipping had entered during the third quarter of 2013 with Goldman Sachs Bank USA (the "Goldman Sachs Swaps"). The Goldman Sachs Swaps came into effect on October 1, 2014 and mature on April 1, 2018. Under their terms, Oceanbulk Shipping makes quarterly payments to the counterparty at fixed rates ranging between 1.79% to 2.07% per annum, based on an aggregate notional amount beginning at $186.3 million on July 1, 2015 and increasing up to $461.3 million on October 1, 2015 and thereafter decreasing by $9.84 million each quarter. The counterparty makes quarterly floating rate payments at three-month LIBOR to Oceanbulk Shipping based on the same notional amount. Upon the completion of the Merger, on July 11, 2014, we re-designated the Goldman Sachs Swaps as cash flow hedges in accordance with ASC Topic 815. Accordingly, the effective portion of these cash flow hedges, from that date to December 31, 2014, was reported in "Accumulated other comprehensive loss". As of December 31, 2014 the notional amount of these swaps was $186.3 million.

The aggregate notional amount outstanding, as of December 31, 2014, for all the nine interest rate derivative contracts we had effective at that time was $257.9 million with an average fixed rate of 1.8%.

During the year ended December 31, 2014, we recorded a loss on interest rate derivative contracts of $0.8 million in "Gain / (loss) on derivative financial instruments, net", in the consolidated statement of operations, which resulted from the change in the fair market value of the respective derivative contracts prior to their designation as cash flow hedges. In addition, as of December 31, 2014, we recorded a loss of $0.4 million in "Accumulated other comprehensive loss" resulting from the change in the fair market value of the respective derivative contracts, after their designation as cash flow hedges.

Our interest expense for the year ended December 31, 2014 was $8.6 million. Our estimated interest expense for the year ending December 31, 2015 is expected to be $32.3 million. Our estimated amount of interest expense reflects interest payments we expect to make with respect to our long-term debt obligations. The interest payments reflect an assumed LIBOR-based applicable rate of 0.17125% and 0.2556% (the one-month and three-month LIBOR rates as of December 31, 2014, respectively) plus the relevant margin of the applicable credit facility. The following table sets forth the sensitivity of our existing loans in millions of Dollars, as of December 31, 2014, as to a 100 basis point increase in LIBOR during the next five years:

For the year ending December 31,	**Estimated amount of interest expense**	**Estimated amount of interest expense after an increase of 100 basis points**	**Sensitivity**
2015	32.3	40.1	7.8
2016	25.9	32.2	6.3
2017	20.0	24.7	4.7
2018	16.9	20.7	3.8
2019	10.3	12.3	2.0

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The table below provides information about our financial instruments at December 31, 2014, that are sensitive to changes in interest rates, including our debt and interest rate derivative contracts. For long-term debt, the table presents expected outstanding balances and related weighted-average interest rates by expected maturity dates. For interest rate derivative contracts, the table presents notional amounts and weighted-average fixed pay interest rates by expected contractual maturity dates. Generally, our interest rate derivative contracts involve the receipt of floating payments based on the three-month LIBOR and the payment of fixed amounts based on a fixed rate specified in each swap agreement, on a quarterly basis.

In thousands of Dollars	As of year ended December 31,							
	2014	2015	2016	2017	2018	2019	2020	2021
Long-Term Debt:								
Variable Rate Debt, outstanding balance	$811,793	$715,308	$486,268	$416,374	$289,479	$56,113	$36,627	$-
Average Interest Rate on Variable Debt (1)	3.7%	3.7%	3.6%	3.5%	3.7%	3.9%	3.7%	3.4%
Fixed-Rate Debt, outstanding balance	50,000	50,000	50,000	50,000	50,000	-	-	-
Average Interest Rate on Fixed Debt (2)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	-	-
<u>Interest Rate Derivative Contracts:</u> **(3)**								
Notional Amount Balance (4)	$257,869	$517,839	$473,339	$428,842	$-	$-	$-	$-
Average Fixed Pay Rate	1.8%	1.8%	1.8%	1.8%	1.7%	-	-	-

(1) Average Interest Rate on Variable Debt represents the weighted average interest rate for our floating rate debt comprising of LIBOR rate as of December 31, 2014 and applicable margin.

(2) Average Interest Rate on Fixed Debt represents the 8.00% annual coupon for our 8.00% 2019 Notes.

(3) Our interest rate derivative contracts involve the receipt of floating payments based on the three month LIBOR and the payment of fixed amounts based on a fixed rate specified in each swap agreement, on a quarterly basis.

(4) All of interest swap derivative contracts expire within 2018.

Currency and Exchange Rates

We generate all of our revenues in Dollars and operating expenses in currencies other than the Dollar are approximately 21% of total operation expenses during 2014. Further, 56% of our General and administrative

expenses, excluding expenses of $5.8 million relating to the amortization of stock based compensation recognized in connection with the restricted shares issued to directors and employees, including consulting fees, salaries and traveling expenses were incurred in Euros during 2014. For accounting purposes, expenses incurred in Euros are converted into Dollars at the exchange rate prevailing on the date of each transaction. Because a significant portion of our expenses are incurred in currencies other than the Dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the Dollar and the Euro, which could affect the amount of net income that we report in future periods. As of December 31, 2014, the effect of a 1% adverse movement in Dollar/Euro exchange rates would have resulted in an increase of $151,002 and $90,033 in our General and administrative expense and our operating expenses, respectively. While we historically have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may determine to employ such instruments from time to time in the future in order to minimize this risk. The use of financial derivatives, including foreign exchange forward agreements, would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

Freight Derivatives

From time to time, we may take positions in freight derivatives, including Freight Forward Agreements (FFAs) and freight options. Generally freight derivatives may be used to hedge a vessel owner s exposure to the charter market for a specified route and period of time. Upon settlement, if the contracted charter rate is less than the average of the rates reported on an identified index for the specified route and time period, the seller of the FFA is required to pay the buyer an amount equal to the difference between the contracted rate and the settlement rate, multiplied by the number of days of the specified period. Conversely, if the contracted rate is greater than the settlement rate, the buyer is required to pay the seller the settlement sum. If we take positions in FFAs or other derivative instruments we could suffer losses in the settling or termination of these agreements. This could adversely affect our results of operation and cash flow.

During the years ended December 31, 2012, we entered into a limited number of FFAs and freight options on the Capesize and Panamax and Supramax indexes. We used these freight derivatives as an economic hedge to reduce the risk on specific vessels trading in the spot market, or to take advantage of short term fluctuations in the market prices. Our freight derivatives do not qualify as cash flow hedges for accounting purposes and therefore gains or losses are recognized in the accompanying consolidated statements of operations. FFAs are settled on a daily basis through London Clearing House and also include a margin maintenance requirement based on marking the contract to market. Freight options are treated as assets/liabilities until they are settled. During the years ended December 31, 2014, and December 31, 2013, we did not enter into FFAs and freight options and therefore we did not record any gain or loss from freight derivatives. During the year ended December 31, 2012, the gain on freight derivatives amounted to $0.04 million. As of the date of this report we have not any open position on freight derivatives.

Item 12. Description of Securities Other than Equity Securities

A. Debt securities

Not Applicable.

B. Warrants and rights

Not Applicable.

C. Other securities

Not Applicable.

D. American depository shares

Not Applicable.

PART II.

Item 13. Defaults, Dividend Arrearages and Delinquencies

See Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not Applicable.

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

As of December 31, 2014, our management (with the participation of our Chief Executive Officer and Co-Chief Financial Officers) conducted an evaluation pursuant to Rule 13a-15 and 15d-15 promulgated under the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the evaluation, our Chief Executive Officer and Co-Chief Financial Officers concluded that as of December 31, 2014, our disclosure controls and procedures, which include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to the management, including our Chief Executive Officer and Co-Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure, were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission.

(b) Management s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15 and 15d-15 under the Securities and Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Co-Chief Financial Officers, and carried out by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the consolidated financial statements.

Management has conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, (2013 Framework).

Based on this assessment, management has determined that our internal control over financial reporting as of December 31, 2014 is effective.

(c) Attestation Report of the Independent Registered Public Accounting Firm

The attestation report on the Company s internal control over financial reporting issued by the registered public accounting firm that audited the consolidated financial statements Ernst Young (Hellas) Certified Auditors Accountants S.A., appears under Item 18. Financial Statements of this annual report and is incorporated herein by reference.

(d) Changes in Internal Control over Financial Reporting

There were no other changes in our internal controls over financial reporting that occurred during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and the Co-Chief Financial Officers, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Further, in the design and evaluation of our disclosure controls and procedures our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Softeland, whose biographical details are included in Item 6. Directors and Senior Management, a member of our Audit Committee qualifies as a financial expert and is considered to be independent according to the Commission rules.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to our directors, officers and employees. A copy of our code of ethics is posted in the Corporate Governance section of Star Bulk Carriers Corp. website, and may be viewed at http://www.starbulk.com. We will also provide a hard copy of our code of ethics free of charge upon written request of a shareholder. Shareholders may direct their requests to the attention of Investor Relations, c/o Star Bulk Management Inc., 40 Agiou Konstantinou Str., Maroussi 15124, Athens, Greece.

Item 16C. Principal Accountant Fees and Services

The table below sets forth the total fees for the services performed by our principal accountants, Ernst & Young (Hellas) Certified Auditors Accountants S.A in 2014 and 2013, which we refer to as the Independent Registered Accounting Firms. This table below also identifies these amounts by category of services:

(In thousands of Dollars)	**2013**	**2014**
Audit fees	$581	$1,047
Audit-related fees	-	-
Tax fees	-	-
All other fees	-	-
Total fees	$581	$1,047

The Audit Committee is responsible for the appointment, replacement, compensation, evaluation and oversight of the work of the independent auditors. As part of this responsibility, the Audit Committee pre-approves the audit and non-audit services performed by the independent auditors in order to assure that they do not impair the auditor s independence from the Company. The Audit Committee has adopted a policy which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent auditors may be pre-approved.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On February 23, 2010, our board of directors adopted a stock repurchase plan for up to $30.0 million to be used for repurchasing our common shares until December 31, 2011. On August 10, 2011, our board of directors decided to

reinstate the share repurchase plan with the limitation of acquiring up to a maximum amount of $3.0 million worth of our shares, at a maximum price of $19.5 per share. On November 9, 2011, our board of directors extended the duration of the share repurchase plan until December 31, 2012.

The following table summarizes our repurchases of our ordinary shares per month during the year ended December 31, 2012:

	Total number of shares repurchased	**Average price paid per share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs**
January 2012	21,294	$ 14.25	0	$ 0
April 2012	27,103	$ 14.25	0	$ 0
June 2012	13,333	$ 10.95	0	$ 0
Total 2012	61,730	$ 13.8	0	$ 0

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During the years ended December 31, 2013 and 2014, there were no shares repurchased.

Item 16F. Change in Registrants Certifying Accountant

None.

Item 16G. Corporate Governance

As a foreign private issuer, we are permitted to follow home country practices in lieu of certain Nasdaq corporate governance requirements. We have certified to Nasdaq that our corporate governance practices are in compliance with, and are not prohibited by, the laws of the Republic of the Marshall Islands. We are exempt from many of Nasdaq s corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, submission of a listing agreement, notification of material non-compliance with Nasdaq corporate governance practices and the establishment and composition of an audit committee and a formal written audit committee charter. The practices we follow in lieu of Nasdaq s corporate governance requirements are as follows:

- While our board of directors is currently comprised of directors a majority of whom are independent, we cannot assure you that in the future we will have a majority of independent directors. Our board of directors does not hold annual meetings at which only independent directors are present.

- Consistent with Marshall Islands law requirements, in lieu of obtaining an independent review of related party transactions for conflicts of interests, our Bylaws require any director who has a potential conflict of interest to identify and declare the nature of the conflict to the board of directors at the next meeting of the board of directors. Our code of ethics and Bylaws additionally provide that related party transactions must be approved by a majority of the independent and disinterested directors. If the votes of such independent and disinterested directors are insufficient to constitute an act of the board of directors, then the related party transaction may be approved by a unanimous vote of the disinterested directors.

- In lieu of obtaining shareholder approval prior to the issuance of designated securities, we plan to obtain the approval of our board of directors for such share issuances.

- In lieu of an audit committee comprised of a minimum of three directors all of whom are independent and a compensation committee comprised solely of independent directors, our audit committee consists of three independent directors and our compensation committee consists of an executive director and two independent directors.

As a foreign private issuer, we are not required to solicit proxies or provide proxy statements to Nasdaq pursuant to Nasdaq corporate governance rules or Marshall Islands law. Consistent with Marshall Islands law and as provided in Bylaws, we will notify our shareholders of meetings between 15 and 60 days before the meeting. This notification will contain, among other things, information regarding business to be transacted at the meeting. In addition, our Bylaws provide that shareholders must give between 150 and 180 days advance notice to properly introduce any business at a meeting of the shareholders.

Other than as noted above, we are in full compliance with applicable Nasdaq corporate governance standard requirements for U.S. domestic issuers.

Item 16H. Mine Safety Disclosure

Not Applicable.

PART III.

Item 17. Financial Statements

See Item 18. Financial Statements.

Item 18. Financial Statements

The financial statements beginning on page F-1 together with the respective reports of the Independent Registered Public Accounting Firms are filed as part of this annual report.

Item 19. Exhibits

Exhibits Number	Description
1.1	Third Amended and Restated Articles of Incorporation of Star Bulk Carriers Corp. (included as Exhibit 1.1 of the Company s Form 6-K, which was filed with the Commission on October 15, 2012 and incorporated herein by reference).
1.2	Third Amended and Restated Bylaws of the Company
2.1	Form of Share Certificate
2.2	Base Indenture, dated as of November 6, 2014, between the Company and U.S. Bank National Association, as trustee (the Trustee) (included as Exhibit 4.1 to the Company s Current Report on Form 6-K, dated November 7, 2014 and incorporated herein by reference).
2.3	First Supplemental Indenture, dated as of November 6, 2014, between the Company and the Trustee (included as Exhibit 4.1 to the Company s Current Report on Form 6-K, dated November 7, 2014 and incorporated herein by reference).
4.1	Purchase Agreement, dated as of May 1, 2013, by and among Star Bulk Carriers Corp. and the purchasers named therein (included as Exhibit 99.1 of the Company s Schedule 13D, which was filed with the Commission on August 5, 2013 and incorporated herein by reference).
4.2	Amended and Restated Registration Rights Agreement dated July 11, 2014 (included as Annex B to Exhibit 99.1 to the Company s Current Report on Form 6-K, dated June 20, 2014 and incorporated herein by reference)

4.3	Amendment No.1 to Amended and Restated Registration Rights Agreement dated August 28, 2014 (included as Exhibit 99.2 to the Company s Current Report on Form 6-K, dated September 3, 2014 and incorporated herein by reference)
4.4	Agreement and Plan of Merger dated June 16, 2014 (included as Exhibit 99.2 to the Company s Current Report on Form 6-K, dated June 16, 2014 and incorporated herein by reference)
4.5	Oaktree Shareholders Agreement (included as Annex B to Exhibit 99.1 to the Company s Current Report on Form 6-K, dated June 20, 2014 and incorporated herein by reference)
4.6	Pappas Shareholder Agreement by and among the Company and the parties named therein dated July 11, 2014 (included as Exhibit 99.3 to the Company s Current Report on Form 6-K, dated June 16, 2014 and incorporated herein by reference)

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Exhibits Number	Description
4.7	Vessel Purchase Agreement by and among the Company, Excel and Christine Shipco Holdings Corp. dated August 19, 2014 (included as Exhibit 99.1 to the Company s Current Report on Form 6-K, dated September 3, 2014 and incorporated herein by reference)
4.8	Underwriting Agreement, dated October 30, 2014, between Star Bulk Carriers Corp. (the Company) and the underwriters named on Schedule I thereto. (included as Exhibit 1.1 to the Company s Current Report on Form 6-K, dated November 07, 2014 and incorporated herein by reference)
4.9	Underwriting Agreement, dated January 9, 2015, between Jefferies LLC and Morgan Stanley & Co. LLC, as representative of the other several underwriters listed in Schedule I thereto, and Star Bulk Carriers Corp. (included as Exhibit 1.1 to the Company s Current Report on Form 6-K, dated January 15, 2015 and incorporated herein by reference)
6.1	For earnings per share calculation, see Item 18. Financial Statements—Note 13.
8.1	For a list of all our subsidiaries, see Item 18. Financial Statements—Note 1 .
11.1	Code of Ethics
12.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
12.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
13.1	Certification of the Principal Executive Officer pursuant to 18 USC Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of the Principal Financial Officer pursuant to 18 USC Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Independent Registered Public Accounting Firm (Ernst & Young (Hellas) Certified Auditors Accountants S.A.)
101	The following materials from the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2014, formatted in Extensible Business Reporting Language (XBRL):

(i) Consolidated Balance Sheets as of December 31, 2013 and 2014;
(ii) Consolidated Statements of Operations for the years ended December 31, 2012, 2013 and 2014;
(iii) Consolidated Statements of Comprehensive Income/ (Loss) for the years ended December 31, 2012, 2013 and 2014;
(iv) Consolidated Statements of Shareholders Equity for the for the years ended December 31, 2012, 2013 and 2014;
(v)

Consolidated Statements of Cash Flows for the for the years ended December 31, 2012, 2013 and 2014; and

(vi) the Notes to Consolidated Financial Statements.

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SIGNATURES

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

		Star Bulk Carriers Corp. (Registrant)		
Date:	April 7, 2015	By:	/s/ Petros Pappas	
			Name:	Petros Pappas
			Title:	Chief Executive Officer

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STAR BULK CARRIERS CORP.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Star Bulk Carriers Corp.

We have audited the accompanying consolidated balance sheets of Star Bulk Carriers Corp. (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income / (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Star Bulk Carriers Corp. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Star Bulk Carriers Corp.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 7, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young (Hellas) Certified Auditors-Accountants S.A.

Athens, Greece

April 7, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Star Bulk Carriers Corp.

We have audited Star Bulk Carriers Corp.'s (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Star Bulk Carriers Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Star Bulk Carriers Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Star Bulk Carriers Corp. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income / (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014 of Star Bulk Carriers Corp. and our report dated April 7, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young (Hellas) Certified Auditors-Accountants S.A.

Athens, Greece

April 7, 2015

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STAR BULK CARRIERS CORP.

Consolidated Balance Sheets

As of December 31, 2013 and 2014

(Expressed in thousands of U.S. dollars except for share and per share data)

	2013	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$53,548	$86,000
Restricted cash, current (Note 9)	1,862	3,352
Trade accounts receivable, net	3,203	24,765
Inventories (Note 4)	1,726	14,368
Due from managers	81	81
Due from related parties (Note 3)	486	245
Other current assets	1,561	1,269
Prepaid expenses and other receivables	1,212	4,350
Total Current Assets	63,679	134,430
FIXED ASSETS		
Advances for vessels under construction and acquisition of vessels (Note 6)	67,932	454,612
Vessels and other fixed assets, net (Note 5)	326,674	1,441,851
Total Fixed Assets	394,606	1,896,463
OTHER NON-CURRENT ASSETS		
Long-term investment (Note 3)	—	634
Deferred finance charges, net	1,114	8,029
Restricted cash , non-current (Note 9)	620	10,620
Derivative asset (Note 19)	91	—
Fair value of above market acquired time charter (Note 7)	7,978	11,908
TOTAL ASSETS	$468,088	$2,062,084
LIABILITIES & STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current portion of long term debt (Note 9)	$18,286	$88,317
Excel Vessel Bridge Facility from related parties, current portion (Note 3 & Note 9)	—	8,168
Accounts payable	6,638	18,487
Advances from sale of vessel (Note 5)	—	1,100
Due to related parties (Note 3)	559	2,166
Accrued liabilities (Note 15)	3,501	13,738
Derivative liability, current (Note 19)	—	5,722
Deferred revenue	750	2,500
Total Current Liabilities	29,734	140,198
NON-CURRENT LIABILITIES		

8.00% 2019 Notes (Note 9)	—	50,000
Long term debt (Note 9)	172,048	667,315
Excel Vessel Bridge Facility from related parties, non current portion (Note 3 & Note 9)	—	47,993
Derivative liability, non-current (Note 19)	—	2,010
Other non-current liabilities	200	266
TOTAL LIABILITIES	201,982	907,782
COMMITMENTS & CONTINGENCIES (Note 17)	—	—
STOCKHOLDERS EQUITY		
Preferred Stock; $0.01 par value, authorized 25,000,000 shares; none issued or outstanding at December 31, 2013 and 2014 (Note 10)	—	—
Common Stock, $0.01 par value, 300,000,000 shares authorized; 29,059,671 and 109,426,236 shares issued and outstanding at December 31, 2013 and 2014, respectively (Note 10)	291	1,094
Additional paid in capital (Note 10)	668,219	1,567,713
Accumulated other comprehensive loss (Note 19)	—	(378)
Accumulated deficit	(402,404)	(414,127)
Total Stockholders Equity	266,106	1,154,302
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$468,088	$2,062,084

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

STAR BULK CARRIERS CORP.

Consolidated Statements of Operations

For the years ended December 31, 2012, 2013 and 2014

(Expressed in thousands of U.S. dollars except for share and per share data)

	2012	2013	2014
Revenues:			
Voyage revenues	$85,684	$68,296	$145,041
Management fee income (Note 3)	478	1,598	2,346
	86,162	69,894	147,387
Expenses			
Voyage expenses (Note 18)	19,598	7,549	42,341
Vessel operating expenses (Note 18)	27,832	27,087	53,096
Dry docking expenses	5,663	3,519	5,363
Depreciation	33,045	16,061	37,150
Management fees	—	—	158
General and administrative expenses	9,320	9,910	32,723
Bad debt expense	—	—	215
Vessels impairment loss (Note 5 and Note 19)	303,219	—	—
Gain on time charter agreement termination (Note 8)	(6,454)	—	—
Other operational loss (Note 12)	1,226	1,125	94
Other operational gain (Note 11)	(3,507)	(3,787)	(10,003)
Loss on sale of vessel (Note 5)	3,190	87	—
Gain from bargain purchase (Note 1)	—	—	(12,318)
	393,132	61,551	148,819
Operating (loss) / income	(306,970)	8,343	(1,432)
Other Income/ (Expenses):			
Interest and finance costs (Note 9)	(7,838)	(6,814)	(9,575)
Interest and other income	246	230	629
Gain / (Loss) on derivative financial instruments, net (Note 19)	41	91	(799)
Loss on debt extinguishment (Note 9)	—	—	(652)
Total other expenses, net	(7,551)	(6,493)	(10,397)
Income/(Loss) before equity in income of investee	(314,521)	1,850	(11,829)
Equity in income of investee (Note 3)	—	—	106
Net (loss) / income	$(314,521)	$1,850	$(11,723)
(Loss) / Earnings per share, basic and diluted (Note 13)	$(58.32)	$0.13	$(0.20)
Weighted average number of shares outstanding, basic (Note 13)	5,393,131	14,051,344	58,441,193
Weighted average number of shares outstanding, diluted (Note 13)	5,393,131	14,116,389	58,441,193

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

STAR BULK CARRIERS CORP.

Consolidated Statements of Comprehensive Income / (Loss)

For the years ended December 31, 2012, 2013 and 2014

(Expressed in thousands of U.S. dollars except for share and per share data)

	2012	2013	2014
Net (loss)/income	$(314,521)	$1,850	$(11,723)
Other comprehensive loss:			
Unrealized loss from hedging interest rate swaps recognized in Other comprehensive loss before reclassifications (Note 19)	—	—	(1,433)
Reclassification adjustments of interest rate swap loss transferred to Interest and finance costs (Note 19)	—	—	1,055
Other comprehensive loss:	—	—	(378)
Comprehensive (loss)/income	$(314,521)	$1,850	$(12,101)

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

STAR BULK CARRIERS CORP.

Consolidated Statements of Stockholders Equity

For the years ended December 31, 2012, 2013 and 2014

(Expressed in thousands of U.S. dollars except for share and per share data)

	Common Stock					
	# of Shares	Par Value	Additional Paid-in Capital	Other Comprehensive loss	Accumulated deficit	Total Stockholders Equity
BALANCE, January 1, 2012	5,357,224	$54	$520,261	$ —	$(86,102)	$434,213
Net loss for the year ended December 31, 2012	—	$—	$—	$ —	$(314,521)	$(314,521)
Issuance of vested and non-vested shares and amortization of stock-based compensation (Note 14)	105,316	1	1,545	—	—	1,546
Dividends declared and paid ($0.675 per share)	—	—	—	—	(3,631)	(3,631)
Repurchase and cancellation of common shares (Note 10)	(61,730)	(1)	(860)	—	—	(861)
BALANCE, December 31, 2012	5,400,810	$54	$520,946	$ —	$(404,254)	$116,746
Net income for the year ended December 31, 2013	—	$—	$—	$ —	$1,850	$1,850
Issuance of common stock (Note 10)	23,388,861	234	145,788	—	—	146,022
Issuance of vested and non-vested shares and amortization of stock-based compensation (Note 14)	270,000	3	1,485	—	—	1,488
BALANCE, December 31, 2013	29,059,671	$291	$668,219	$ —	$(402,404)	$266,106
Net loss for the year ended December 31, 2014	—	$—	$—	$ —	$(11,723)	$(11,723)
Accumulated other comprehensive loss	—	—	—	(378)	—	(378)
Issuance of common stock - Acquisition of 33% of Interchart (Note 10)	22,598	—	328	—	—	328
Issuance of vested and non-vested shares and amortization of stock-based compensation (Note 14)	580,342	5	5,829	—	—	5,834
Issuance of common stock Merger & Pappas Transaction (Note 1)	51,988,494	520	615,752	—	—	616,272
	2,115,706	21	25,058	—	—	25,079

Issuance of common stock Heron Transaction in escrow account (Note 1)						
Issuance of common stock Excel Transactions (Note 1)	25,659,425	257	252,527	—	—	252,784
BALANCE, December 31, 2014	109,426,236	$1,094	$1,567,713	$ (378)	$(414,127)	$1,154,302

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

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STAR BULK CARRIERS CORP.

Consolidated Statements of Cash Flows

For the years ended December 31, 2012, 2013 and 2014

(Expressed in thousands of U.S. dollars)

	2012	2013	2014
Cash Flows from Operating Activities:			
Net (loss) / income	$(314,521)	$1,850	$(11,723)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	33,045	16,061	37,150
Amortization of fair value of above market acquired time charters (Note 7)	6,369	6,352	6,113
Amortization of deferred finance charges (Note 9)	502	522	681
Loss on debt extinguishment (Note 9)	—	—	652
Vessels impairment loss (Note 19)	303,219	—	—
Loss on sale of vessel (Note 5)	3,190	87	—
Stock-based compensation (Note 14)	1,546	1,488	5,834
Change in fair value of derivatives (Note 19)	(82)	(91)	1,717
Other non-cash charges	67	38	66
Bad debt expense	—	—	215
Gain from insurance claim	(812)	(1,030)	(237)
Gain from bargain purchase (Note 1)	—	—	(12,318)
Write-off of liability in other operational gain (non cash gain) (Note 11)	—	—	(1,361)
Equity in income of investee (Note 3)	—	—	(106)
Changes in operating assets and liabilities:			
(Increase)/Decrease in:			
Restricted cash for forward freight and bunker derivatives	153	—	—
Trade accounts receivable	(1,207)	2,766	(16,057)
Inventories	254	1,887	(5,409)
Prepaid expenses and other current assets	(8,581)	(131)	(2,328)
Due from related parties	(147)	(339)	287
Due from managers	(11)	—	—
Increase/(Decrease) in:			
Accounts payable	(237)	(1,626)	1,995
Due to related parties	(174)	297	(449)
Accrued liabilities	(719)	350	6,713
Due to managers	(48)	—	—
Deferred revenue	(2,807)	(986)	1,384
Net cash provided by Operating Activities	18,999	27,495	12,819
Cash Flows from Investing Activities:			
Advances for vessels under construction and acquisition of vessels and other assets	(91)	(127,814)	(518,447)
Cash paid for above market acquired time charters (Note 7)	—	—	(4,856)
Cash proceeds from vessel sale (Note 5)	7,962	8,267	1,100

Long term investment (Note 3)	—	—	(200)
Cash received from Merger & Pappas Transaction (Note 1)	—	—	96,268
Hull and Machinery Insurance proceeds	6,983	4,265	550
Decrease in restricted cash	2,579	7,664	35
Increase in restricted cash	(195)	—	(11,525)
Net cash provided by / (used in) Investing Activities	17,238	(107,618)	(437,075)
Cash Flows from Financing Activities:			
Proceeds from bank loans and 8.00% 2019 Notes	—	—	637,207
Loan prepayments and repayments	(42,026)	(33,780)	(173,986)
Financing fees paid	(91)	(271)	(6,513)
Proceeds from issuance of common stock	—	150,905	—
Offering expenses paid related to the issuance of common stock	—	(4,883)	—
Repurchase of common shares	(861)	—	—
Cash dividend	(3,631)	—	—
Net cash (used in) / provided by Financing Activities	(46,609)	111,971	456,708
Net (decrease) / increase in cash and cash equivalents	(10,372)	31,848	32,452
Cash and cash equivalents at beginning of year	32,072	21,700	53,548
Cash and cash equivalents at end of the year	$21,700	$53,548	$86,000
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest, net of amount capitalized	7,612	6,156	5,803

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

STAR BULK CARRIERS CORP.
Notes to Consolidated Financial Statements
December 31, 2014
(Expressed in thousands of U.S. dollars – except share, per share data and scrap rates, unless otherwise stated)

1. Basis of Presentation and General Information:

The accompanying consolidated financial statements as of and for the years ended December 31, 2012, 2013 and 2014, include the accounts of Star Bulk Carriers Corp. (Star Bulk) and its wholly owned subsidiaries as set forth below (collectively, the Company).

Star Bulk was incorporated on December 13, 2006 under the laws of the Marshall Islands and maintains executive offices in Athens, Greece. The Company is engaged in the ocean transportation of dry bulk cargoes worldwide through the ownership and operation of dry bulk carrier vessels. Since December 3, 2007, Star Bulk shares trade on the NASDAQ Global Select Market under the ticker symbol SBLK.

On October 15, 2012, the Company effected a 15-for-1 reverse stock split on its issued and outstanding common stock (Note 10). All share and per share amounts disclosed in the accompanying financial statements give effect to this reverse stock split retroactively, for all periods presented.

The July 2014 Transactions

On July 11, 2014, the Company, as part of its growth strategy, completed a transaction that resulted in the acquisition of Oceanbulk Shipping LLC (Oceanbulk Shipping) and Oceanbulk Carriers LLC (Oceanbulk Carriers , and, together with Oceanbulk Shipping, Oceanbulk) from Oaktree Dry Bulk Holdings LLC (including affiliated funds, Oaktree) and Millennia Holdings LLC (Millennia Holdings , and together with Oaktree, the Oceanbulk Sellers or Sellers) through the merger of the Company s wholly-owned subsidiaries, Star Synergy LLC and Star Omas LLC, into Oceanbulk s holding companies (the Merger). At the time of the Merger, Oceanbulk owned and operated a fleet of 12 dry bulk carrier vessels and owned contracts for the construction of 25 newbuilding fuel-efficient Eco-type dry bulk vessels (two of which, *Peloreus* and *Leviathan* were delivered on July 22, 2014 and September 19, 2014, respectively) at shipyards in Japan and China. Millennia Holdings is an entity that is affiliated with the family of Mr. Petros Pappas, who became the Company s Chief Executive Officer in connection with the Merger.

The agreement governing the Merger, the Merger Agreement , also provided for the acquisition (the Heron Transaction) by the Company of two Kamsarmax vessels (the Heron Vessels), from Heron Ventures Ltd. (Heron), a limited liability company incorporated in Malta. Oceanbulk Shipping at the time had an outstanding loan receivable of

$23,680 from Heron that was convertible into 50% of the equity interests of Heron (the Heron Convertible Loan). The Heron Convertible Loan was converted into 50% of the equity of Heron on November 5, 2014. The Company issued 2,115,706 of its common shares into escrow as part of the consideration for the acquisition of the Heron Vessels. The common shares were released from escrow to the Sellers on January 30, 2015 (Note 20), following the transfer of the Heron Vessels to the Company on December 5, 2014 (Note 5). In addition to the issued shares, upon the delivery of the Heron vessels the Company paid $25,000 in cash, which was financed by the Heron Vessels Facility (described in Note 9p), which the Company had entered in November 2014.

In addition, concurrently with the Merger, the Company completed a transaction (the Pappas Transaction), in which it acquired all of the issued and outstanding shares of Dioriga Shipping Co. and Positive Shipping Company (collectively, the Pappas Companies), which were entities owned and controlled by affiliates of the family of Mr. Pappas. At the time of the Merger, the Pappas Companies owned and operated a dry bulk carrier vessel (*Tsu Ebisu*) and had a contract for the construction of a newbuilding dry bulk carrier vessel, HN 5016 (*Indomitable*), which was delivered on January 8, 2015 (Note 20). The Merger, the Heron Transaction and the Pappas Transaction are referred to, together, as the July 2014 Transactions .

A total of 54,104,200 of the Company s common shares were issued to the various selling parties in the July 2014 Transactions, consisting of 48,395,766 common shares consideration for the Merger with Oceanbulk, 3,592,728 common shares consideration for the acquisition of Pappas Companies and 2,115,706 common shares partial consideration for the acquisition of the Heron Vessels.

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1. Basis of Presentation and General Information – (continued):

The Merger and the Pappas Transaction have been reflected in the Company s consolidated financial statements for the year ended December 31, 2014, as purchases of businesses pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, *Business Combinations* , and the results of operations of Oceanbulk and the Pappas Companies have been included in the accompanying consolidated statement of operations for the year ended December 31, 2014 since July 11, 2014, the date the Merger and the Pappas Transaction were completed. The following table summarizes the estimated fair values of the significant assets acquired and liabilities assumed by the Company on the date of the acquisition with respect to the Merger and the Pappas Transaction:

	July 11, 2014
Assets	
Cash and cash equivalents	$89,887
Restricted cash	6,381
Other current assets	13,906
Advances for vessel acquisition and vessels under construction	316,786
Vessels	426,000
Fair value of above market acquired charters	1,967
Total Assets acquired	$854,927
Liabilities	
Current liabilities, excluding current portion of long term bank debt and derivative financial liabilities	12,372
Long-term debt, including current portion	208,237
Derivative financial liabilities	5,728
Total Liabilities assumed	$226,337
Net assets acquired	$628,590
Consideration paid in common shares for Oceanbulk and Pappas Companies (51,988,494 shares issued)	616,272
Gain from Bargain Purchase	$12,318

The purchase price allocation was prepared by the Company, assisted by a third party expert, based on management estimates and assumptions, making use of available market data and taking into consideration third party valuations. Major adjustments to record the acquired assets and assumed liabilities at fair value include:

(a) a $158,523 fair value adjustment recognized for vessels under construction, as supported by vessel valuations of independent shipbrokers on a fully delivered and charter free basis, through Level 2 of the fair value hierarchy based on observable inputs, prevailing in the sale and purchase market of similar vessels on June 23, 2014, which, according to the third party appraiser and management estimates and based on the then current market trends were not materially different from the values on July 11, 2014;

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1. Basis of Presentation and General Information – (continued):

(b) a $79,465 fair value adjustment recognized for vessels in operation, as supported by vessel valuations of independent shipbrokers on a charter free basis, through Level 2 of the fair value hierarchy based on observable inputs, prevailing in the sale and purchase market of similar vessels on June 23, 2014, which, according to the third party appraiser and management estimates and based on the then current market trends were not materially different from the values on July 11, 2014;

(c) a write-off of the Heron Convertible Loan of $23,680, as further discussed below, on the basis that no economic benefit is expected to be provided to the Company from Heron s liquidation process (other than the distribution of the Heron Vessels in exchange for separate consideration of 2,115,706 common shares and $25,000 in cash) with any distributable cash from the liquidation of Heron to be transferred to the former owners of Oceanbulk Shipping as further discussed in Note 17.2;

(d) a write-off of $3,003 deferred finance costs with respect to financing arrangements that, according to the third party appraiser and management estimates, are not expected to provide any ongoing benefit to the business;

(e) a $1,967 intangible asset recognized with respect to a fair value adjustment for two favorable charters under which Oceanbulk is the lessor, through Level 2 of the fair value hierarchy based on observable inputs, by comparing the discounted cash flows under the existing charters with those that could be obtained in the then current market by vessels of similar size and age for the remaining charter period. The respective intangible asset will be amortized on a straight-line basis over the remaining period of the time charters which are scheduled to end during the first and second quarter of 2016 (please refer to Note 7).

The fair value of the share consideration issued in the July 2014 Transactions was based on the average closing market price of $11.854 per share of the Company s common shares, as determined over a period of two trading days before and two trading days after, and inclusive, of July 11, 2014.

The resulting gain from bargain purchase from the acquisition of Oceanbulk and the Pappas Companies of $12,318 is separately presented in the accompanying consolidated statement of operations for the year ended December 31, 2014. The gain from bargain purchase is primarily attributable to the estimates of the fair value of the assets acquired and liabilities assumed and the subsequent stability or slightly declining market value of dry bulk carrier vessels since the signing of the agreements relating to the July 2014 Transactions, combined with the simultaneous decline in stock prices for most U.S. listed shipping companies, including Star Bulk, which have decreased by a greater amount than their net assets values.

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1. Basis of Presentation and General Information – (continued):

The following unaudited financial information reflects the results of operations of Oceanbulk and Pappas Companies since the acquisition date included in the Company s consolidated statement of operations for the year ended December 31, 2014:

	Oceanbulk	Pappas Companies
Voyage revenues	$ 39,585	$ 2,249
Operating income/(loss)	$ (645)	$ 111
Net loss	$ (4,822)	$ (213)

The following unaudited pro forma consolidated financial information reflects the results of operations for the years ended December 31, 2013 and 2014, as if the Merger and the Pappas Transaction had been consummated on January 1, 2013 and after giving effect to purchase accounting adjustments, including the nonrecurring pro forma reversal of: (i) the gain from bargain purchase of $12,318 in 2014; (ii) all acquisition-related transaction costs of $12,757 in 2014; and (iii) the interest expense of $1,412 in 2013 and $1,816 in 2014, with respect to the convertible loan owed by Oceanbulk to its members, which was converted into equity because of the Merger, as if the conversion had taken place on January 1, 2013. These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been, had the Merger and the Pappas Transaction actually taken place on January 1, 2013. In addition, these results are not intended to be a projection of future results and do not reflect any synergies that might be achieved from the combined operations:

	2,013	2,014
Pro forma revenues	$ 82,090	$ 177,654
Pro forma operating income / (loss)	$ (1,172)	$ (10,296)
Pro forma net loss	$ (10,604)	$ (24,075)
Pro forma loss per share, basic and diluted	$ (0.15)	$ (0.27)

The Heron Transaction has been reflected in the Company s consolidated financial statements for the year ended December 31, 2014, as a purchase of assets with the acquisition cost of the two Heron Vessels delivered on December 5, 2014, consisting of the value of the 2,115,706 common shares issued on July 11, 2014, of $25,080, and $25,000 in cash, financed by the Heron Vessels Facility (Note 17.2) being recorded within Vessels and other fixed assets, net in the accompanying consolidated balance sheets (Note 5). As discussed above, as part of the purchase price allocation as of July 11, 2014, the Company assigned zero value to the Heron Convertible Loan, as no economic benefit is expected to be provided to the Company from Heron s liquidation process (other than the distribution of the Heron Vessels, in exchange of the 2,115,706 common shares and $25,000 in cash payment, discussed above), since any distributable cash from the liquidation of Heron will be transferred to the former owners of Oceanbulk Shipping and

not to the Company as further discussed in Note 17.2 below.

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1. Basis of Presentation and General Information – (continued):

On September 5, 2014, Oceanbulk Shipping, which became, following the Merger a wholly owned subsidiary of Star Bulk, entered into a term sheet with ABY Group Holdings Limited (ABY Group) and Heron. The term sheet provided for the conversion of the Heron Convertible Loan. Among other things, the term sheet contained customary governance provisions and provisions relating to the liquidation of Heron following the conversion of the Heron Convertible Loan. Under the term sheet, Oceanbulk Shipping would receive as a distribution the vessels *ABYO Gwyneth* (renamed *Star Gwyneth*) and *ABYO Angelina* (renamed *Star Angelina*) (two Kamsarmax vessels of 82,790 dwt and 82,981 dwt, respectively), and ABY Group would receive, as a distribution, the *ABYO Audrey* (a Capesize vessel of 175,125 dwt) and the *ABYO Oprah* (a Kamsarmax vessel of 82,551 dwt). On November 5, 2014, the conversion of the Heron Convertible Loan into 50% of the equity interests of Heron was completed. However, such conversion did not affect the Company s financial statements since, as further discussed above and in Note 17.2, pursuant to the provisions of the Merger Agreement, the former owners of Oceanbulk will effectively remain the ultimate beneficial owners of Heron until Heron is dissolved and any distributable cash from the liquidation of Heron will be transferred to the former owners of Oceanbulk Shipping and not to the Company.

The Company incurred transaction costs and a stock based compensation expense relating to the July 2014 Transactions of $9,364 and $1,808, respectively, which are included in General and administrative expenses in the accompanying consolidated statement of operations for the year ended December 31, 2014.

The Excel Transactions

On August 19, 2014, the Company entered into definitive agreements with Excel Maritime Carriers Ltd. (Excel) pursuant to which (the Excel Transactions) the Company will acquire 34 operating dry bulk vessels, consisting of six Capesize vessels, 14 sistership Kamsarmax vessels, 12 Panamax vessels and two Handymax vessels (the Excel Vessels) for an aggregate consideration of 29,917,312 of its common shares (the Excel Vessel Share Consideration) and $288,391 in cash (Note 3).

The Excel Vessels are being transferred to the Company in a series of closings, on a vessel-by-vessel basis, in general upon reaching port after their current voyages and cargoes are discharged. As of December 31, 2014, 28 of the 34 Excel Vessels had been transferred to the Company, for aggregate consideration of 25,659,425 common shares and $248,751 of cash. With the exception of the *Ore Hansa* (tbr *Star Jennifer*), which the Company expects to receive in mid-April 2015, the Company completed the remaining Excel Vessels deliveries within the first quarter of 2015 (Note 20).

In the case of three Excel Vessels (*Christine* (tbr *Star Martha*), *Sandra* (tbr *Star Pauline*) and *Lowlands Beilun* (tbr *Star Despoina*)), which were transferred subject to existing charters, the Company acquired the outstanding equity interests of the vessel-owning subsidiaries that own those Excel Vessels (although all other assets and liabilities of such vessel-owning subsidiaries remained with Excel). The delivery of each Excel Vessel has been reflected in the Company s financial statements for the year ended December 31, 2014 as a purchase of assets.

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1. Basis of Presentation and General Information – (continued):

At the transfer of each Excel Vessel, the Company paid the cash and share consideration for such Excel Vessel to Excel. The Company used cash on hand, together with borrowings under (i) a $231,000 secured bridge loan facility (the Excel Vessel Bridge Facility) provided to the Company by Excel s majority equityholders, which are entities affiliated with Oaktree and entities affiliated with Angelo, Gordon & Co. (Angelo, Gordon), and (ii) other bank borrowings, to fund part of the cash consideration for the acquisition of the Excel Vessels (Notes 3 and 9). Excel used the cash consideration to cause an amount of outstanding indebtedness under its senior secured credit agreement to be repaid, such that all liens and obligations with respect to each transferred Excel Vessel were released upon its transfer to the Company.

Below is the list of the Company s wholly owned subsidiaries as of December 31, 2014:

Subsidiaries owning vessels in operation at December 31, 2014

	Wholly Owned Subsidiaries	**Vessel Name**	**DWT**	**Date Delivered to Star Bulk**	**Year Built**
1	Cape Ocean Maritime LLC	*Leviathan (1)*	182,511	September 19, 2014	2014
2	Cape Horizon Shipping LLC	*Peloreus (1)*	182,496	July 22, 2014	2014
3	OOCAPE1 Holdings LLC	*Obelix (1)*	181,433	July 11, 2014	2011
4	Sandra Shipco LLC	*Sandra (tbr Star Pauline) (2)*	180,274	December 29, 2014	2008
5	Christine Shipco LLC	*Christine (tbr Star Martha) (2)*	180,274	October 31, 2014	2010
6	Pacific Cape Shipping LLC	*Pantagruel (1)*	180,181	July 11, 2014	2004
7	Star Borealis LLC	*Star Borealis*	179,678	September 9, 2011	2011
8	Star Polaris LLC	*Star Polaris*	179,600	November 14, 2011	2011
9	Star Trident V LLC	*Star Angie (2)*	177,931	October 29, 2014	2007
10	Sky Cape Shipping LLC	*Big Fish (1)*	177,643	July 11, 2014	2004
11	Global Cape Shipping LLC	*Kymopolia (1)*	176,990	July 11, 2014	2006
12	Sea Cape Shipping LLC	*Big Bang (1)*	174,109	July 11, 2014	2007
13	Star Aurora LLC	*Star Aurora*	171,199	September 8, 2010	2000
14	Star Mega LLC	*Star Mega*	170,631	August 16, 2011	1994
15	Lowlands Beilun Shipco LLC	*Lowlands Beilun (tbr Star Despoina) (2)*	170,162	December 29, 2014	1999
16	Star Big LLC	*Star Big*	168,404	July 25, 2011	1996
17	Star Trident VII LLC	*Star Eleonora (2)*	164,218	December 3, 2014	2001
18	Nautical Shipping LLC	*Amami (1)*	98,681	July 11, 2014	2011
19	Majestic Shipping LLC	*Madredeus (1)*	98,681	July 11, 2014	2011
20	Star Sirius LLC	*Star Sirius*	98,681	March 7, 2014	2011
21	Star Vega LLC	*Star Vega*	98,681	February 13, 2014	2011
22	Star Alta II LLC	*Star Angelina (3)*	82,981	December 5, 2014	2006

23	Star Alta I LLC	*Star Gwyneth (3)*	82,790	December 5, 2014	2006
24	Star Trident I LLC	*Star Kamila* (2)	82,769	September 3, 2014	2005
25	Grain Shipping LLC	*Pendulum (1)*	82,619	July 11, 2014	2006
26	Star Trident XIX LLC	*Star Maria (2)*	82,598	November 5, 2014	2007
27	Star Trident XII LLC	*Star Markella (2)*	82,594	September 29, 2014	2007
28	Star Trident IX LLC	*Star Danai (2)*	82,574	October 21, 2014	2006
29	Star Trident XI LLC	*Star Georgia (2)*	82,298	October 14, 2014	2006
30	Star Trident VIII LLC	*Star Sophia (2)*	82,269	October 31, 2014	2007
31	Star Trident XVI LLC	*Star Mariella (2)*	82,266	September 19, 2014	2006
32	Star Trident XIV LLC	*Star Moira (2)*	82,257	November 19, 2014	2006
33	Star Trident X LLC	*Star Renee (2)*	82,221	December 18, 2014	2006
34	Star Trident II LLC	*Star Nasia (2)*	82,220	August 29, 2014	2006
35	Star Trident XIII LLC	*Star Laura (2)*	82,209	December 8, 2014	2006
36	Star Trident XVII LLC	*Star Helena (2)*	82,187	December 29, 2014	2006
37	Mineral Shipping LLC	*Mercurial Virgo (1)*	81,545	July 11, 2014	2013
38	KMSRX Holdings LLC	*Magnum Opus (1)*	81,022	July 11, 2014	2014
39	Dioriga Shipping Co.	*Tsu Ebisu (1)*	81,001	July 11, 2014	2014
40	Star Trident III LLC	*Star Iris (2)*	76,466	September 8, 2014	2004
41	Star Trident IV LLC	*Star Aline (2)*	76,429	September 4, 2014	2004
42	Star Trident XX LLC	*Star Emily (2)*	76,417	September 16, 2014	2004
43	Star Trident XXI LLC	*Star Christianna (2)*	74,577	October 6, 2014	1998
44	Star Trident XXII LLC	*Star Natalie (2)*	73,798	August 29, 2014	1998
45	Star Trident XXV LLC	*Star Vanessa (2)*	72,493	November 7, 2014	1999
46	Star Trident XXVII LLC	*Star Monika (2)*	71,504	October 10, 2014	1993
47	Star Trident XXVIII LLC	*Star Julia (2)*	70,083	December 22, 2014	1994
48	Star Trident XXIX LLC	*Star Tatianna (2)*	69,634	August 28, 2014	1993
49	Star Challenger I LLC	*Star Challenger*	61,462	December 12, 2013	2012
50	Star Challenger II LLC	*Star Fighter*	61,455	December 30, 2013	2013
51	Premier Voyage LLC	*Maiden Voyage (1)*	58,722	July 11, 2014	2012
52	Glory Supra Shipping LLC	*Strange Attractor (1)*	55,742	July 11, 2014	2006
53	Star Omicron LLC	*Star Omicron*	53,489	April 17, 2008	2005
54	Star Gamma LLC	*Star Gamma* (ex *C Duckling*)	53,098	January 4, 2008	2002
55	Star Zeta LLC	*Star Zeta* (ex I *Duckling*)	52,994	January 2, 2008	2003
56	Star Delta LLC	*Star Delta* (ex *F Duckling*)	52,434	January 2, 2008	2000
57	Star Theta LLC	*Star Theta* (ex *J Duckling*)	52,425	December 6, 2007	2003
58	Star Epsilon LLC	*Star Epsilon* (ex *G Duckling*)	52,402	December 3, 2007	2001
59	Star Cosmo LLC	*Star Cosmo*	52,246	July 1, 2008	2005
60	Star Kappa LLC	*Star Kappa* (ex *E Duckling*)	52,055	December 14, 2007	2001
61	Star Trident XXX LLC	*Star Michele* (2)	45,588	October 14, 2014	1998
62	Star Trident XXXI LLC	*Star Kim (2) (4)*	38,858	December 5, 2014	1994

(1) Vessels acquired pursuant to the Merger and the Pappas Transaction

(2) Vessels acquired pursuant to the Excel Transactions

(3) Vessels acquired from Heron

(4) This vessel was sold on December 17, 2014 and was delivered to her new owners on January 21, 2015.

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Subsidiaries owning newbuildings at December 31, 2014

	Wholly Owned Subsidiaries	Newbuildings Name	Type	DWT	Expected Delivery Date
1	Positive Shipping Company	HN 5016 (tbn *Indomitable) (Note 20)*	Capesize	182,160	January 2015
2	Aurelia Shipping LLC	HN NE 164 (tbn *Honey Badger) (Note 20)*	Ultramax	61,000	February 2015
3	Rainbow Maritime LLC	HN NE 165 *(tbn Wolverine) (Note 20)*	Ultramax	61,000	February 2015
4	Spring Shipping LLC	HN 1061 *(tbn Roberta)* (5) *(Note 20)*	Ultramax	64,000	March 2015
5	Orion Maritime LLC	HN 1063 *(tbn Idee Fixe)* (5) *(Note 20)*	Ultramax	64,000	March 2015
6	Pearl Shiptrade LLC	HN NE 166 *(tbn Gargantua) (Note 20)*	Newcastlemax	209,000	April 2015
7	Success Maritime LLC	HN 1062 *(tbn Laura)* (5)	Ultramax	64,000	April 2015
8	L.A. Cape Shipping LLC	HN 5017 *(tbn Deep Blue)*	Capesize	182,000	April 2015
9	Olympia Shiptrade LLC	HN 1312 *(tbn Bruno Marks)*	Capesize	180,000	May 2015
10	Ultra Shipping LLC	HN 1064 *(tbn Kaley)* (5)	Ultramax	64,000	May 2015
11	Star Asia I LLC	HN 5040 (tbn *Star Aquarius*)	Ultramax	60,000	May 2015
12	Sea Diamond Shipping LLC	HN NE 167 *(tbn Goliath)*	Newcastlemax	209,000	June 2015
13	Coral Cape Shipping LLC	HN NE 184 *(tbn Maharaj)*	Newcastlemax	209,000	July 2015
14	Victory Shipping LLC	HN 1313 *(tbn Jenmark)*	Capesize	180,000	July 2015
15	Blooming Navigation LLC	HN 1080 *(tbn Kennadi)*	Ultramax	64,000	July 2015
16	Star Asia II LLC	HN 5043 (tbn *Star Pisces*)	Ultramax	60,000	July 2015
17	Star Seeker LLC	HN 1372 (tbn *Star Libra*) (5)	Newcastlemax	208,000	August 2015
18	Jasmine Shipping LLC	HN 1081 *(tbn Mackenzie)*	Ultramax	64,000	August 2015
19	Cape Confidence Shipping LLC	HN 5055 *(tbn Behemoth)*	Capesize	182,000	September 2015
20	Star Cape I LLC	HN 1338 (tbn *Star Aries*)	Capesize	180,000	September 2015
21	Star Axe I LLC	HN NE 196 (tbn *Star Antares*)	Ultramax	61,000	September 2015
22	Oday Marine LLC	HN 1082 *(tbn Night Owl)*	Ultramax	64,000	October 2015
23	Clearwater Shipping LLC	HN 1359 (tbn *Star Marisa*) (5)	Newcastlemax	208,000	November 2015
24	Cape Runner Shipping LLC	HN 5056 *(tbn Megalodon)*	Capesize	182,000	November 2015
25	Searay Maritime LLC	HN 1083 *(tbn Early Bird)*	Ultramax	64,000	November 2015
26	Star Axe II LLC	HN NE 197 (tbn *Star Lutas*)	Ultramax	61,000	November 2015
27	Star Castle I LLC	HN 1342 (tbn *Star Gemini*)	Newcastlemax	208,000	January 2016
28	Star Cape II LLC	HN 1339 (tbn *Star Taurus*)	Capesize	180,000	January 2016
29	Domus Shipping LLC	HN 1360 (tbn *Star Ariadne*) (5)	Newcastlemax	208,000	February 2016
30	Star Breezer LLC	HN 1371 (tbn *Star Virgo*) (5)	Newcastlemax	208,000	February 2016
31	Star Ennea LLC	HN NE 198 (tbn *Star Poseidon*)	Newcastlemax	209,000	March 2016
32	Star Castle II LLC	HN 1343 (tbn *Star Leo*)	Newcastlemax	208,000	March 2016
33	Festive Shipping LLC	HN 1361 (tbn *Star Magnanimus*) (5)	Newcastlemax	208,000	May 2016
34	Gravity Shipping LLC	HN 1362 (tbn *Star Manticore*) (5)	Newcastlemax	208,000	June 2016
35	White Sand Shipping LLC	HN 1363 (tbn *Star Chaucer*) (5)	Newcastlemax	208,000	September 2016

(5) Subject to a bareboat capital lease (Note 6)

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1. Basis of Presentation and General Information – (continued):

Non-vessel owning subsidiaries at December 31, 2014

Wholly Owned Subsidiaries
Star Bulk Management Inc.
Starbulk S.A.
Star Bulk Manning LLC
Star Omas LLC (6)
Star Synergy LLC (6)
Oceanbulk Shipping LLC
Oceanbulk Carriers LLC
International Holdings LLC
Unity Holding LLC
Star Bulk (USA) LLC
Star Trident XXIII LLC (7)
Star Trident XXVI LLC (7)
Star Trident VI LLC (7)
Star Trident XVIII LLC (7)
Star Trident XV LLC (7)
Star Trident XXIV LLC (7)
Lamda LLC (8)
Star Alpha LLC (8)
Star Beta LLC (8)
Star Ypsilon LLC (8)

(6) Entities established to merge with the holding companies of Oceanbulk (please refer to Note 1)

(7) Entities established to acquire Excel Vessels which as of December 31, 2014, had not been delivered to the Company

(8) Owning companies of vessels which have been sold and currently have no operations

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1. Basis of Presentation and General Information – (continued):

Below is the list of the vessels which were under commercial and technical management by Star Bulk s wholly owned subsidiary, Starbulk S.A., during the year ended December 31, 2014. For each vessel, Starbulk S.A. received a fixed management fee of $0.75 per day.

Vessel Owning Company	Vessel Name	DWT	Effective Date of Management Agreement	Year Built
Global Cape Shipping LLC (9)	Kymopolia	176,990	January 30, 2014	2006
OOCAPE1 Holdings LLC (9)	Obelix	181,433	October 19, 2012	2011
Pacific Cape Shipping LLC (9)	Pantagruel	180,181	October 24, 2013	2004
Sea Cape Shipping LLC (9)	Big Bang	174,109	August 30, 2013	2007
Sky Cape Shipping LLC (9)	Big Fish	177,662	October 18, 2013	2004
Majestic Shipping LLC (9)	Madredeus	98,681	February 4, 2014	2011
Nautical Shipping LLC (9)	Amami	98,681	February 4, 2014	2011
Grain Shipping LLC (9)	Pendulum	82,619	February 17, 2014	2006
Mineral Shipping LLC (9)	Mercurial Virgo	81,545	February 17, 2014	2011
Adore Shipping Corp.	Renascentia(10)	74,732	June 20, 2013	1999
Hamon Shipping Inc	Marto (11)	74,470	August 2, 2013	2001
Glory Supra Shipping LLC (9)	Strange Attractor	55,742	September 24, 2013	2006
Premier Voyage LLC (9)	Maiden Voyage	58,722	September 28, 2012	2012
Serenity Maritime Inc.	Serenity I	53,688	June 11, 2011	2006

(9) These companies were subsidiaries of Oceanbulk and related parties to the Company (please refer to Note 3), which became wholly owned subsidiaries following the completion of the Merger on July 11, 2014, when the respective management agreements were terminated.

(10) On June 20, 2014, this vessel was sold and the management agreement between Starbulk S.A. and the previous owners was terminated. The Company received management fees for a period of two months following the termination date, in accordance with the terms of the management agreement.

(11) On July 3, 2014, the Company received a notice of termination of the management agreement for this vessel. The management agreement was terminated upon the vessel s delivery to its new managers, on August 20, 2014. The Company received management fees for a period of three months following the termination date, in accordance with the terms of the management agreement.

Charterers who individually accounted for more than 10% of the Company s voyage revenues during the years ended December 31, 2012, 2013 and 2014 are as follows:

Charterer 2012 2013 2014

A	14%	13%	12%
B	15%	3%	3%
C	28%	34%	12%
D	10%	6%	1%

The outstanding accounts receivable balance as at December 31, 2014 of these charterers was $248.

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2. Significant Accounting policies:

a) ***Principles of consolidation:*** The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), which include the accounts of Star Bulk and its wholly owned subsidiaries referred to in Note 1 above. All intercompany balances and transactions have been eliminated in the consolidation.
Star Bulk as the holding company determines whether it has controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity. Under ASC 810 Consolidation , a voting interest entity is an entity in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and make financial and operating decisions. Star Bulk consolidates voting interest entities in which it owns all, or at least a majority (generally, greater than 50%), of the voting interest.
A variable interest entity (VIE) is an entity as defined under ASC 810-10, which in general either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. A controlling financial interest in a VIE is present when a company absorbs a majority of an entity s expected losses, receives a majority of an entity s expected residual returns, or both. The company with a controlling financial interest, known as the primary beneficiary, is required to consolidate the VIE. The Company evaluates all arrangements that may include a variable interest in an entity to determine if it may be the primary beneficiary, and would be required to include assets, liabilities and operations of a VIE in its consolidated financial statements. As of December 31, 2012, 2013 and 2014, no such interest existed.

b) ***Equity method investments:*** Investments in the equity of entities over which the Company exercises significant influence, but does not exercise control are accounted for by the equity method of accounting. Under this method, the Company records such an investment at cost and adjusts the carrying amount for its share of the earnings or losses of the entity subsequent to the date of investment and reports the recognized earnings or losses in income. The Company also evaluates whether a loss in value of an investment that is other than a temporary decline should be recognized. Evidence of a loss in value might include absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. Dividends received reduce the carrying amount of the investment. When the Company s share of losses in an entity accounted for by the equity method equals or exceeds its interest in the entity, the Company does not recognize further losses, unless the Company has made advances, incurred obligations and made payments on behalf of the entity.

c) ***Use of estimates:*** The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the accompanying consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions or conditions.

d)

Comprehensive income/ (loss): The statement of comprehensive income / (loss) presents the change in equity (net assets) during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by shareholders and distributions to shareholders. Reclassification adjustments are presented out of accumulated other comprehensive income / (loss) on the face of the statement in which the components of other comprehensive income / (loss) are presented or in the notes to the financial statements. The Company follows the provisions of ASC 220 Comprehensive Income , and presents items of net income / (loss), items of other comprehensive income / (loss) (OCI) and total comprehensive income / (loss) in two separate and consecutive statements.

e) ***Concentration of credit risk:*** Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and cash equivalents and restricted cash, trade accounts receivable and derivative contracts (including freight derivatives, bunker derivatives and interest rate swaps). The Company s policy is to place cash and cash equivalents, and restricted cash with financial institutions evaluated as being creditworthy and are exposed to minimal interest rate and credit risk. The Company may be exposed to credit risk in the event of non-performance by counter parties to derivative instruments. To decrease this risk, the Company limits its exposure in over-the-counter transactions by diversifying among counter parties with high credit ratings, and selects freight derivatives, if any, that clear through the London Clearing House. The Company performs periodic evaluations of the relative credit standing of those financial institutions In addition the Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers financial condition.

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2. Significant Accounting policies – (continued):

f) ***Foreign currency transactions:*** The functional currency of the Company is the U.S. Dollar since its vessels operate in the international shipping markets, and therefore primarily transact business in U.S. Dollars. The Company s books of accounts are maintained in U.S. Dollars. Transactions involving other currencies during the period are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the consolidated balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are converted into U.S. Dollars at the period-end exchange rates. Resulting gains or losses are included in Interest and other income in the accompanying consolidated statements of operations.

g) ***Cash and cash equivalents:*** The Company considers highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents.

h) ***Restricted cash***: Restricted cash represents minimum cash deposits or cash collateral deposits required to be maintained with certain banks under the Company s borrowing arrangements, which are legally restricted as to withdrawal or use. In the event that the obligation to maintain such deposits is expected to be terminated within the next twelve months, these deposits are classified as current assets. Otherwise, they are classified as non-current assets.

i) ***Trade accounts receivable, net:*** The amount shown as trade accounts receivable, at each balance sheet date, includes estimated amounts recovered from each voyage or time charter net of any provision for doubtful debts. At each balance sheet date, the Company provides for doubtful accounts on the basis of specific identified doubtful receivables. As of December 31, 2013 and 2014, provision for doubtful receivables was nil.

j) ***Inventories:*** Inventories consist of consumable lubricants and bunkers, which are stated at the lower of cost or market value. Cost is determined by the first in, first out method.

k) ***Vessels, net:*** Vessels are stated at cost, which consists of the purchase price and any material expenses incurred upon acquisition, such as initial repairs, improvements, delivery expenses and other expenditures to prepare the vessel for her initial voyage. Any subsequent expenditure, when it does not extend the useful life of the vessel, increase the earning capacity or improve the efficiency or safety of the vessel, is expensed as incurred.

The cost of each of the Company s vessels is depreciated beginning when the vessel is ready for its intended use, on a straight-line basis over the vessel s remaining economic useful life, after considering the estimated residual value (vessel s residual value is equal to the product of its lightweight tonnage and estimated scrap rate per ton). Management estimates the useful life of the Company s vessels to be 25 years from the date of initial delivery from the shipyard. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its remaining useful life is adjusted at the date such regulations are adopted.

l) ***Advances for vessels under construction:*** Advances made to shipyards during construction periods are classified as Advances for vessels under construction and acquisition of vessels until the date of delivery and acceptance of the vessel, at which date they are reclassified to Vessels and other fixed assets, net . Advances for vessels under construction also include supervision costs, amounts paid under engineering contracts, capitalized interest and other expenses directly related to the construction of the vessel. Financing costs incurred during the construction period of the vessels are also capitalized and included in the vessels cost.

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2. Significant Accounting policies – (continued):

m) ***Fair value of above/below market acquired time charter:*** The Company values any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The value of above or below market acquired time charters is determined by comparing the existing charter rates in the acquired time charter agreements with the market rates for equivalent time charter agreements prevailing at the time the foregoing vessels are delivered. Such intangible asset or liability is recognized ratably as an adjustment to revenues over the remaining term of the assumed time charter.

n) ***Impairment of long-lived assets:*** The Company follows guidance related to Impairment or Disposal of long-lived assets which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The standard requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value. In this respect, management regularly reviews the carrying amount of the vessels on a vessel-by-vessel basis, when events and circumstances indicate that the carrying amount of the vessels might not be recoverable (such as vessel sales and purchases, business plans, obsolescence or damage to the asset and overall market conditions). When impairment indicators are present, the Company compares undiscounted cash flows to the carrying values of the Company s vessels to determine if the assets were impaired. In developing its estimates of future undiscounted cash flows, the Company makes assumptions and estimates about vessels future performance, with the significant assumptions being related to charter rates, ship operating expenses, vessels residual value, fleet utilization and the estimated remaining useful lives of the vessels, assumed to be 25 years from the delivery of the vessel from the shipyard. These assumptions are based on current market conditions and historical trends as well as future expectations. The projected net operating cash flows are being determined by considering the charter revenues from existing time charters for the fixed vessel days and an estimated daily time charter equivalent for the unfixed days over the estimated remaining economic life of each vessel, net of brokerage and address commission, expected outflows for scheduled vessel maintenance (dry-docking and special surveys) and vessel s operating expenses assuming an average annual inflation rate of 3% and fleet utilization of 98%. The salvage value used in the impairment test is estimated to be $200 per light weight ton (LWT), in accordance with the Company s vessel depreciation policy. Estimates of revenue are based on the current Forward Freight Agreements, or FFAs , rates for as long as they are available and historical average rates of similar size vessels for the period thereafter. If the Company s estimate of undiscounted future cash flows for any vessel is lower than the vessel s carrying value, the carrying value is written down to the vessel s fair market value with a charge recording in earnings.

As of December 31, 2013, the Company performed impairment review only for the two vessels *Star Aurora* and *Star Polaris*, whose carrying values were below their market values because: (i) during the year 2013, the BDI recovered to an annual average of 1,206, as compared to 920 in 2012; (ii) after the recognized impairment loss of $303.2 million in 2012 as described above, the carrying values of all the Company’s vessels had been adjusted in line with their market values; and (iii) events and circumstances indicated that, since Company’s latest performed impairment test of September 30, 2012, no adverse factors had occurred or were evidenced that could indicate that the carrying values of Company’s vessels may not be recoverable. For the impairment review of the *Star Aurora*

and *Star Polaris* the Company used the same framework for estimating projected undiscounted cash flow as described above. As a result of the improved market conditions, this analysis indicated that the carrying amount of the respective vessels was recoverable, and no asset impairment was necessary for the year ended December 31, 2013.

Due to continued global economic downturn and the prevailing conditions in the shipping industry, as of December 31, 2014, the Company performed an impairment analysis for 51 out of the Company's 62 vessels, whose carrying values were above their respective market values. Based on the analysis conducted under the same framework for estimating projected undiscounted cash flow as described above, the future undiscounted projected cash flows expected to be earned by each of these vessels over its operating life were in excess compared to each vessel's carrying value. No asset impairment was, therefore, necessary for the year ended December 31, 2014.

Although the Company believes that the assumptions used to evaluate potential impairment loss are based on historical trends and are reasonable and appropriate, such assumptions are highly subjective. In this respect the Company s analysis for the year ended December 31, 2014 also involved sensitivity tests to the model inputs that it considered as more important and likely to change. In particular, the Company modified the utilization ratio, reducing it from approximately 98% to approximately 92% under a worst case scenario, in order to illustrate the increased idle time of vessels under a weak market environment. The Company did not sensitize its model with regards to freight rate assumption for the unfixed vessels, as it considers the FFA rates as of December 31, 2014 to approximate historical low levels, hence fully reflect the conceivable downside scenario. It also deflated the budgeted operating expenses for the year 2015 so as to simulate the expected management s reaction under a low revenue environment.

o) ***Vessels held for sale:*** It is the Company s policy to dispose of vessels when suitable opportunities occur. The Company classifies a vessel as being held for sale when all of the following criteria, enumerated under ASC 360 Property, Plant, and Equipment , are met: (i) management has committed to a plan to sell the vessel; (ii) the vessel is available for immediate sale in its present condition; (iii) an active program to locate a buyer and other actions required to complete the plan to sell the vessel have been initiated; (iv) the sale of the vessel is probable, and transfer of the asset is expected to qualify for recognition as a completed sale within one year; (v) the vessel is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
Vessels classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. The resulting difference, if any, is recorded under Vessel impairment loss in the accompanying consolidated statement of operations. The vessels are not depreciated once they meet the criteria to be classified as held for sale. At December 31, 2013 and 2014, there were no vessels held for sale.

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2. Significant Accounting policies – (continued):

p) ***Financing costs:*** Fees paid to lenders or required to be paid to third parties on the lenders behalf for obtaining new loans, senior notes or for refinancing existing loans, are recorded as deferred charges. Deferred charges are expensed as interest and finance costs using the effective interest rate method over the duration of the relevant loan facility. Any unamortized balance of costs relating to loans repaid or refinanced is expensed in the period in which the repayment or refinancing is made, subject to the guidance regarding *Debt Extinguishment*. Any unamortized balance of costs related to credit facilities repaid is expensed in the period. Any unamortized balance of costs relating to credit facilities refinanced is deferred and amortized over the term of the relevant credit facility in the period in which the refinancing occurs.

q) ***Pension indemnities:*** Administrative employees are covered by state-sponsored pension funds of Greece. Both employees and the Company are required to contribute a portion of the employees gross salary to the fund. The related expense is recorded under General and administrative expenses in the accompanying consolidated statements of operations and the corresponding liability at each period end is reflected within Accounts payable in the accompanying consolidated balance sheets. Upon retirement, the state-sponsored pension funds are responsible for paying the employees retirement benefits without recourse to the Company.

r) ***Stock incentive plan awards:*** Stock based compensation represents the cost of vested and non-vested shares granted to employees and to directors, for their services, and is included in General and administrative expenses in the consolidated statements of operations. These shares are measured at their fair value equal to the market value of the Company s common stock on the grant date. The shares that do not contain any future service vesting conditions are considered vested shares and the total fair value of such shares is expensed on the grant date. Guidance related to stock compensation describes two generally accepted methods of recognizing expense for non-vested share awards with a graded vesting schedule for financial reporting purposes: 1) the accelerated method , which treats an award with multiple vesting dates as multiple awards and results in a front-loading of the costs of the award and 2) the straight-line method which treats such awards as a single award and results in recognition of the cost ratably over the entire vesting period. The shares that contain a time-based service vesting condition are considered non-vested shares on the grant date and a total fair value of such shares is recognized using the accelerated method.

s) ***Dry docking and special survey expenses:*** Dry docking and special survey expenses are expensed when incurred.

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2. Significant Accounting policies – (continued):

t) ***Accounting for revenue and related expenses:*** The Company generates its revenues from charterers for the charterhire of its vessels under time charter agreements, where a contract is entered into for the use of a vessel for a specific period of time and a specified daily charterhire rate, or voyage charter agreements, where a contract is made in the spot market for the use of a vessel for a specific voyage at a specified charter rate.

Under time charter agreements, voyage costs, such as fuel and port charges are borne and paid by the charterer. Company s time charter agreements are classified as operating leases. Revenues under operating lease arrangements are recognized when a charter agreement exists, the charter rate is fixed and determinable, the vessel is made available to the lessee and collection of the related revenue is reasonably assured. Revenues are recognized ratably on a straight line basis over the period of the respective charter agreement in accordance with guidance related to leases.

Revenue from voyage charter agreements is recognized on a pro-rata basis over the duration of the voyage. Under voyage charter agreements, all voyage costs are borne and paid by the Company. Demurrage income, which is included in voyage revenues, represents payments by the charterer to the vessel owner when loading or discharging time exceeds the stipulated time in the voyage charter agreements and is recognized when an arrangement exists, services have been performed, the amount is fixed or determinable and collection is reasonably assured. Deferred revenue includes cash received prior to the balance sheet date and is related to revenue to be earned after such date. The portion of the deferred revenue that will be earned within the next twelve months is classified as current liability and the remaining (if any) as long term liability.

Vessel operating expenses include crew wages and related costs, the cost of insurance and vessel registry, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes, regulatory fees, technical management fees and other miscellaneous expenses. Payments in advance for services are recorded as prepaid expenses.

Voyage expenses consist of bunker consumption, port expenses and agency fees related to the voyage. In addition, voyage expenses include expenses related to the charter-in of vessels owned by third parties, whenever this is applicable. Such expenses are recognized on a pro-rata basis over the duration of the voyage.

Brokerage commissions are paid by the Company. Brokerage commissions are recognized over the related charter period and included in voyage expenses. Voyage expenses and vessel operating expenses are recognized as incurred.

u) ***Fair value measurements:*** The Company follows the provisions of ASC 820 Fair Value Measurements and Disclosures that defines and provides guidance as to the measurement of fair value. ASC 820 creates a hierarchy of measurement and indicates that, when possible, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets and the lowest priority (Level 3) to unobservable data, for example, the reporting entity s own data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy (Note 19).

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2. Significant Accounting policies – (continued):

v) ***Earnings/ (loss) per share*****:** Earnings or loss per share are computed in accordance with guidance related to Earnings per Share. Basic earnings or loss per share are calculated by dividing net income or loss available to common shareholders by the basic weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution assuming that common shares were issued for the exercise of outstanding in-the-money warrants and non-vested shares and the hypothetical proceeds, including proceeds from warrant exercise and average unrecognized stock-based compensation cost thereof, were used to purchase common shares at the average market price during the period such warrants and non-vested shares were outstanding (Note 13).

w) ***Segment reporting:*** The Company has determined that it operates under one reportable segment relating to its operations of dry bulk vessels. The Company reports financial information and evaluates its operations and operating results by total charter revenues and not by the type of vessel, length of vessel employment, customer or type of charter. As a result, management, including the Chief Operating Officer, who is the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet, and thus, the Company has determined that it operates under one reportable segment. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide, subject to restrictions as per the charter agreement, and, as a result, the disclosure of geographic information is impracticable.

x) **Accounting for leases**: Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line method over the lease term. Leases that meet the criteria for capital lease classification under ASC 840 Leases are classified as capital leases. As of December 31, 2014 the Company was the lessee under certain capital lease arrangements as further disclosed in Note 6. As of December 31, 2014, the Company held no operating lease arrangements acting as lessee other than its office leases.

y) **Derivatives**: The Company enters into derivative financial instruments to manage risk related to fluctuations of interest rates. In case the instruments are eligible for hedge accounting, at the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy undertaken for the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument s effectiveness in offsetting exposure to changes in the hedged item s cash flows attributable to the hedged risk. A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that could affect profit or loss. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed at each reporting date to determine whether they actually have been highly effective throughout the financial reporting periods for which they were designated. All derivatives are recorded on the balance sheet as assets or liabilities and are measured at fair value. For derivatives designated as cash flow hedges, the effective portion of the changes in their fair value is recorded in Accumulated other comprehensive income / (loss) and is subsequently recognized in earnings, under Interest and finance costs when the hedged items impact earnings, while the ineffective portion, if any, is recognized immediately in current period earnings under Gain / (Loss) on derivative financial instruments, net .

The changes in the fair value of derivatives not qualifying for hedge accounting are recognized in earnings. The Company discontinues cash flow hedge accounting if the hedging instrument expires or is sold, terminated or exercised and it no longer meets all the criteria for hedge accounting or if the Company de-designates the instrument as a cash flow hedge. At that time, any cumulative gain or loss on the hedging instrument recognized in equity remains in equity until the forecasted transaction occurs or until it becomes probable of not occurring. When the forecasted transaction occurs, any cumulative gain or loss on the hedging instrument is recognized in earnings. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is reclassified to earnings for the year. Following the hedging designations made during the third quarter of 2014 (Note 19), all of the Company s interest rates swaps effective as of December 31, 2014 have been designated as accounting hedges. No hedge accounting was applied in prior periods.

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2. Significant Accounting policies – (continued):

z) Recent accounting pronouncements:

Revenue from Contracts with Customers: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principles-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. ASU 2014-09 will also require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early application is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Presently, the Company is assessing what effect the adoption of ASU 2014-09 will have on its financial statements and accompanying notes.

Presentation of Financial Statements – Going Concern: In August 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern*. ASU 2014-15 provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and on related required footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2014-15 is applicable to all entities and is effective for annual reporting periods ending after December 15, 2016 and for annual and interim reporting periods thereafter. Early application is permitted. Presently, the Company is assessing what effect the adoption of ASU 2014-15 will have on its financial statements and accompanying notes.

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3. Transactions with Related Parties:

Transactions and balances with related parties are analyzed as follows:

Balance Sheet

	2013	2014
Assets		
Combine Marine Ltd (c)	$1	$—
Oceanbulk Maritime S.A. and its affiliates (d)	9	241
Managed Vessels of Oceanbulk Shipping (e)	420	—
Product Shipping & Trading S.A. (f)	56	4
Total Assets	$486	$245
Liabilities		
Interchart Shipping Inc. (a)	$58	$6
Management and Directors Fees (b)	111	462
Managed Vessels of Oceanbulk Shipping LLC (e)	—	9
Oceanbulk Sellers (Note 17.2)	390	1,689
Total Liabilities	$559	$2,166

Excel Vessel Bridge Facility outstanding balance

	2013	2014
Excel Vessel Bridge Facility – current portion (i)	$—	$8,168
Excel Vessel Bridge Facility – non current portion (i)	—	47,993
Total Excel Vessel Bridge Facility	$—	$56,161

Capitalized Expenses

	2013	2014
Advances for vessels under construction and acquisition of vessels		
Oceanbulk Maritime S.A.- commision fee for newbuilding vessels (d)	$519	$1,038

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3. Transactions with Related Parties – (continued):

Statements of Operations

	2012	2013	2014
Commission on sale of vessel-Oceanbulk (d)	$(91)	$(90)	$—
Executive directors consultancy fees (b)	(453)	(528)	(1,516)
Non-executive directors compensation (b)	(124)	(114)	(191)
Office rent - Combine Marine Ltd. (c)	(40)	(41)	(42)
Voyage expenses-Interchart (a)	(1,134)	(773)	(1,997)
Management fee expense - Oceanbulk Maritime S.A. (d)	—	—	(158)
Interest on Excel Vessel Bridge Facility (i)	—	—	(1,659)
Management fee income - Oceanbulk Maritime S.A. (d)	—	—	188
Management fee income - Managed Vessels of Oceanbulk Shipping LLC (e)	204	823	1,390
Management fee income Product Shipping & Trading S.A. (f)	—	242	62

(a) **Interchart Shipping Inc. or Interchart:** On February 25, 2014, the Company acquired 33% of the total outstanding common stock of Interchart for total consideration of $200 in cash and 22,598 of the Company s common shares. The common shares were issued on April 1, 2014, and the fair value per share of $14.51 was determined by reference to the per share closing price of the Company s common shares on the issuance date. The ownership interest was purchased from an entity affiliated with family members of Company s Chief Executive Officer, including the Company s former director Mrs. Milena-Maria Pappas. This transaction is accounted for as an equity method investment.

On February 25, 2014, the Company also entered into a services agreement (the Services Agreement) with Interchart, for chartering, brokering and commercial services for all the Company s vessels for an annual fee of €500,000 ($610, using the exchange rate as of December 31, 2014, which was $1.22 per euro). This fee is adjustable for changes in the Company s fleet pursuant to the terms of the Services Agreement. Before the Services Agreement, Interchart acted as chartering broker of all the Company s vessels on an agreed upon basis. Under the Services Agreement, all previously agreed upon brokerage commissions due to Interchart were cancelled retroactively from January 1, 2014.

In November 2014, the Company entered into a new services agreement with Interchart for chartering, brokering and commercial services for all of the Company s vessels for a monthly fee of $275, with a term until March 31, 2015. The agreement is effective from October 1, 2014, and on the same date the previous agreement dated February 25, 2014, was terminated.

During the years ended December 31, 2012, 2013 and 2014 the brokerage commissions charged by Interchart were $1,134, $773 and $1,997, respectively, and are included in Voyage expenses in the accompanying consolidated statements of operations. As of December 31, 2013 and 2014, the Company had outstanding payables of $58 and $6, respectively, to Interchart.

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3. Transactions with Related Parties – (continued):

(b) **Management and Directors Fees:** During 2011 the Company entered into consulting agreements with companies owned and controlled by each of the then Chief Executive Officer, Chief Financial Officer and Chief Operating Officer. These agreements had a term of three years unless terminated earlier in accordance with their terms, except for the consultancy agreement with the entity controlled by the Company s then Chief Operating Officer which provided for an indefinite term (terminable by either party with one month s notice). In addition, on May 3, 2013, the Company entered into separate renewal consulting agreements with the companies controlled by the Company s then Chief Executive Officer and Chief Financial Officer. Additionally, pursuant to the aforementioned agreements, the entities controlled by the Company s then Chief Executive Officer and Chief Financial Officer were entitled to receive an annual discretionary bonus, as determined by the Company s Board of Directors in its sole discretion. Finally, the entity controlled by the then Chief Executive Officer was entitled to receive a minimum guaranteed incentive award of 28,000 shares of common stock. These shares vested in three equal annual installments, the first installment of 9,333 shares vested on February 7, 2012, the second installment of 9,333 shares vested on February 7, 2013 and the last installment of 9,334 shares vested on February 7, 2014. The minimum guaranteed incentive award of 28,000 shares of the Company s stock was also renewed as part of the renewal of the consultancy agreement incurred between the Company and the company controlled by the former Chief Executive Officer with the new shares vesting in three equal annual installments, the first installment of 9,333 shares vested on May 3, 2014, the second installment of 9,333 shares vests on May 3, 2015 and the last installment of 9,334 shares vests on May 3, 2016.

In connection with the July 2014 Transactions, the Company s former Chief Executive Officer resigned as Chief Executive Officer and remains with the Company as Non-Executive Chairman. On July 31, 2014, the Company entered into an agreement to terminate the consultancy agreement with the company owned by the former Chief Executive Officer and made a severance payment of €664,000 (approx. $810.1, using the exchange rate as of December 31, 2014, which was $1.22 per euro) of cash and 168,842 common shares, which were issued on the same date. As a result of the termination agreement, the second and the third installments of the former Chief Executive Officer s minimum guaranteed incentive award, under his renewed consultancy agreement, of 9,333 and 9,334, which would have been vested on May 3, 2015 and 2016, respectively, were cancelled. In addition, in connection with the July 2014 Transactions, the then Chief Operating Officer of the Company was appointed as Company s Executive Vice President-Technical.

Following the completion of the Merger, on December 17, 2014, the Company entered into consulting agreements with companies owned and controlled by each of the new Chief Operating Officer and the new co-Chief Financial Officer. These agreements have a term of three years unless terminated earlier in accordance with their terms. Pursuant to the corresponding agreements, the entities controlled by the new Chief Operating Officer and the new co-Chief Financial Officer are entitled to receive an annual discretionary bonus, as determined by the Company s Board of Directors in its sole discretion.

Pursuant to all aforementioned agreements, effective as of December 31, 2014, the Company is required to pay an aggregate base fee at an annual rate of not less than $492 (this amount is the sum of all consulting fees in USD and EURO, using the exchange rate as of December 31, 2014, which was $1.22 per euro), under the relevant consultancy agreements, using the exchange rate as of December 31, 2014, which was $ 1.22 per euro).

The expenses related to the Company s executive officers for the years ended December 31, 2012, 2013 and 2014, including the severance cash payment in 2014 to the Company s former Chief Executive Officer were $453, $528 and $1,516, respectively, and are included under General and administrative expenses in the accompanying consolidated statements of operations. The related expenses of non-executive directors for the years ended December 31, 2012, 2013 and 2014 were $124, $114 and $191, respectively, and are included under General and administrative expenses in the accompanying consolidated statements of operations. As of December 31, 2013 and 2014, the Company had outstanding payables of $111 and $462, respectively, to its executive officers and directors and non-executive directors, representing unpaid consulting fees and unpaid fees for their participation in the Board of Directors of the Company and the other special committees of the Board of Directors.

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3. Transactions with Related Parties – (continued):

(c) **Combine Marine Ltd.:** On January 1, 2012, Starbulk S.A., entered into a one year lease agreement for office space with Combine Marine Ltd., a company controlled by one of the then Company s directors, Mrs. Milena - Maria Pappas and by Mr. Alexandros Pappas, both of whom are children of Mr. Petros Pappas, the Company s current Chief Executive Officer and then Company s Chairman. The lease agreement provides for a monthly rental of €2,500 (approximately $3, using the exchange rate as of December 31, 2014, which was $1.22 per euro). On January 1, 2013, the agreement was renewed, and, unless terminated by either party, it will expire in January 2024. The related expense for the rent for the years ended December 31, 2012, 2013 and 2014 was $40, $41 and $42, respectively, and is included under General and Administrative expenses in the accompanying consolidated statements of operations. As of December 31, 2013 and 2014, the Company had outstanding receivables of $1 and $0, respectively, from Combine Marine Ltd.

(d) **Oceanbulk Maritime S.A.:** Oceanbulk Maritime S.A. (Oceanbulk Maritime) is a ship management company controlled by the Company s former director Mrs. Milena-Maria Pappas. During the years ended December 31, 2012, 2013 and 2014, the Company paid to Oceanbulk Maritime a brokerage commission of $91, $90 and $0 relating to the sale of certain of its vessels.

On November 25, 2013, the Company s Board of Directors approved a commission payable to Oceanbulk Maritime with respect to its involvement in the negotiations with the shipyards for nine of the Company s contracted newbuilding vessels (Note 6). The agreement provides for a commission of 0.5% of the shipbuilding contract price for two newbuilding Capesize vessels (HN 1338 (tbn *Star Aries*) and HN 1339 (*Star Taurus*)) and three newbuilding Newcastlemax vessels (HN 1342 (tbn *Star Gemini*), HN 1343 (tbn *Star Leo*) and HN NE 198 (tbn *Star Poseidon*)) and a flat fee of $200 per vessel for four newbuilding Ultramax vessels (HN 5040 (tbn *Star Aquarius*), HN 5043 (tbn *Star Pisces*), HN NE 196 (tbn *Star Antares*) and HN NE 197 (tbn *Star Lutas*)), for a total commission of $2,077. The commission was agreed to be paid in four equal installments. The first two installments were paid in cash, while the remaining two installments will be paid in the form of common shares, the number of which will depend on the price of the Company s common shares on the date of the two remaining installments. The first and the second installments of $519, each, were paid in cash in December 2013 and in April 2014, respectively. The total amount of $1,038 was capitalized and is included under Advances for vessel under construction and acquisition of vessels in the accompanying consolidated balance sheets. The last two installments are due in June 2015 and in April 2016, respectively.

On March 22, 2014, Starbulk S.A. entered into an agreement with Oceanbulk Maritime, under which certain management services, including crewing, purchasing, arranging insurance, vessel telecommunications and master general accounts supervision, are provided to six dry bulk vessels under the management of Oceanbulk Maritime, during the year 2014. Pursuant to the terms of this agreement, Starbulk S.A. received a fixed management fee of $0.17 per day, per vessel, which as of June 1, 2014, was changed to $0.11 per day, per vessel, based on an addendum signed on May 22, 2014.

As of December 31, 2014, the Company provided management services to four dry bulk carrier vessels covered by the March 22, 2014 agreement with Oceanbulk Maritime. The related income for the year ended December 31,

2014, was $188 and is included under Management fee income in the accompanying consolidated statement of operations.

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3. Transactions with Related Parties – (continued):

(d) Oceanbulk Maritime S.A. – (continued):

In addition, prior to the Merger, Oceanbulk and the Pappas Companies had entered into a management agreement with Oceanbulk Maritime and its affiliates pursuant to which Oceanbulk Maritime provided commercial and administrative services to Oceanbulk and the Pappas Companies. Following the completion of the Merger on July 11, 2014, this management agreement with Oceanbulk Maritime was terminated.

Following the completion of the Merger and the Pappas Transaction, the Company owns the vessels *Magnum Opus* and *Tsu Ebisu*, which were managed by Oceanbulk Maritime prior to the Merger and continued to be managed by Oceanbulk Maritime after the Merger, until September and August 2014, respectively.

The related expense for the year ended December 31, 2014, was $158 and is included under Management fee expense in the accompanying consolidated statement of operations. Oceanbulk Maritime has provided performance guarantees under the bareboat charter agreements relating to the newbuilding vessels with hull numbers HN 1061 (tbn *Roberta*), HN 1062 (tbn *Laura*), HN 1063 (tbn *Idee Fixe*) and HN 1064 (tbn *Kaley*) discussed in Note 6. In addition, Oceanbulk Maritime has also provided performance guarantees under the shipbuilding contracts for the newbuilding vessels with hull numbers, HN 5017-JMU (tbn *Deep Blue*), HN 5055-JMU (tbn *Bahemoth*), HN 5056-JMU (tbn *Megalodon*), HN NE164-NACKS (tbn *Honey Badger*), HN NE165-NACKS (tbn *Wolverine*), HN NE166-NACKS (tbn *Gargantua*), HN NE167-NACKS (tbn *Goliath*) and HN NE184-NACKS (tbn *Maharaj*), discussed in Note 6. Prior to the Merger, all of the performance guarantees were counter-guaranteed by Oceanbulk Shipping. Following the completion of the Merger, on September 20, 2014 Star Bulk provided counter-guarantees to Oceanbulk Maritime in exchange for the counter-guarantees provided by Oceanbulk Shipping.

As of December 31, 2013 and 2014, the Company had outstanding receivables of $9 and $241 from Oceanbulk Maritime and its affiliates, respectively.

(e) **Managed vessels of Oceanbulk Shipping:** Prior to the Merger, Starbulk S.A. had entered into vessel management agreements with certain ship-owning companies owned and controlled by Oceanbulk Shipping (Note 1). Pursuant to the terms of these agreements, Starbulk S.A. received a fixed management fee of $0.75 per day, per vessel. These management agreements were terminated on July 11, 2014, the date the Merger closed. The related income for the years ended December 31, 2012, 2013 and 2014, was $204, $823 and $1,390, respectively, and is included under Management fee income in the accompanying consolidated statements of operations. As of December 31, 2013, the Company had an outstanding receivable of $420 from and outstanding payable of $390 to these entities. As of December 31, 2014, the Company had an outstanding payable of $9 to Maiden Voyage LLC, previous owner of the vessel *Maiden Voyage,* one of the vessels of Oceanbulk Shipping.

(f) **Product Shipping & Trading S.A.:** Product Shipping & Trading S.A. is an entity controlled by family members of the Company s ex-Chairman and current Chief Executive Officer, Mr. Petros Pappas. On June 7, 2013, Starbulk

S.A. entered into an agreement with Product Shipping & Trading S.A., under which the Company provided certain management services including crewing, purchasing and arranging insurance to the vessels under the management of Product Shipping & Trading S.A. Pursuant to the terms of this agreement, Starbulk S.A. received a fixed management fee of $0.13 per day, per vessel. In October, 2013 the Company decided to gradually cease providing the above mentioned services to the vessels managed by Product Shipping & Trading S.A., except for arranging insurance services, and as a result, the management fee decreased to $0.02 per day, per vessel, and effective July 1, 2014, the agreement was terminated. The related income for the years ended December 31, 2013 and 2014 was $242 and $62, respectively, and is included under Management fee income in the accompanying consolidated statement of operations. As of December 31, 2013 and 2014, the Company had outstanding receivables of $56 and $4, respectively, from Product Shipping & Trading S.A.

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3. Transactions with Related Parties – (continued):

(g) **Oaktree Shareholder Agreement**: As a result of the Merger, on July 11, 2014, Oaktree became the beneficial owner of approximately 61.3% of the Company s then outstanding common shares. At the closing of the July 2014 Transactions, the Company and Oaktree entered into a shareholders agreement (the Oaktree Shareholders Agreement). Under the Oaktree Shareholders Agreement, Oaktree has the right to nominate four of the Company s nine directors so long as it beneficially owns 40% or more of the Company s outstanding voting securities. The number of directors able to be designated by Oaktree is reduced to three directors if Oaktree beneficially owns 25% or more but less than 40% of the Company s outstanding voting securities, to two directors if Oaktree beneficially owns 15% or more but less than 25%, and to one director if Oaktree beneficially owns 5% or more but less than 15%. Oaktree s designation rights terminate if it beneficially owns less than 5% of the Company s outstanding voting securities. Therefore, in July 2014 and in connection with the July 2014 Transactions, the Company s Board of Directors, increased the number of directors constituting the Board of Directors to nine and, following the resignation of Mrs. Milena - Maria Pappas, appointed Mr. Rajath Shourie, Ms. Emily Stephens, Ms. Renée Kemp and Mr. Stelios Zavvos as directors. Following these changes in the composition of the Board of Directors, the four individuals designated by Oaktree to be Company s directors were Messrs. Pappas and Shourie and Mses. Stephens and Kemp in accordance with the provisions of the Oaktree Shareholders Agreement (Note 20). Under the Oaktree Shareholders Agreement, with certain limited exceptions, Oaktree effectively cannot vote more than 33% of the Company s outstanding common shares (subject to adjustment under certain circumstances).

(h) **Excel Transactions:** As discussed in detail in Note 1, on August 19, 2014, the Company entered into the Excel Transactions. The principal shareholders of Excel are Oaktree and Angelo Gordon, none of which though, on its own, is deemed to have control on Excel s strategy and operations either by means of holding equity interests, control of Excel s board of directors or other type of arrangement indicating a parent-subsidiary relationship. Therefore the Company concluded that the Excel Transactions were not transactions under common control. Nevertheless, due to Oaktree s relationship with the Company and the relationship of Oaktree to Excel, the Company concluded that the Excel Transactions, including the acquisition of the Excel Vessels and the conclusion of the Excel Vessel Bridge Facility (Note 9), should be treated as related party transactions for purposes of its financial statements presentation and disclosure. Interest expense incurred for the year ended December 31, 2014, amounted to $1,659.

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3. Transactions with Related Parties – (continued):

(i) **Acquisition of Heron Vessels:** Following the completion of the Merger, pursuant to the provisions of the Merger Agreement relating to the Heron Vessels, and in accordance with the agreement among Oceanbulk Shipping, ABY Group and Heron, dated September 5, 2014, with respect to the conversion of the Heron Convertible Loan, the governance of Heron and the distribution of some of its vessels to its investors, as further discussed in Note 1, on November 11, 2014, the Company entered into two separate agreements to acquire from Heron the vessels *ABYO Gwyneth* (renamed *Star Gwyneth*) and *ABYO Angelina* (renamed *Star Angelina*), which were delivered to the Company on December 5, 2014 (Note 5).

4. Inventories:

The amounts shown in the accompanying consolidated balance sheets are analyzed as follows:

	2013	2014
Lubricants	$1,726	$6,853
Bunkers	—	7,515
Total	$1,726	$14,368

5. Vessels and other fixed assets, net:

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	2013	2014
Cost		
Vessels	$481,086	$1,541,538
Fair value adjustment	—	100,065
Other fixed assets	1,083	1,683
Total cost	482,169	1,643,286
Accumulated depreciation	(155,495)	(201,435)
Vessels and other fixed assets, net	$326,674	$1,441,851

Vessels acquired / disposed during the year ended December 31, 2012

On February 22, 2012, the Company entered into an agreement with a third party in order to sell the vessel *Star Ypsilon* together with a quantity of 667 metric tons of fuel oil, for a contracted price of $9,126 less an address commission of 3% and a brokerage commission of 2%. The vessel was delivered to its purchasers on March 9, 2012. The net carrying amount of *Star Ypsilon* as of the date of its delivery was $11,152 and the resulting loss of $3,190 is included under Loss on sale of vessel in the accompanying consolidated statements of operations.

No vessel acquisitions took place during the year ended December, 31, 2012.

Vessels acquired / disposed during the year ended December 31, 2013

On March 14, 2013, the Company entered into an agreement with a third party to sell the *Star Sigma* for a contracted price of $9,044 less an address commission of 3% and a brokerage commission of 1%. The vessel was delivered to its buyers on April 10, 2013. The net carrying amount of *Star Sigma* as of the date of its delivery was $8,354, and the resulting loss of $87 is included under Loss on sale of vessel in the accompanying consolidated statements of operations.

On November 5, 2013, the Company entered into two agreements to acquire from two unaffiliated third parties, one 61,462 dwt Ultramax vessel, *Star Challenger*, built 2012 and one 61,455 dwt Ultramax vessel, *Star Fighter*, built 2013, for approximately $28,760 each vessel. The vessels were delivered to the Company on December 12, 2013 and December 30, 2013, respectively. In connection with the acquisition of these vessels, the Company capitalized an amount equal to 1% brokerage commission for each vessel.

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5. Vessels and other fixed assets, net-(continued):

Vessels acquired / disposed during the year ended December 31, 2014

On January 24, 2014, the Company entered into two agreements to acquire from Glocal Maritime Ltd, or Glocal , an unaffiliated third party, two 98,000 dwt Post-Panamax vessels, *Star Vega* and *Star Sirius*, built 2011, for an aggregate purchase price of $60,000. The vessels *Star Vega* and *Star Sirius*, were delivered to the Company on February 13, 2014 and March 7, 2014, respectively. The vessels, upon their delivery, were chartered back to Glocal for a daily rate of $15 less brokerage commission of 1.25% at least until June 2016.

Following the completion of the Merger and the Pappas Transaction discussed in Note 1, the Company became the owner of 13 operating vessels (refer to relevant table in Note 1), the fair value of which following the purchase price allocation was estimated at $426,000 (based on Level 2 inputs of the fair value hierarchy). In addition, on July 22, 2014 and on September 19, 2014, the Company took delivery of the vessels *Peloreus* and *Leviathan*, two Capesize vessels with a capacity of 182,000 dwt each, built by the Japan Marine United Corporation, or JMU shipyard. The newbuilding contracts for those vessels had been acquired by the Company as part of the Merger. The delivery installment payment of $34,625 for each vessel was partially financed by $32,500 drawn for each vessel under a loan facility with Deutsche Bank AG (Note 9), and the remaining amount of $2,125, for each vessel, was financed by existing cash.

In addition to the fair value adjustment recognized as part of the Merger and the Pappas Transaction, as further discussed in Note 1, following the delivery of the vessels *Peloreus* and *Leviathan*, an amount of $20,600 representing the fair value adjustment (increase) relating to these vessels was transferred from Advances for vessels under construction and acquisition of vessels to Vessels and other fixed assets, net .

Pursuant to the Excel Transactions discussed in Note 1, as of December 31, 2014, 28 out of the 34 Excel Vessels had been transferred to the Company, for an aggregate consideration of 25,659,425 common shares (based on Level 1 inputs of the fair value hierarchy) and $248,751 in cash, or a total cost of $501,535, including time charters attached (Note 7). The Company used cash on hand, together with borrowings under the Excel Vessel Bridge Facility, the Citi Facility, the Excel Vessel CiT Facility, the DNB $120,000 Facility and the DVB $24,750 Facility, to pay the cash consideration for the Excel Vessels, as further discussed in Note 9.

As further discussed in Note 3, on November 11, 2014, the Company entered into two separate agreements with Heron to acquire the vessels *ABYO Gwyneth* (renamed *Star Gwyneth*) and *ABYO Angelina* (renamed *Star Angelina*),

which were delivered to the Company on December 5, 2014. The cost for the acquisition of these vessels was determined based on the fair value of the 2,115,706 common shares issued on July 11, 2014, in connection with the Heron Transaction, of $25,080 (Level 1) and the amount of $25,000 financed by the Heron Vessels Facility (Note 9)**,** according to the provisions of the Merger Agreement with respect to these acquisitions, as further discussed in Note 17.2.

On December 17, 2014, the Company entered into an agreement with a third party to sell the vessel *Star Kim*, one of the Excel Vessels, at market terms which also approximated the vessel s net book value. The vessel did not meet the held-for-sale classification criteria as of December 31, 2014, as she was not considered available for immediate sale in her present condition. The vessel was delivered to her new owner on January 21, 2015 (Note 20). As of December 31, 2014, the Company had received an advance payment from the buyers amounting to $1,100, which is included under Advances from sale of vessel in the accompanying consolidated balance sheet as of December 31, 2014.

Impairment Analysis

The Company s impairment analysis for 2012, indicated that the carrying values of the entire Supramax fleet and *Star Sigma* were not recoverable, and after comparing the vessels fair values to their carrying values, an impairment loss amounting to $303,219 was recognized under Vessel impairment loss in the accompanying consolidated statements of operations for the year ended December 31, 2012. This analysis for the year ended December 31, 2013 and 2014, indicated that the carrying amount of the Company s vessels was recoverable and therefore the Company concluded that no impairment charge was necessary (Note 19).

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6. Advances for vessels under construction and acquisition of vessels:

The amounts shown in the accompanying consolidated balance sheets are analyzed as follows:

	2013	2014
Pre-delivery yard installments	$66,780	$299,129
Fair value adjustment (Notes 1 and 5)	—	137,923
Bareboat capital leases – upfront hire & handling fees	—	31,467
Capitalized interest and finance costs	633	11,696
Other capitalized costs (Note 3)	519	4,580
Advances for secondhand vessels	—	79
Vessels delivered (Note 5)	—	(30,262)
Total	$67,932	$454,612

As summarized in the relevant table of Note 1, as of December 31, 2014, the Company was party to 24 newbuilding contracts for the construction of dry bulk carriers of various types, 15 of which were assumed as part of the Merger and the Pappas Transaction. As of December 31, 2014, the total aggregate remaining contracted price for the 24 newbuilding vessels plus agreed extras was $759,066, payable in periodic installments up to their deliveries, of which $617,986 is payable during the next twelve months ending December 31, 2015, and the remaining $141,080 is payable in 2016.

On July 5, 2013, the Company through its two wholly-owned subsidiaries, Star Cape I LLC and Star Cape II LLC, contracted with Shanghai Waigaoqiao Shipbuilding Co. Ltd., or SWS, shipyard to build two 180,000 dwt eco-type, fuel efficient Capesize drybulk vessels, Hull 1338 (tbn *Star Aries*) and Hull 1339 (tbn *Star Taurus*). These vessels are scheduled to be delivered in September 2015 and January 2016, respectively.

On September 23, 2013, the Company through its two wholly-owned subsidiaries, Star Castle I LLC and Star Castle II LLC, contracted with SWS, to build two 208,000 dwt eco-type, fuel efficient Newcastlemax drybulk vessels, Hull 1342 (tbn *Star Gemini*) and Hull 1343 (tbn *Star Leo*). These vessels are scheduled to be delivered in January and in March 2016, respectively.

On September 27, 2013, the Company through its three wholly-owned subsidiaries, Star Axe I LLC, Star Axe II LLC and Star Ennea III LLC, contracted with Nantong COSCO KHI Ship Engineering Co., or NACKS, shipyard to build two 61,000 dwt eco-type, fuel efficient Ultramax drybulk vessels, Hull NE 196 (tbn *Star Antares*) and Hull NE 197

(tbn *Star Lutas*), with expected deliveries in September and November 2015, respectively and one 209,000 dwt eco-type, fuel efficient Newcastlemax drybulk vessel, Hull NE 198 (tbn *Star Poseidon*), with expected delivery in March 2016.

On October 22, 2013, the Company through its two wholly-owned subsidiaries, Star Asia I LLC and Star Asia II LLC, contracted with Japan Marine United Corporation, or JMU, to build two 60,000 dwt eco-type, fuel efficient Ultramax drybulk vessels, Hull 5040 (tbn *Star Acquarius*) and Hull 5043 (tbn *Star Pisces*), with expected deliveries in May and July 2015, respectively.

On December 30, 2014, in anticipation of the delivery of the *Indomitable* to the Company on January 8, 2015, the Company made a payment of $34,942, which was held in escrow until the delivery of the vessel (Note 20), of which $32,480 was drawn under the BNP $32,480 Facility discussed in Note 9, and the remaining amount was financed using existing cash. Total advances paid and other capitalized costs incurred with respect to this vessel up to December 31, 2014 are reflected within Advances for vessels under construction and acquisition of vessels in the accompanying balance sheet for the year ended December 31, 2014.

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6. Advances for vessels under construction and acquisition of vessels - continued:

Capital leases

On February 17, 2014, the Company entered into separate bareboat charter party contracts with CSSC (Hong Kong) Shipping Company Limited, or CSSC, an affiliate of SWS, a Chinese shipyard, to bareboat charter for ten years, two fuel efficient newbuilding Newcastlemax dry bulk vessels, Hull 1372 (tbn *Star Libra*) and Hull 1371 (tbn *Star Virgo*), or the CSSC Vessels , each with a cargo carrying capacity of 208,000 dwt. The vessels are being constructed pursuant to shipbuilding contracts entered into between two pairings of affiliates of SWS. Each pair has one shipyard party (each, an SWS Builder) and one ship-owning entity (each an SWS Owner). Delivery to the Company of each vessel is deemed to occur upon delivery of the vessel to the SWS Owner from the corresponding SWS Builder. Pursuant to the terms of the bareboat charters, the Company is required to pay upfront fees, corresponding to the pre-delivery installments to the shipyard. An amount of $47,200 and $46,400, respectively, for the construction cost of each vessel, corresponding to the last pre-delivery and delivery installment to the shipyard, will be financed by the relevant SWS Owner, to whom the Company will pay a daily bareboat charter hire rate payable monthly plus a variable amount corresponding to the LIBOR payable every six months. In addition, the Company will pay for Hull 1371 (tbn *Star Virgo*), an installment of $300 plus an additional amount of $669 for agreed extra costs for both vessels. In addition, the Company is also obliged to pay an amount of $936 representing handling fees in two installments. The first installment of $462 was paid upon the signing of the bareboat charters, and the second installment is due in one year. Under the terms of the bareboat charters, the Company has the option to purchase the CSSC Vessels at any time, such option being exercisable on a monthly basis against pre-determined, amortizing-during-the-charter-period prices whilst it has a respective obligation of purchasing the vessels at the expiration of the bareboat term at a purchase price of $14,160 and $13,919, respectively. Upon the earlier of the exercise of the purchase options or the expiration of the bareboat charters, the Company will own the CSSC Vessels.

In addition, following the completion of the Merger and the Pappas Transactions the Company also assumed bareboat charters with respect to four newbuilding vessels being built at New Yangzijiang and five newbuilding vessels being built at SWS as follows:

- On May 17, 2013, subsidiaries of Oceanbulk entered into separate bareboat charter party contracts with affiliates of New Yangzijiang shipyards for eight-year bareboat charters of four newbuilding 64,000 dwt Ultramax vessels (Hulls HN 1061 (tbn *Roberta*), HN 1062 (tbn *Laura*), HN 1063 (tbn *Idee Fixe*) and HN 1064 (tbn *Kaley*) being built at New Yangzijiang. The vessels are being constructed pursuant to four shipbuilding contracts entered into between four pairings of affiliates of New Yangzijiang. Each pair has one shipyard party (each, a New YJ Builder) and one ship-owning entity (each a New YJ Owner). Delivery of each vessel to the Company is deemed to occur upon delivery of the vessel to the New YJ Owner from the corresponding New YJ Builder. Pursuant to the terms of the bareboat charter, the Company is required to pay upfront fees, corresponding to the pre-delivery installments to the shipyard. An amount of $20,680 for the construction cost of each vessel, corresponding to the delivery installment to

the shipyard, will be financed by the relevant New YJ Owner, to whom the Company will pay a pre-agreed daily bareboat charter hire rate on a 30-days advance basis. In addition, the Company will pay for the four newbuilding vessels an aggregate amount of $3,248 for agreed extra costs. After each vessel s delivery, the Company has monthly purchase options to acquire the vessel at pre-determined, amortizing-during-the-charter-period prices. On the eighth anniversary of the delivery of each vessel, the Company has the obligation to purchase the vessel at a purchase price of $6,000. Upon the earlier of the exercise of the purchase options or the expiration of the bareboat charters, the Company will own the four vessels.

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6. Advances for vessels under construction and acquisition of vessels - continued:

Capital leases

- On December 27, 2013, subsidiaries of Oceanbulk entered into separate bareboat charter party contracts with affiliates of SWS for ten-year bareboat charters of five newbuilding 208,000 dwt Newcastlemax vessels (Hulls HN 1359 (tbn *Star Marisa*), HN 1360 (tbn *Star Ariadne*), HN 1361 (tbn *Star Magnanimus*), HN 1362 (tbn *Star Manticore*) and HN 1363 (tbn *Star Chaucer*)) being built at SWS. The vessels are being constructed pursuant to shipbuilding contracts entered into between five pairings of affiliates of SWS. Each pair has one shipyard party (each, an SWS Builder) and one ship-owning entity (each an SWS Owner). Delivery of each vessel to the Company is deemed to occur upon delivery of the vessel to the SWS Owner from the corresponding SWS Builder. Pursuant to the terms of the bareboat charter, the Company is required to pay upfront fees, corresponding to the pre-delivery installments to the shipyard. An amount of $46,400 for the construction cost of each vessel, corresponding to the delivery installment to the shipyard, will be financed by the relevant SWS Owner, to whom the Company will pay a daily bareboat charter hire rate payable monthly plus a variable amount corresponding to the LIBOR payable every six months and a one-time handling fee of $464. In addition, the Company will pay for the five newbuilding vessels an aggregate amount of $1,680 for agreed extra costs. After each vessel s delivery, the Company has monthly purchase options to acquire the vessel at pre-determined, amortizing-during-the-charter-period prices. At the end of the ten-year charter period for each vessel, the Company has the obligation to purchase the vessel at a purchase price of $13,919. Upon the earlier of the exercise of the purchase options or the expiration of the bareboat charters, the Company will own the five vessels.

Based on ASC 840, the Company determined that all bareboat charters discussed above should be classified as capital leases. In addition, based on the lease agreement provisions, the Company is deemed to have substantially all of the construction period risk and therefore is considered the owner of the vessels during the construction period. Therefore the amount of $31,467 paid during the year ended December 31, 2014, representing upfront hire and handling fees, has been capitalized and is included under Advances for vessels under construction and acquisition of vessels in the accompanying consolidated balance sheet for the relevant period. In addition, an amount of $27,100 of fair value adjustment related to these capital leases of Oceanbulk pursuant to the purchase price allocation of the Merger, has also been capitalized and is included under Advances for vessels under construction and acquisition of vessels in the accompanying consolidated balance sheet as of December 31, 2014. Each of the above bareboat charters is considered a sales type lease and will be accounted for as a sale and leaseback transaction upon the delivery of each newbuilding to the Company, when the lease term is deemed to begin. At that time the financial liability and the financial asset will be recognized in accordance with the applicable capital lease accounting guidance.

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7. Fair value of Above Market Acquired Time Charters:

During 2011, the Company acquired two second-hand Capesize vessels, *Star Big* and *Star Mega*, with existing time charter contracts. Upon their delivery, the Company evaluated the attached charter contracts by comparing the charter rates in the acquired time charter agreements with the market rates for equivalent time charter agreements prevailing at the time the foregoing vessels were delivered and recognized an asset of $23,065.

As part of the Merger in July 2014, a $1,967 intangible asset was recognized corresponding to a fair value adjustment for two favorable time charters under which Oceanbulk was the lessor at the time of acquisition, with respect to vessels *Amami* and *Madredeus,* as further discussed in Note 1.

In addition, for three Excel Vessels (*Christine* (tbr *Star Martha*), *Sandra* (tbr *Star Pauline*) and *Lowlands Beilun* (tbr *Star Despoina*)), which were transferred to the Company subject to existing charters, the Company recognized an asset of $8,076, since it determined that the respective charters were favorable comparing to the existing charter rates.

For the years ended December 31, 2012, 2013 and 2014, the amortization of fair value of the above market acquired time charters amounted to $6,369, $6,352 and $6,113, respectively, and is included under Voyage revenues in the accompanying consolidated statements of operations. The accumulated amortization of these above market time charters as of December 31, 2013 and 2014 was $15,087 and $21,200, respectively.

The carrying amount of the above market acquired time charters amounting to $11,908 as of December 31, 2014 will be amortized on a straight line basis to revenues through the end of the corresponding charter parties, over a weighted-average period of 0.8 years as follows:

Years	Amount
December 31, 2015	$11,654
December 31, 2016	254
Total	$11,908

8. Gain on time charter agreement termination:

For the year ended December 31, 2012

The vessel *Star Sigma*, which was time chartered to Pacific Bulk Shipping Ltd. at a gross daily charter rate of $38.0 per day for the period from March 1, 2009 until October 29, 2013, was redelivered earlier to the Company on December 31, 2011. On January 4, 2012, the Company signed an agreement with the charterer in order to receive an amount of $5,734 in cash as compensation for the early redelivery of the respective vessel. The total amount was received in January 2012. In addition to the cash payment, Pacific Bulk supplied the Company with 1,027 metric tons of fuel, valued at $720. The total gain of $6,454 is reflected under Gain on time charter agreement termination in the accompanying consolidated statements of operations for the year ended December 31, 2012.

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9. Long term debt:

The table below presents outstanding amounts under the Company s bank loans and notes as of December 31, 2013 and 2014:

	2013	2014
Commerzbank $120,000 and $26,000 facilities	$82,530	$74,680
Credit Agricole Corporate and Investment Bank $70,000 facility	58,908	54,968
ABN AMRO Bank N.V. $31,000 facility	18,400	12,800
HSH Nordbank AG $64,500 facility	30,496	29,600
HSH Nordbank AG $35,000 facility	—	33,187
Deutsche Bank AG $39,000 facility	—	36,660
ABN $87,458 Facility	—	76,689
Deutsche Bank $85,000 Facility	—	82,708
HSBC $86,600 Facility	—	83,490
CEXIM $57,360 Facility	—	—
HSBC $20,000 Dioriga Facility	—	19,300
NIBC $32,000 Facility	—	—
BNP $32,480 Facility	—	32,480
Excel Vessel Bridge Facility	—	56,161
DVB $24,750 Facility	—	24,750
Excel Vessel CiT Facility	—	30,000
Sinosure Facility	—	—
Citi Facility	—	51,478
Heron Vessels Facility	—	24,567
DNB $120,000 Facility	—	88,275
8.00% 2019 Notes	—	50,000
	$190,334	$861,793

a) Commerzbank $120,000 Facility:

On December 27, 2007, the Company entered into a loan agreement with Commerzbank AG for up to $120,000, in order to partially finance the acquisition cost of the second hand vessels, *Star Gamma*, *Star Delta*, *Star Epsilon*, *Star Zeta*, and *Star Theta* (the Commerzbank $120,000 Facility). The Commerzbank $120,000 Facility is secured by a first priority mortgage over the financed vessels. On June 10, 2009 and December 24, 2009, the loan agreement was amended to revise some of its economic terms for a period up to January 31, 2011, in view of the depressed conditions prevailing at the market at that time. Under the terms of this loan facility, the repayment of $120,000 is scheduled over a nine year term and is divided into two tranches. The first tranche of up to $50,000 is repayable in twenty-eight consecutive quarterly installments, commencing in January 2010, with: (i) the first four installments of $2,250 each, (ii) the next thirteen installments of $1,000 each, (iii) the remaining eleven installments of $1,300 each, and a final

balloon payment of $13,700 payable together with the last installment. The second tranche of up to $70,000 is repayable in twenty-eight consecutive quarterly installments, commencing in January 2010, with: (i) the first four installments of $4,000 each, (ii) the remaining twenty-four installments of $1,750 each, and (iii) a final balloon payment of $12,000 payable together with the last installment.

b) Commerzbank $26,000 Facility:

On September 3, 2010 the Company entered into a loan agreement with Commerzbank AG for up to $26,000 in order to partially finance the acquisition cost of the second hand vessel, *Star Aurora* (the Commerzbank $26,000 Facility). The Commerzbank $26,000 Facility is secured by a first priority mortgage over the financed vessel. The loan is repayable over a six year period, in twenty-four consecutive quarterly installments of $950 each, commencing in December 2010, three months after the drawdown, and a final balloon payment of $3,200 payable together with the last installment.

Restructuring Agreement - Commerzbank $120,000 and $26,000 Facilities

On December 17, 2012, the Company executed a commitment letter with Commerzbank to amend the Commerzbank $120,000 Facility and the Commerzbank $26,000 Facility. The definitive documentation for the supplemental agreement (the Commerzbank Supplemental) was signed on July 1, 2013. Pursuant to the Commerzbank Supplemental, the Company paid Commerzbank a flat fee of 0.40% of the combined outstanding loans under the two facilities and agreed to (i) prepay Commerzbank $2,000 pro rata against the balloon payments of each facility (which was completed on December 31, 2012), (ii) raise $30,000 in equity (which condition was satisfied after the completion of the Company s rights offering in July 2013, which resulted in gross proceeds of $80,065 and its underwritten public offering in October, 2013, which resulted in gross proceeds of $70,840, (Note 10)), (iii) increase the vessel management services to cover at least ten third-party vessels by December 31, 2013 (which was satisfied as of December 31, 2013), (iv) increase the loan margins, (v) amend some of the financial covenants under the two facilities, (vi) defer 60% and 50% of the quarterly installments for the years ended December 31, 2013 and 2014 (the Deferred Amounts), to the balloon payments or to a payment in accordance with a cash sweep mechanism; (vi) include a semi-annual cash sweep mechanism, under which all earnings of the mortgaged vessels after operating expenses, dry docking provision, general and administrative expenses and debt service, if any, will be used as repayment of the Deferred Amounts; and (vii) not pay any dividends as long as Deferred Amounts are outstanding and/or until original terms are complied with. In the Commerzbank Supplemental, Commerzbank also agreed to waive an on-charter covenant for the *Star Aurora* in the Commerzbank $26,000 Facility until July 31, 2015.

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9. Long term debt- (continued):

c) Credit Agricole $70,000 Facility:

On January 20, 2011, the Company entered into a loan agreement with Credit Agricole Corporate and Investment Bank for a term loan up to $70,000 (the Credit Agricole $70,000 Facility) to partially finance the construction cost of the Company s two newbuildings, *Star Borealis* and *Star Polaris,* which were delivered to the Company in 2011. The Credit Agricole $70,000 Facility is secured by a first priority mortgage over the financed vessels and is divided into two tranches. The Company drew down $67,275 under this facility. The Credit Agricole $70,000 Facility is repayable in twenty eight consecutive quarterly installments, commencing three months after the delivery of each vessel, of $485.4 and $499.7, respectively, and a final balloon payment payable at maturity, of $19,558.2 (due August 2018) and $20,134 (due November 18) for the *Star Borealis* and *Star Polaris* tranches, respectively.

On May 20, 2013, the Company signed a waiver letter with Credit Agricole Corporate and Investment Bank in order to revise some of the financial covenants contained in the loan agreement for a period up to March 31, 2014, as well as to revise the dividend distribution related requirements so that Star Bulk Carriers Corp. shall not pay any dividends until March 31, 2014.

d) ABN AMRO Bank N.V. $31,000 Facility:

On July 21, 2011, the Company entered into a senior secured credit facility with ABN AMRO Bank N.V. (ABN AMRO) for $31,000 (the ABN AMRO $31,000 Facility), to partially finance the acquisition of the second-hand vessels *Star Big* and *Star Mega*. The ABN AMRO $31,000 Facility is secured by a first priority mortgage over the financed vessels. The borrowers under the ABN AMRO $31,000 Facility are the two vessel-owning subsidiaries that own the two vessels and Star Bulk Carriers Corp. is the guarantor. The ABN AMRO $31,000 Facility is repayable in 18 consecutive, quarterly installments, commencing three months after the initial borrowings in October 2011. The first 14 installments amount to $1,400 each and the remaining four installments amount to $625 each, and a final balloon payment of $8,900 is payable together with the last installment at the maturity date of January 2016.

On March 16, 2012, the Company and ABN AMRO amended the ABN AMRO $31,000 Facility under a first supplemental agreement (the ABN $31,000 First Supplemental). On April 2, 2013, the Company and ABN AMRO signed a second supplemental agreement (the ABN $31,000 Second Supplemental and, together with the ABN First Supplemental, the ABN $31,000 Supplementals). Under the ABN $31,000 Supplementals, the Company agreed to (i) revise the financial covenants until December 31, 2014, (ii) not pay dividends until December 31, 2014, and (iii) increase the margin by 50 bps, beginning on March 31, 2013, until the time the Company was able to raise at least $30,000 of additional equity. The Company paid the increased margin of 50 bps from March 31, 2013 until July 26,

2013, upon the completion of the Company s rights offering which resulted in net proceeds of $77,898 after deducting offering expenses of $2,167 (Note 10).

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9. Long-term debt- (continued):

e) HSH Nordbank AG $64,500 Facility:

On October 3, 2011, the Company entered into a $64,500 secured term loan agreement (the HSH Nordbank $64,500 Facility) with HSH Nordbank AG (HSH Nordbank) to repay, together with cash on hand, certain existing debt. The borrowers under the HSH Nordbank $64,500 Facility are the vessel-owning subsidiaries that own the *Star Cosmo, Star Kappa, Star Sigma, Star Omicron* and *Star Ypsilon*, and Star Bulk Carriers Corp. is the guarantor. The borrowing under this new loan agreement together with $5,326 in cash was used to repay in full the Company s indebtedness under its old loan agreements with Piraeus Bank S.A.; a term loan of $150,000 dated April 14, 2008 and a term loan of $35,000 dated July 1, 2008, in 2011. This facility consists of two tranches. The first tranche of $48,500 (the Supramax Tranche) is repayable in 20 quarterly consecutive installments of $1,250 commencing in January 2012 and a final balloon payment of $23,500 payable at the maturity date of September 2016. The second tranche of $16,000 (the Capesize Tranche) was repayable in 12 consecutive, quarterly installments of $1,333, commencing in January 2012 and matured in September 2014.

The Company and HSH Nordbank signed a supplemental agreement (the HSH Nordbank $64,500 Supplemental) on July 17, 2013. Under the HSH Nordbank $64,500 Supplemental, the Company agreed to (i) defer a minimum of approximately $3,500 payments from January 1, 2013 until December 31, 2014, (ii) prepay HSH Nordbank $6,590 with pledged cash already held by HSH Nordbank, of which $3,500 was applied against the balloon payment of Supramax Tranche and $3,090 was applied pro rata against the eight quarterly repayment installments of the Supramax Tranche, starting with the scheduled repayment date in January 2013, (iii) amend some of the financial covenants until December 31, 2014, (iv) raise $20,000 in equity (which condition was satisfied after the completion of the Company s rights offering in July 2013, which resulted in gross proceeds of $80,065 and its underwritten public offering in October, 2013, which resulted in gross proceeds of $70,840 (Note 10)), (v) increase the loan margins from January 1, 2013 until December 31, 2014, (vi) include a semi-annual cash sweep mechanism, under which all earnings of the mortgaged vessels after operating expenses, dry docking provision, general and administrative expenses and debt service, if any, are to be used as prepayment to the balloon payment of the Supramax Tranche, and (vii) not pay any dividends until December 31, 2014 or later in case of a covenant breach. When the Company sold the *Star Sigma* in April 2013, the HSH Nordbank $64,500 Supplement also required the Company to use the proceeds from the sale to fully prepay the balance of the Capesize Tranche and use the remaining vessel sale proceeds of $4,123 to prepay a portion of the Supramax Tranche. As a result, the next seven scheduled quarterly installments commencing in April 2013 were reduced pro rata according to the prepayment from $813 to $224.

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9. Long-term debt- (continued):

f) HSH Nordbank AG $35,000 Facility:

On February 6, 2014, the Company entered into a new $35,000 secured term loan agreement (the HSH Nordbank $35,000 Facility) with HSH Nordbank AG. The borrowings under this new loan agreement were used to partially finance the acquisition of second-hand vessels *Star Challenger* and *Star Fighter.* The HSH Nordbank $35,000 Facility is secured by a first priority mortgage over the financed vessels. The borrowers under the HSH Nordbank $35,000 Facility are the two vessel-owning subsidiaries that own the two vessels and Star Bulk Carriers Corp. is the guarantor. This facility matures in February 2021 and is repayable in 28 equal, consecutive, quarterly installments, commencing in May 2014, of $312.5 and $291.7 for the *Star Challenger* and *Star Fighter*, respectively, and a final balloon payment of $8,750 and $9,332.4, payable together with the last installments, for *Star Challenger* and *Star Fighter,* respectively.

g) Deutsche Bank AG $39,000 Facility:

On March 14, 2014, the Company entered into a new $39,000 secured term loan agreement with Deutsche Bank AG (the Deutsche Bank $39,000 Facility). The borrowings under this new loan agreement were used to partially finance the acquisition of the vessels *Star Sirius* and *Star Vega.* The Deutsche Bank $39,000 Facility is secured by a first priority mortgage over the financed vessels. The borrowers under the Deutsche Bank $39,000 Facility are the two vessel-owning subsidiaries that own the two vessels and Star Bulk Carriers Corp. is the guarantor. This facility consists of two tranches of $19,500 each and matures in March 2021. Each tranche is repayable in 28 equal, consecutive, quarterly installments of $390 each commencing in June 2014, and a final balloon payment of $8,580 payable at maturity.

h) Assumed debt as part of the Merger and the Pappas Transactions:

As a result of the July 2014 Transactions, the Company assumed, on July 11, 2014, an additional $208,237 aggregate principal amount consisting of the following debt agreements:

1) ABN $87,458 Facility

On August 1, 2013, Oceanbulk Shipping entered into a $34,458 credit facility with ABN AMRO, N.V. (the ABN AMRO $87,458 Facility) in order to partially finance the acquisition cost of the vessels *Obelix* and *Maiden Voyage*.

The loans under the ABN AMRO $87,458 Facility were available in two tranches of $20,350 and $14,108. On August 6, 2013, Oceanbulk Shipping drew down the available tranches. On December 18, 2013, the ABN AMRO $87,458 Facility was amended to add an additional loan of $53,000 to partially finance the acquisition cost of the vessels *Big Bang, Strange Attractor, Big Fish* and *Pantagruel*. On December 20, 2013, Oceanbulk Shipping drew down the available tranches. The tranche under the ABN AMRO $87,458 Facility relating to vessel *Obelix* matures in September 2017, the one relating to vessel *Maiden Voyage* matures in August 2018 and those relating to vessels *Big Bang, Strange Attractor, Big Fish and Pantagruel* mature in December 2018. The tranches are repayable in quarterly consecutive installments ranging between $248 to $550 and a final balloon payment for each tranche at maturity, ranging between $2,500 and $12,813. The ABN AMRO $87,458 Facility is secured by a first-priority ship mortgage on the financed vessels, general assignments, charter assignments and, operating account assignments and was guaranteed by Oceanbulk Shipping LLC. Following the completion of the Merger, Star Bulk Carriers Corp. replaced Oceanbulk Shipping as guarantor of the ABN AMRO $87,458 Facility.

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9. Long-term debt- (continued):

h) Assumed debt as part of the Merger and the Pappas Transactions-(continued):

2) Deutsche Bank $85,000 Facility

On May 20, 2014, Oceanbulk Shipping entered into a loan agreement with Deutsche Bank AG Filiale Deutschlandgeschaft for the financing of an aggregate amount of $85,000 (the Deutsche Bank $85,000 Facility), in order to partially finance the construction cost of *Magnum Opus*, *Peloreus* and *Leviathan*. Each tranche matures five years after the drawdown date. The applicable tranches were drawn down concurrently with the deliveries of the financed vessels, in May, July and September 2014, respectively. Each loan is subject to 19 quarterly amortization payments equal to 1/60th of the loan amount, with the 20th payment equal to the remaining amount outstanding on the loan. The Deutsche Bank $85,000 Facility is secured by first priority cross-collateralized ship mortgages on the financed vessels, charter assignments and insurance and earnings assignments, and was originally guaranteed by Oceanbulk Shipping. On July 4, 2014, an amendment to the Deutsche Bank $85,000 Facility was executed in order to add ITF International Transport Finance Suisse AG as a lender and replace Oceanbulk Shipping with Star Bulk Carriers Corp. as guarantor of this facility.

3) HSBC $86,600 Facility

On June 16, 2014, Oceanbulk Shipping entered into a loan agreement with HSBC Bank plc. (the HSBC $86,600 Facility) for the financing of an aggregate amount of $86,600, to partially finance the acquisition cost of the second hand vessels *Kymopolia*, *Mercurial Virgo*, *Pendulum*, *Amami* and *Madredeus*. The loan, which was drawn in June 2014, matures in May 2019 and is repayable in 20 quarterly installments, commencing three months after the drawdown, of $1,555 plus a balloon payment of $55,500 due together with the last installment. The HSBC $86,600 Facility is secured by a first priority mortgage over the financed vessels and general and specific assignments and was originally guaranteed by Oceanbulk Shipping. On September 11, 2014, a supplemental agreement to the HSBC $86,600 Facility was executed in order to replace Oceanbulk Shipping with Star Bulk Carriers Corp. as guarantor of the HSBC $86,600 Facility.

4) CEXIM $57,360 Facility

On June 26, 2014, Oceanbulk Shipping entered into a loan agreement with the Export-Import Bank of China (the CEXIM $57,360 Facility) for the financing of an aggregate amount of $57,360, which will be available in two tranches of $28,680 each, to partially finance the construction cost of two Capesize bulk carriers currently under

construction at SWS (Hulls HN 1312 (tbn *Bruno Mars*) and HN 1313 (tbn *Jenmark*)), with expected delivery in April and May 2015, respectively. Each tranche will mature ten years from the delivery date of the last delivered financed vessel and will be repayable in 20 semi-annual installments of $1,147 plus a balloon payment of $5,736, with the first installment being due on the first January 21 or July 21 six months after the delivery of each vessel. The CEXIM $57,360 Facility will be secured by first priority cross-collateralized ship mortgages on the financed vessels, charter assignments and insurance and earnings assignments, and is guaranteed by Oceanbulk Shipping.

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9. Long-term debt- (continued):

h) Assumed debt as part of the Merger and the Pappas Transactions-(continued):

5) HSBC $20,000 Dioriga Facility

On April 14, 2014, Dioriga Shipping Co. entered into a loan agreement with HSBC Bank plc (the HSBC $20,000 Dioriga Facility) for $20,000 to partially finance the construction cost of *Tsu Ebisu*, which was delivered in April 2014. The HSBC $20,000 Dioriga Facility will mature in March 2019 and will be repayable in 20 quarterly installments of $350 each, commencing three months after the drawdown, plus a balloon payment of $13,000 due together with the last installment. The HSBC $20,000 Dioriga Facility is secured by a first priority mortgage over the financed vessel and general and specific assignments. On October 3, 2014, a supplemental agreement to the HSBC $20,000 Dioriga Facility was executed in order for Star Bulk Carriers Corp. to become the guarantor of the HSBC $20,000 Dioriga Facility and to include covenants similar to those of the Company s other vessel financing facilities.

During July 2014, the Company obtained the consent of the various relevant lenders to complete the July 2014 Transactions.

i) NIBC $32,000 Facility:

On November 7, 2014, the Company and NIBC Bank N.V. entered into an agreement with respect to a credit facility (the NIBC $32,000 Facility) for the financing of an aggregate amount of $32,000, which will be available in two tranches of $16,000, to partially finance the construction cost of two Ultramax bulk carriers currently under construction by Japan Marine United Corporation (Hulls HN 5040 (tbn *Star Acquarius)* and HN 5043 (tbn *Star Pisces)*), with expected delivery in May and July 2015, respectively. The facility will mature in November, 2020. Each tranche is expected to be drawn concurrently with the delivery of the relevant vessel and will be repayable in consecutive quarterly installments of $267.5, commencing three months after the drawdown, plus a balloon payment of $10,382.5, for each of HN 5040 (tbn *Star Acquarius)* and HN 5043 (tbn *Star Pisces)*, both due in November 2020. The NIBC $32,000 Facility is secured by a first priority cross collateralized mortgage over the financed vessels and general and specific assignments and is guaranteed by Star Bulk Carriers Corp.

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9. Long-term debt- (continued):

j) BNP $32,480 Facility:

On July 31, 2014, Positive Shipping Company, a subsidiary of Star Bulk following the completion of the Pappas Transaction, executed a binding term sheet with BNP Paribas (the BNP $32,480 Facility) for the financing of an amount up to $32,500 to partially finance the construction cost of its Capesize bulk carrier under construction by Japan Marine United Corporation (Hull HN 5016, tbn *Indomitable*). Definitive agreement relating to this facility was executed on December 3, 2014 and the amount of $32,480 was drawn in December 2014, in anticipation of the delivery of the *Indomitable* to the Company on January 8, 2015 (Note 20). The facility will be repaid in 20 equal, consecutive, quarterly principal payments of $537.2 each, with the first becoming due and payable three months from the drawdown date and a balloon installment of $21,737 payable simultaneously with the 20th installment, which is due in December 2019. The BNP $32,480 Facility is secured by a first priority mortgage over the financed vessel and general and specific assignments and is guaranteed by Star Bulk Carriers Corp.

k) Excel Vessel Bridge Facility (Note 3 and Note 20):

On August 19, 2014, the Company, through Unity Holdings LLC (Unity), a fully owned subsidiary, entered into a $231,000 Senior Secured Credit Agreement, among Unity, as Borrower, the initial lenders named therein, as Initial Lenders, affiliates of Oaktree and Angelo Gordon as Lenders, and Wilmington Trust National Association, as Administrative Agent. The Company has used borrowings under the Excel Vessel Bridge Facility to fund portion of the cash consideration for the Excel Vessels. The Excel Vessel Bridge Facility is secured (i) by a first priority mortgage on all the Excel Vessels, except those that have been refinanced by the DNB $120,000 Facility and the Citi Facility (see below o) and r)) and financed by the DVB $24,750 Facility (see below l)); and (ii) by a second priority mortgage on those vessels financed by the Excel Vessel CiT Facility (see below m). The Excel Vessel Bridge Facility matures in February 2016, with mandatory prepayments of $6,000, each due in March, June and September 2015. Unity, Star Bulk, and each individual vessel-owning subsidiary of Unity are guarantors under the Excel Vessel Bridge Facility. As of December 31, 2014, 28 of the Excel Vessels had been delivered to the Company, and an amount of $195,914 had been drawn under the Excel Vessel Bridge Facility, of which an amount of $139,753 was prepaid from proceeds from the Citi Facility and the DNB $120,000 Facility (discussed below), with such prepayment being applied in direct order of maturity according to the provisions of the Excel Vessel Bridge Facility (Note 20f).

As of December 31, 2014, the classification of the Excel Vessel Bridge Facility, in the accompanying balance sheet was made according to the repayment schedules of the Citi Facility and DNB $120,000 Facility.

l) DVB $24,750 Facility:

On October 31, 2014, as part of the Excel Transactions, the Company acquired 100% of the equity interests of Christine Shipco LLC, which is the owner of the vessel *Christine* (tbr *Star Martha*), one of the 34 Excel Vessels. In order to finance this acquisition, the Company entered into a credit facility with DVB Bank SE, Frankfurt (the DVB $24,750 Facility). Definitive documentation for the DVB $24,750 Facility was signed on October 30, 2014, and on October 31, 2014 the Company drew $24,750 to pay Excel the related cash consideration. The DVB $24,750 Facility will be repaid in 24 consecutive, quarterly principal payments of $900 for each of the first four quarters and of $450 for each of the remaining 20 quarters, with the first becoming due and payable three months from the drawdown date, and a balloon payment of $12,150 payable simultaneously with the last quarterly installment, which is due in October 2020. The DVB $24,750 Facility is secured by a first priority pledge of the membership interests of the Christine Shipco LLC and general and specific assignments and is guaranteed by Star Bulk Carriers Corp.

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9. Long-term debt- (continued):

m) Excel Vessel CiT Facility:

On December 9, 2014, the Company entered into a new credit facility with CiT Finance LLC (the Excel Vessel CiT Facility) for an amount up to $30,000 to partially finance the acquisition of 11 of the older Excel Vessels. The Excel Vessel CiT Facility is secured on a first-priority basis by these 11 vessels, which the Company has acquired or is acquiring under the Excel Vessel Purchase Agreement, consisting of nine Panamax and two Handymax vessels (the Excel Collateral Vessels). Pursuant to an intercreditor agreement executed among the lenders under the Excel Vessel Bridge Facility and Excel Vessel CiT Facility, the Excel Collateral Vessels will also secure the Excel Vessel Bridge Facility on a second-priority basis. The Company drew $30,000 under the Excel Vessel CiT Facility on December 10, 2014. The borrowers under the Excel Vessel CiT Facility are the various vessel-owning subsidiaries that own the Excel Collateral Vessels and Star Bulk Carriers Corp. will be the guarantor. The Excel Vessel CiT Facility will mature in December 2016 and will be subject to quarterly amortization payments of $500, commencing on March 31, 2015, with a balloon payment equal to the outstanding amount under the Excel Vessel CiT Facility payable simultaneously with the last quarterly installment.

n) Sinosure Facility:

On December 22, 2014, the Company executed a binding term sheet with Deutsche Bank (China) Co., Ltd. Beijing Branch and HSBC Bank plc (the Sinosure Facility) for the financing of an aggregate amount of up to $156,453 to partially finance the construction cost of eight of its Ultramax bulk carriers (Hulls HN NE 164 (tbn *Honey Badger*), HN NE 165 (tbn *Wolverine*), HN NE 196 (tbn *Star Antares*), HN NE 197 (tbn *Star Lutas*), HN 1080 (tbn *Kennadi*), HN 1081 (tbn *Mackenzie*), HN 1082 (tbn *Night Owl*), HN 1083 (tbn *Early Bird*)) (the Sinosure Financed Vessels), which are currently under construction by Jiangsu Yangzijiang Shipbuilding Co. Ltd and Nantong COSCO KHI Ship Engineering Co. Ltd., with expected deliveries between February 2015 and November 2015. The financing will be available in eight separate tranches, one for each Sinosure Financed Vessel, and will be credit insured (95%) by China Export & Credit Insurance Corporation. The final loan documentation was signed on February 11, 2015 (Note 20). Each tranche, which will be documented by a separate credit agreement, will mature twelve years after each drawdown and will be repaid in 48 equal and consecutive quarterly installments. The Sinosure Facility will be secured by a first priority cross collateralized mortgage over the Sinosure Financed Vessels and general and specific assignments and will be guaranteed by Star Bulk Carriers Corp.

o) Citi Facility:

On December 22, 2014, the Company entered into a new credit facility with Citibank, N.A., London Branch (the Citi Facility) to provide financing in an amount of up to $100,000, in lieu of the Excel Vessel Bridge Facility, in connection with the acquisition of vessels *Sandra (*tbr *Star Pauline)*, *Lowlands Beilun (*tbr *Star Despoina)*, *Star Angie*, *Star Sophia*, *Star Georgia*, *Star Kamila* and *Iron Kalypso (*tbr *Star Nina),* which are seven of the Excel Vessels the Company has acquired or is acquiring (the Citi Financed Excel Vessels). The first tranche of $51,477.5 was drawn on December 23, 2014, and the second tranche of $42,627.5 was drawn on January 21, 2015. The Company used amounts drawn under the Citi Facility to repay portion of the Excel Vessel Bridge Facility in respect of those Citi Financed Excel Vessels. The Citi Facility matures on December 30, 2019. The Citi Facility will be repaid in 20 equal, consecutive, quarterly principal payments of $3,388, with the first installment due on March 30, 2015, with a balloon installment of $26,349 payable simultaneously with the 20th quarterly installment. The Citi Facility is secured by a first priority mortgage over the Citi Financed Excel Vessels and general and specific assignments and is guaranteed by Star Bulk Carriers Corp.

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9. Long-term debt- (continued):

p) Heron Vessels Facility:

In November 2014, the Company entered into a secured term loan agreement with CiT Finance LLC, in the amount of up to $25,311 (the Heron Vessels Facility), in order to partially finance the acquisition cost of the two Heron Vessels, *Star Gwyneth* and *Star Angelina*. The drawdown of the financed amount incurred in December 2014, when the Company took delivery of the Heron Vessels. The facility matures on June 30, 2019, and is repayable in 19 equal consecutive, quarterly principal payments of $744.4 (with the first becoming due and payable on December 31, 2014), with a balloon installment payable at maturity equal to the then outstanding amount of the loan. The facility is secured by a first priority mortgage over the financed vessels and general and specific assignments and is guaranteed by Star Bulk Carrier Corp.

q) DNB $120,000 Facility:

On December 29, 2014, the Company entered into an agreement with DNB Bank ASA as facility agent, security agent account bank and bookrunner, DNB Bank ASA, NIBC Bank N.V and Skandinaviska Enskilda Banken AB as original lenders, mandated lead arrangers and hedge counterparties (the DNB $120,000 Facility), to provide financing for up to $120,000, in lieu of the Excel Vessel Bridge Facility, in connection with the acquisition of vessels *Star Nasia*, *Iron Beauty (*tbr *Star Monisha)*, *Star Eleonora*, *Star Danai*, *Star Renee*, *Star Markella*, *Star Laura*, *Star Moira*, *Ore Hansa (*tbr *Star Jennifer)*, *Star Mariella*, *Star Helena* and *Star Maria,* which are twelve of the Excel Vessels the Company has acquired (the DNB Financed Excel Vessels). The Company drew $88,275 on December 30, 2014, $9,515 in January, 2015, and $9,507 in February 2015 (Note 20). The Company used amounts drawn under the DNB $120,000 Facility to repay portion of the amounts drawn under the Excel Vessel Bridge Facility relating to the DNB Financed Excel Vessels. The DNB $120,000 Facility matures in December 2019 and is repayable in 20 equal, consecutive, quarterly principal payments of $4,374, with the first installment due in March 2015, and a balloon installment of $29,160 payable simultaneously with the 20th installment. The DNB $120,000 Facility is secured by a first priority mortgage over the DNB Financed Excel Vessels and general and specific assignments and is guaranteed by Star Bulk Carriers Corp.

r) Issuance of the 8.00% 2019 Notes:

On November 6, 2014, the Company issued $50,000 aggregate principal amount of 8.00% Senior Notes due 2019 (the 2019 Notes). The net proceeds were $48,425. The 2019 Notes mature in November 2019 and are senior, unsecured obligations of Star Bulk Carriers Corp. The 2019 Notes are not guaranteed by any of the Company s subsidiaries.

The 2019 Notes bear interest at a rate of 8.00% per year, payable quarterly in arrears on each February 15, May 15, August 15 and November 15, commencing on February 15, 2015.

The Company may redeem the 2019 Notes, in whole or in part, at any time on or after November 15, 2016 at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Prior to November 15, 2016, the Company may redeem the 2019 Notes, in whole or in part, at a price equal to 100% of their principal amount plus a make-whole premium and accrued and unpaid interest to the date of redemption. In addition, the Company may redeem the 2019 Notes in whole, but not in part, at any time, at a redemption price equal to 100% of their principal amount to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, if certain events occur involving changes in taxation.

The indenture governing the 2019 Notes contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the 2019 Notes then outstanding may declare the entire principal amount of all the 2019 Notes plus accrued interest, if any, to be immediately due and payable. Upon certain change of control events, the Company is required to offer to repurchase the 2019 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to, but not including, the date of redemption. If the Company receives net cash proceeds from certain asset sales and does not apply them within a specified deadline, the Company will be required to apply those proceeds to offer to repurchase the 2019 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to, but not including, the date of redemption.

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9. Long-term debt- (continued):

The Company s outstanding credit facilities generally contain customary affirmative and negative covenants, on a subsidiary level, including limitations to:

- incur additional indebtedness, including the issuance of guarantees;
- create liens on its assets;
- change the flag, class or management of its vessels or terminate or materially amend the management agreement relating to each vessel;
- sell its vessels;
- merge or consolidate with, or transfer all or substantially all its assets to, another person; or
- enter into a new line of business.

In addition, under certain of its loan agreements, the Company is not allowed to pay dividends or distributions until the later of i) March 31, 2015 and ii) the repayment of the deferred amounts under Commerzbank $120,000 and $26,000 facilities. In any event, the Company may not pay dividends or distributions if an event of default has occurred and is continuing or would result from such dividend or distribution.

Furthermore, the Company s credit facilities contain financial covenants requiring the Company to maintain various financial ratios, including:

- a minimum percentage of aggregate vessel value to loans secured;
- a maximum ratio of total liabilities to market value adjusted total assets;

- a minimum EBITDA to interest coverage ratio;
- a minimum liquidity; and
- a minimum equity ratio

As of December 31, 2014, the Company was required to maintain minimum liquidity, not legally restricted, of $35,400, which is included within Cash and cash equivalents in the accompanying 2014 balance sheet. In addition, as of December 31, 2013 and 2014, the Company was required to maintain minimum liquidity, legally restricted, of $2,482 and $13,972, respectively, which is included within Restricted cash in the accompanying balance sheets. An amount of $9,250 representing minimum liquidity, not legally restricted, as of December 31, 2013, was initially classified as Restricted cash in the prior year financial statements. The Company has reclassified this amount from Restricted cash to Cash and cash equivalents in the accompanying 2013 balance sheet.

As of December 31, 2013 and 2014, the Company was in compliance with the applicable financial and other covenants contained in its debt agreements, including the Excel Vessel Bridge Facility and the 2019 Notes.

The weighted average interest rate related to the Company s existing debt (including the margin) as of December 31, 2012, 2013 and 2014 was 2.92 %, 3.34% and 3.53 %, respectively.

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9. Long-term debt- (continued):

The principal payments required to be made after December 31, 2014, for all the then outstanding debt, are as follows:

Years	Amount
December 31, 2015	$96,485
December 31, 2016	229,040
December 31, 2017	69,894
December 31, 2018	126,895
December 31, 2019	283,366
December 31, 2020 and thereafter	56,113
Total (including Excel Vessel Bridge Facility and 8.00% 2019 Notes)	$861,793
Excluding Excel Vessel Bridge Facility presented separately in the balance sheet (Note 3)	56,161
Excluding 8.00% 2019 Notes	50,000
Total Long term debt	$755,632
Long term debt – current portion	$88,317
Long term debt – non-current portion	$667,315

At December 31, 2014, all of the Company s owned vessels, having a net carrying value of $1,441,086, were subject to first-priority mortgages as collateral to its loan facilities and eight of the Company s owned vessels, having a net carrying value of $57,967 were also subject to second-priority mortgages as collateral to its loan facilities, as described in (k) and (m) above.

All of the Company s bank loans bear interest at LIBOR plus a margin. The amounts of Interest and finance costs included in the accompanying consolidated statements of operations are analyzed as follows

	2012	2013	2014
Interest on long term debt	$7,167	$6,786	$15,362
Less: Interest capitalized	—	(633)	(7,838)
Reclassification adjustments of interest rate swap loss transferred to Interest and finance costs from Other comprehensive loss	—	—	1,055
Amortization of deferred finance charges	502	522	681
Other bank and finance charges	169	139	315
Interest and finance costs	$7,838	$6,814	$9,575

In connection with the partial prepayment of Excel Vessel Bridge Facility, an amount of $652 of unamortized deferred finance charges, was written off and included under Loss on debt extinguishment in the accompanying consolidated statement of operations for the year ended December 31, 2014.

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10. Preferred, Common Stock and Additional paid in capital:

Preferred Stock: Star Bulk is authorized to issue up to 25,000,000 shares of preferred stock, $0.01 par value with such designations, as voting, and other rights and preferences, as determined by the Board of Directors. As of December 31, 2013 and 2014 the Company had not issued any preferred stock.

Common Stock: Star Bulk was authorized to issue 100,000,000 registered common shares, par value $0.01. On November 23, 2009, at the Company s annual meeting of shareholders, the Company s shareholders voted to approve an amendment to the Amended and Restated Articles of Incorporation increasing the number of common shares that the Company is authorized to issue from 100,000,000 registered common shares, par value $0.01 per share, to 300,000,000 registered common shares, par value $0.01 per share.

Each outstanding share of the Company s common stock entitles the holder to one vote on all matters submitted to a vote of shareholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of shares of common stock are entitled to ratably receive all dividends, if any, declared by the Company s board of directors out of funds legally available for dividends. Holders of common stock do not have conversion, redemption or preemptive rights to subscribe to any of the Company s securities. All outstanding shares of common stock are fully paid and non-assessable. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of any shares of preferred stock which the Company may issue in the future.

15-for-1 reverse stock split: Effective as of the opening of trading on October 15, 2012, the Company affected a one-for-fifteen reverse stock split of its common shares. The reverse stock split was approved by the Company s shareholders at the Company s 2012 Annual General Meeting of Shareholders, held on September 7, 2012. The reverse stock split reduced the number of the Company s common shares from 81,012,403 to 5,400,810 and affected all issued and outstanding common shares. No fractional shares were issued in connection to the reverse split. Shareholders who would otherwise hold a fractional share of the Company s common stock received a cash payment in lieu of such fractional share.

Share re-purchase Plan: On February 23, 2010, the Company s Board of Directors adopted a stock repurchase plan for up to $30,000 to be used for repurchasing the Company s common shares until December 31, 2011. All repurchased shares would be cancelled and removed from the Company s share capital.

On August 10, 2011, the Company s Board of Directors decided to reinstate the share repurchase plan with the limitation of acquiring up to a maximum amount of $3,000 of Company s shares, at a maximum price of $19.5 per

share. On November 9, 2011 the Company s Board of Directors extended the duration of the share repurchase plan until December 31, 2012.

During the year ended December 31, 2012, the Company repurchased and cancelled 61,730 treasury shares, which were repurchased in the open market for an aggregate purchase price of $860, pursuant to the terms of Company s existing share repurchase plan. As of December 31, 2012, the Company had $2,140 of remaining capacity under the plan.

On July 25, 2013, pursuant to a rights offering, approved by the Company s Board of Directors in April 2013, the Company issued 15,338,861 shares of common stock, which resulted in net proceeds of $77,898 after deducting offering expenses of $2,167. The proceeds were primarily used for orders for fuel-efficient dry bulk vessels with some of the proceeds being reserved for working capital and general corporate purposes.

On October 7, 2013, the Company offered 8,050,000 common shares, in a primary underwritten public offering price of $8.80 per share less underwriters discount. The sale of shares by the Company resulted in net proceeds of $68,124 after deducting offering expenses of $2,716. The Company used the net proceeds from this offering for the partial funding of newbuilding vessels, for vessel acquisitions, and for general corporate purposes.

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10. Preferred, Common Stock and Additional paid in capital – (continued):

As disclosed in Note 14 below, during the year ended December 31, 2013, the Company issued: (i) 239,333 common shares in connection with its 2013 Equity Incentive Plan; (ii) 12,000 common shares, which were granted to a former director of the Company; and (iii) 18,667 common shares to the former Chief Executive Officer of the Company, representing the second and the third installments of his minimum guaranteed incentive award in accordance with his consultancy agreement (Note 3).

In July 2014, the Company issued as consideration 54,104,200 common shares in the July 2014 Transactions, consisting of 48,395,766 common shares for the Merger, 3,592,728 common shares for the acquisition of the Pappas Companies and 2,115,706 common shares as partial consideration for the acquisition of the Heron Vessels (Note 1).

As disclosed in Note 3 above, 22,598 common shares were issued during the year ended December 31, 2014, as part of the consideration for the acquisition of 33% of the total outstanding common stock of Interchart.

As disclosed in Note 14 below, during the year ended December 31, 2014, the Company issued: (i) 394,167 common shares in connection with its 2014 Equity Incentive Plan; (ii) 8,000 common shares, which were granted to certain directors of the Company; (iii) 9,333 common shares to the Company s former Chief Executive Officer, representing the first installment of his minimum guaranteed incentive award in accordance with his consultancy agreement; and (iv) 168,842 the Company s former Chief Executive Officer pursuant to a termination agreement dated July 31, 2014 (Note 3).

In August 2014, the Company agreed to issue the Excel Vessel Share Consideration of 29,917,312 common shares under the terms of the Excel Transactions. As of December 31, 2014, the Company had issued 25,659,425 common shares as part of the Excel Vessel Share Consideration (Note 1 and Note 5).

11. Other operational gain:

For the year ended December 31, 2012, other operational gain totaled $3,507, mainly consisting of $2,514 and $157, which represented non-recurring revenues from the settlement of two commercial claims (Note 17.1 (a) and (b)) and a gain from a hull & machinery claim amounting to $812.

For the year ended December 31, 2013, other operational gain totaled $3,787, mainly consisting of $2,500 and $177 paid to the Company, in connection with the settlement of two commercial claims (Note 17.1 (a) and (b)) and $1,030 regarding a gain from a hull and machinery claim.

On June 28, 2013, the Company received a letter from the receivers of STX Pan Ocean Co. Ltd., or STX, terminating the charter agreement for the vessel *Star Borealis*, effective immediately. *Star Borealis* was on time charter at an average gross daily charter rate of $24.75 for the period from September 11, 2011 until July 11, 2021. On September 11, 2014, Star Bulk agreed the settlement of a claim for damages and due hire brought by its subsidiary, Star Borealis LLC (Star Borealis) arising from the repudiation of the long-term time charter by charterer STX, which claim had been filed with the Seoul Central District Court, Korea, (the Settled Claim). Star Borealis negotiated, sold and assigned the rights to the Settled Claim to an unrelated third party for consideration of $8,016, which was received on October 3, 2014. The Company recorded in 2014 a gain of approximately $9,377 including the extinguishment of a $1,361 liability related to the amount of fuel and lubricants remaining on board of the vessel *Star Borealis* at the time of the charter repudiation.

In addition, other operational gain for the year ended December 31, 2014, includes $456 relating to a gain from a hull and machinery insurance claim and a gain from a protection and indemnity claim, as well as $170 relating to a rebate from the Company s previous manning agent.

12. Other operational loss:

On September 29, 2010, the Company entered into an agreement with a third party to sell 45% of its interests in any future proceeds related to the recovery of certain of the commercial claims for consideration of $5,000 (Note 17.1. (a)). During the year ended December 31, 2012, the Company came to a legal settlement over a legal case included in the above agreement and paid the third party 45% of the proceeds from that settlement. As a result, for the year ended December 31, 2012, other operational loss of $1,226 mainly consists of $1,131 for the expense incurred by the Company towards the above third party.

Similarly, for the year ended December 31, 2013, other operational loss totaled $1,125, representing the expense incurred by the Company to a third party in connection to the settlement of a commercial claim, based on the same agreement.

For the year ended December 31, 2014, other operational loss totaled $94.

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13. (Loss)/ Earnings per share:

All shares issued (including the restricted shares issued under the Company s equity incentive plan) are the Company s common stock and have equal rights to vote and participate in dividends. The restricted shares issued under the Company s equity incentive plans are subject to forfeiture provisions set forth in the applicable award agreement. The calculation of basic earnings per share does not consider the non-vested shares as outstanding until the time-based vesting restriction has lapsed. For the years ended December 31, 2012 and 2014, and on the basis that the Company incurred losses, the effect of 18,667 and 394,167 non-vested shares, respectively, would be anti-dilutive, and Basic loss per share equals Diluted loss per share . The weighted average diluted common shares outstanding for the year ended December 31, 2013 included the effect of 65,045 incremental shares assumed to be issued under the treasury stock method, excluding 3,404 incremental shares due to their anti-dilutive effect.

The Company calculates basic and diluted losses per share as follows:

	2012	2013	2014
(Loss) / Income:			
Net (loss) / income	$(314,521)	$1,850	$(11,723)
Basic (loss) / earnings per share:			
Weighted average common shares outstanding, basic	5,393,131	14,051,344	58,441,193
Basic (loss) / earnings per share	$(58.32)	$0.13	$(0.20)
Effect of dilutive securities:			
Dillutive effect of non vested shares	—	65,045	—
Weighted average common shares outstanding, diluted	5,393,131	14,116,389	58,441,193
Diluted (loss) / earnings per share	$(58.32)	$0.13	$(0.20)

14. Equity Incentive Plan:

On March 21, 2013, the Company s Board of Directors adopted the 2013 Equity Incentive Plan and reserved for issuance 240,000 common shares thereunder. The Plan is designed to provide certain key persons, whose initiative and efforts are deemed to be important to the successful conduct of the business of the Company with incentives to enter into and remain in the service of the Company, acquire an interest in the success of the Company, maximize their performance and enhance the long-term performance of the Company. As of December 31, 2014, all of the respective shares have been granted and vested.

On March 21, 2013, 239,333 restricted common shares were granted to certain directors, officers, employees of the Company, the respective shares were issued on September 11, 2013, and vested on March 21, 2014. Additionally, on March 21, 2013, 12,000 restricted common shares were granted to a Company s former director, the respective shares vested immediately and were issued on June 27, 2013. The fair value of each share was $6.46 and was determined by reference to the closing price of the Company s common stock on the grant date.

On February 20, 2014, the Company s Board of Directors adopted the 2014 Equity Incentive Plan (the 2014 Plan) and reserved for issuance 430,000 common shares thereunder. The terms and conditions of the 2014 Plan are substantially similar to the terms and conditions of Company s previous equity incentive plans.

On February 20, 2014, 394,167 restricted common shares were granted to certain directors, officers and employees of the Company, which will vest on March 20, 2015. Additionally, on February 20, 2014, 8,000 restricted common shares were granted to certain directors of the Company, which vested immediately. The fair value of each share was $10.86, based on the closing price of the Company s common shares on the grant date. The shares were issued in May 2014 along with 9,333 common shares to the Company s former Chief Executive Officer, representing the first installment of his minimum guaranteed incentive award in accordance with his consultancy agreement (Note 3).

On August 4, 2014, the Company issued an aggregate of 168,842 common shares to its former Chief Executive Officer and current Non-Executive Chairman, in accordance with the terms of an agreement to terminate his consultancy agreement, effective July 31, 2014 (Note 3). The fair value of each share was $10.71, based on the closing price of the Company s common stock on the grant date, the date of the release agreement. In addition, as a result of the termination agreement, the second and the third installments of his minimum guaranteed incentive award under his consultancy agreement of 9,333 and 9,334, which would vest on May 3, 2015 and 2016, respectively, were cancelled.

On July 11, 2014, 15,000 common shares were granted to two of the Company s directors and vested on the same date. The Company plans to issue the respective shares in 2015. The fair value of each share was $12.03, based on the closing price of the Company s common shares on the grant date.

Vesting of all non-vested shares is conditional upon the grantee s continued service as an employee of the Company or as a director until the applicable vesting date. The grantee does not have the right to use such non-vested shares for voting until these shares vest or exercise any right as a shareholder of these shares. The issued and non-vested shares, however, pay dividends as declared. The dividends of these shares are forfeitable. For the years ended December 31, 2012, 2013 and 2014, the Company paid no dividends on non-vested shares.

The Company expects that there will be no forfeitures of non-vested shares. The shares which are issued in accordance with the terms of the Company s equity incentive plans or awards remain restricted until they vest. For the years ended December 31, 2012, 2013 and 2014, the stock based compensation cost was $1,546, $1,488 and $5,834,

respectively, and is included under General and administrative expenses in the accompanying consolidated statement of operations.

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14. Equity Incentive Plan - (continued):

A summary of the status of the Company s non-vested shares as of December 31, 2012, 2013 and 2014, and the movement during these years, is presented below.

	Number of shares	Weighted Average Grant Date Fair Value
Unvested as at January 1, 2012	28,000	$36.75
Granted	90,667	13.50
Vested	(100,000)	15.67
Unvested as at December 31, 2012	18,667	$36.75
Unvested as at January 1, 2013	18,667	$36.75
Granted	279,333	6.43
Vested	(21,333)	19.71
Unvested as at December 31, 2013	276,667	$7.46
Unvested as at January 1, 2014	276,667	$7.46
Granted	586,009	10.85
Vested	(449,842)	8.94
Cancelation of shares due to termination agreement with former CEO	(18,667)	6.20
Unvested as at December 31, 2014	394,167	$10.86

As of December 31, 2014, there was $858 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Company s equity incentive plans or awards. The cost is expected to be recognized over a weighted-average period of 0.22 years. The total fair value of shares vested during the years ended December 31, 2012, 2013 and 2014 was $1,386, $136 and $5,773, respectively.

15. Accrued liabilities

The amounts shown in the accompanying consolidated balance sheets are analyzed as follows:

	2013	2014
Audit fees	$255	$432
Legal fees	159	1,149
Other professional fees	262	350
Vessel operating and voyage expenses	1,734	8,477
Loan interest and financing fees	1,091	3,330
Total Accrued Liabilities	$3,501	$13,738

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16. Income taxes:

a) Taxation on Marshall Islands Registered Companies

Under the laws of the countries of the shipowning companies incorporation and/or vessels registration, the shipowning companies are not subject to tax on international shipping income. However, they are subject to registration and tonnage taxes, which have been included under Vessel operating expenses in the accompanying statements of operations. In addition, effective January 1, 2013, each foreign flagged vessel managed in Greece by Greek or foreign ship management companies is subject to Greek tonnage tax, under the laws of the Hellenic Republic. The technical managers of the Company s vessels , which are established in Greece under Greek Law 89/67, are responsible for the filing and payment of the respective tonnage tax on behalf the Company. These tonnage taxes for 2013 and 2014 amounted to $668 and $1,260, respectively, and have also been included under Vessel operating expenses in the accompanying statements of operations.

b) Taxation on US Source Income – Shipping Income

The Company believes that it and its subsidiaries are exempt from U.S. federal income tax at 4% on U.S. source shipping income for the taxable years 2012, 2013 and 2014, as each vessel-operating subsidiary is organized in a foreign country that grants an equivalent exemption to corporations organized in the United States and the Company s stock is primarily and regularly traded on an established securities market in the United States, as defined by the Internal Revenue Code (IRC) of the United States. Under IRS regulations, a Company s stock will be considered to be regularly traded on an established securities market if (i) one or more classes of its stock representing 50% or more of its outstanding shares, by voting power of all classes of stock of the corporation entitled to vote and of the total value of the stock of the corporation, are listed on the market and (ii) (A) such class of stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or one sixth of the days in a short taxable year; and (B) the aggregate number of shares of such class of stock traded on such market during the taxable year must be at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year. Notwithstanding the foregoing, the treasury regulations provide, in pertinent part, that a class of the Company s stock will not be considered to be regularly traded on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the vote and value of such class of the Company s outstanding stock, (5% Override Rule).

17. Commitments and Contingencies:

1) Legal proceedings

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company s vessels. The Company s vessels are covered for pollution in the amount of $1 billion per vessel per incident, by the Protection and Indemnity (P&I) Association in which the Company s vessels are entered. The Company s vessels are subject to calls payable to their P&I Association and may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. The Company is not aware of any supplemental calls in respect of any policy years other than those that have already been recorded in its consolidated financial statements.

In 2010, the Company commenced arbitration proceedings against Ishhar Overseas FZE of Dubai (Ishhar) for repudiatory breach of the charter parties due to the nonpayment of charter hires related to *Star Epsilon* and *Star Kappa*. The Company sought damages for repudiations of the charter parties due to early redelivery of the vessels as well as unpaid hire of $1,949. The Company pursued an interim award for such nonpayment of charter hire and an award for the loss of charter hire for the remaining period under the charter. Claim submissions were filed. As of December 31, 2011, the Company determined that the above amount was not recoverable and recognized a provision for doubtful receivables of $1,949.

a. Subsequently, a conditional settlement agreement was signed on September 5, 2012, under which the Company agreed to receive a cash payment of $5,000 in seventeen monthly installments. The first installment of $500 was received upon the execution of the settlement agreement and the next sixteen monthly installments, varying between $250 and $500, were received on the last day of each month beginning from September 30, 2012 and ending on December 31, 2013.

During the years ended December 31, 2012 and 2013, the Company received $2,514 and $2,500, respectively, under the settlement agreement, which is included under Other operational gain in the accompanying consolidated statements of operations for the years ended December 31, 2012 and 2013 (Note 11).

b. In February 2011, Korea Line Corporation (KLC), charterer at the time of the vessels *Star Gamma* and *Star Cosmo,* commenced rehabilitation proceedings in Seoul, Korea. Under the rehabilitation plan approved by KLC s creditors on October 14, 2011, the Company was entitled to receive $6,839, of which 37% is to be paid in cash over a period of ten years and the remaining 63% shall be converted into KLC s shares at a rate of one common share of KLC with par value of KRW 5,000 (approx. $0.0045 using the exchange rate as of December 31, 2014, KRW/usd 0.00091) for each KRW 100,000 (approx. $0.09 using the exchange rate as of December 31, 2014, KRW/usd 0.00091) of claim. Based on the terms of the rehabilitation plan, the shares of KLC will be restricted from trading for six months. The Company does not expect that it will have either control or significant influence over KLC as a result of the shares that it is entitled to receive under the terms of the rehabilitation plan. In addition, the Company entered into a direct agreement with KLC and received $172 in October 2011 and $172 in January 2013, as part of the due hire for *Star Gamma*. Finally, the Company entered into two tripartite agreements with KLC and the sub-charterers of the vessels *Star Gamma* and *Star Cosmo*, under which the Company received $86 from the *Star*

Gamma sub-charter in December 2011 and $121 in March 2012 from the *Star Cosmo* sub-charterer. As of December 31, 2011, the Company determined that $498 of receivables were not recoverable due to the long term time period of KLC s rehabilitation plan and the uncertainty surrounding the continuation of KLC s operations and recognized a corresponding provision.

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17. Commitments and Contingencies - (continued):

1) **Legal proceedings - (continued):**

On November 19, 2012, the Company received 11,502 shares (46,007 shares before split) of KLC as part of the rehabilitation plan described above for the vessel *Star Gamma*, which shares were sold the same date. The cash proceeds from the sale of the respective shares were $144. In December 2012, the Company also received $12 and $1 in cash, for *Star Gamma* and *Star Cosmo,* respectively, pursuant to the terms of the rehabilitation plan. The total amount of $157 is included under Other operational gain in the consolidated statements of operations for the year ended December 31, 2012 (Note 11). In October 2013 the Company received $167 and $10 for *Star Gamma* and *Star Cosmo,* respectively, pursuant to the terms of the rehabilitation plan, and the total amount of $177 is included under Other operational gain in the consolidated statements of operations for the year ended December 31, 2013 (Note 11). These amounts have been received as early payment of the cash component of the rehabilitation plan. The next tranche of 718 shares for the vessel *Star Cosmo* was released from lock up on June 4, 2013 and as of December 31, 2014, the shares had not been sold. In addition, in November 2013, 24,196 and 983 shares were issued pursuant to the terms of the rehabilitation plan for *Star Gamma* and *Star Cosmo*, respectively, all of which had not been sold up to December 31, 2014.

c. On July 13, 2011, *Star Cosmo* was retained by the port authority in the Spanish port of Almeria and was released on July 16, 2011. According to the port authority, the vessel allegedly discharged oily water while sailing in Spanish waters in May 2011, more than two months before being retained, and related records were allegedly deficient. Administrative investigation commenced locally. The Company posted a cash collateral of €340,000 (approx. $415, using the exchange rate as of December 31, 2014, eur/usd 1.22) to guarantee the payment of fines that may be assessed in the future, and the vessel was released. The cash collateral of €340,000 was released to the Company in March 2012, after being replaced by a P&I Letter of undertaking. The fines were previously reduced by the Spanish administrative authorities to €260,000 (approx. $317, using the exchange rate as of December 31, 2014, eur/usd 1.22). Except for an amount of €60,000 (approx. $73.2, using the exchange rate as of December 31, 2014, eur/usd 1.22), which was irrevocably adjudicated in March 2015, the remaining amount of this fine remains subject to adjudication. Up to $1 billion of the liabilities associated with the individual vessel s actions, mainly for sea pollution, are covered by the P&I Club Insurance. The Company has not accrued any amount for this case.

d. In March 2013, the Company commenced arbitration proceedings against Hanjin HHIC-Phil Inc., the shipyard that constructed the *Star Polaris*, relating to an engine failure the vessel experienced in Korea. This resulted in 142 off-hire days and the loss of $2,343 in revenues. The Company is pursuing the compensation for the cost of the repairs and the loss of revenues and an arbitration hearing is scheduled in July 2015.

e. On June 28, 2013, the Company received a letter from the receivers of STX Pan Ocean Co. Ltd., or STX, terminating the charter agreement for the vessel *Star Borealis*. *Star Borealis* was on time charter at an average gross daily charter rate of $24.75 for the period from September 11, 2011 until July 11, 2021. On September 11, 2014, Star Bulk agreed the settlement of a claim for damages and due hire brought by its subsidiary, Star Borealis

LLC arising from the purported repudiation of the *Star Borealis* charter agreement by charterer STX (the Settled Claim). Star Borealis LLC negotiated, sold and assigned the rights to the Settled Claim to an unrelated third party for $8,016, which was received on October 3, 2014. The Company recorded in 2014 a gain of approximately $9,377 including the extinguishment of a $1,361 liability related to the amount of fuel and lubricants remaining on board of *Star Borealis* at the time of the charter repudiation.

f. On October 23, 2014, a purported shareholder (the Plaintiff) of the Company filed a derivative and putative class action lawsuit in New York state court against the Company s Chief Executive Officer, members of its Board of Directors and several of its shareholders and related entities. The Company has been named as a nominal defendant in the lawsuit. The lawsuit alleges that the acquisition of Oceanbulk and purchase of several Excel Vessels were the result of self-dealing by various defendants and that the Company entered into the respective transactions on unfair terms. The lawsuit further alleges that, as a result of these transactions, several defendants interests in the Company have increased and that the Plaintiff s interest in the Company has been diluted. The lawsuit also alleges that the Company s management has engaged in other conduct that has resulted in corporate waste. The lawsuit seeks cancellation of all shares issued to the defendants in connection with the acquisition of Oceanbulk, unspecified monetary damages, the replacement of some or all members of the Company s Board of Directors and its Chief Executive Officer, and other relief. The Company believes the claims are completely without merit, denies them, and intends to vigorously defend against them in court.

On November 24, 2014, the Company and the other defendants removed the action to the United States District Court for the Southern District of New York. The court has issued a case management plan pursuant to which all fact discovery must be completed by October 2, 2015, and all expert discovery must be completed by November 16, 2015. No date for trial has been set. On March 4, 2015, the Company and the other defendants moved to dismiss the complaint. Briefing is underway and is expected to be completed by May 8, 2015.

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17. Commitments and Contingencies-(continued):

2) Other contingencies:

Contingencies relating to Heron

Following the completion of the Merger, Oceanbulk Shipping became a wholly owned subsidiary of the Company. As further discussed in Note 1, Oceanbulk Shipping owned the Heron Convertible Loan, which was convertible into 50% of Heron s equity. After the conversion of the loan, on November 5, 2014 (Note 1), Heron is a 50-50 joint venture between Oceanbulk Shipping and ABY Group Holding Limited, and Oceanbulk Shipping shares joint control over Heron with ABY Group Holding Limited. Based on the applicable related agreements, neither party will entirely control Heron. In addition, any operational and other decisions with respect to Heron will need to be jointly agreed between Oceanbulk Shipping and ABY Group Holding Limited. As of December 31, 2014, all vessels previously owned by Heron have been either sold or distributed to its equity holders, with the exception of one which was sold in March 2015. While Oceanbulk Shipping and ABY Group Holding Limited intend that Heron eventually will be dissolved shortly after the last vessel is sold and local authorities permit, until that occurs, contingencies to the Company may arise. However, the pre-transaction investors in Heron will effectively remain as ultimate beneficial owners of Heron, until Heron is dissolved on the basis that, according to the Merger Agreement, any cash received from the final liquidation of Heron will be transferred to the Sellers. As further disclosed in Note 9, the Company entered into a loan agreement with CiT Finance LLC for an amount of $25,311, to finance the cash portion of the acquisition of the Heron Vessels and drew this amount in December 2014, upon the acquisition of the Heron Vessels. As of December 31, 2014, the Company had an outstanding payable of $1,689 to the Sellers which is included under Due to related parties in the accompanying balance sheet as of December 31, 2014.

3) Lease commitments:

The following table sets forth inflows or outflows, related to the Company s leases, as at December 31, 2014.

	Twelve month periods ending December 31,						
+ inflows/ - outflows	Total	2015	2016	2017	2018	2019	2020 and thereafter
Future, minimum, non-cancellable charter revenue (1)	$73,892	$65,327	$8,565	$—	$—	$—	$—
Office rent	(948)	(108)	(108)	(108)	(105)	(97)	(422)
Bareboat capital leases - upfront hire & handling fees	(38,966)	(36,986)	(1,980)	—	—	—	—
	(535,791)	(9,563)	(32,953)	(40,004)	(40,004)	(43,231)	(370,036)

Bareboat commitments charter hire (2)							
Total	$(501,813)	$18,670	$(26,476)	$(40,112)	$(40,109)	$(43,328)	$(370,458)

(1) The amounts represent the minimum contractual charter revenues to be generated from the existing, as of December 31, 2014, non-cancellable time and freight charter until their expiration, net of address commission, assuming no off-hire days other than those related to scheduled interim and special surveys of the vessels.

(2) The amounts represent the Company s commitments under the bareboat lease arrangements representing the upfront hire fee and the charter hire. The bareboat charter hire is comprised of fixed and variable portion, the variable portion is calculated based on the 6-month LIBOR of 0.3628%, as of December 31, 2014 (please refer to Note 6).

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18. Voyage and Vessel operating expenses:

The amounts in the accompanying consolidated statements of operations are analyzed as follows:

	2012	2013	2014
Voyage expenses			
Port charges	$2,484	$1,455	$5,132
Bunkers	10,788	4,338	33,146
Commissions – third parties	947	867	1,902
Commissions – related parties (Note 3)	1,134	773	1,997
Chartered-in vessel expenses	4,050	—	—
Miscellaneous	195	116	164
Total voyage expenses	$19,598	$7,549	$42,341
Vessel operating expenses			
Crew wages and related costs	$14,498	$14,355	$29,449
Insurances	2,655	2,968	4,561
Maintenance, repairs, spares and stores	6,779	5,772	9,415
Lubricants	3,046	2,339	3,901
Tonnage taxes	169	797	1,360
Upgrading expenses	19	205	3,167
Miscellaneous	666	651	1,243
Total vessel operating expenses	$27,832	$27,087	$53,096

19. Fair value measurements:

The guidance for fair value measurements applies to all assets and liabilities that are being measured and reported on a fair value basis. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The same guidance requires that assets and liabilities carried at fair value should be classified and disclosed in one of the following three categories based on the inputs used to determine its fair value:

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

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

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

In addition, ASC 815, *Derivatives and Hedging* requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position.

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19. Fair value measurements – (continued):

Fair value on a recurring basis

19.1 Freight derivatives:

The Company occasionally trades in the freight derivatives (FFAs and freight options) markets in order to use those instruments as economic hedge instruments to reduce the risk on specific vessels trading in the spot market, or to take advantage of short term fluctuations in the market prices.

Dry bulk shipping freight derivatives have the following characteristics: (i) they cover periods that range from several days and months to one year or more years; (ii) they can be based on time charter rates or freight rates on specific quoted routes; and (iii) they are executed between two parties.

All Company s freight derivatives, if any, are cleared transactions. FFAs are usually settled on a daily basis through the London Clearing House. There is also a margin maintenance requirement based on marking the contract to market. Freight options are treated as assets/liabilities until they are settled. During 2012, the Company entered into several freight derivatives, including freight options, with a corresponding gain on freight derivative contracts for the year ended December 31, 2012 of $41, which is reflected under Gain/ (loss) on derivative financial instruments, net in the accompanying consolidated statements of operations, since the Company had not designated them as cash flow hedges for accounting purposes.

During 2013 and 2014, the Company did not enter into any freight derivatives. As of December 31, 2013 and 2014, no fair value measurement for assets or liabilities were recognized in the Company s consolidated balance sheets with respect to freight derivatives, since the Company had no open positions for these types of instruments as of those dates.

19.2 Interest rate swaps:

From time to time, the Company enters into interest rate derivative contracts to manage interest costs and risk associated with changing interest rates with respect to its variable interest loans and credit facilities.

In June 2013, the Company entered into two interest rate swap agreements with Credit Agricole Corporate and Investment Bank (the Credit Agricole Swaps) to fix forward its floating interest rate liabilities under the two tranches of the Credit Agricole $70,000 Facility (Note 9c). The Credit Agricole Swaps were based on an amortizing notional amount beginning from $26,840 and $28,628, for the *Star Borealis* and *Star Polaris* tranches, respectively, of the Credit Agricole $70,000 Facility. The Credit Agricole Swaps were effective by November and August 2014, respectively, and mature in August and November 2018. Under the terms of the Credit Agricole Swaps, the Company pays on a quarterly basis a fixed rate of 1.705% and 1.720% per annum, respectively, while receiving a variable amount equal to the three month LIBOR, both applied on the notional amount of the swaps outstanding at each settlement date.

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19. Fair value measurements – (continued):

Fair value on a recurring basis-(continued):

19.2 Interest rate swaps:

In addition, on April 28, 2014, the Company entered into two interest rate swap agreements (the HSH Swaps) to fix forward 50% of its floating interest rate liabilities for the HSH Nordbank $35,000 Facility (Note 9f). The HSH Swaps came into effect in September 2014 and mature in September 2018. Under the terms of the HSH Swaps, the Company is paying on a quarterly basis a fixed rate of 1.765% per annum, while receiving a variable amount equal to the three month LIBOR, both applied on the notional amount of the swaps outstanding at each settlement date.

Up to August 31, 2014, because the Credit Agricole Swaps and the HSH Swaps were not designated as accounting hedges, changes in their fair value at each reporting period up to that date, were reported in earnings as a loss under Gain/ (loss) on derivative financial instruments, net . On August 31, 2014 the Company designated the Credit Agricole Swaps and the HSH Swaps as cash flow hedges in accordance with ASC 815, *Derivatives and Hedging* . Accordingly, the effective portion of these cash flow hedges from September 1, 2014 to December 31, 2014 was reported in Accumulated other comprehensive loss . As of December 31, 2014 the notional amount of these swaps was $71,562.

Finally, as part of the Merger, the Company acquired five swap agreements that Oceanbulk Shipping had entered during the third quarter of 2013 with Goldman Sachs Bank USA (the Goldman Sachs Swaps). The Goldman Sachs Swaps were effective by October 2014 and mature in April 2018. Under their terms, Oceanbulk Shipping makes quarterly payments to the counterparty at fixed rates ranging between 1.79% to 2.07% per annum, based on an aggregate notional amount beginning at $186,307 on July 1, 2015, and increasing up to $461,264 on October 1, 2015. The counterparty makes quarterly floating rate payments at three-month LIBOR to the Company based on the same notional amount. Upon the completion of the Merger, on July 11, 2014, the Company re-designated the Goldman Sachs Swaps as cash flow hedges in accordance with ASC 815. Accordingly, the effective portion of these cash flow hedges, from that date to December 31, 2014, was reported in Accumulated other comprehensive loss . As of December 31, 2014 the notional amount of these swaps was $186,307.

The amount of gain recognized in Other Comprehensive Income / (Loss) (effective portion) which is reflected in the accompanying 2014 consolidated statement of comprehensive income is analyzed as follows:

Consolidated Statement of Comprehensive Income/(Loss)	2012	2013	2014
Unrealized loss from hedging interest rate swaps recognized in Other Comprehensive loss before reclassifications	$—	$—	$(1,433)
Reclassification adjustments of interest rate swap loss transferred to Interest and finance costs	—	—	1,055
Unrealized loss from hedging interest rate swaps, net	$—	$—	$(378)

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19. Fair value measurements – (continued):

Fair value on a recurring basis-(continued):

19.2 Interest rate swaps:

The amounts of gain/ (loss) on Derivative Financial Instruments recognized in the accompanying consolidated statements of operations are analyzed as follows:

Consolidated Statement of Operations	2012	2013	2014
Gain/(loss) on derivative instruments, net			
Gains/(losses) from freight derivatives	$41	$—	$—
Unrealized gains/(losses) from the Credit Agricole Swaps and the HSH Swaps before hedging designation (August 31, 2014)	—	91	(799)
Ineffective portion of cash flow hedges following hedging designation	—	—	—
Total Gains/(Losses) on derivative instruments, net	$41	$91	$(799)
Interest and finance costs			
Reclassification adjustments of interest rate swap loss transferred to Interest and finance costs from Other Comprehensive loss	—	—	(1,055)
Total Gains/(Losses) recognized	$41	$91	$(1,854)

An amount of approximately ($91) is expected to be reclassified into earnings during the following 12-month period when realized.

In relation to the above interest rate swap agreements designated as cash flow hedges and in accordance with ASC 815 *Derivatives and Hedging - Timing and Probability of the Hedged Forecasted Transaction*, the management of the Company considered the creditworthiness of its counterparties and the expectations of the forecasted transactions and determined that no events have occurred that would make the forecasted transaction not probable.

The following table summarizes the valuation of the Company s financial instruments as of December 31, 2013 and 2014, based on Level 2 observable inputs of the fair value hierarchy such as interest rate curves:

	Significant Other Observable Inputs (Level 2)	
	2013 (not designated as cash flow hedges)	2014 (designated as cash flow hedges)
ASSETS		
Interest rate swaps - asset position	$91	$ —
Total	$91	$ —
LIABILITIES		
Interest rate swaps - liability position (current and non-current)	$—	$ 7,732
Total	$—	$ 7,732

The carrying values of temporary cash investments, restricted cash, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these financial instruments. The fair value of long-term bank loans, bearing interest at variable interest rates, approximates their recorded values as of December 31, 2014.

The 8.00% 2019 Notes have a fixed rate, and their estimated fair value, determined through Level 1 inputs of the fair value hierarchy (quoted price on NASDAQ under the ticker symbol SBLKL), is approximately $37,460 as of December 31, 2014.

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19. Fair value measurements – (continued):

Fair value on a nonrecurring basis

As a result of the decline in charter rates and vessel values during the previous years and because market expectations for future rates were low and vessel values were unlikely to increase to the high levels of 2008, the Company reviewed, in 2012, 2013 and 2014 the recoverability of the carrying amount of its vessels. The Company s impairment analysis for 2012 indicated that the carrying amount of its then entire Supramax fleet and *Star Sigma* was not recoverable and after comparing the vessels fair values to their carrying values, an impairment loss of $303,219 was recognized, which was included under Vessel impairment loss in the accompanying consolidated statements of operations for the year ended December 31, 2012. The impairment analysis for the year ended December 31, 2013 and 2014, indicated that the carrying amount of the Company s vessels was recoverable, and therefore, the Company concluded that no impairment charge was necessary.

Details of the 2012 impairment charge for each vessel are noted in the table below.

Fair Value Measurements Using

Vessel	Quoted Prices in Active Markets for Identical Assets **(Level 1)**	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Vessel impairment loss
Star Cosmo	—	14,000	—	45,838
Star Delta	—	12,000	—	35,836
Star Epsilon	—	13,000	—	36,756
Star Gamma	—	14,000	—	36,033
Star Kappa	—	13,500	—	39,115
Star Omicron	—	17,750	—	39,841
Star Theta	—	15,000	—	36,784
Star Zeta	—	15,250	—	29,811
Star Sigma	—	9,000	—	3,205
TOTAL	—	123,500	—	303,219

The fair value is based on the Company s best estimate of the value of each vessel on a time charter free basis, and is supported by vessel valuations of independent shipbrokers as of September 30, 2012.

In addition, please refer to Note 1 for the fair value of assets acquired and liabilities assumed by the Company at the Merger and the Pappas Transaction on July 11, 2014, which was the acquisition date.

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20. Subsequent Events:

a) **Equity offering**: On January 14, 2015, the Company completed a primary underwritten public offering of 49,000,418 of its common shares, at a price of $5.00 per share. The aggregate proceeds to the Company net of underwriters commissions were approximately $242,211.

b) **Excel Vessel deliveries**: Subsequent to December 31, 2014, five of the remaining Excel Vessels were delivered to the Company in exchange for 3,264,726 common shares and $30,286 in cash.

c) **Sale of Vessels**: On January 20, 2015, January 28, 2015, March 6, 2015 and March 19, 2015, the Company entered into separate agreements with third parties to sell four of the recently acquired Excel Vessels *Star Julia*, *Star Tatianna*, *Rodon* and *Star Monika*, respectively. The vessels were delivered to their new owners on February 4, 2015, February 9, 2015, March 12, 2015 and April 3, 2015, respectively. In addition, the vessel *Star Kim,* which was agreed to be sold in December 2014 (Note 5), was delivered to her new owners on January 21, 2015. In connection with the sale of the vessels *Star Julia*, *Star Tatianna, Star Monika* and *Star Kim* the Company prepaid an amount of $18,181 under the Excel Vessel CiT Facility (Note 9).

d) **Outsourcing of Certain Procurement Services:** As of January 1, 2015, the Company has engaged Ship Procurement Services S.A., an unaffiliated third party company, to provide to its fleet certain procurement services at a daily fee of $0.295 per vessel.

e) **Delivery of newbuilding vessels:** On January 8, 2015, the Company took delivery of the vessel *Indomitable* (HN 5016), for which it had made a payment of $34,942 in December 2014. To partially finance the delivery installment of the *Indomnitable*, the Company drew down $32,480 under the BNP $32,480 Facility (Note 9j). In addition, on February 27, 2015, the Company took delivery of the *Honey Badger* (HN 164) and *Wolverine* (HN 165), for which the Company paid delivery installments of $19,422 each. These two vessels were partially financed under the Sinosure Facility (Note 9n). On March 13, 2015, the Company drew down $38,162 for the financing of both *Honey Badger* and *Wolverine*. On March 25, 2015 and March 31, 2015, the Company took delivery of the vessels Idee Fixe (ex HN 1063) and Roberta (ex HN 1061), respectively, which were subject to bareboat capital lease agreements with New YJ Builders (Note 6). On April 2, 2015, the Company took delivery of the vessel *Gargantua* (ex-HN 166), for which it made a payment of $37,682, $32,400 of which was drawn under the DNB – CEXIM Facility on April 1, 2015 (see note 20 j below).

f) **Repayment of the Excel Vessel Bridge Facility**: On January 29, 2014, the Company fully prepaid the Excel Vessel Bridge Facility.

g) **Release of Heron shares:** In January 2015, the 2,115,706 shares issued into escrow as consideration for the Heron Transaction (Notes 1 and 17.2) were released from the escrow account.

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20. Subsequent Events-(continued):

h) **DVB committed term sheet:** On March 6, 2015, the Company entered into a committed term sheet with DVB Bank SE for the financing of the newbuilding vessel HN5017 (tbn *Deep Blue*) for an amount up to $31,000.

i) **BNP committed term sheet:** On March 13, 2015, the Company entered into a committed term sheet with BNP Paribas for the financing of two vessels, the newbuilding vessel HN5056 (tbn *Megalodon*) and the 2004 built Panamax vessel *Star Emily*, for an amount up to $39,500.

j) **DNB–SEB–CEXIM committed term sheet:** On March 19, 2015, the Company entered into a committed term sheet and on March 31, 2015 signed the final loan documentation, with DNB Bank ASA as facility agent, security agent account bank and bookrunner, DNB Bank ASA and the Export-Import Bank of China (CEXIM) as mandated lead arrangers and DNB Bank ASA, Skandinaviska Enskilda Banken AB (SEB) and CEXIM as original lenders for the financing of seven newbuilding vessels, HN166 (tbn *Gargantua*), HN167 (tbn *Goliath*), HN1338 (tbn *Star Aries*), HN184 (tbn *Maharaj*), HN1339 (tbn *Star Taurus*), HN1342 (tbn *Star Gemini*) and HN198 (tbn *Star Poseidon*) for an amount up to $227,500.

k) **ABN AMRO Bank N.V. $31,000 Facility**: On March 31, 2015, the Company and ABN AMRO signed a third supplemental agreement and agreed to revise certain financial covenants.

l) **Restructuring Agreement – Commerzbank $120,000 and $26,000 Facilities:** On March 30, 2015, the Company and Commerzbank AG signed a second supplemental agreement. Under the supplemental agreement, the Company agreed to (i) prepay Commerzbank AG $3,000 ,(ii) amend some of the financial covenants and iii) change the repayment date for the Commerzbank $26,000 Facility from September 7, 2016 to July 31, 2015.