

StealthGas Inc.  
Form 20-F  
June 29, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549  
FORM 20-F**

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

**OR**

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

**For the fiscal year ended December 31, 2009**

**OR**

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

**OR**

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

**Commission file number 000-51559**

**STEALTHGAS INC.**

**(Exact name of Registrant as specified in its charter)**

**Republic of the Marshall Islands**

**(Jurisdiction of incorporation or organization)**

**331 Kifissias Avenue, Erithrea 14561 Athens, Greece**

**(Address of principal executive offices)**

**Andrew J. Simmons**

**331 Kifissias Avenue, Erithrea 14561, Athens, Greece**

**Telephone: (011) (30) (210) 625 0001**

**Facsimile: (011) (30) (210) 625 0018**

**(Name, Address, Telephone Number and Facsimile Number of Company Contact Person)**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

**Title of each class**

**Name of each exchange on which registered**

**Common Stock, par value \$0.01 per share**

**The Nasdaq Stock Market LLC**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

**None**

**SECURITIES FOR WHICH THERE IS A REPORTING OBLIGATION  
PURSUANT TO SECTION 15(d) OF THE ACT:**

**None**

**The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2009 was:**

**Common Stock, par value \$0.01 per share 22,310,110 shares**

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP ☒

International Financial Reporting Standards ☐

Other ☐

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

☐ Item 17

☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

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**FORWARD-LOOKING INFORMATION**

This Annual Report on Form 20-F includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as forward-looking statements. We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material.

All statements in this document that are not statements of historical fact are forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Forward-looking statements include, but are not limited to, such matters as:

future operating or financial results;

global and regional economic and political conditions;

pending or recent acquisitions, business strategy and expected capital spending or operating expenses;

competition in the marine transportation industry;

shipping market trends, including charter rates, factors affecting supply and demand and world fleet composition;

ability to employ our vessels profitably;

performance by the counterparties to our charter agreements;

future liquefied petroleum gas ( LPG ) and refined petroleum product prices and production;

future supply and demand for refined petroleum products and natural gas of which LPG is a byproduct;

our financial condition and liquidity, including our ability to obtain financing in the future to fund capital expenditures, acquisitions and other general corporate activities, the terms of such financing and our ability to comply with covenants set forth in our existing and future financing arrangements; and

expectations regarding vessel acquisitions.

When used in this document, the words anticipate, believe, intend, estimate, project, forecast, plan, po should and expect reflect forward-looking statements. Such statements reflect our current views and assumptions and all forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. The factors that could affect our future financial results are discussed more fully under Item 3. Key Information Risk Factors, as well as elsewhere in this Annual Report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission ( SEC ). We caution readers of this Annual Report not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements.

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**PART I**

StealthGas Inc. is a Marshall Islands company that is referred to in this Annual Report on Form 20-F, together with its subsidiaries, as StealthGas, the Company, we, us, or our. This annual report should be read in conjunction with consolidated financial statements and the accompanying notes thereto, which are included in Item 18 to this annual report.

We use the term cubic meters, or cbm, in describing the size of our liquefied petroleum gas carriers and the term deadweight tons, or dwt, in describing the size of our product carriers. Unless otherwise indicated, all references to currency amounts in this annual report are in U.S. dollars.

**Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

**Item 3. Key Information**

**Selected Consolidated Financial Data**

The following table sets forth our selected consolidated financial data and other operating data shown in U.S. dollars, other than share and fleet data. The table should be read together with Item 5. Operating and Financial Review and Prospects.

Our audited and consolidated statements of operations for the years ended December 31, 2007, 2008 and 2009, consolidated statements of cash flows and consolidated statements of changes in stockholders' equity for the years ended December 31, 2007, 2008 and 2009 and the consolidated balance sheets as of December 31, 2008 and 2009, together with the notes thereto, are included in Item 18. Financial Statements and should be read in their entirety. The selected consolidated income statement data for the periods ended December 31, 2005 and 2006 and the selected balance sheet data as of December 31, 2005, 2006 and 2007 have been derived from our audited consolidated financial statements which are not included in Item 18. Financial Statements.

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| <b>INCOME STATEMENT DATA</b>                                                                                                                 | <b>Year ended December 31,</b> |               |               |                |                |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|---------------|---------------|----------------|----------------|
|                                                                                                                                              | <b>2005</b>                    | <b>2006</b>   | <b>2007</b>   | <b>2008</b>    | <b>2009</b>    |
| Revenues:                                                                                                                                    |                                |               |               |                |                |
| Voyage revenues                                                                                                                              |                                |               |               |                |                |
| Operating expenses:                                                                                                                          | \$ 36,644,591                  | \$ 73,259,369 | \$ 89,995,123 | \$ 112,551,901 | \$ 113,045,961 |
| Voyage expenses                                                                                                                              | 2,688,155                      | 6,213,804     | 5,369,546     | 6,180,754      | 10,522,573     |
| Vessels operating expenses                                                                                                                   | 9,095,576                      | 19,474,344    | 25,435,578    | 32,178,385     | 38,001,481     |
| Dry-docking costs                                                                                                                            | 470,384                        | 2,243,395     | 314,181       | 1,112,992      | 1,266,455      |
| Management fees                                                                                                                              | 1,473,080                      | 3,068,609     | 4,126,610     | 4,618,025      | 5,230,990      |
| General and administrative expenses                                                                                                          | 779,539                        | 3,457,688     | 5,024,912     | 4,772,615      | 3,546,779      |
| Depreciation                                                                                                                                 | 5,611,942                      | 13,058,316    | 16,546,692    | 23,283,393     | 26,766,672     |
| Impairment Loss                                                                                                                              |                                |               |               |                | 9,867,777      |
| Forfeiture of vessel deposit and contract termination fees                                                                                   |                                |               |               |                | 16,5000,00     |
| Charter termination fees                                                                                                                     |                                |               |               |                | (753,000)      |
| Net gain (loss) on sale of vessels                                                                                                           |                                |               |               | (1,673,321)    | 791,659        |
| Total expenses                                                                                                                               | 20,118,676                     | 47,516,156    | 56,817,519    | 70,472,843     | 111,759,386    |
| Income from operations                                                                                                                       | 16,525,915                     | 25,743,213    | 33,177,604    | 42,079,058     | 1,286,575      |
| Interest and finance costs                                                                                                                   | (2,685,207)                    | (7,705,602)   | (9,831,404)   | (9,962,504)    | (9,109,222)    |
| Change in fair value of derivatives                                                                                                          | (67,000)                       | (192,664)     | (2,573,992)   | (2,713,055)    | (5,478,163)    |
| Interest income                                                                                                                              | 780,434                        | 735,090       | 1,888,070     | 743,193        | 250,326        |
| Foreign exchange loss                                                                                                                        | (18,091)                       | (87,528)      | (122,171)     | (159,208)      | (261,401)      |
| Other expenses, net                                                                                                                          | (1,989,864)                    | (7,250,704)   | (10,639,497)  | (12,091,574)   | (14,598,460)   |
| Net income/(Loss)                                                                                                                            | 14,536,051                     | 18,492,509    | 22,538,107    | 29,987,484     | (13,311,885)   |
| Earnings/(Loss) per share, basic (retroactively adjusted for 60,000-to-1 stock split effected on August 26, 2005)**                          | \$ 1.84                        | \$ 1.31       | \$ 1.25       | \$ 1.35        | \$ (0.60)      |
| Earnings/(Loss) per share, diluted (retroactively adjusted for 60,000-to-1 stock split effected on August 26, 2005) (1)**                    | \$ 1.84                        | \$ 1.31       | \$ 1.25       | \$ 1.34        | \$ (0.60)      |
| Weighted (and diluted) average number of shares outstanding (retroactively adjusted for 60,000-to-1 stock split effected on August 26, 2005) | 7,906,849                      | 14,161,096    | 17,943,346    | 22,182,118     | 22,219,442     |
|                                                                                                                                              | \$ 1.67                        | \$ 0.75       | \$ 0.75       | \$ 0.75        | \$ 0.1875      |

Dividends declared per share, basic and diluted (retroactively adjusted for 60,000-to-1 stock split effected on August 26, 2005)\*

| <b>BALANCE SHEET DATA</b>                                                                            | <b>As of December 31,</b> |               |               |               |               |
|------------------------------------------------------------------------------------------------------|---------------------------|---------------|---------------|---------------|---------------|
|                                                                                                      | <b>2005</b>               | <b>2006</b>   | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   |
| Current assets, including cash                                                                       | \$ 26,016,248             | \$ 17,891,738 | \$ 69,497,341 | \$ 52,458,518 | \$ 69,031,753 |
| Total assets                                                                                         | 256,978,768               | 319,605,321   | 477,593,326   | 634,347,123   | 692,497,010   |
| Current liabilities                                                                                  | 20,725,441                | 28,628,998    | 37,372,666    | 40,774,931    | 69,023,455    |
| Derivative liability                                                                                 | 67,000                    | 35,902        | 3,288,989     | 12,762,979    | 10,327,792    |
| Total long-term debt, including current portion                                                      | 97,706,000                | 140,948,240   | 145,758,529   | 283,693,873   | 345,822,070   |
| Total stockholders' equity                                                                           | 151,107,327               | 163,802,228   | 303,030,788   | 317,847,325   | 300,801,931   |
| Capital stock (retroactively adjusted for 60,000-to-1 stock split effected on August 26, 2005)       | 140,000                   | 144,000       | 222,841       | 223,101       | 223,101       |
| Common shares outstanding (retroactively adjusted for 60,000-to-1 split effected on August 26, 2005) | 14,000,000                | 14,400,000    | 22,284,105    | 22,310,110    | 22,310,110    |
|                                                                                                      |                           | - 3 -         |               |               |               |

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|                                                   | Year ended December 31, |               |               |               |               |
|---------------------------------------------------|-------------------------|---------------|---------------|---------------|---------------|
| <b>OTHER FINANCIAL DATA</b>                       | <b>2005</b>             | <b>2006</b>   | <b>2007</b>   | <b>2008</b>   | <b>2009</b>   |
| Net cash provided by operating activities         | \$ 24,414,729           | \$ 33,224,984 | \$ 47,704,497 | \$ 48,080,792 | \$ 48,347,343 |
| Net cash used in investing activities             | (197,780,709)           | (84,282,368)  | (149,636,615) | (159,979,986) | (101,563,715) |
| Net cash provided by financing activities         | 196,576,223             | 38,994,012    | 123,900,119   | 120,632,381   | 55,444,652    |
| <b>FLEET DATA</b>                                 |                         |               |               |               |               |
| Average number of vessels(1)                      | 11.9                    | 25.9          | 32.8          | 38.6          | 42.0          |
| Total voyage days for fleet(2)                    | 4,288                   | 9,346         | 11,871        | 14,018        | 15,240        |
| Total time and bareboat charter days for fleet(3) | 4,105                   | 8,209         | 11,170        | 13,318        | 12,276        |
| Total spot market days for fleet(4)               | 183                     | 1,137         | 701           | 700           | 2,964         |
| Total calendar days for fleet(5)                  | 4,334                   | 9,451         | 11,986        | 14,113        | 15,335        |
| Fleet utilization(6)                              | 98.9%                   | 98.9%         | 99.0%         | 99.3%         | 99.4%         |
| <b>AVERAGE DAILY RESULTS</b>                      |                         |               |               |               |               |
| Time charter equivalent(7)                        | \$ 7,919                | \$ 7,174      | \$ 7,129      | \$ 7,588      | \$ 6,727      |
| Vessel operating expenses(8)                      | 2,099                   | 2,061         | 2,122         | 2,280         | 2,478         |
| General and administrative expenses               | 180                     | 366           | 419           | 338           | 232           |
| Management fees                                   | 340                     | 325           | 344           | 327           | 341           |
| Total operating expenses(9)                       | 2,279                   | 2,426         | 2,541         | 2,618         | 2,711         |

\* As a privately held company, we paid no dividends in 2004 and an aggregate dividend of \$10.0 million in July 2005. We paid no dividends in 2005 after becoming a public company in October 2005. We paid our first quarterly dividend since becoming a public company, of \$0.1875 per share, in January 2006. In the first quarter of 2009, our board of directors decided to suspend the payment of further

cash dividends as a result of market conditions in the international shipping industry. Our payment of dividends is subject to the discretion of our Board of Directors. Our loan agreements and the provisions of Marshall Islands law also restrict our ability to pay dividends. See

Item 3. Risk Factors    Risks Related To Our Common Stock  
Our Board of Directors has determined to suspend the payment of cash dividends as a result of market conditions in the international shipping industry, and until such market conditions improve, it is unlikely we will reinstate the payment of dividends and

Item 8. Financial Information  
Dividend Policy.

\*\* On January 1, 2009, the Company adopted new guidance which clarified that unvested share-based payment awards that contain rights to receive non

forfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (EPS). This standard was applied retroactively to all periods presented, for the years ended December 31, 2005, 2006, and reduced basic EPS by \$0.01 for the years ended December 31, 2007 and 2008 respectively.

- (1) Average number of vessels is the number of vessels that constituted our fleet for the relevant period, as measured by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in that period.
- (2) Our total voyage days for our fleet reflect the total days the vessels were in our possession for the relevant periods, net of off-hire days

associated with  
major repairs,  
drydockings or  
special or  
intermediate  
surveys.

- (3) Total time and bareboat charter days for fleet are the number of voyage days the vessels in our fleet operated on time or bareboat charters for the relevant period.
- (4) Total spot market charter days for fleet are the number of voyage days the vessels in our fleet operated on spot market charters for the relevant period.
- (5) Total calendar days are the total days the vessels were in our possession for the relevant period including off-hire days associated with major repairs, drydockings or special or intermediate surveys.
- (6) Fleet utilization is the percentage of time that our vessels were available for revenue generating voyage days, and is determined by dividing voyage days by fleet

calendar days for  
the relevant period.

- (7) Time charter equivalent rate, or TCE rate, is a measure of the average daily revenue performance of a vessel on a per voyage basis. Our method of calculating TCE rate is consistent with industry standards and is determined by dividing voyage revenues (net of voyage expenses) or time charter equivalent revenues or TCE revenues by voyage days for the relevant time period. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by the charterer under a time charter contract, as well as commissions. TCE revenues, a non-GAAP measure, provides additional meaningful information in conjunction with voyage revenues, the most directly comparable GAAP measure, because it

assists Company management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance. It is also a standard shipping industry performance measure used primarily to compare period-to-period changes in a shipping company's performance despite changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed between the periods. Reconciliation of TCE revenues as reflected in the consolidated statement of income and calculation of TCE rate follow:

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|                                    | <b>Year ended December 31,</b> |               |               |                |                |
|------------------------------------|--------------------------------|---------------|---------------|----------------|----------------|
|                                    | <b>2005</b>                    | <b>2006</b>   | <b>2007</b>   | <b>2008</b>    | <b>2009</b>    |
| Voyage revenues                    | \$ 36,644,591                  | \$ 73,259,369 | \$ 89,995,123 | \$ 112,551,901 | \$ 113,045,961 |
| Voyage expenses                    | (2,688,155)                    | (6,213,804)   | (5,369,546)   | (6,180,754)    | (10,522,573)   |
| Time charter equivalent revenues   | \$ 33,956,436                  | \$ 67,045,565 | \$ 84,625,577 | \$ 106,371,147 | \$ 102,519,480 |
| Total voyage days for fleet        | 4,288                          | 9,346         | 11,871        | 14,018         | 15,240         |
| Time charter equivalent (TCE) rate | \$ 7,919                       | \$ 7,174      | \$ 7,129      | \$ 7,588       | \$ 6,727       |

(8) Vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, is calculated by dividing vessel operating expenses by fleet calendar days for the relevant time period.

(9) Total operating expenses, or TOE, is a measurement of our total expenses associated with operating our vessels. TOE is the sum of vessel operating expenses and general and administrative

expenses. Daily  
TOE is  
calculated by  
dividing TOE  
by fleet calendar  
days for the  
relevant time  
period.

### Capitalization and Indebtedness

The table below sets forth our consolidated capitalization at December 31, 2009 on an actual basis and as adjusted to reflect the number of shares repurchased (1,205,229 shares with an aggregate value of \$6,280,327) and the aggregate scheduled loan repayments of \$27.8 million until June 18, 2010. There has been no material change to our capitalization since December 31, 2009 as so adjusted.

This table should be read in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 20-F.

|                                                                                                                                                                                                                           | <b>As of December 31, 2009</b> |                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------|
|                                                                                                                                                                                                                           | <b>Actual</b>                  | <b>As Adjusted</b> |
| In thousands of U.S. Dollars                                                                                                                                                                                              |                                |                    |
| Long-term debt obligations (including current portion)*                                                                                                                                                                   | \$ 345,822,070                 | \$ 318,016,353     |
| Stockholders' equity:                                                                                                                                                                                                     |                                |                    |
| Common stock, \$0.01 par value per share, 100,000,000 shares authorized, actual and as adjusted; 22,310,000 shares issued and outstanding, actual; 21,104,881 shares issued and 21,104,214 shares outstanding as adjusted |                                |                    |
| (1)(2)                                                                                                                                                                                                                    | \$ 223,101                     | \$ 211,042         |
| Additional paid-in capital                                                                                                                                                                                                | \$ 284,100,096                 | \$ 277,819,769     |
| Retained earnings                                                                                                                                                                                                         | \$ 16,478,374                  | \$ 16,478,374      |
| Total stockholders' equity                                                                                                                                                                                                | \$ 300,801,931                 | \$ 294,509,545     |
| Total capitalization                                                                                                                                                                                                      | \$ 646,624,001                 | \$ 612,525,898     |

\* All of our indebtedness is secured.

(1) Includes 42,002 unvested restricted shares as of December 31, 2009, of which 6,501 shares vested on March 18, 2010, and 667 were forfeited upon the resignation of one of our directors on

April 22, 2010.

- (2) The 1,205,229 shares repurchased in 2010 have been cancelled and the 667 forfeited restricted shares forfeited in 2010 were held as treasury stock as of June 15, 2010.

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**Reasons For the Offer and Use of Proceeds**

Not Applicable.

**Risk Factors**

**Risks Related To Our Industry**

*The cyclical nature of the demand for LPG transportation, which has recently declined, may lead to significant changes in our chartering and vessel utilization, which may adversely affect our revenues, profitability and financial position.*

Historically, the international LPG carrier market has been cyclical with attendant volatility in profitability, charter rates and vessel values. The degree of charter rate volatility among different types of gas carriers has varied widely. Because many factors influencing the supply of, and demand for, vessel capacity are unpredictable, the timing, direction and degree of changes in the international gas carrier market are also not predictable. After increasing throughout 2007 and into 2008, charter rates for Handy size LPG carriers declined in the second half of 2008 and in 2009 as a result of slowdown in the world economy. During early 2010 charter rates have remained at similar levels to those seen in the latter part of 2008 and during 2009. If charter rates remain depressed or decline further, our earnings may decrease, particularly with respect to our vessels deployed in the spot market or those vessels whose charters will be subject to renewal during 2010. Any of the foregoing factors could have an adverse effect on our revenues, profitability, liquidity, cash flow and financial position.

To the extent we have vessels in the spot market, we are exposed to changes in spot rates for gas carriers and such changes can affect our earnings and the value of our gas carriers at any given time. We are also exposed to fluctuations in bunker (fuel) costs for which we are responsible in respect of vessels on spot charters. As of June 18, 2010, eight of our 37 vessels were deployed in the spot market while eight and 21 were under bareboat and time period charters, respectively. As our period charters expire they may not be extended or renewed on favorable terms when compared to the terms of the expiring charters.

Future growth in the demand for LPG carriers and charter rates will depend on economic growth in the world economy and demand for LPG product transportation that exceeds the capacity of the growing worldwide LPG carrier fleet's ability to match it. We believe that the future growth in demand for LPG carriers and the charter rate levels for LPG carriers will depend primarily upon the supply and demand for LPG particularly in the economies of China, India and Southeast Asia, and upon seasonal and regional changes in demand and changes to the capacity of the world fleet. The capacity of the world shipping fleet appears likely to increase in the near term, although growth in our core sector of 3,000 to 8,000 cbm Handy size LPG Carriers is expected to be limited in 2010. Economic growth may be limited in the near term, and possibly for an extended period, as a result of the current worldwide financial crisis, which could adversely affect demand for LPG transportation. Adverse economic, political, social or other developments, including the continued turmoil in the global financial system and economic crisis, could have a material adverse effect on world economic growth and thus on our business and results of operations.

The factors affecting the supply and demand for LPG carriers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence demand for our vessels include:

supply and demand for LPG products;

global and regional economic conditions;

the distance LPG products are to be moved by sea;

availability of alternative transportation means; and

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changes in seaborne and other transportation patterns.

The factors that influence the supply of vessel capacity include:

the number of newbuilding deliveries;

the scrapping rate of older vessels;

LPG carrier prices;

changes in environmental and other regulations that may limit the useful lives of vessels; and

the number of vessels that are out of service.

A significant decline in demand for the seaborne transport of LPG or a significant increase in the supply of LPG carrier capacity without a corresponding growth in LPG carrier demand could cause a significant decline in prevailing charter rates, which could materially adversely affect our financial condition and operating results and cash flow.

***Various economic factors could materially adversely affect our business, financial position and results of operations, as well as our future prospects.***

The global economy and the volume of world trade sharply declined in the latter part of 2008 and in 2009. Although the global economy has begun to show signs of the beginning of a recovery, both slow and not consistent on a worldwide basis. More specifically, some LPG products we carry are used in cyclical businesses, such as the manufacturing of plastics and in the chemical industry, that have been adversely affected by the recent economic downturn and, accordingly, a further slackening of demand in those industries could further adversely affect the LPG carrier industry. In particular, an adverse change in economic conditions affecting China, Japan, India or Southeast Asia generally could have a negative effect on the demand for LPG products, thereby adversely affecting our business, financial position and results of operations, as well as our future prospects. In particular, in recent years China and India have been among the world's fastest growing economies in terms of gross domestic product. In 2008 growth in China slowed significantly from recent years, and it is likely that China and other countries in the Asia Pacific region will continue to experience slowed or even negative economic growth in the near future. Moreover, any further deterioration in the economy of the United States or the European Union, including due to the European sovereign debt crisis, may further adversely affect economic growth in Asia. Our business, financial position and results of operations, as well as our future prospects, could likely be materially and adversely affected by adverse economic conditions in any of these countries or regions.

***If the demand for LPG products and LPG shipping does not grow, or decreases, our business, results of operations and financial condition could be adversely affected.***

Our growth, which depends on growth in the supply and demand for LPG products and LPG shipping, was adversely affected by the sharp decrease in world trade and the global economy experienced in the latter part of 2008 and in 2009. Although the global economy has begun to show signs of the beginning of a recovery, world and regional demand for LPG products and LPG shipping can be adversely affected by a number of factors, such as:

adverse global or regional economic or political conditions, particularly in LPG consuming regions, which could reduce energy consumption;

a reduction in global or general industrial activity specifically in the plastics and chemical industry;

increases in the cost of petroleum and natural gas from which LPG is derived;

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decreases in the consumption of LPG or natural gas due to availability of new, alternative energy sources or increases in the price of LPG or natural gas relative to other energy sources or other factors making consumption of LPG or natural gas less attractive; and

increases in pipelines for LPG, which are currently few in number, linking production areas and industrial and residential areas consuming LPG, or the conversion of existing non-petroleum gas pipelines to petroleum gas pipelines in those markets.

Reduced demand for LPG products and LPG shipping would have an adverse effect on our future growth and would harm our business, results of operations and financial condition.

***Our operating results are subject to seasonal fluctuations, which could affect our operating results and the amount of available cash with which we can pay dividends.***

We operate our LPG carriers in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter-to-quarter volatility in our operating results, which could affect the amount of dividends that we pay to our stockholders from quarter-to-quarter. The LPG carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of propane and butane for heating during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues may be stronger in fiscal quarters ended December 31 and March 31, and conversely, our revenues may be weaker during the fiscal quarters ended June 30 and September 30. This seasonality could materially affect our operating results and cash available for distribution to our stockholders as dividends in the future.

***Our revenues, operations and future growth could be adversely affected by a decrease in supply of liquefied natural gas, or natural gas.***

In recent years, there has been a strong supply of natural gas and an increase in the construction of plants and projects involving natural gas, of which LPG is a byproduct. Several of these projects, however, have experienced delays in their completion for various reasons and thus the expected increase in the supply of LPG from these projects may be delayed significantly. If the supply of natural gas decreases, we may see a concurrent reduction in the production of LPG and resulting lesser demand and lower charter rates for our vessels, which could ultimately have a material adverse impact on our revenues, operations and future growth.

***The product carrier shipping and crude oil tanker sectors are cyclical, which may lead to lower charter rates and lower vessel values.***

The medium range type product carrier and crude oil tanker shipping sectors are also cyclical with attendant volatility in charter rates and vessel values. Although the charter arrangements for our three product carriers are not scheduled to expire until 2015 in the case of the first two and 2012 in regard to our third product carrier, and 2015 in the case of the crude oil tanker we have agreed to acquire, if prevailing market conditions, which have recently deteriorated along with the global economy, are depressed at such times as these charters expire or otherwise are terminated, we may not be able to renew or replace existing charters for our product carriers at the same or similar rates. If we were required to enter into a charter when charter hire rates are low, our results of operations could be adversely affected.

***The market values of our vessels, which have recently declined, may remain at current low, or lower, levels for a prolonged period and, over time, may fluctuate significantly. If the market values of our vessels are low, we may incur a loss on sale of a vessel or record an impairment charge, which may adversely affect our earnings and possibly lead to defaults under our loan agreements.***

Due to the sharp decline in the world economy and related decreases in charter rates, the market value of our vessels declined from December 31, 2008 to December 31, 2009. The market values of our vessels may remain at current low, or be depressed to even lower, values for a prolonged period of time and, as was the case with the

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recent decreases in value, are subject to the potential significant fluctuations depending on a number of factors including:

general economic and market conditions affecting the shipping industry;

age, sophistication and condition of our vessels;

types and sizes of vessels;

availability of other modes of transportation;

cost and delivery of schedules for newbuildings;

governmental and other regulations;

supply and demand for LPG products and, with respect to our product carriers, refined petroleum products;

prevailing level of LPG charter rates and, with respect to our product carriers, the prevailing level of product carrier charter rates; and

technological advances.

If we sell vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be for less than the vessel's carrying value on our financial statements, resulting in a loss and reduction in earnings. Furthermore, if vessel values experience significant further declines, we may have to record an impairment adjustment in our financial statements, which could adversely affect our financial results. For instance, in 2009, we recorded an impairment charge of \$9.9 million in respect of four of our vessels. If the market value of our fleet further declines, we may not be in compliance with certain provisions of our existing loan agreements and we may not be able to refinance our debt or obtain additional financing and pay dividends. If we are unable to pledge additional collateral, our lenders could accelerate our debt and foreclose on our fleet. The loss of our vessels would mean we could not run our business.

***We are subject to regulation and liability under environmental laws that could require significant expenditures and affect our financial conditions and results of operations.***

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration. Because those laws and regulations are often revised, we cannot predict the ultimate cost of complying with them or the impact they may have on the resale prices or useful lives of our vessels. Additional rules and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which could materially adversely affect our operations. We are also required by various governmental and quasi-governmental agencies to obtain permits, licenses, certificates and financial assurances with respect to our operations. These permits, licenses, certificates and financial assurances may be issued or renewed with terms that could materially and adversely affect our operations.

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA 90 applies to any discharges of oil from a vessel, including discharges of fuel oil (bunkers) and lubricants. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States territorial sea and its 200 nautical mile exclusive economic zone. Under OPA, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the discharge of pollutants results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. In addition, our vessels are subject to OPA financial responsibility requirements for tank vessels. See Item 4. Information

on the Company Environmental and Other Regulation.

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The International Maritime Organization (the IMO), which is an agency of the United Nations, has adopted regulations that are designed to reduce pollution in international waters, both from accidents and from routine operations. These regulations address oil discharges, ballasting and unloading operations, sewage and waste discharges, and air emissions. In complying with OPA 90, the IMO and other applicable environmental regulations and any regulations that may be adopted, including regulations governing the safety, construction, equipment, operation and liability of our vessels, we may be required to incur additional costs in meeting new maintenance and inspection requirements, in developing contingency plans for potential spills, and in obtaining insurance coverage.

The operation of our vessels is affected by the requirements set forth in the International Management Code for the Safe Operation of Ships and Pollution Prevention (ISM Code). The ISM Code requires ship owners and bareboat charterers to develop and maintain an extensive Safety Management System (SMS) that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a ship owner or bareboat charterer to comply with the ISM Code may subject the owner or charterer to increased liability, may decrease available insurance coverage for the affected vessels, and may result in a denial of access to, or detention in, certain ports. Currently, each of the vessels in our fleet is ISM Code-certified. Because these certifications are critical to our business, we place a high priority on maintaining them. For this reason, we believe it is highly unlikely that such certifications would be discontinued. However, there is the possibility that such certifications will not be maintained.

We currently maintain, for each of our vessels, pollution liability coverage insurance in the amount of \$1.0 billion per incident. In addition, we carry hull and machinery and protection and indemnity insurance to cover the risks of fire and explosion. Under certain circumstances, fire and explosion could result in a catastrophic loss. We believe that our present insurance coverage is adequate, not all risks can be insured, and there is the possibility that any specific claim may not be paid, or that we will not always be able to obtain adequate insurance coverage at reasonable rates. If the damages from a catastrophic spill exceeded our insurance coverage, it would have a severe effect on us and could possibly result in our insolvency.

We believe that regulation of the shipping industry will continue to become more stringent and more expensive for us and our competitors. Substantial violations of applicable requirements or a catastrophic release from one of our vessels could have a material adverse impact on our financial condition and results of operations.

### ***Our vessels are subject to periodic inspections by a classification society.***

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention. Our fleet is currently classed with Lloyds Register of Shipping, Nippon Kaiji Kyokai, or NKK, the American Bureau of Shipping, RINA SpA, Bureau Veritas and C.C.S., the Chinese Classification Society.

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

If a vessel does not maintain its class and/or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable and we could be in violation of covenants in our loan agreements and insurance contracts or other financing arrangements. This would adversely impact our operations and revenues.

### ***Maritime claimants could arrest our vessels, which could interrupt our cash flow.***

Crew members, suppliers of goods and services to a vessel, shippers of cargo and others may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien

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holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted.

In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet for claims relating to another of our ships or, possibly, another vessel managed by the Vafias Group.

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

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels would adversely impact our operations and revenues, thereby resulting in loss of revenues.

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

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

- marine accident or disaster;

- piracy and terrorism;

- explosions;

- environmental accidents;

- pollution;

- loss of life;

- cargo and property losses or damage; and

- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

Any of these circumstances or events could increase our costs or lower our revenues. The involvement of our vessels in a serious accident could harm our reputation as a safe and reliable vessel operator and lead to a loss of business.

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

If our vessels suffer damage, they may need to be repaired at a shipyard facility. The costs of repairs are unpredictable and can be substantial. We may have to pay repair costs that our insurance does not cover. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would have an adverse effect on our cash flow and financial condition. We do not intend to carry business interruption insurance.

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

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Since 2008, the frequency of piracy incidents increased significantly, particularly in the Gulf of Aden off the coast of Somalia. For example, in November 2008, the M/V Sirius Star, a tanker vessel not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth \$100 million. In January 2009, Somali pirates captured the *Longchamp*, a 1990-built, 4,316 dwt LPG carrier, which is not affiliated with us, which was participating in a convoy through the Gulf of Aden. If these piracy attacks occur in regions in which our vessels are deployed being characterized by insurers as war risk zones, as the Gulf of Aden continues to be, or Joint War Committee (JWC) war and strikes listed areas, premiums payable for such coverage, for which we are responsible with respect to vessels employed on spot charters, but not vessels employed on bareboat or time charters, could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

### ***Our operations outside the United States expose us to global risks, such as terrorism, that may interfere with the operation of our vessels.***

We are an international company and primarily conduct our operations outside the United States. Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered affect us. In the past, political conflicts, particularly in the Arabian Gulf, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. For example, in October 2002, the vessel *Limburg* (which is not affiliated with our Company) was attacked by terrorists in Yemen. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Following the terrorist attack in New York City on September 11, 2001 and more recent attacks in other parts of the world, and the military response of the United States and other nations, including the conflict in Iraq, the likelihood of future acts of terrorism may increase, and our vessels may face higher risks of being attacked. In addition, future hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations and performance. Furthermore, future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences could have a material adverse impact on our operating results, revenues and costs.

Terrorist attacks, or the perception that LPG or natural gas facilities or oil refineries and LPG carriers, natural gas carriers or product carriers are potential terrorist targets, could materially and adversely affect the continued supply of LPG, natural gas and refined petroleum products to the United States and to other countries. Concern that LPG and natural gas facilities may be targeted for attack by terrorists has contributed to a significant community and environmental resistance to the construction of a number of natural gas facilities, primarily in North America. If a terrorist incident involving a gas facility or gas carrier did occur, the incident may adversely affect necessary LPG facilities or natural gas facilities currently in operation.

### **Risks Related To Our Business**

#### ***We are dependent on the ability and willingness of our charterers to honor their commitments to us for all our revenues.***

We derive all our revenues from the payment of charter hire by charterers. The ability and willingness of each of our counterparties to perform their obligations under charter agreements with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the LPG carrier and refined petroleum product carrier sectors of the shipping industry and the overall financial condition of the counterparties. In addition, in depressed market conditions, there have been reports of charterers renegotiating their charters or defaulting on their obligations under charters and our charterers may fail to pay charter hire or attempt to renegotiate charter rates. The bareboat and time charters on which we deployed 29 of the



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37 vessels in our fleet as of June 15, 2010, generally provide for charter rates that are significantly above current spot market rates. Should a counterparty fail to honor its obligations under agreements with us, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure in the spot market or on bareboat or time charters would be at lower rates given currently decreased charter rate levels. For example, we had entered into a bareboat charter for one of our LPG carriers, the *Gas Ice*, until April 2011 with Societa Cooperativa di Navigazione a.r.l. G. Giulietti, or Giulietti, and in March 2009, the charter was improperly unilaterally terminated by the charterer as a result of the charterer's bankruptcy, since that date we have not been subject to any further terminations of charters as a consequence of a default by any charterer. If we lose a charter, we may be unable to re-deploy the related vessel on terms as favorable to us. We would not receive any revenues from such a vessel while it remained unchartered, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition, insure it and service any indebtedness secured by such vessel, as is currently the case with the *Gas Ice*. The failure by charterers to meet their obligations to us or an attempt by charterers to renegotiate our charter agreements could have a material adverse effect on our revenues, results operations and financial condition.

***Charters at attractive rates may not be available when we attempt to secure charters for five of our newbuilding LPG carriers scheduled to be delivered to us from February 2011 to May 2012 and as the charters for our current vessels expire, which would have an adverse impact on our revenues and financial condition.***

As of June 15, 2010, of our 37 vessels, eight and 21 were under bareboat charter and time charter, respectively, while eight were deployed in the spot market. We have not yet arranged charters for our additional five newbuilding LPG carriers, which are scheduled to be delivered to us from February 2011 through May 2012. As of June 15, 2010, 65% of our anticipated fleet days are covered by period charter contracts for 2010 and 30% for 2011, with bareboat and time charters for 9 of our LPG carriers scheduled to expire in 2010. We are exposed to fluctuations in the charter market for the remaining anticipated voyage days that are covered by fixed-rate contracts, and to the extent the counterparties to our fixed-rate charter contracts fail to honor their obligations to us, as was the case for the charterer of the *Gas Ice* who defaulted on their charter in March 2009 due to their bankruptcy. Furthermore, charter rates for LPG carriers and product carriers declined in 2009 and the first half of 2010 from the relatively high levels that had been prevailing in 2007 and early 2008 and at which we were able to charter some of our vessels. When the current charters for our fleet, which average on a time charter equivalent basis \$7,059 per day as of March 31, 2010, compared to an average of \$6,727 per day for the year ended December 31, 2009, expire or are terminated, it may not be possible to re-charter these vessels at similar rates, or at all, or to secure charters for our newbuilding LPG carriers at similarly profitable rates, or at all, including for the 40% of our anticipated voyage days for 2010 for which we had not arranged charters as of June 15, 2010. As a result, we may have to accept lower rates or experience off-hire time for our vessels, which would adversely impact our revenues, results of operations and financial condition.

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

In our operating history we have derived a significant part of our revenue from a small number of charterers. For the year ended December 31, 2009, approximately 55.0% of our revenues were derived from our four largest charter customers. We anticipate a limited number of customers will continue to represent significant amounts of our revenue. If these customers cease doing business or do not fulfill their obligations under the charters for our vessels, due to the increasing financial pressure on these customers or otherwise, our results of operations and cash flows could be adversely affected. Further, if we encounter any difficulties in our relationships with these charterers, our results of operations, cash flows and financial condition could be adversely affected.

***Our loan agreements or other financing arrangements contain restrictive covenants that may limit our liquidity and corporate activities.***

Our loan agreements impose, and our future financing arrangements may impose, operating and financial restrictions on us. These restrictions may limit our ability to:

incur additional indebtedness;

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create liens on our assets;

sell capital stock of our subsidiaries;

make investments;

engage in mergers or acquisitions;

pay dividends; and

make capital expenditures.

Our loan agreements require us to maintain specified financial ratios, satisfy financial covenants and contain cross-default clauses. These financial ratios and covenants include requirements that we:

maintain minimum cash balances in a pledged account with the lender at all times;

ensure that our leverage, which is defined as total debt net of cash/total market adjusted assets, does not at any time exceed 80%;

maintain a ratio of the aggregate market value of the vessels securing the loan to the principal amount outstanding under such loan at all times in excess of (i) 130% under our loan agreement with Fortis Bank-Athens Branch and NIBC Bank Netherlands and (ii) 125% under our loan agreements with Deutsche Bank, DnB NOR Bank ASA, DVB Bank S.E. Nordic Branch, EFG Eurobank Ergasias S.A., Emporiki Bank, National Bank of Greece and Scotiabank in regard to the portion of our facility secured by the *Gas Icon* but 100% for the portion of our facility secured by the *Navig8 Fidelity*; and

ensure that our ratio of EBITDA to interest expense over the preceding twelve months is at all times more than 2.5 times.

Our loan agreements also require that members of the Vafias family at all times own at least 15% of our outstanding capital stock and includes restrictions on the payment of dividends.

As of December 31, 2009, we were in compliance with all of these covenants except the requirement that the ratio of the aggregate market value mortgaged vessels to outstanding debt be at least 125% in regard to our facility with Deutsche Bank secured by the *Navig8 Faith* and at least 100% in regard to our facility with Scotiabank secured by the *Navig8 Fidelity*. In both cases we have obtained waivers of these breaches through September 30, 2010. With regard to the Deutsche Bank facility the aggregate market value ratio is waived completely and with regard to the Scotiabank facility the aggregate market value ratio has been reduced to 90% of the debt outstanding under the facility, in each case through September 30, 2010. Management has the intention and the ability to cure both of these breaches in the event that we are still not in compliance with this covenant upon the expiry of these existing waivers and has not renegotiated the waivers. Therefore these loans have not been classified as current liabilities on our balance sheet.

As a result of the restrictions in our loan agreements, or similar restrictions in our future financing arrangements with respect to future vessels which we have yet to identify, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours, and we may not be able to obtain their permission when needed. This may prevent us from taking actions that we believe are in our best interest.

A failure by us to meet our payment and other obligations, including our financial covenants and security coverage requirement, could lead to defaults under our secured loan agreements. Our lenders could then accelerate our indebtedness and foreclose on our fleet. The loss of our vessels would mean we could not run our business.

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***The current lower charter rates in the LPG carrier and product carrier charter markets and decrease in LPG carrier and product carrier values and any future declines in these rates and values may continue to affect our ability to comply with various covenants in our loan agreements, for some of which we have had to obtain waivers.***

Our loan agreements for our borrowings, which are secured by liens on our vessels, contain various financial covenants, including requirements that relate to our financial condition, operating performance and liquidity. For example, we are required to maintain a minimum equity ratio that is based, in part, upon the market value of the vessels securing the applicable loan, as well as a minimum ratio of the market value of vessels securing a loan to the principal amount outstanding under such loan. The market value of LPG carriers and product carriers is sensitive, among other things, to changes in the LPG carrier and product carrier charter markets, with vessel values deteriorating in times when LPG carrier and product carrier charter rates are falling and improving when charter rates are anticipated to rise. Lower charter rates in the LPG carrier and product carrier markets coupled with the difficulty in obtaining financing for vessel purchases have adversely affected LPG carrier and, to a greater extent, product carrier values. A continuation of these conditions would lead to a significant decline in the fair market values of our vessels, which may result in our not being in compliance with these loan covenants. For instance, as of December 31, 2009, we were not in compliance with the security cover covenants in our Deutsche Bank and Scotiabank credit facilities for which we have obtained waivers in 2010. In the event we are not in compliance with our loan covenants, unless our lenders were willing to provide waivers of covenant compliance, as we have obtained from Deutsche Bank and Scotiabank in 2010, or modifications to our covenants, or would be willing to refinance, we may have to reduce or eliminate our dividend, sell vessels in our fleet and/or seek to raise additional capital in the equity markets. Furthermore, if the value of our vessels deteriorates significantly, we may have to record an impairment adjustment in our financial statements, which would adversely affect our financial results and further hinder our ability to raise capital.

A failure to comply with our covenants and/or obtain covenant waivers or modifications, could result in our lenders requiring us to post additional collateral, enhance our equity and liquidity, increase our interest payments or pay down our indebtedness to a level where we are in compliance with our loan covenants, sell vessels in our fleet, or they could accelerate our indebtedness, which would impair our ability to continue to conduct our business. If our indebtedness is accelerated, we might not be able to refinance our debt or obtain additional financing and could lose our vessels if our lenders foreclose their liens. In addition, if we find it necessary to sell our vessels at a time when vessel prices are low, we will recognize losses and a reduction in our earnings, which could affect our ability to raise additional capital necessary for us to comply with our loan agreements.

***The current state of global financial markets and current economic conditions may adversely impact our ability to obtain financing on acceptable terms which may hinder or prevent us from fulfilling our obligations under our agreements to complete contracted vessel acquisitions.***

Global financial markets and economic conditions have been, and continue to be, severely disrupted and volatile. Credit markets and the debt and equity capital markets have been exceedingly distressed. These issues, along with the re-pricing of credit risk and the difficulties being experienced by financial institutions have made, and will likely continue to make, it difficult to obtain financing. We currently have contracts for the construction of five newbuilding LPG carriers with aggregate remaining installment payments of approximately \$105.4 million as of June 15, 2010 and a memorandum of agreement to acquire one resale new building Aframax crude oil tanker at a contract price of \$56.5 million. Our obligation to purchase these six vessels is not conditional upon our ability to obtain financing for such purchases. In addition to our available borrowing capacity under committed credit facilities as of June 15, 2010, we would be required to procure additional financing of approximately \$82.9 million in order to fund these remaining installment payments, to the extent such installment payments are not funded with cash generated by our operations. Our ability to obtain financing in the current economic environment, may be limited and unless we are successful in obtaining debt financing, we may not be able to complete these transactions. In such a case, we could lose our deposit money, which amounted to \$22.5 million as of June 15, 2010 and we may incur additional liability and costs. In addition, prevailing conditions in the global financial markets may preclude us from raising equity capital or issuing equity at prices which would not be dilutive to existing stockholders.

As a result of the disruptions in the credit markets, the cost of obtaining bank financing has increased as many lenders have increased interest rates, enacted tighter lending standards, required more restrictive terms, including

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higher collateral ratios for advances, shorter maturities and smaller loan amounts, and refused to refinance existing debt at maturity at all or on terms similar to our current debt. Furthermore, certain banks that have historically been significant lenders to the shipping industry have announced the intention to reduce or cease lending activities in the shipping industry. We may be unable to fully draw on the available capacity under our existing credit facilities in the future if our lenders are unwilling or unable to meet their funding obligations. We cannot be certain that financing will be available on acceptable terms or at all. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations, including under our newbuilding contracts, as they come due. Our failure to obtain the funds for these capital expenditures would likely have a material adverse effect on our business, results of operations and financial condition. In the absence of available financing, we also may be unable to take advantage of business opportunities or respond to competitive pressures any of which could have a material adverse effect on our revenues and results of operations.

***We may be unable to draw down the full amount of our credit facilities if the market values of our vessels further decline.***

There are restrictions on the amount of cash that can be advanced to us under our credit facilities based on the market value of the vessel or vessels in respect of which the advance is being made. If the market value of our vessels, which have experienced recent declines, decline further, we may not be able to draw down the full amount of our committed credit facilities, obtain other financing or incur debt on terms that are acceptable to us, or at all. We may also not be able to refinance our debt or obtain additional financing.

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

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

***A significant increase in our debt levels may adversely affect us and our cash flows.***

As of June 15, 2010, we had outstanding indebtedness of \$318.0 million and we expect to incur further indebtedness as we finance the remaining purchases of our six contracted vessels. This increase in the level of indebtedness and the need to service the indebtedness may impact our profitability and cash available for growth of our fleet, working capital and dividends. Additionally, any increase in the present interest rate levels may increase the cost of servicing our indebtedness with similar results.

To finance our future fleet expansion program beyond our current fleet, we expect to incur additional secured debt. We will have to dedicate a portion of our cash flow from operations to pay the principal and interest on our debt. These payments will limit funds otherwise available for working capital, capital expenditures, dividends and other purposes. The need to service our debt may limit our funds available for other purposes, including distributing cash to our stockholders, and our inability to service our debt could lead to acceleration of our debt and foreclosure on our fleet.

Moreover, carrying secured indebtedness exposes us to increased risks if the demand for LPG, oil or oil-related transportation drops significantly and charter rates and vessel values are adversely affected.

***The derivative contracts we have entered into to hedge our exposure to fluctuations in interest rates could result in higher than market interest rates and reductions in our stockholders' equity, as well as charges against our income.***

We have entered into interest rate swaps for purposes of managing our exposure to fluctuations in interest rates applicable to indebtedness under our credit facilities which were advanced at floating rates based on LIBOR. Our

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hedging strategies, however, may not be effective and we may incur substantial losses if interest rates move materially differently from our expectations.

To the extent our existing interest rate swaps do not, and future derivative contracts may not, qualify for treatment as hedges for accounting purposes, as is the case for six of our existing interest rate swaps, with an aggregate notional amount of \$169.9 million as of June 15, 2010, we recognize fluctuations in the fair value of such contracts in our statement of income. In addition, changes in the fair value of our derivative contracts, even those that qualify for treatment as hedges, are recognized in Other Comprehensive Income on our balance sheet, and can affect compliance with the net worth covenant requirements in our credit facilities. Our financial condition could also be materially adversely affected to the extent we do not hedge our exposure to interest rate fluctuations under our financing arrangements under which loans have been advanced at a floating rate based on LIBOR.

Any hedging activities we engage in may not effectively manage our interest rate exposure or have the desired impact on our financial conditions or results of operations.

***Because we generate all of our revenues in U.S. dollars but incur a portion of our expenses in other currencies, exchange rate fluctuations could hurt our results of operations.***

We generate all of our revenues in U.S. dollars and the majority of our expenses are also in U.S. dollars. However, a small portion of our overall expenses, mainly executive compensation, is incurred in Euros. This could lead to fluctuations in net income due to changes in the value of the U.S. dollar relative to the other currencies, in particular the Euro. Expenses incurred in foreign currencies against which the U.S. dollar falls in value can increase, decreasing our net income. We also have, as of June 15, 2010, an aggregate of \$105.4 million (based on a U.S. dollar/Japanese Yen exchange rate of \$1.00/¥91.14 on June 15, 2010) of payment obligations under contracts for five newbuilding LPG carriers that are denominated in Japanese Yen, and, therefore, fluctuations in the U.S. dollar/Japanese Yen exchange rate could affect our cash flows. We have entered into a series of currency forward contracts with respect to 50% of the Japanese Yen-denominated obligations we have for the five LPG vessels under construction in Japan. Since our inception we have not otherwise hedged our currency exposures, which we consider to be minimal, but, as a result of this policy, our operating results and financial condition could suffer.

***Dependence on our relationship with the Vafias Group and Stealth Maritime.***

We intend to continue to reimburse our fleet manager, Stealth Maritime, for the salaries of our Chief Executive Officer, Deputy Chairman and Executive Director, Chief Financial Officer and Internal Auditor, who are employees of Stealth Maritime. As of June 15, 2010, Stealth Maritime served as the technical manager for 12 of the vessels in our fleet while subcontracting the technical management of the remaining vessels in our fleet to third party managers. We are accordingly dependent upon our fleet manager, Stealth Maritime, for the administration, chartering and operations supervision of our fleet. Stealth Maritime is a privately-owned company controlled by the Vafias Group and about which there is little public information. We depend on our relationship with the Vafias Group for:

our recognition and acceptance in the LPG carrier sector and, to a lesser extent, product carrier sector, including our ability to attract charterers;

relations with charterers and charter brokers;

operational expertise; and

management experience.

The loss of Stealth Maritime's services or its failure to perform its obligations to us properly for financial or other reasons could materially and adversely affect our business and the results of our operations. Although we may have rights against Stealth Maritime if it defaults on its obligations to us, you will have no recourse against Stealth Maritime. In addition, we might not be able to find a replacement manager on terms as favorable as those currently

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in place with Stealth Maritime. Further, we expect that we will need to seek approval from our lenders to change our manager.

### ***We depend on third party managers to manage part of our fleet.***

Stealth Maritime subcontracts the technical management of our fleet for those vessels either on time charter or spot employment that are not managed by Stealth Maritime, as of June 15, 2010, 17 in number, including crewing, operation, maintenance and repair, to third party managers. The loss of their services or their failure to perform their obligations could materially and adversely affect the results of our operations. Although we may have rights against these managers if they default on their obligations, you will have no recourse against these parties. In addition, we might not be able to find replacement technical managers on terms as favorable as those currently in place. Further, in certain circumstances, we expect that we will need to seek approval from our lenders under the terms of certain of our credit facilities to change these third party managers with respect to certain of the vessels in our fleet.

### ***We may enter into certain significant transactions with companies affiliated with the Vafias Group which may result in conflicts of interests.***

In addition to our management contract with Stealth Maritime, a company controlled by the Vafias Group and the Vafias family, of which our Chief Executive Officer is a member, we may enter into other transactions with companies affiliated with the Vafias Group. Such transactions could create conflicts of interest that could adversely affect our business or your interests as holders of our common stock, as well as our financial position, results of operations and our future prospects.

### ***Our directors and officers may in the future hold direct or indirect interests in companies that compete with us.***

Our directors and officers each have a history of involvement in the shipping industry and may in the future, directly or indirectly, hold investments in companies that compete with us. In that case, they may face conflicts between their own interests and their obligations to us.

### ***Stealth Maritime and companies affiliated with Stealth Maritime, including Brave Maritime, may acquire vessels that compete with our fleet.***

It is possible that Stealth Maritime or companies affiliated with Stealth Maritime could, in the future, agree to manage vessels that compete directly with ours. As long as Stealth Maritime is our fleet manager, Stealth Maritime has granted us a right of first refusal to acquire any LPG carrier, which Stealth Maritime, its principals or any of their controlled affiliates may acquire in the future. In addition, Stealth Maritime has agreed that it will not charter-in any LPG carrier without first offering the opportunity to charter-in such vessel to us. Were we, however, to decline any such opportunity offered to us or if we do not have the resources or desire to accept any such opportunity, Stealth Maritime could retain and manage the vessel. This right of first refusal does not cover product carriers or crude oil tankers. In addition, these restrictions, including the right of first refusal, do not apply to Brave Maritime. Furthermore, this right of first refusal does not prohibit Stealth Maritime from managing vessels owned by unaffiliated third parties in competition with us. In such cases, they could compete with our fleet and may face conflicts between their own interests and their obligations to us. In the future, we may also consider further diversifying into wet, dry or other gas shipping sectors, which, like product carriers is not covered by the right of first refusal agreement with Stealth Maritime. Any such vessels would be in competition with Stealth Maritime and companies affiliated with Stealth Maritime. Stealth Maritime might be faced with conflicts of interest with respect to their own interests and their obligations to us that could adversely affect our business and your interests as stockholders.

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***As our fleet has grown in size, we have needed to improve our operations and financial systems, staff and crew; if we cannot maintain these systems or continues to recruit suitable employees, our business and results of operations may be adversely affected.***

We rapidly expanded our fleet since our initial public offering in October 2005, and as a consequence of this Stealth Maritime has invested considerable sums in upgrading its operating and financial systems, as well as hiring additional well-qualified personnel to manage the vessels now managed by Stealth Maritime. In addition, as we have expanded our fleet, we have had to rely on our technical managers to recruit suitable additional seafarers and shore side administrative and management personnel. Stealth Maritime and those technical managers may not be able to continue to hire suitable employees to the extent we continue to expand our fleet. Our vessels, in particular our LPG carriers, require a technically skilled staff with specialized training. If the technical managers' crewing agents are unable to employ such technically skilled staff, they may not be able to adequately staff our vessels. If Stealth Maritime is unable to operate our financial and operations systems effectively or our technical managers are unable to recruit suitable employees as we expand our fleet, our results of operation may be adversely affected.

***Delays in deliveries of our additional five newbuilding LPG carriers and one resale new building Aframax crude oil tanker could harm our operating results.***

The additional five newbuilding LPG carriers are expected to be delivered to us at various times between February 2011 and May 2012, and our resale newbuilding Aframax crude oil tanker is expected to be delivered to us in July 2010. Delays in the delivery of these vessels, or any other newbuildings we may order or any secondhand vessels we may agree to acquire, would delay our receipt of revenues generated by these vessels and, to the extent we have arranged charter employment for these vessels, could possibly result in the cancellation of those charters, and therefore adversely affect our anticipated results of operations. Although this will delay our funding requirements for the installment payments to purchase these vessels, it will also delay our receipt of contracted revenues under the charters for such vessels.

The delivery of the newbuildings could also be delayed because of, among other things:

- work stoppages or other labor disturbances or other events that disrupt the operations of the shipyard building the vessels;

- quality or engineering problems;

- changes in governmental regulations or maritime self-regulatory organization standards;

- lack of raw materials;

- bankruptcy or other financial crisis of the shipyard building the vessel;

- our inability to obtain requisite financing or make timely payments;

- a backlog of orders at the shipyard building the vessel;

- hostilities, political or economic disturbances in the countries where the vessels are being built;

- weather interference or catastrophic event, such as a major earthquake or fire;

- our requests for changes to the original vessel specifications;

- requests from our customers, with which we have arranged charters for such vessels, to delay construction and delivery of such vessels due to weak economic conditions and shipping demand,;

- shortages of or delays in the receipt of necessary construction materials, such as steel;



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our inability to obtain requisite permits or approvals; or

a dispute with the shipyard building the vessel.

In particular, the shipbuilders with whom we have contracted for our five newbuilding LPG vessels may be affected by the ongoing instability of the financial markets and other market conditions, including the fluctuating price of commodities and currency exchange rates. In addition, the refund guarantors under our newbuilding contracts, which are banks, financial institutions and other credit agencies, may also be affected by financial market conditions in the same manner as our lenders and, as a result, may be unable or unwilling to meet their obligations under their refund guarantees. If our shipbuilders or refund guarantors are unable or unwilling to meet their obligations to us, this will impact our acquisition of vessels and may materially and adversely affect our operations and our obligations under our credit facilities. In 2009, due to certain technical defects in the specifications of the vessel which became apparent to us, we cancelled the delivery of a newbuilding medium range product carrier for which we had contracted, in connection with which we forfeited a \$5.75 million deposit and agreed to pay a cancellation fee of \$10.75 million, and cancelled its arranged bareboat charter.

The delivery of any secondhand vessels we may agree to acquire could be delayed because of, among other things, hostilities or political disturbances, non-performance of the purchase agreement with respect to the vessels by the seller, our inability to obtain requisite permits, approvals or financing or damage to or destruction of the vessels while being operated by the seller prior to the delivery date.

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

We have contracts to acquire five LPG carriers and one Aframax crude oil tanker, and despite the current economic downturn, as and when market conditions permit, we intend to continue to prudently grow our fleet over the long term. The potential acquisition of additional vessels could impose significant additional responsibilities on our management and staff, and may necessitate that we, and they, increase the number of personnel. In the future, we may not be able to identify suitable vessels, acquire vessels on advantageous terms or obtain financing for such acquisitions. Any future growth will depend on:

locating and acquiring suitable vessels;

identifying and completing acquisitions or joint ventures;

integrating any acquired business successfully with our existing operations;

expanding our customer base;

managing our expansion; and

obtaining required financing.

Growing a business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty experienced in obtaining additional qualified personnel and managing relationships with customers and our commercial and technical managers and integrating newly acquired vessels into existing infrastructures. We may not be successful in executing any growth initiatives and may incur significant expenses and losses in connection therewith.

***We may be unable to attract and retain key management personnel and other employees in the LPG carrier and product carrier sectors, which may negatively affect the effectiveness of our management and our results of operation.***

Our success depends to a significant extent upon the abilities and efforts of our management team, including our Chief Executive Officer, Harry Vafias, our Chief Financial Officer, Andrew Simmons, and our Deputy Chairman and Executive Director, Lambros Babilis. In addition, Harry Vafias is a member of the Vafias family, which controls

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the Vafias Group, which in turn controls Stealth Maritime, our fleet manager. Our success will depend upon our and Stealth Maritime's ability to hire and retain qualified managers to oversee our operations. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining personnel could adversely affect our results of operations. We do not have employment agreements directly with our Chief Executive Officer or Chief Financial Officer, who are technically employees of Stealth Maritime, our fleet manager, although under our management agreement with Stealth Maritime, our relationship with each of our Chief Executive Officer and Chief Financial Officer is governed by terms substantially similar to those typically included in employment agreements. We do not have an employment agreement with Lambros Babilis, our Deputy Chairman and Executive Director. We do not intend to maintain key man life insurance on any of our officers.

***In the highly competitive international LPG carrier, product carrier and crude oil tanker markets, we may not be able to compete for charters with new entrants or established companies with greater resources.***

We deploy our vessels in highly competitive markets that are capital intensive. Competition arises primarily from other vessel owners, some of which have greater resources than we do. Competition for the transportation of LPG and refined petroleum products can be intense and depends on price, location, size, age, condition and the acceptability of the vessel and its managers to the charterers. Competitors with greater resources could enter and operate larger LPG carrier fleets through consolidations or acquisitions, and many larger product carrier fleets already compete with us, that may be able to offer more competitive prices and fleets.

***We have acquired three medium range product carriers and agreed to acquire one Aframax crude oil tanker, however, we principally operate in one sector of the shipping industry, the seaborne transport of LPG, and our lack of a diversified business could adversely affect us.***

Unlike many other shipping companies, which may carry dry bulk, crude oil, oil products or products or goods shipped in containers, we currently depend primarily on the transport of LPG. The vast majority of our revenue has been and is expected to be derived from this single source – the seaborne transport of LPG. Due to our lack of a more diversified business model, adverse developments in the LPG sector have a significantly greater impact on our financial conditions and results of operations than if we maintained more diverse assets or lines of business.

***We have expanded into the product carrier sector and are expanding into the crude oil tanker sector with our agreement to acquire one Aframax tanker and we may not be able to successfully execute this expansion, or any further expansion, in such sectors or any other sectors, such as dry or other wet or gas shipping sectors we choose to expand into, which could have an adverse effect on our business, results of operation and financial condition.***

We have expanded into the product carrier sector with the acquisition of three medium range product carriers and are expanding into the crude oil tanker sector with our agreement to acquire one Aframax tanker. In the future, we may further expand in the product carrier sector or into dry or other wet or other gas shipping sectors if opportunities arise. We have limited experience in these sectors, including the product carrier sector, and an inability to successfully execute our recent expansion into the product carrier sector or any such future expansion plans could:

be costly;

distract us from our core LPG carrier business; and

divert management resources,

each of which could have an adverse effect on our business, results of operation and financial condition.

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

Our examination of secondhand vessels, which may not include physical inspection prior to purchase, does not provide us with the same knowledge about their condition and cost of any required (or anticipated) repairs that we

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would have had if these vessels had been built for and operated exclusively by us. Generally, we do not receive the benefit of warranties on secondhand vessels.

In general, the costs of maintaining a vessel in good operating condition increase with its age. As of June 15, 2010, the average age of the 34 LPG carriers in our fleet was approximately 11.2 years, while two of our three medium range product carriers were built in 2008 and the third in 2009. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers.

Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which the vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. If we sell vessels, the sales prices may not equal and could be less than their carrying values at that time.

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

We procure hull and machinery insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance coverage, insurance and war risk insurance for our fleet. While we endeavor to be adequately insured against all known risks related to the operation of our ships there remains the possibility that a liability may not be adequately covered. We may not be able to obtain adequate insurance coverage for our fleet in the future. The insurers may not pay particular claims. Even if our insurance coverage is adequate, we may not be able to timely obtain a replacement vessel in the event of a loss. Our insurance policies contain deductibles for which we will be responsible and limitations and exclusions which may increase our costs or lower our revenue.

### ***Our major stockholder exerts considerable influence on the outcome of matters on which our stockholders are entitled to vote and his interests may be different from yours.***

Our major stockholder, our Chief Executive Officer, including through a company he controls, owns approximately 19.9% of our outstanding common stock as of June 18, 2010 and exerts considerable influence on the outcome of matters on which our stockholders are entitled to vote, including the election of our entire Board of Directors and other significant corporate actions. The interests of this stockholder may be different from your interests.

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

Under the United States Internal Revenue Code of 1986, as amended, or the Code, 50% of the gross shipping income of vessel owning or chartering corporations, such as our subsidiaries, that is attributable to transportation that begins or ends, but does not both begin and end, in the United States is characterized as United States-source shipping income. United States-source shipping income is subject to either a (i) 4% United States federal income tax without allowance for deductions or (ii) taxation at the standard United States federal income tax rates (and potentially to a 30% branch profits tax), unless derived by a corporation that qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

Generally, we and our subsidiaries will qualify for this exemption for a taxable year if our shares are treated as primarily and regularly traded on an established securities market in the United States. Our shares of common stock will be so treated if (i) the aggregate number of our shares of common stock traded during such year on an established securities market in the United States exceeds the aggregate number of our shares of common stock traded during that year on established securities markets in any other single country, (ii) either (x) our shares of common stock are regularly quoted during such year by dealers making a market in our shares or (y) trades in our shares of common stock are effected, other than in de minimis quantities, on an established securities market in the United States on at least 60 days during such taxable year and the aggregate number of our shares of common stock traded on an established securities market in the United States during such year equals at least 10% of the average number of our shares of common stock outstanding during such taxable year and (iii) our shares of common stock are not closely held during such taxable year. For these purposes, our shares of common stock will be treated as closely held during a taxable year if, for more than one-half the number of days in such taxable year, one or more

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persons each of whom owns either directly or under applicable attribution rules, at least 5% of our shares of common stock, own, in the aggregate, 50% or more of our shares of common stock, unless we can establish, in accordance with applicable documentation requirements, that a sufficient number of the shares of common stock in the closely-held block are owned, directly or indirectly, by persons that are residents of foreign jurisdictions that provide United States shipping companies with an exemption from tax that is equivalent to that provided by Section 883 to preclude other stockholders in the closely-held block from owning 50% or more of the closely-held block of shares of common stock.

We believe that it is currently the case, and may also be the case in the future, that, one or more persons each of whom owns, either directly or under applicable attribution rules, at least 5% of our shares of common stock own, in the aggregate, 50% or more of our shares of common stock. In such circumstances, we and our subsidiaries may qualify for the exemption provided in Section 883 of the Code only if a sufficient number of shares of the closely-held block of our shares of common stock were owned or treated as owned by qualified stockholders so it could not be the case that, for more than half of the days in the taxable year, the shares of common stock in the closely-held block not owned or treated as owned by qualified stockholders represented 50% or more of our shares of common stock. For these purposes, a qualified stockholder includes an individual that owns or is treated as owning shares of our common stock and is a resident of a jurisdiction that provides an exemption that is equivalent to that provided by Section 883 of the Code and certain other persons; provided in each case that such individual or other person complies with certain documentation and certification requirements set forth in the Section 883 regulations and designed to establish status as a qualified stockholder.

Our Chief Executive Officer, who beneficially owned approximately 19.9% of our shares of common stock as of June 18, 2010, has entered into an agreement with us regarding his compliance, and the compliance by certain entities that he controls and through which he owns our shares, with the certification procedures designed to establish status as a qualified stockholder. In certain circumstances, his compliance and the compliance of such entities he controls with the terms of that agreement may enable us and our subsidiaries to qualify for the benefits of Section 883 even where persons (each of whom owns, either directly or under applicable attribution rules, 5% or more of our shares) own, in the aggregate, more than 50% of our outstanding shares. However, his compliance and the compliance of such entities he controls with the terms of that agreement may not enable us or our subsidiaries to qualify for the benefits of Section 883. We or any of our subsidiaries may not qualify for the benefits of Section 883 for any year.

If we or our subsidiaries do not qualify for the exemption under Section 883 of the Code for any taxable year, then we or our subsidiaries would be subject for those years to the 4% United States federal income tax on gross United States shipping income or, in certain circumstances, to net income taxation at the standard United States federal income tax rates (and potentially also to a 30% branch profits tax). The imposition of such tax could have a negative effect on our business and would result in decreased earnings available for distribution to our stockholders.

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

A foreign corporation will be treated as a passive foreign investment company, or PFIC, for United States federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of passive income or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute passive income and working capital and similar assets held pending investment in vessels will generally be treated as an asset which produces passive income. United States stockholders of a PFIC are subject to a disadvantageous United States federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

In connection with determining our PFIC status we treat and intend to continue to treat the gross income that we derive or are deemed to derive from our time chartering and voyage chartering activities as services income, rather

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than rental income. We believe that our income from time chartering and voyage chartering activities does not constitute passive income and that the assets that we own and operate in connection with the production of that income do not constitute assets held for the production of passive income. We treat and intend to continue to treat, for purposes of the PFIC rules, the income that we derive from bareboat charters as passive income and the assets giving rise to such income as assets held for the production of passive income. There is, however, no legal authority specifically under the PFIC rules regarding our current and proposed method of operation and it is possible that the Internal Revenue Service, or IRS, may not accept our positions and that a court may uphold such challenge, in which case we and certain of our subsidiaries could be treated as PFICs. In this regard we note that a recent federal court decision addressing the characterization of time charters concludes that they constitute leases for federal income tax purposes and employs an analysis which, if applied to our time charters, could result in our treatment and the treatment of our vessel-owning subsidiaries as PFICs.

We do not believe that we were a PFIC for 2009. This belief is based in part upon our beliefs regarding the value of the assets that we hold for the production of or in connection with the production of passive income relative to the value of our other assets. Should these beliefs turn out to be incorrect, then we and certain of our subsidiaries could be treated as PFICs for 2009. In this regard we note that our beliefs and expectations regarding the relative values of our assets place us close to the threshold for PFIC status, and thus a relatively small deviance between our beliefs and expectations and actual values could result in the treatment of us and certain of our subsidiaries as PFICs. There can be no assurance that the U.S. Internal Revenue Service ( IRS ) or a court will not determine values for our assets that would cause us to be treated as a PFIC for 2009 or a subsequent year. Moreover, we may qualify as a PFIC for 2010 or a subsequent year if there were to be a change in the nature of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our United States stockholders would face adverse United States tax consequences. Under the PFIC rules, unless those stockholders make an election available under the Code (which election could itself have adverse consequences for such stockholders, as discussed below under Item 10. Additional Information Tax Consequences United States Federal Income Taxation of United States Holders ), such stockholders would be liable to pay United States federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our shares of common stock, as if the excess distribution or gain had been recognized ratably over the stockholder's holding period of our shares of common stock. See Item 10. Additional Information Tax Consequences United States Federal Income Tax Consequences United States Federal Income Taxation of United States Holders for a more comprehensive discussion of the United States federal income tax consequences to United States stockholders if we are treated as a PFIC.

***Our corporate governance practices are in compliance with the NASDAQ corporate governance standards, however, as a foreign private issuer, we are entitled to claim an exemption from certain NASDAQ corporate governance standards, and if we elected to rely on this exemption, you may not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.***

Our corporate governance practices are in compliance with the NASDAQ corporate governance standards. As a foreign private issuer, however, we are entitled to claim an exemption 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. Currently, our corporate governance practices comply with the NASDAQ corporate governance standards and we do not intend to rely on this exemption, however, if we elected to rely on this exemption, you may not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements.

***We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law.***

Our corporate affairs are governed by our articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall



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Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain U.S. jurisdictions. Stockholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public stockholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling stockholders than would stockholders of a corporation incorporated in a U.S. jurisdiction.

***It may be difficult to enforce service of process and enforcement of judgments against us and our officers and directors.***

We are a Marshall Islands company, and our executive offices are located outside of the United States in Athens, Greece. All of our directors and officers reside outside of the United States, and most of our assets and their assets are located outside the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in the U.S. courts against us or these persons in any action, including actions based upon the civil liability provisions of U.S. federal or state securities laws.

There is also substantial doubt that the courts of the Marshall Islands or Greece would enter judgments in original actions brought in those courts predicated on U.S., federal or state securities laws.

### **Risks Related To Our Common Stock**

***The market price of our common stock has fluctuated widely and the market price of our common stock may fluctuate in the future.***

The market price of our common stock has fluctuated widely since our initial public offering in October 2005 and may continue to do so as a result of many factors, including our actual results of operations and perceived prospects, the prospects of our competition and of the shipping industry in general and in particular the LPG carrier and product carrier sectors, differences between our actual financial and operating results and those expected by investors and analysts, changes in analysts' recommendations or projections, changes in general valuations for companies in the shipping industry, particularly the LPG carrier and product carrier sectors, changes in general economic or market conditions and broad market fluctuations.

If the market price of our common stock remains below or again drops below \$5.00 per share, under stock exchange rules, our stockholders will not be able to use such shares as collateral for borrowing in margin accounts. This inability to use shares of our common stock as collateral may depress demand as certain institutional investors are restricted from investing in shares priced below \$5.00 and lead to sales of such shares creating downward pressure on and increased volatility in the market price of our common stock.

In order to maintain our listing on the NASDAQ Stock Market, we must continue to meet the NASDAQ minimum share price listing rule, the minimum market capitalization rule and other continued listing criteria. If our common stock were delisted, it could reduce the liquidity and market price of our common stock and negatively impact our ability to raise equity financing and access the public capital markets.

***Our Board of Directors has determined to suspend the payment of cash dividends as a result of market conditions in the international shipping industry, and until such market conditions improve, it is unlikely that we will reinstate the payment of dividends.***

In light of the recent downturn in the global economy, which could reduce the revenues we obtain from chartering our vessels and reduce the market value of our vessels, in the first quarter of 2009, our Board of Directors decided to suspend dividend payments. In addition, other external factors, such as our existing loan agreements and future financing arrangements, as well as Marshall Islands law, may also restrict or prohibit our declaration and payment of dividends under some circumstances. For instance, we are not permitted to declare or pay cash dividends in any twelve month period that exceed 50% of our free cash flow in the preceding twelve month period. Due to

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these constraints on dividend payments we may not be able to pay regular quarterly dividends in the future. See Item 5. Operating and Financial Review and Prospects – Financial Covenants.

The declaration and payment of dividends will be subject at all times to the discretion of our Board of Directors. The timing and amount of future dividends will depend on our earnings, financial condition, cash requirements and availability, fleet renewal and expansion, restrictions in our loan agreements or other financing arrangements, the provisions of Marshall Islands law affecting the payment of dividends and other factors. Marshall Islands law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividends.

***Anti-takeover provisions in our organizational documents could make it difficult for our stockholders to replace or remove our current Board of Directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.***

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

These provisions include:

authorizing our Board of Directors to issue blank check preferred stock without stockholder approval;

providing for a classified Board of Directors with staggered three-year terms;

prohibiting cumulative voting in the election of directors;

authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of 80% of the outstanding shares of our common stock entitled to vote for the directors;

limiting the persons who may call special meetings of stockholders;

establishing advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and

prohibiting certain transactions with interested stockholders.

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

## **Item 4. Information on the Company**

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

We were incorporated in December 2004 in the Republic of the Marshall Islands. In October 2005, we completed an initial public offering of our shares of common stock in the United States and our shares of common stock began trading on the Nasdaq National Market and now trade on the Nasdaq Global Select Market. On August 1, 2007, we completed a follow-on public offering of 7,660,105 shares of our common stock. Our principal executive offices are located at 331 Kifissias Avenue, Erithrea 14561 Athens, Greece. Our telephone number for calls originating from the United States is (011) (30) (210) 625-0001.

Prior to the initial public offering, we owned nine LPG carriers. Since the initial public offering, we grew our fleet to 39 LPG carriers and three product carriers by December 31, 2009, and as of June 15, 2010, we had a fleet of 34 LPG carriers and three product carriers, reflecting the sale of five LPG carriers in 2010. In addition, we have

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agreements to acquire five newbuilding LPG carriers with expected delivery from February 2011 through May 2012 and one 115,804 dwt Aframax tanker with expected delivery in July 2010. Upon completion of these acquisitions and disposals, our fleet will be composed of 39 LPG carriers with a total capacity of 185,204 cbm, three medium range product carriers with a total capacity of 140,000 dwt and one 115,804 dwt Aframax tanker, assuming no other acquisitions or dispositions.

Our company operates through a number of subsidiaries which either directly or indirectly own the vessels in our fleet. A list of our subsidiaries, including their respective jurisdiction of incorporation, as of June 15, 2010, all of which are wholly-owned by us, is set forth in Exhibit 8 to this Annual Report on Form 20-F.

**Business Overview**

We own a fleet of LPG carriers providing international seaborne transportation services to LPG producers and users, as well as product carriers chartered to oil producers and refiners, and have agreed to acquire an Aframax tanker which will be deployed on a five year bareboat charter to a European shipping company. In our core LPG sector, we carry various petroleum gas products in liquefied form, including propane, butane, butadiene, isopropane, propylene and vinyl chloride monomer, which are all byproducts of the production of crude oil and natural gas. The three medium range product carriers in our fleet as of June 15, 2010 are capable of carrying refined petroleum products such as gasoline, diesel, fuel oil and jet fuel, as well as edible oils and chemicals. We believe that we have established a reputation as a safe, cost-efficient operator of modern and well-maintained LPG carriers. We also believe that these attributes, together with our strategic focus on meeting our customers' chartering needs, has contributed to our ability to attract leading charterers as our customers and to our success in obtaining charter renewals. We are managed by Stealth Maritime, a privately owned company controlled by the Vafias Group.

As of June 15, 2010, our fleet consisted of 34 LPG carriers with an average age of 11.2 years and two 2008-built product carriers and one 2009 built product carrier. In addition, as of June 15, 2010, we had contracted to acquire five newbuilding LPG carriers and one 2010-built newbuilding resale Aframax crude oil tanker.

The table below describes our fleet and its deployment as of June 15, 2010.

**LPG Carriers**

| <b>Name</b>            | <b>Year Built</b> | <b>Vessel Size (cbm)</b> | <b>Vessel Type</b> | <b>Delivery Date</b> | <b>Employment Status</b> | <b>Expiration of Charter(1)</b> |
|------------------------|-------------------|--------------------------|--------------------|----------------------|--------------------------|---------------------------------|
| <i>Gas Cathar</i>      | 2001              | 7,517                    | fully-pressurized  | October 2005         | Time Charter             | May 2012                        |
| <i>Gas Premiership</i> | 2001              | 7,200                    | fully-pressurized  | March 2008           | Time Charter             | March 2012                      |
| <i>Gas Haralambos</i>  | 2007              | 7,000                    | fully-pressurized  | October 2007         | Spot                     |                                 |
| <i>Gas Marathon</i>    | 1995              | 6,572                    | fully-pressurized  | November 2005        | Time Charter             | August 2010                     |
| <i>Gas Chios</i>       | 1991              | 6,562                    | fully-pressurized  | October 2005         | Time Charter             | April 2011                      |
| <i>Gas Moxie</i>       | 1992              | 6,526                    | fully-pressurized  | May 2005             | Spot                     |                                 |
| <i>Gas Flawless</i>    | 2007              | 6,300                    | fully-pressurized  | February 2007        | Time Charter             | February 2011                   |
| <i>Gas Monarch</i>     | 1997              | 5,018                    | fully-pressurized  | December 2005        | Bareboat Charter         | November 2010                   |
|                        | 1996              | 5,014                    | fully-pressurized  | May 2006             | Bareboat Charter         | May 2011                        |
| <i>Lyne</i>            |                   |                          |                    |                      |                          |                                 |
|                        | 1995              | 5,013                    | fully-pressurized  | February 2005        | Bareboat Charter         | August 2012                     |
| <i>Gas Emperor</i>     |                   |                          |                    |                      |                          |                                 |
| <i>Catterick</i>       | 1995              | 5,001                    | fully-pressurized  | November 2005        | Time Charter             | January 2012                    |
|                        | 2003              | 5,000                    | fully-pressurized  | May 2006             | Bareboat Charter         | May 2011                        |
| <i>Sir Ivor</i>        |                   |                          |                    |                      |                          |                                 |
| <i>Gas Icon</i>        | 1994              | 5,000                    | fully-pressurized  | June 2007            | Time Charter             | July 2010                       |
| <i>Gas Kalogeros</i>   | 2007              | 5,000                    | fully-pressurized  | July 2007            | Time Charter             | June 2011                       |
| <i>Gas Defiance</i>    | 2008              | 5,000                    | fully-pressurized  | August 2008          | Time Charter             | January 2011                    |
| <i>Gas Shuriken</i>    | 2008              | 5,000                    | fully-pressurized  | October 2008         | Time Charter             | October 2010                    |

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|                       |      |       |                   |               |              |               |
|-----------------------|------|-------|-------------------|---------------|--------------|---------------|
| <i>Gas Sincerity</i>  | 2000 | 4,123 | fully-pressurized | November 2005 | Time Charter | August 2010   |
| <i>Gas Spirit</i>     | 2001 | 4,112 | fully-pressurized | December 2005 | Time Charter | June 2010     |
| <i>Gas Zael</i>       | 2001 | 4,111 | fully-pressurized | December 2005 | Time Charter | January 2011  |
| <i>Gas Kaisen</i>     | 1991 | 4,109 | semi-refrigerated | November 2004 | Spot         |               |
|                       | 1999 | 3,526 | fully-pressurized | December 2004 | Time Charter | December 2010 |
| <i>Gas Shanghai</i>   |      |       |                   |               |              |               |
| <i>Gas Nemesis</i>    | 1996 | 3,518 | fully-pressurized | May 2007      | Spot         |               |
| <i>Gas Evoluzione</i> | 1996 | 3,517 | fully-pressurized | July 2007     | Spot         |               |
| <i>Gas Czar</i>       | 1995 | 3,510 | fully-pressurized | February 2006 | Spot         |               |
| <i>Gas Astrid</i>     | 2009 | 3,500 | fully-pressurized | April 2009    | Time Charter | April 2011    |
| <i>Gas Legacy</i>     | 1998 | 3,500 | fully-pressurized | October 2005  | Time Charter | October 2010  |

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| <b>Name</b>         | <b>Year Built</b> | <b>Vessel Size (cbm)</b> | <b>Vessel Type</b> | <b>Delivery Date</b> | <b>Employment Status</b> | <b>Expiration of Charter(1)</b> |
|---------------------|-------------------|--------------------------|--------------------|----------------------|--------------------------|---------------------------------|
| <i>Gas Sikousis</i> | 2006              | 3,500                    | fully-pressurized  | August 2007          | Time Charter             | May 2011                        |
| <i>Gas Exelero</i>  | 2009              | 3,500                    | fully-pressurized  | June 2009            | Time Charter             | June 2011                       |
| <i>Gas Artic</i>    | 1992              | 3,434                    | semi-refrigerated  | April 2005           | Spot                     |                                 |
| <i>Gas Ice</i>      | 1991              | 3,434                    | semi-refrigerated  | April 2005           | Time Charter             | July 2010                       |
| <i>Chiltern</i>     | 1997              | 3,312                    | fully-pressurized  | June 2007            | Bareboat Charter         | May 2013                        |
|                     | 1995              | 3,244                    | fully-pressurized  | June 2006            | Time Charter             | September 2011                  |
| <i>Gas Pasha</i>    |                   |                          |                    |                      |                          |                                 |
| <i>Gas Crystal</i>  | 1990              | 3,211                    | semi-refrigerated  | November 2005        | Spot                     |                                 |
| <i>Gas Tiny</i>     | 1991              | 1,320                    | semi-refrigerated  | October 2004         | Time Charter             | October 2010                    |

**Total: 34 vessels**                      **155,204 cbm**

**Product Carriers/Crude Oil Tankers**

| <b>Name</b>             | <b>Year Built</b> | <b>Vessel Size (dwt)</b> | <b>Vessel Type</b>           | <b>Delivery Date</b> | <b>Employment Status</b> | <b>Expiration of Charter(1)</b> |
|-------------------------|-------------------|--------------------------|------------------------------|----------------------|--------------------------|---------------------------------|
| <i>Navig8 Fidelity</i>  | 2008              | 47,000                   | medium range product carrier | January 2008         | Bareboat Charter         | January 2015                    |
| <i>Navig8 Faith</i>     | 2008              | 47,000                   | medium range product carrier | February 2008        | Bareboat Charter         | February 2015                   |
| <i>Alpine Endurance</i> | 2009              | 46,000                   | medium range product carrier | July 2009            | Bareboat Charter         | July 2012                       |
| <i>Spike(2)</i>         | 2010              | 115,804                  | Aframax oil tanker           | July 2010            | Bareboat Charter         | July 2015                       |

**Total: 4 vessels**                      **255,804 dwt**

**Total Current Fleet:**

**38 Vessels**

(1) Earliest date charters could expire. Most charters include options to shorten or extend their term.

(2) The *Spike* is scheduled to be delivered to us in July 2010, at which time it is

scheduled to be  
deployed on a  
five year  
bareboat  
charter.

The specifications of the five newbuilding LPG carriers we have contracted to acquire are as follows:

### *LPG Carriers*

| Name | Year Built | Vessel     | Vessel Type       | Delivery Date | Employment Status | Expiration of Charter |
|------|------------|------------|-------------------|---------------|-------------------|-----------------------|
|      |            | Size (cbm) |                   |               |                   |                       |
| TBN  | 2010       | 5,000      | fully-pressurized | February 2011 |                   |                       |
| TBN  | 2010       | 5,000      | fully-pressurized | March 2011    |                   |                       |
| TBN  | 2011       | 5,000      | fully-pressurized | July 2011     |                   |                       |
| TBN  | 2011       | 7,500      | fully-pressurized | November 2011 |                   |                       |
| TBN  | 2012       | 7,500      | fully-pressurized | May 2012      |                   |                       |

**Total contracted**

**LPG carriers:**

**5 vessels** **30,000 cbm**

## Commercial and Technical Management of Our Fleet

We have a management agreement with Stealth Maritime with an initial term that expires in June 2010. Unless six months' notice of non-renewal is given by either party prior to the end of the then current term, this agreement automatically extends for additional 12-month periods. No such notice has been given, and accordingly this agreement will extend to June 2011. Under the management agreement, Stealth Maritime is responsible for the administration of our affairs and the commercial and technical management of our fleet. Under the agreement, which was amended effective January 1, 2007, as approved by our Board of Directors, including all of our independent directors, in November 2006, we pay Stealth Maritime a fixed management fee of \$440 per vessel operating under a voyage or time charter per day on a monthly basis in advance, pro rated for the calendar days we own the vessels. We pay a fixed fee of \$125 per vessel per day for each of our vessels operating on bareboat charter. As a consequence of the amendment to the management agreement, the management fee is no longer adjusted

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quarterly as it was previously based on the U.S. dollar/Euro exchange rate published by Bloomberg LP two days prior to the end of the previous calendar quarter.

We are also obligated to pay Stealth Maritime a fee equal to 1.25% of the gross freight, demurrage and charter hire collected from the employment of our vessels. Stealth Maritime will also earn a fee equal to 1.0% of the contract price of any vessel bought or sold by them on our behalf. In addition, as long as Stealth Maritime is our fleet manager, Stealth Maritime has granted us a right of first refusal to acquire any LPG carrier, which Stealth Maritime may acquire in the future. In addition, Stealth Maritime has agreed that it will not charter-in any LPG carrier without first offering the opportunity to charter-in such vessels to us. This right of first refusal does not prohibit Stealth Maritime from managing vessels owned by unaffiliated third parties in competition with us. Additional vessels that we may acquire in the future may be managed by Stealth Maritime, which is an affiliate of the Vafias Group, or by other unaffiliated management companies. In addition, we reimburse Stealth Maritime for its payment of the compensation to our Chief Executive Officer, Deputy Chairman and Executive Director, Chief Financial Officer and Internal Auditor. During the year ended December 31, 2009, such compensation was in the aggregate amount of 902,990 (US \$1,267,981 based on the average exchange rate of 1.00: US \$1.404 in effect throughout 2009). We expect that the compensation of our Chief Executive Officer, Chief Financial Officer, Executive Director and Deputy Chairman and Internal Auditor in 2010 will be in an aggregate amount of 1,000,000 (US \$1,310,000 based on the exchange rate of 1.00:US \$1.31 in effect on April 30, 2010).

Stealth Maritime currently technically manages 12 vessels in our fleet, the *Gas Evoluzione*, the *Gas Crystal*, the *Gas Cathar*, the *Gas Flawless*, the *Gas Haralambos*, the *Gas Nemesis*, the *Gas Kalogeros*, the *Gas Premiership*, the *Gas Shuriken*, the *Gas Defiance*, the *Gas Astrid* and the *Gas Exelero*. Of the remaining 25 vessels in our current fleet, as of June 15, 2010, eight including each of our medium range product carriers, are on bareboat charter and are therefore managed technically by the charterer, while the remaining 17 are managed by either EMS (formerly Tesma) (seven vessels), a ship management company based in Singapore, or Swan Shipping Corporation (Manila), or Swan Shipping (eight vessels), a ship management company based in the Philippines, or Dobson Fleet Management, or DFM (two vessels), a ship management company based in Cyprus. These three technical managers, which Stealth Maritime supervises, are responsible for the day-to-day activities of those vessels, including the operation, crewing (in the case of EMS and Swan), maintenance and repair of those vessels; these technical managers also must ensure that our vessels' operations comply with environmental and other regulatory requirements. EMS (formerly Tesma / Singapore) is one of the technical competence centers of Tesma Holding, a Danish alliance network of professional ship management companies currently providing full technical service to over 70 vessels and providing crews to over 150 vessels. Swan Shipping, originally a joint venture company between Southwest Maritime Corporation of Manila and Navix Marine (S) Pte. Ltd. of Singapore, has been involved in ship management operations in the Philippines since 1995 and has provided full technical management services to 17 LPG carriers. DFM was initially established in 1993 to manage bulk carriers and has gradually grown into a reputable medium sized shipmanagement company and currently provides full technical management services to 12 vessels of varying types. The technical management agreements with EMS (Singapore) and Swan Shipping may be terminated by either party at any time upon three months' notice.

### **Crewing and Employees**

Stealth Maritime ensures that all seamen have the qualifications and licenses required to comply with international regulations and shipping conventions, and that our vessels employ experienced and competent personnel.

EMS (Singapore) and Swan Shipping are responsible for providing the crewing of the LPG fleet. These responsibilities include training, compensation, transportation and insurance of the crew. They also provide crewing for the vessels that are technically managed by DFM.

### **Chartering of the Fleet**

We, through Stealth Maritime, manage the employment of our fleet. We deploy our LPG carriers on period charters, including time and bareboat charters that can last up to several years, and spot market charters (through voyage charters and short-term time charters), which generally last from one to six months, subject to market conditions. We deploy two of the medium range product carriers in our fleet as of June 15, 2010 on seven-year



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bareboat charters scheduled to expire in the first quarter of 2015 and the third is deployed on a three year bareboat charter scheduled to expire in the third quarter of 2012. We will deploy the Aframax crude oil tanker on a five-year bareboat charter to a European shipping company upon its delivery to us. Period charters and short-term time charters are for a fixed period of time. A voyage charter is generally a contract to carry a specific cargo from a loading port to a discharging port for an agreed-upon total charge.

Vessels operating on period charter provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot market during periods characterized by favorable market conditions. As a result, during the time our LPG carriers are committed on period charters, we will be unable, during periods of improving charter markets, to take advantage of improved charter rates as we could if our LPG carriers were employed only on spot charters. Vessels operating in the spot market generate revenues that are less predictable but may enable us to capture increased profit margins during periods of improvements in LPG charter rates although we are then exposed to the risk of declining LPG carrier charter rates, which may have a materially adverse impact on our financial performance. If we commit vessels to period charters, future spot market rates may be higher or lower than those rates at which we have period chartered our vessels.

**Customers**

Our assessment of a charterer's financial condition and reliability is an important factor in negotiating employment for our vessels. Principal charterers include producers of LPG products, such as national, major and other independent energy companies and energy traders, and industrial users of those products. Our largest customer is Shell, and our other customers include Petredec, Vitol and Navig8. For the year ended December 31, 2009, approximately 55% of our revenue was derived from our top four charterers as follows:

| <b>Customer</b> | <b>Year Ended<br/>December 31,<br/>2009</b> |
|-----------------|---------------------------------------------|
| Shell           | 17.0%                                       |
| Petredec        | 15.0%                                       |
| Vitol           | 13.0%                                       |
| Navig8          | 10.0%                                       |

Each of the medium range product carriers we acquired in the first quarter of 2008 are deployed on bareboat charters to an international oil trader until the first quarter of 2015. The third medium range product carrier we acquired in July 2009 is deployed on a bareboat charter to a Far East-based ship operator until the third quarter 2012. We will deploy the Aframax crude oil tanker on a five-year bareboat charter to a European shipping company upon its delivery to us.

**Environmental and other Regulations**

Government regulation significantly affects the ownership and operation of our vessels. They are subject to international conventions and national, state and local laws and regulations in force in the countries in which they may operate or are registered.

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

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that will emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations. We believe that the operation of our vessels



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is in substantial compliance with applicable environmental laws and regulations. However, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, any future requirements may limit our ability to do business, increase our operating costs, force the early retirement of one or more of our vessels, and/or affect their resale value, all of which could have a material adverse effect on our financial condition and results of operations.

*Environmental Regulations International Maritime Organization ( IMO )*

Our vessels are subject to standards imposed by the IMO (the United Nations agency for maritime safety and the prevention of pollution by ships). In order to operate in the navigable waters of the IMO's member states, liquefied gas carriers must have an IMO Certificate of Fitness demonstrating compliance with construction codes for liquefied gas carriers. These codes, and similar regulations in individual member states, address fire and explosion risks posed by the transport of liquefied gases. Collectively, these standards and regulations impose detailed requirements relating to the design and arrangement of cargo tanks, vents, and pipes; construction materials and compatibility; cargo pressure; and temperature control.

In addition, we are subject to international conventions that regulate pollution in international waters and a signatory's territorial waters. Under the IMO regulations, gas carriers that comply with the IMO certification requirements are deemed to satisfy the requirements of Annex II of the International Convention for the Prevention of Pollution from Ships ( MARPOL ) applicable to transportation of chemicals at sea, which would otherwise apply to certain liquefied gases. The IMO revised the Annex II regulations that restrict discharges of noxious liquid substances during cleaning or ballast removal operations, and these revisions took effect in January 2007. According to the IMO, these revisions will not impose further restriction on the types of substances gas carriers may carry under their gas carrier code certificates of fitness, nor will they require changes in the manner in which product tanks must be cleaned.

In September 1997, the IMO adopted MARPOL Annex VI to address air pollution from ships. Annex VI was ratified in May 2004, and became effective in May 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Annex VI has been ratified by some, but not all IMO member states. Vessels that are subject to Annex VI must, if built before the effective date, obtain an International Air Pollution Prevention Certificate evidencing compliance with Annex VI not later than either the first dry docking after May 19, 2005, but no later than May 19, 2008. All vessels subject to Annex VI and built after May 19, 2005 must also have this Certificate.

Options for implementing the requirements of Annex VI include use of low sulfur fuels, modifications to vessel engines, or the addition of post combustion emission controls. In October 2008 the IMO adopted amendments to Annex VI, and United States ratified the Annex VI amendments in October 2008. Beginning in 2011 the amendments will require a progressive reduction of sulfur dioxide levels in bunker fuels and impose more stringent nitrogen oxide emission standards on marine diesel engines, depending on their date of installation. More stringent emission standards will apply in coastal areas designated as Emission Control Areas, such as the United States and Canadian coastal areas recently designated by IMO. We have obtained International Air Pollution Prevention Certificates for all of our vessels and believe that all of our vessels are compliant in all material respects with current Annex VI requirements. We may incur costs to comply with the new Annex VI requirements.

Many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969 (the CLC) (the United States, with its separate OPA 90 regime described below, is not a party to the CLC). This convention generally applies to vessels that carry oil in bulk as cargo. Under this convention and, depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, the registered owner of a regulated vessel is strictly liable for pollution damage in the territorial waters or exclusive economic zone of a contracting state caused by the discharge of any oil from the ship, subject to certain defenses. Under an amendment to the 1992 Protocol that became effective on November 1, 2003, for vessels of 5,000 to 140,000 gross tons, liability per incident is limited to 4.51 million Special Drawing Rights (SDR) plus 631 SDR for each additional gross ton over 5000. For vessels of over 140,000 gross tons, liability is

limited to \$9.77 million SDR. The SDR is an International Monetary Fund currency unit that is based on a basket of currencies. The exchange rate between SDRs and U.S. dollars was 0.685217 SDR per U.S. dollar on June 10,

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2010. The right to limit liability under the CLC is forfeited where the spill is caused by the owner's actual fault and, under the 1992 Protocol, where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law regimes govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our P&I insurance will cover any liability under the CLC.

In 2001, the IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, which imposes strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker oil. The Bunker Convention also requires registered owners of ships over a certain size to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). Because the Bunker Convention does not apply to pollution damage governed by the CLC, it applies only to discharges from any of our vessels that are not transporting oil. The Bunker Convention entered into force on November 21, 2008. Liability for spills or releases of oil from ship's bunkers prior to then typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occurred. Our vessels subject to the Bunker Convention have been issued certificates attesting that insurance in accordance with the provisions of the convention is in force.

The operation of our vessels is also affected by the requirements set forth in the ISM Code of the IMO. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive SMS that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. Vessel operators must obtain a Safety Management Certificate from the government of the vessel's flag state to verify that it is being operated in compliance with its approved SMS. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, decrease available insurance coverage for the affected vessels and result in a denial of access to, or detention in, certain ports. Currently, each of the vessels in our fleet is ISM code-certified. However, there can be no assurance that such certification will be maintained indefinitely.

In addition, our operations are subject to compliance with the IMO's International Code for the Construction and Equipment of Ships carrying Dangerous Chemicals in Bulk (IBC Code) for chemical tankers built after July 1, 1986. The IBC Code includes ship design, construction and equipment requirements and other standards for the bulk transport of certain liquid chemicals.

### *Environmental Regulations The United States Oil Pollution Act of 1990 ( OPA )*

OPA 90 requires that tankers over 5,000 gross tons calling at US ports have double hulls if contracted after June 30 1990 or delivered after January 1, 1994. Furthermore OPA 90 calls for the phase-out of all single hull tankers by the year 2015 according to a schedule that is based on the size and age of the vessel, unless the tankers are retrofitted with double hulls. All our current vessels, as well as the vessels we have agreed to acquire or construct, have double hulls.

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA applies to discharges of any oil from a vessel, including discharges of fuel oil (bunkers) and lubricants. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States territorial sea and its two hundred nautical mile exclusive economic zone.

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

natural resources damage and the costs of assessment thereof;

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real and personal property damage;

net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage; and

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

Effective July 31, 2009, the United States Coast Guard adjusted the limits of OPA liability to the greater of \$2,000 per gross ton or \$17,088,000 for double-hulled tank vessels and established a procedure for adjusting limits every three years. All vessels operated by the Company are double-hulled. These limits of liability do not apply if an incident was directly caused by violation of applicable United States federal safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities. Although the May 2010 oil spill disaster in the Gulf of Mexico resulted from the explosion of a deepwater drilling rig, legislation has been introduced in both houses of the United States Congress to substantially increase the limits of liability for all vessels.

We currently maintain, for each of our vessels, pollution liability coverage insurance in the amount of \$1 billion per incident. In addition, we carry hull and machinery and protection and indemnity insurance to cover the risks of fire and explosion. Under certain circumstances, fire and explosion could result in a catastrophic loss. While we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates. If the damages from a catastrophic spill exceeded our insurance coverage, it would have a severe effect on us and could possibly result in our insolvency.

OPA requires owners and operators of vessels over 300 gross tons to establish and maintain with the United States Coast Guard evidence of financial responsibility sufficient to meet their potential liabilities under the OPA. Under the United States Coast Guard regulations implementing OPA, vessel owners and operators may evidence their financial responsibility by showing proof of insurance, surety bond, self-insurance, or guaranty. Under the OPA regulations, an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessels in the fleet having the greatest maximum liability under OPA.

The United States Coast Guard's regulations concerning certificates of financial responsibility provide, in accordance with OPA, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility. In the event that such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. Certain organizations, which had typically provided certificates of financial responsibility under pre-OPA 90 laws, including the major protection and indemnity organizations, have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses.

The United States Coast Guard's financial responsibility regulations may also be satisfied by evidence of surety bond, guaranty or by self-insurance. Under the self-insurance provisions, the ship owner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the United States Coast Guard regulations by providing a financial guaranty evidencing sufficient self-insurance.

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



**Table of Contents***Environmental Regulations Other Environmental Initiatives*

The EU has also adopted legislation that: (1) requires member states to refuse access to their ports to certain sub-standard vessels, according to vessel type, flag and number of previous detentions; (2) creates an obligation on member states to inspect at least 25% of vessels using their ports annually and provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; (3) provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies, and (4) requires member states to impose criminal sanctions for certain pollution events, such as the unauthorized discharge of tank washings. It is impossible to predict what additional legislation or regulations, if any, may be promulgated by the EU or any other country or authority.

*Climate Control Initiatives*

Although the Kyoto Protocol to the United Nations Framework Convention on Climate Change requires adopting countries to implement national programs to reduce emissions of greenhouse gases, emissions of greenhouse gases from international shipping are not currently subject to the Kyoto Protocol. There was some expectation that a new climate change treaty would be adopted at the December 2009 United Nations Climate Change Conference, but the participating countries merely adopted the so-called Copenhagen Accord, a framework for future negotiations that includes emission reduction targets for developed countries and goals for limiting increases in atmospheric temperature. The implementation of the Copenhagen Accord could lead to restrictions on greenhouse gas emissions from shipping. International or multi-national bodies or individual countries may adopt their own climate change regulatory initiatives. The EU intends to expand its existing emissions trading scheme to vessels, and IMO's Marine Environment Protection Committee is developing technical and operational measures to limit emissions of greenhouse gases from international shipping for consideration by IMO in fall 2010. The United States EPA is considering a petition from the California Attorney General and environmental groups to regulate greenhouse gas emissions from ocean-going vessels under the United States Clean Air Act, and the United States Congress is considering climate change legislation. Any passage of climate control initiatives by the IMO, the EU or the individual countries in which we operate that limit greenhouse gas emissions from vessels could require us to make significant financial expenditures or otherwise limit our operations.

*Vessel Security Regulations*

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect in the United States. To implement certain portions of the MTSA, in July 2003, the United States Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security or, ISPS, Code. Among the various requirements are:

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

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The United States Coast Guard regulations, intended to align with international maritime security standards, exempt non-United States vessels from MTSA vessel security measures provided such vessels have on board, by July 1, 2004, a valid International Ship Security Certificate (ISSC) that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have obtained ISSCs for all of our vessels and implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Codes to ensure that our vessels attain compliance with all applicable security requirements within the prescribed time periods. We do not believe these additional requirements will have a material financial impact on our operations.

### **Classification and Inspection**

All our vessels are certified as being in class by Lloyds Register of Shipping, Bureau Veritas, NKK, the American Bureau of Shipping, RINA SpA and C.C.S. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard contracts and memoranda of agreement. If the vessel is not certified on the date of closing, we have no obligation to take delivery of the vessel. Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as in class by a classification society which is a member of the International Association of Classification Societies. Every vessel's hull and machinery is classed by a classification society authorized by its country of registry. The classification society certifies that the vessel has been built and maintained in accordance with the rules of such classification society and complies with applicable rules and regulations of the country of registry of the vessel and the international conventions of which that country is a member. Each vessel is inspected by a surveyor of the classification society every year, an annual survey, every two to three years, an intermediate survey, and every four to five years, a special survey. Vessels also may be required, as part of the intermediate survey process, to be dry-docked every 30 to 36 months for inspection of the underwater parts of the vessel and for necessary repair related to such inspection.

In addition to the classification inspections, many of our customers, including the major oil companies, regularly inspect our vessels as a precondition to chartering voyages on these vessels. We believe that our well-maintained, high quality tonnage should provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

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

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

#### *General*

The operation of any cargo vessel includes risks such as mechanical failure, physical damage, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. While we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

#### *Hull and Machinery Insurance*

We have obtained marine hull and machinery and war risk insurance, which includes the risk of actual or constructive total loss, for all of our vessels. The vessels are each covered up to at least fair market value, with deductibles of \$60,000 per vessel.

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We also arranged increased value insurance for most of the vessels. Under the increased value insurance in case of total loss of the vessel we will be able to recover the sum insured under the increased value policy in addition to the sum insured under the Hull and Machinery policy. Increased value insurance also covers excess liabilities which are not recoverable in full by the Hull and Machinery policies by reason of under insurance.

### *Protection and Indemnity Insurance*

Protection and indemnity insurance, a form of mutual indemnity insurance which covers our third party liabilities in connection with our shipping activities, is provided by mutual protection and indemnity associations, or P&I Associations or clubs. This includes third-party liability and other related expenses of injury or death of crew, passengers and other third parties, loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances, and salvage, towing and other related costs, including wreck removal. Subject to the capping discussed below, our coverage, except for pollution, is unlimited.

Our current protection and indemnity insurance coverage for pollution is \$1.0 billion per vessel per incident. The 14 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I Association has capped its exposure to this pooling agreement at \$4.5 billion. As a member of a P&I Association, which is a member of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations, and members of the pool of P&I Associations comprising the International Group.

### **Competition**

We operate in a highly competitive global market based primarily on supply and demand of vessels and cargoes. The worldwide LPG sector is comparatively smaller than other shipping sectors consisting of approximately 1,196 vessels as of April 30, 2010, 1,121 vessels of which are over 1,000 cbm in size.

Overall, throughout the LPG sector, approximately 138 newbuildings are on order as of April 30, 2010 and expected to be delivered from 2010 to the end of 2013. In the Handy size vessel sector (3,000 cbm to 8,000 cbm), which is the specific sector which we focus on, as of April 30, 2010, 79 vessels were on order for scheduled delivery over the next three years, while approximately 83 of the vessels in this sector are 20 years or older. As of April 30, 2010, our LPG carrier fleet had an average age of 10.4 years and, accordingly, we believe we are well positioned from a competitive standpoint in terms of our vessels meeting the ongoing needs of charterers. Also, as of April 30, 2010, we had the largest single-owned fleet in our sector (3,000 cbm to 8,000 cbm), which, in our view, also positions us well from the standpoint of charterers and competitors. We believe, however, that the LPG shipping sector will continue to be highly competitive, and will be driven by both energy production and consumption.

Ownership of medium range product carriers capable of transporting refined petroleum products, such as gasoline, diesel, fuel oil and jet fuel, as well as edible oils and chemicals, is highly diversified and is divided among many independent medium range tanker owners. Competition for charters, including for the transportation of oil and oil products, can be intense and depends on price as well as on the location, size, age, condition, specifications and acceptability of the vessel and its operator to the charterer and is frequently tied to having an available vessel with the appropriate approvals from oil majors. Principal factors that are important to our charterers include the quality and suitability of the vessel, its age, technical sophistication, safety record, compliance with IMO standards and the heightened industry standards that have been set by some energy companies, and the competitiveness of the bid in terms of overall price.

### **Employees**

As of December 31, 2009, 541 officers and 405 crew members served on board the vessels in our fleet. These officers and crew, however, are not directly employed by the Company.

**Table of Contents****Seasonality**

The LPG carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of propane and butane for heating during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues may be stronger in fiscal quarters ended December 31 and March 31 and relatively weaker during the fiscal quarters ended June 30 and September 30, as was the case in 2007, 2008 and 2009. We have limited exposure to seasonality with respect to our product carriers as two vessels in our fleet as of June 15, 2010 are deployed on a fixed rate bareboat charter expiring in the first quarter of 2015 and the third is deployed on a fixed rate bareboat charter expiring in the third quarter of 2012. Similarly, the Aframax crude oil tanker we have agreed to acquire is scheduled to be deployed in a five-year fixed rate bareboat charter upon its delivery to us, which is expected in July 2010.

**Properties**

We have no freehold interest in any real property. We lease office space from the Vafias Group. For the year ended December 31, 2009, this rent amount was \$45,102. This lease was renewed effective January 3, 2010 for two years at a rate of \$42,000 per year. We believe this is no more than would be incurred on an arm's length basis with an unaffiliated landlord.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

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

**Overview**

Incorporated under the laws of the Republic of the Marshall Islands in December 2004, we are involved in providing international seaborne transportation services to LPG producers and users and, with our acquisition of three product carriers, beginning in the first quarter of 2008, we also provide vessels capable of transporting refined petroleum products such as gasoline, diesel, fuel oil and jet fuel. In June 2010, we agreed to acquire one Aframax crude oil tanker. We carry various petroleum gas products in liquefied form, including propane, butane, butadiene, isopropane, propylene and vinyl chloride monomer, which are all byproducts of the production of crude oil and natural gas. We primarily operate in and have an approximate 13.5% market share of vessels of 20 years old or less in the Handy size sector of the liquefied petroleum gases (LPG) shipping market, which is made up of approximately 297 vessels that are 20 years old or less. In comparison to other sectors of the shipping industry, the LPG Handy size sector is characterized by relative stability and a high proportion of established operators, including significant participation by the oil majors.

As of December 31, 2009, our fleet consisted of 39 LPG carriers and three product carriers, and, as of June 15, 2010, we had a fleet of 34 LPG carriers and three product carriers. In June 2010, we agreed to acquire one Aframax crude oil tanker. While our focus remains on the LPG sector, we made an investment in medium range product carriers in 2008, acquiring two medium range product carriers in the first quarter of 2008 and an additional medium range product carrier in July 2009, and in a crude oil tanker in June 2010 to partially diversify the company's operations away from being solely reliant on one specific sector. As of June 15, 2010, five of these LPG carriers and three medium range product carriers were deployed on bareboat charters, under which the charterer is responsible for the costs associated with the operating the vessels. We also intend to deploy the Aframax tanker we agreed to acquire in July 2010 on a bareboat charter. Of the 29 remaining vessels in our fleet of LPG carriers, as of June 15,

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2010, 21 were employed on time charters to high quality charterers, including Shell, Petredec, Statoil and Vitol, with the remaining eight vessels deployed in the spot market.

We also have agreements to acquire five newbuilding LPG carriers with expected delivery from February 2011 through May 2012 and one Aframax crude oil tanker with expected delivery in July 2010. Once these acquisitions are completed, assuming no other acquisitions or disposals, our fleet will be composed of 39 LPG carriers with a total capacity of 185,204 cbm, three medium range product carriers with a total capacity of 140,000 dwt and one 115,804 dwt crude oil tanker.

Our results of operations depend primarily on the number of vessels in our fleet and the charter hire rates that we are able to realize. Charter hire rates paid for LPG carriers and product carriers are primarily a function of the underlying balance between vessel supply and demand. The demand for LPG carrier capacity is primarily determined by the underlying demand for LPG, ammonia and petrochemical gases, which are transported in LPG carriers, which in turn is influenced by trends in the global economy. Similarly, the demand for product carriers is primarily determined by the supply of and demand for refined petroleum products, which in turn is influenced, by the global economy. Due to the current downturn in market conditions, there has been some decline in prevailing charter rates, however, the LPG carrier and product carrier sectors in which we operate have not experienced reductions in charter rates and vessel values to the degree experienced in other areas of the shipping industry, most notably the drybulk and container shipping sectors. As of June 15, 2010, 65% of our anticipated fleet days are covered by period charter contracts for 2010 and 30% for 2011, however, we are exposed to prevailing charter rate fluctuations for the remaining anticipated fleet days not covered by period charter contracts, as well as performance by our counterparties for the chartered days.

For the years ended December 31, 2009, 2008 and 2007, we owned an average of 42.0 vessels, 38.6 vessels and 32.8 vessels generating revenues of \$113.0 million, \$112.6 million and \$90.0 million, respectively.

We, through Stealth Maritime, manage the employment of our fleet. We intend to continue to deploy our fleet under period charters including time and bareboat charters, which can last up to several years, and spot market or voyage charters, which generally last from one to six months, as market conditions warrant. Period charters and short term time charters are for a fixed period of time.

**Charters and revenues.** Under a time charter, the charterer pays a fixed rate per day over the term of the charter; a time charter, including a short term time charter, may provide for rate adjustments and profit sharing. Under a bareboat charter, the charterer pays us a fixed rate for its use of our ship for the term of the charter. Under a voyage charter, we agree to transport a specified cargo from a loading port to a discharging port for a fixed amount.

**Charters and expenses.** Under a time charter, we are responsible for the vessel's operating costs (crew, provisions, stores, lubricants, insurance, maintenance and repairs) incurred during the term of the charter, while the charterer pays voyage expenses (port, canal and fuel costs) that are unique to each particular voyage. Under a bareboat charter, the charterer is responsible for all vessel operating expenses and voyage expenses incurred during the term of the charter. Under a voyage or spot charter, we are responsible for both the vessel operating expenses and the voyage expenses incurred in performing the charter.

We continued the expansion size of our fleet albeit at a reduced pace, which commenced in 2004, from 38 LPG carriers as of December 31, 2007, and 38 LPG and two product carriers of December 31, 2008 to 39 LPG carriers and three product carriers as of December 31, 2009. Our performance in 2009 was primarily driven by the continued increase in the size of our fleet, our further expansion into the product carrier sector but lower overall charter rates in the LPG sector compared to 2007 and 2008.

Our operating expenses per vessel were relatively steady in 2009 compared to 2008, despite the continued challenges posed by our LPG vessels requiring specialized crews not as generally available as in other shipping sectors, crewing expenses experienced continued pressure throughout 2008, but as the slowdown in the global economy continued in 2009 these pressures on crew costs decreased somewhat.

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### **Factors Affecting Our Results of Operations**

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

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

*Voyage days.* We define voyage days as the total number of days in a period during which each vessel in our fleet was in our possession net of off-hire days associated with major repairs, drydockings or special or intermediate surveys. The shipping industry uses voyage days (also referred to as available days) to measure the number of days in a period during which vessels are available to generate revenues.

*Fleet utilization.* We calculate fleet utilization by dividing the number of our voyage days during a period by the number of our calendar days during that period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons such as scheduled repairs, vessel upgrades or drydockings and other surveys.

*Cyclical.* The international gas carrier market, including the transport of LPG, is cyclical with attendant volatility in profitability, charter rates and vessel values, resulting from changes in the supply of, and demand for, LPG carrier capacity. Due to the current downturn in market conditions, there has been a decrease in the number of vessels being contracted under time or bareboat charters as charterers seek to keep their commitments on a shorter term basis, and as of June 15, 2010, we had eight vessels trading in the spot market. However, in comparing the prevailing one year time charter rate at June 15, 2010 against the prevailing one year time charter rate at June 15, 2009, rates, as well as vessel values, continue to remain relatively stable in the LPG sector of the shipping industry. On a fleet wide basis, on June 15, 2010, we had 37 vessels in our fleet, 34 LPG carriers and three product carriers. Of these vessels, eight were employed on bareboat charter and 29 were employed either on time charter or in the spot market. On June 15 2009, we had 42 vessels in our fleet, 40 LPG carriers and two product carriers. Of these vessels, 13 were employed on bareboat charters and 29 were employed either on time charter or in the spot market. The average rate per day per vessel earned on June 15, 2010 was \$6,843 compared to \$7,242 on June 15, 2009.

To the extent we have vessels in the spot market, we are exposed to changes in spot rates for LPG carriers and such changes affect our earnings and the value of our LPG carriers at any given time. When LPG vessel prices are considered to be low, companies not usually involved in shipping may make speculative vessel orders, thereby increasing the LPG shipping supply, satisfying demand sooner and potentially suppressing charter rates. Each of the three product carriers in our fleet as of June 15, 2010 are deployed on a fixed rate bareboat charter with two expiring in the first quarter of 2015 and the third in the third quarter of 2012, which will limit our exposure to fluctuations in charter rates in the product carrier sector.

*Seasonality.* The LPG carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of propane and butane for heating during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues may be stronger in fiscal quarters ended December 31 and March 31 and relatively weaker during the fiscal quarters ended June 30 and September 30, as was the case in 2007, 2008 and 2009. We have limited exposure to seasonality with respect to our product carriers as the three product carriers in our current fleet are deployed on fixed rate bareboat charters, with two through the first quarter of 2015 and the third through the third quarter of 2012.



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### **Basis of Presentation and General Information**

#### ***Voyage Revenues***

Our voyage revenues are driven primarily by the number of vessels in our fleet, the number of voyage days during which our vessels generate revenues and the amount of daily charter hire that our vessels earn under charters which, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and disposals, the amount of time that we spend positioning our vessels, the amount of time that our vessels spend in dry dock undergoing repairs, maintenance and upgrade work, the age, condition and specifications of our vessels and the levels of supply and demand in the LPG carrier and product carrier charter markets.

Vessels operating on period charters provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot charter market during periods characterized by favorable market conditions. As a result, during the time our LPG carriers or product carriers are committed on period charters we will be unable, during periods of improving charter markets, to take advantage of improving charter rates as we could if our LPG carriers or product carriers were employed only on spot charters. Vessels operating in the spot charter market generate revenues that are less predictable but may enable us to capture increased profit margins during periods of improving charter rates, although we are then exposed to the risk of declining LPG carrier or product carrier charter rates, which may have a materially adverse impact on our financial performance. If we commit vessels to time charters, future spot market rates may be higher or lower than those rates at which we have time chartered our vessels.

#### ***Voyage Expenses***

Voyage expenses include port and canal charges, bunkers (fuel oil) expenses and commissions. These charges and expenses increase in periods during which vessels are employed on the spot market, because under these charters, these expenses are for the account of the vessel owner. Under period charters, these charges and expenses, including bunkers (fuel oil) are paid by the charterer. For the year ended December 31, 2009, bunkers (fuel oil) accounted for 48.1% of total voyage expenses and for the year ended December 31, 2008, 36.6%. In 2009, port and canal charges and bunker expenses represented a relatively small portion of our vessels' overall expenses because the majority of our vessels were employed under period charters, including time and bareboat charters, that require the charterer to bear all of those expenses. As of June 15, 2010, 26 of our 34 LPG carriers and each of our three product carriers were deployed on either time charter or bareboat charter. We currently expect this situation to continue in 2010.

#### ***Time Charter Equivalent***

A standard maritime industry performance measure used to evaluate performance is the daily time charter equivalent, or daily TCE (please refer to Item 3). Daily TCE revenues are voyage revenues minus voyage expenses divided by the number of voyage days during the relevant time period. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by a charterer under a time charter, as well as commissions. We believe that the daily TCE neutralizes the variability created by unique costs associated with particular voyages or the employment of vessels on time charter or on the spot market and presents a more accurate representation of the revenues generated by our vessels. Our average daily TCE rate was \$6,727 for the year ended December 31, 2009, \$7,588 for year ended December 31, 2008, and \$7,129 for the year ended December 31, 2007. The reasons for these changes are discussed below under Results of operations Year ended December 31, 2009 compared to year ended December 31, 2008 and Results of Operations Year ended December 31, 2008 compared to year ended December 31, 2007.

#### ***Vessel Operating Expenses***

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses for repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses. These expenses on an overall basis increased during the year ended December 31, 2009 and will continue to increase as

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our fleet grows. Factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for insurance, may also cause these expenses to increase.

### ***Management Fees***

During 2009 we paid Stealth Maritime, our fleet manager, a fixed rate management fee of \$440 per day for each vessel in our fleet under spot or time charter and a fixed rate fee of \$125 per day for each of the vessels operating on bareboat charter. These rates have been in effect since January 1, 2007. Stealth Maritime also receives a brokerage commission of 1.25% on freight, hire and demurrage for each vessel and a fee equal to 1.0% calculated on the price as stated in the relevant memorandum of agreement for any vessel bought or sold by them on our behalf. From these management fees paid to Stealth Maritime, Stealth Maritime pays the two technical managers that are responsible for the technical management of some of our vessels that are not technically managed by Stealth Maritime on a day-to-day basis or are on bareboat charter.

### ***General and Administrative Expenses***

We incur general and administrative expenses which include our onshore vessel related expenses such as legal, accounting and professional expenses and other general vessel expenses. Our general and administrative expenses also include our direct compensation expenses and the value of non-cash executive services provided through, and other expenses arising from, our management agreement with Stealth Maritime, our directors' compensation and the value of the lease expense for the space we rent from Stealth Maritime. For our compensation expenses, pursuant to our management agreement, we reimburse Stealth Maritime for its payment of the compensation to our Chief Executive Officer, Deputy Chairman and Executive Director, Chief Financial Officer and Internal Auditor. During the year ended December 31, 2009, such compensation was in the aggregate amount of 902,327 (US \$1,267,980 based on the average exchange rate of 1.00: US \$1.405 in effect throughout 2009).

### ***Depreciation***

We depreciate our LPG carriers and product carriers on a straight-line basis over their estimated useful lives determined to be 30 years from the date of their initial delivery from the shipyard in the case of our LPG carriers and 25 years in the case of our product carriers. Depreciation is based on cost less the estimated scrap value of the vessels. We expense costs associated with dry dockings and special and intermediate surveys as incurred.

### ***Interest Expense***

We have entered into loan agreements to fund a portion of the purchase price for the vessels in our fleet, which are described in the Credit Facilities section below, and we anticipate entering into additional credit facilities in the future to fund a portion of the purchase price for vessels we have announced we will acquire or we may acquire in the future. We will incur additional interest expense in the remainder of 2009 on outstanding borrowings under these credit facilities and under any new credit facilities we may enter into to finance or refinance the purchase price of additional vessels as described in the Capital Expenditures section below.

## **Results of Operations**

### ***Year ended December 31, 2009 and the year ended December 31, 2008***

The average number of vessels in our fleet was 42.0 in the year ended December 31, 2009 compared to 38.6 in the year ended December 31, 2008.

**VOYAGE REVENUES** Voyage revenues for the year ended December 31, 2009 were \$113.0 million compared to \$112.6 million for the year ended December 31, 2008, an increase of \$0.4 million, or 0.3%. The average daily TCE rate for the year ended December 31, 2009 was \$6,727, a decrease of \$861, or 11.3%, compared, to a daily TCE rate of \$7,588 for the year ended December 31, 2008. Total voyage days for our fleet were 15,240 in the year ended December 31, 2009 compared to 14,018 for the year ended December 31, 2008. Of the total voyage days in 2009, 12,276, or 80.6%, were either time charter or bareboat charter days and 2,964, or 19.4%, were spot

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voyage days. This compares to 13,318, or 95.0%, time or bareboat charter days and 700, or 5.0%, spot charter days in 2008. Our fleet utilization was 99.4% and 99.3% for the years ended December 31, 2009 and December 31, 2008, respectively. Despite the increase in the number of voyage days for the year ended December 31, 2009 compared to the year ended December 31, 2008 revenues were essentially flat due primarily to lower overall prevailing charter rates as a consequence of the worldwide economic downturn, as well as an increased level of commercial downtime for our fleet, whereby our ships were not employed which increased from 427 days in 2008 to 1,510 days in 2009.

**VOYAGE EXPENSES** Voyage expenses were \$10.5 million for the year ended December 31, 2009 and were \$6.2 million for the year ended December 31, 2008, an increase of \$4.3 million, or 69.4%. These consisted largely of bunker charges in the amount of \$5.1 million for 2009 compared to bunker charges in the amount of \$2.3 million for the year ended December 31, 2008, an increase of 121.7%, due to the increased level of spot market days undertaken by the Company's fleet for the year ended December 31, 2009 compared to the year ended December 31, 2008. Voyage expenses also included port expenses of \$2.0 million for the year ended December 31, 2009 compared to \$0.8 million for the year ended December 31, 2008, an increase of 155% and commissions to third parties which were \$1.7 million for the year ended December 31, 2009 compared to \$1.6 million for the year ended December 31, 2008, an increase of 6.3%. The increase in voyage expenses for the year ended December 31, 2009 compared to the year ended December 31, 2008 reflects primarily the steep increase in the number of spot voyages undertaken by the Company's fleet during the year ended December 31, 2009 compared to the year ended December 31, 2008.

**VESSEL OPERATING EXPENSES** Vessel operating expenses were \$38.0 million for the year ended December 31, 2009 and were \$32.2 million for the year ended December 31, 2008, an increase of \$5.8 million, or 18.0%, due primarily to increased crew wages and related costs, which were \$23.7 million for the year ended December 31, 2009 compared to \$19.3 million for the year ended December 31, 2008. Other significant increases in this category were spares and consumable stores, which increased from \$5.0 million in the year ended December 31, 2008 to \$5.6 million in the year ended December 31, 2009, while repairs and maintenance costs were \$4.6 million in the year ended December 31, 2009 compared to \$4.1 million for the years ended December 31, 2008.

**DRY DOCKING COSTS** Dry docking costs were \$1.3 million for the year ended December 31, 2009 and were \$1.1 million for the year ended December 31, 2008, an increase of \$0.2 million, or 18.2%. Dry docking costs increased due to a net increased number of vessels having to undergo dry docking inspections in the year ended December 31, 2009 compared to the number of vessels that underwent dry dockings in the year ended December 31, 2008. For the year ended December 31, 2009, three vessels were dry docked.

**MANAGEMENT FEES** Management fees were \$5.2 million for the year ended December 31, 2009 and were \$4.6 million for the year ended December 31, 2008, an increase of \$0.6 million, or 13.0%, reflecting the increase in the size of the Company's fleet year on year. For the year ended December 31, 2009, out of total calendar days of 15,335, 10,425, or 68.0%, related to vessels under time or spot charter while out of total calendar days of 14,113 in 2008, 8,965, or 63.5%, related to vessels under time or spot charter. Accordingly, the percentage of time and spot charter days, for each of which the higher \$440 per vessel per day management fee was paid, compared to the percentage of bareboat charter days, for which the lower \$125 per vessel per day management fee was paid, increased in 2009 from 2008, while the total number of days on which vessels in our fleet were employed on time and spot charter increased 16.3% from 2008 to 2009. This increase was due to a higher absolute number of vessels in our fleet being employed on time and spot charters, resulting in an increase in management fees.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$3.6 million for the year ended December 31, 2009 and were \$4.8 million for the year ended December 31, 2008, a decrease of \$1.2 million, or 25.0%, due to the decrease in annual compensation to our Chief Executive Officer, our Executive Director, our Chief Financial Officer and our Internal Auditor, due to the decision not to pay any annual bonuses or grant any salary increases for the year ended December 31, 2009. Stock-based compensation expense also decreased by \$1.3 million for the year ended December 31, 2009 from \$1.9 million for the year ended December 31, 2008 to \$0.6 million for the year ended December 31, 2009. No stock grants were made during the year ended December 31, 2009.

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**DEPRECIATION** Depreciation expenses for the 42.0 average number of vessels in our fleet for the year ended December 31, 2009 were \$26.8 million compared to \$23.3 million for the 38.6 average number of vessels in our fleet for the year ended December 31, 2008, an increase of \$3.5 million, or 15.0%.

**NET LOSS ON SALE OF VESSELS** Following the sale of two vessels, the *Gas Sophie* and the *Gas Fortune*, we recorded a net loss on the sale of these two vessels for the year ended December 31, 2009 of \$0.8 million. This compares to the sale of three vessels, the *Gas Oracle*, the *Gas Nemesis* and the *Gas Renovatio*, in 2008, whereby we recorded a net gain of \$1.7 million.

**IMPAIRMENT LOSS ON FUTURE SALE OF VESSELS** For the year ended December 31, 2009, we recorded an impairment loss of \$9.9 million related to the sale of four vessels which were agreed and subject to a Memorandum of Agreement signed in the year ended December 31, 2009 but with the delivery of these vessels to take place in the year ending December 31, 2010. The *Gas Natalie* was delivered to her new owners on January 15, 2010, the *Gas Prophet* was delivered to her new owners on March 16, 2010, the *Gas Texiana* (ex *Birgit Kosan*) was delivered to her new owners on April 6, 2010 and the *Gas Eternity* was delivered to her new owners on May 6, 2010.

**FORFEITURE OF VESSEL DEPOSIT AND CONTRACT TERMINATION FEES** On June 25, 2008 we signed a Memorandum of Agreement to acquire a resale medium range product carrier to be named, upon her delivery, the *Stealth Argentina*. A deposit of \$5.75 million was placed upon the signing of this agreement. During the year ended December 31, 2009 certain technical defects in the specifications of the vessel became apparent to the Company and it sought to renegotiate the Memorandum of Agreement with the seller of the vessel. These negotiations were conducted during the course of 2009 and in December 2009 an agreement was reached whereby the Memorandum of Agreement to purchase the vessel would be cancelled and the Company, along with the forfeiture of the \$5.75 million paid in June 2008, would pay a further fee of \$10.75 million to the sellers. The total amount payable by the Company is \$16.5 million made up of the deposit of \$5.75 million and four further payments payable at the end of April 2010, July 2010, October 2010 and January 2011 in the amount of \$2.7 million each.

**INTEREST AND FINANCE COSTS, NET** Net interest and finance costs were \$9.1 million for the year ended December 31, 2009 and were \$10.0 million for the year ended December 31, 2008, a decrease of \$0.9 million, or 9.0%, despite the net increase in bank indebtedness of \$62.2 million incurred in connection with vessel acquisitions. This resulted primarily from prevailing lower interest rates on our bank debt, which averaged 2.59% for the year ended December 31, 2009 compared to 4.09% for the year ended December 31, 2008.

**CHANGE IN FAIR VALUE OF DERIVATIVES** For the years ended December 31, 2009 and December 31, 2008, we incurred a non-cash loss on derivatives of \$5.5 million and \$2.7 million, respectively. The loss on derivatives for the year ended December 31, 2009 is made up of a cash loss of \$4.0 million on interest rate swaps, a non-cash loss of \$5.5 million due to the change in fair value of our interest rate swaps and a non-cash gain on the change in fair value of our foreign currency forward contracts denominated in Japanese Yen totaling \$4.0 million. The non-cash gain of our Japanese Yen denominated foreign currency forward contracts was due to an overall weakening of the U.S. dollar against the Japanese Yen during the year ended December 31, 2009. Generally, the fair value of our interest rate swap agreements decreased as of December 31, 2009 compared to December 31, 2008 as a result of extremely low interest rate environment, with the floating rates we pay under our loan agreements decreasing to a level below the fixed rates we pay under our interest rate swap agreements.

**INTEREST INCOME** Net interest income was \$0.3 million for the year ended December 31, 2009, compared to \$0.7 million for the year ended December 31, 2008, a decrease of \$0.4 million, or 57.1%, reflecting both lower prevailing interest rates and lower average cash balances on deposit throughout the year ended December 31, 2009 compared to the year ended December 31, 2008, when our cash resources were boosted by the proceeds of our follow-on public equity offering in July 2007.

**FOREIGN EXCHANGE LOSS** For the year ended December 31, 2009, we incurred a foreign exchange loss of \$0.3 million. For the year ended December 31, 2008, we incurred a foreign exchange loss of \$0.2 million. This increase of \$0.1 million resulted from an increase in the level of non-US\$ denominated expenses as a result of the increase in the number of spot voyage days undertaken by our fleet for the year ended December 31, 2009 compared to the year ended December 31, 2008.



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**NET INCOME** As a result of the above factors, we recorded a net loss of \$13.3 million for the year ended December 31, 2009, representing a decrease of \$43.3 million, from net income of \$30.0 million for the year ended December 31, 2008.

***Year ended December 31, 2008 and the year ended December 31, 2007***

The average number of vessels in our fleet was 38.6 in the year ended December 31, 2008 compared to 32.8 in the year ended December 31, 2007.

**VOYAGE REVENUES** Voyage revenues for the year ended December 31, 2008 were \$112.6 million compared to \$90.0 million for the year ended December 31, 2007, an increase of \$22.6 million, or 25.1%. The average daily TCE rate for the year ended December 31, 2008 was \$7,588, an increase of \$459, or 6.4%, compared, to a daily TCE rate of \$7,129 for the year ended December 31, 2007. Total voyage days for our fleet were 14,018 in the year ended December 31, 2008 compared to 11,871 for the year ended December 31, 2007. Of the total voyage days in 2008, 13,318, or 95.0%, were either time charter or bareboat charter and 700, or 5.0%, were spot voyage days. This compares to 11,170, or 94.0%, time or bareboat charter days and 701, or 6.0%, spot charter days in 2007. Our fleet utilization was 99.3% and 99.0% for the year ended December 31, 2008 and the year ended December 31, 2007, respectively.

**VOYAGE EXPENSES** Voyage expenses were \$6.2 million for the year ended December 31, 2008 and were \$5.4 million for the year ended December 31, 2007, an increase of \$0.8 million, or 14.8%. These consisted largely of bunker charges in the amount of \$2.3 million for 2008 compared to bunker charges in the amount of \$1.5 million for the year ended December 31, 2007, an increase of 53.3%, due to the increase in the price of oil and oil related products such as bunker fuel during the year ended December 31, 2008.. Voyage expenses also included port expenses of \$0.8 million for the year ended December 31, 2008 compared to \$1.3 million for the year ended December 31, 2007, a decrease of 38.5% and commissions to third parties which were \$1.6 million for the year ended December 31, 2008 compared to \$1.4 million for the year ended December 31, 2007, an increase of 14.3%. The increase in voyage expenses for the year ended December 31, 2008 compared to December 31, 2007 reflects the higher bunker prices paid for fuel oil and an increase in commissions paid due to the increase in the size of the Company's fleet.

**VESSEL OPERATING EXPENSES** Vessel operating expenses were \$32.2 million for the year ended December 31, 2008 and were \$25.4 million for the year ended December 31, 2007, an increase of \$6.8 million, or 26.8%, due primarily to increased crew wages and related costs which were \$19.2 million for the year ended December 31, 2008 compared to \$14.0 million for the year ended December 31, 2007. Other significant increases in this category were spares and consumable stores, which increased from \$4.2 million in the year ended December 31, 2007 to \$5.0 million in the year ended December 31, 2008, while repairs and maintenance costs were \$4.1 million in the year ended December 31, 2008 compared to \$3.4 million for the year ended December 31, 2007.

**DRY DOCKING COSTS** Dry docking costs were \$1.1 million for the year ended December 31, 2008 and were \$0.3 million for the year ended December 31, 2007. Dry docking costs increased due to an increased number of vessels having to undergo dry docking inspections in the year ended December 31, 2008 compared to the number of vessels that underwent dry dockings in the year ended December 31, 2007.

**MANAGEMENT FEES** Management fees were \$4.6 million for the year ended December 31, 2008 and were \$4.1 million for the year ended December 31, 2007, an increase of \$0.5 million, or 12.2%, reflecting the increased number of vessels in the fleet for the year ended December 31, 2008 compared to the year ended December 31, 2007. During 2008 and 2007, we paid Stealth Maritime, our fleet manager, an average fee of \$440 per vessel per day except when the vessels were on bareboat charters, in which case the fee was \$125 per vessel per day.

**GENERAL AND ADMINISTRATIVE EXPENSES** General and administrative expenses were \$4.8 million for the year ended December 31, 2008 and were \$5.0 million for the year ended December 31, 2007, a decrease of \$0.2 million, or 4.0%, due to decreases in executive compensation.

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**DEPRECIATION** Depreciation expenses for the 38.6 average number of vessels in our fleet for the year ended December 31, 2008 were \$23.3 million compared to \$16.5 million for the 32.8 average number of vessels in our fleet for the year ended December 31, 2007, an increase of \$6.8 million, or 41.2%.

**INTEREST AND FINANCE COSTS, NET** Net interest and finance costs were \$10.0 million for the year ended December 31, 2008 and were \$9.8 million for the year ended December 31, 2007, an increase of \$0.2 million, or 2.0%, resulting primarily from the increased level of borrowings during the year ended December 31, 2008 offset by the lower level of interest rates prevailing throughout most of that year compared to those in the year ended December 31, 2007.

**CHANGE IN FAIR VALUE OF DERIVATIVES** For the years ended December 31, 2008 and December 31, 2007, we incurred a loss on derivatives of \$2.7 million and \$2.6 million, respectively. The loss on derivatives for the year ended December 31, 2008 is made up of a cash loss of \$1.3 million on interest rate swaps, a non-cash loss of \$9.1 million due to the change in fair value of our interest rate swaps and a non-cash gain on the change in fair value of our foreign currency forward contracts denominated in Japanese Yen totaling \$7.7 million. The non-cash gain of our Japanese Yen denominated foreign currency forward contracts was due to an overall weakening of the U.S. dollar against the Japanese Yen during the year ended December 31, 2008. Generally, the fair value of our interest rate swap agreements increased as of December 31, 2008 compared to December 31, 2007 as a result of high interest rate environment, with the floating rates we pay under our loan agreements increasing to a level above the fixed rates we pay under our interest rate swap agreements.

**INTEREST INCOME** Net interest income was \$0.7 million for the year ended December 31, 2008, compared to \$1.9 million for the year ended December 31, 2007, a decrease of \$1.2 million, or 63.2%, reflecting the decreased level of cash held on the balance sheet for the year ended December 31, 2008 compared to the year ended December 31, 2007 where our cash balance during that year was boosted by our follow-on public offering completed early in the third quarter of 2007.

**FOREIGN EXCHANGE LOSS** For the year ended December 31, 2008, we incurred a foreign exchange loss of \$0.2 million. For the year ended December 31, 2007, we incurred a foreign exchange loss of \$0.1 million. This increase of \$0.1 million resulted from the continued decline of the value of the U.S. dollar against the Euro during the year ended December 31, 2008.

**NET INCOME** As a result of the above factors, net income was \$30.0 million for the year ended December 31, 2008, representing an increase of \$7.5 million, or 33.3%, from net income of \$22.5 million for the year ended December 31, 2007.

## **Liquidity and Capital Resources**

Since our inception, our principal source of funds has been equity provided by our affiliates, proceeds from our initial public offering, proceeds from our follow-on public offering concluded early in the third quarter of 2007, cash generated by our operations and bank borrowings. Our principal use of funds has been to acquire our vessels, to maintain the quality of our vessels, to comply with international standards, laws and regulations and to fund working capital requirements. As of December 31, 2009, we had cash and cash equivalents of \$44.1 million and \$4.4 million in restricted cash classified as current assets.

Our liquidity needs through the end of 2012 primarily relate to the purchase of the five LPG carriers and one Aframax tanker for which we had contracted as of June 15, 2010 and for which we have scheduled future payments through the delivery of the final contracted vessel during 2012 aggregating \$160.7 million as of June 15, 2010, and installment payments on our outstanding indebtedness. As of June 15, 2010, we had of \$318.0 million of outstanding indebtedness, of which \$29.9 million is payable within 12 months. As of June 15, 2010, for the next 12 months, we have capital expenditures totaling \$101.8 million consisting of \$45.3 million in scheduled installment payments on our five newbuilding LPG carriers to be delivered to us between 2011 and 2012 and \$56.5 million for the Aframax tanker, *Spike*, scheduled to be delivered to us in July 2010.

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In 2009, we funded the purchase price for three liquefied petroleum gas carriers, the *Gas Natalie*, the *Gas Astrid* and the *Gas Exelero*, and for one product tanker, the *Alpine Endurance*, delivered during 2009, with cash generated by our operations and from borrowings under our existing credit facilities. We expect to fund the acquisition of the *Spike* with \$11.5 million of cash generated by our operations and a \$45.0 million new credit facility for which we have signed a commitment letter with DnB NOR Bank. We expect to fund the remaining \$104.2 million acquisition cost of the five LPG carriers, and the remaining \$8.1 million payable under the agreement to cancel the purchase of the *Stealth Argentina* which in aggregate amount to \$112.3 million payable between June 2010 and May 2012, with borrowings under to be arranged credit facilities of approximately \$82.4 million and \$29.9 million of cash to be generated from operations.

Overall we will continue to rely upon operating cash flows and bank borrowings, as well as future financings yet to be arranged to fund the five under construction LPG vessels for delivery in 2011 and 2012, and any additional vessel acquisitions we may make in the future. Of our current fleet of 37 vessels as of June 15, 2010, five of our vessels, *Gas Chios*, the *Gas Crystal*, the *Gas Evoluzione*, the *Gas Zael* and the *Catterick*, were unencumbered. As a result, we may incur additional indebtedness secured by certain or all of these unencumbered, vessels.

We believe that our working capital is sufficient for our present short-term liquidity requirements. We believe that, unless there is a major and sustained downturn in market conditions applicable to our specific shipping industry segments, our internally generated cash flows and the borrowings under existing credit facilities will be sufficient to fund our operations, including working capital requirements, over the next 12 months. While our core Handy Size LPG sector is characterized by its inherent lack of volatility both in terms of charter rates and vessel valuations, in the event there is a sustained downturn in our core sector over the next two to three years, we would expect to finance the five newbuilding LPG carriers through a combination of as yet to be arranged credit facilities, internally generated cash flows and, if necessary, the mortgaging of other unencumbered vessels in our fleet.

Since the formation of the Company in October 2004, our subsequent initial public offering in October 2005 and our follow-on public offering completed early in the third quarter of 2007, we have continued to implement our strategy of growth by acquisition of LPG carriers, to become a market leader within the Handy size LPG carrier sector, as well as entering the product carrier sector and crude oil tanker sector, using the resources outlined above.

For a description of our credit facilities please refer to the discussion under the heading "Credit Facilities" below.

Our Board of Directors' decision to continue to suspend the payment of cash dividends as a result of market conditions in the international shipping industry and the general uncertainties in the global economy will also continue to impact our future liquidity position. Along with the cessation of dividend payments, we also decided as of December 31, 2009 not to pay any bonuses to management and no accrual was made for bonuses for the three months ended March 31, 2010. We also completed the sale of five vessels during the first five months of 2010.

On March 22, 2010, our Board of Directors approved a stock repurchase program of up to \$15.0 million. As at June 15, 2010, 689,954 common shares had been repurchased at an average price of \$5.32 per share. We may discontinue or cancel this program at any time.

**Cash Flows**

NET CASH PROVIDED BY OPERATING ACTIVITIES was \$48.3 million for the year ended December 31, 2009, \$48.1 million for the year ended December 31, 2008 and \$47.7 million for the year ended December 31, 2007. This represents the net amount of cash, after expenses, generated by chartering our vessels. Stealth Maritime, on our behalf, collects our chartering revenues and pays our expenses.

Although net cash provided by operating activities changed little on an overall basis year on year, a significant source of cash was a \$10.3 million increase in cash related payables to a related party. This was as a consequence of a longer payment period being granted by the related party, Stealth Maritime Corp., in regard to the settlement of related payables. Other factors effecting the cash generation from operations were broadly neutral on a year on year

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basis hence the small increase of \$0.2 million in cash generated from operations for the year ended December 31, 2009 compared to the year ended December 31, 2008.

**NET CASH USED IN INVESTING ACTIVITIES** was \$101.6 million for the year ended December 31, 2009, reflecting the \$11.7 million proceeds from the sales of the *Gas Sophie* and the *Gas Fortune*, the acquisition of four vessels totaling \$106.1 million, the *Gas Natalie* in February 2009, the *Gas Astrid* in April 2009, the *Gas Exelero* in June 2009 and the *Alpine Endurance* in July 2009, plus \$12.0 million paid as stage payments on five vessels due to be delivered to us between February 2011 and May 2012. The above four vessels acquired in 2009 were financed by a combination of \$88.2 million of bank facilities and \$17.9 million of cash. Net cash used in investing activities was \$160.0 million for the year ended December 31, 2008, reflecting the acquisition of 5 vessels, the *Navig8 Fidelity* in January 2008, the *Navig8 Faith* in February 2008, the *Gas Premiership* in March 2008, the *Gas Defiance* in July 2008 and the *Gas Shuriken* in October 2008. Net cash used in investing activities was \$150.0 million for the year ended December 31, 2007 reflecting the acquisition of ten vessels, the *Gas Haralambos*, the *Gas Flawless*, the *Gas Icon*, the *Gas Kalogeros*, the *Sea Bird II*, the *Gas Evoluzione*, the *Gas Sophie*, the *Gas Sikousis*, the *Gas Renovatio*, the *Chiltern*, and deposits placed on the *Gas Premiership*, which was delivered to us in March, 2008, the *Navig8 Faith*, which was delivered to us in February 2008 and the *Navig8 Fidelity* which was delivered to us in January 2008.

Cash generated by our operations and used in investing activities is utilized primarily in investing in additional assets, namely Handy Size (3,000 to 8,000 cbm) LPG carriers, and medium range product carriers. Short-term cash is generally invested in bank deposits. We do not invest in any marketable securities.

**NET CASH PROVIDED BY FINANCING ACTIVITIES** was \$55.4 million for the year ended December 31, 2009, reflecting \$88.2 million of borrowings under the DVB Bank S.E. Nordic Branch, the EFG Eurobank Ergasias S.A. and the NIBC Bank N.V. loan agreements to fund the acquisition of three vessels, offset by \$26.0 million in loan repayments and \$4.2 million of dividends paid to stockholders. Net cash provided by financing activities was \$120.6 million for the year ended December 31, 2008, reflecting \$161.8 million of borrowings under the DnB NOR Bank, Scotia Bank, Deutsche Bank, National Bank of Greece and Emporiki Bank loan agreements to fund the acquisition of five vessels, offset by \$23.9 million in loan repayments and \$16.7 million of dividends paid to shareholders. Net cash provided by financing activities was \$123.9 million for the year ended December 31, 2007, which included net-proceeds of \$137.8 million from our follow-on offering that concluded in August 2007 and \$53.6 million under the Fortis Bank, DnB NOR Bank and Scotiabank, offset by \$48.8 million in loan repayments loan agreements and \$13.7 million of dividends paid to shareholders.

We, as and when we identify assets that we believe will provide attractive returns, generally enter into specific term loan facilities and borrow amounts under these facilities as vessels are delivered to us. This is the primary driver of the timing and amount of cash provided to us by our financing activities, however, from time to time to bolster our cash position and take advantage of financing opportunities, including to refinance the acquisition cost of vessels acquired earlier, we have entered into and may in the future borrow under credit facilities secured by previously unencumbered vessels in our then-existing fleet.

**Credit Facilities**

We, as guarantor, and certain of our subsidiaries, as borrowers, have entered into a number of credit facilities in connection with financing the acquisition of certain vessels in our fleet. The following summarizes certain terms of our credit facilities under which we had an aggregate of outstanding indebtedness of \$345.8 million, and no undrawn borrowing capacity, as of December 31, 2009:

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| <b>Lender(1)</b>                               | <b>Remaining<br/>Available<br/>Principal<br/>Amount</b> | <b>Outstanding<br/>Principal<br/>Amount</b> | <b>Interest Rate</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Maturity</b> | <b>Remaining<br/>Repayment<br/>Installments</b>                                                                                           |
|------------------------------------------------|---------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FORTIS BANK<br/>ATHENS<br/>BRANCH(1)(2)</b> |                                                         | \$50.71 million                             | The interest rate margin over LIBOR varies with the ratio of the outstanding balance of the loan to the aggregate market value of the vessels mortgaged thereunder as follows: if the ratio is less than 67% the interest rate is 0.75% over LIBOR; if the ratio is more than 67% but less than 77% the interest rate is 0.80% over LIBOR and if the ratio exceeds 77% the interest rate is 0.90% over LIBOR. The facility bore an average interest rate, including margin, of 1.70% during 2009, which represented an average LIBOR rate of 0.95% plus the prevailing margin of 0.75%. | Due May 2016    | Twenty six quarterly installments of \$1.44 million plus a balloon payment of \$13.27 million payable together with the last installment. |

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| <b>Lender(1)</b>               | <b>Remaining<br/>Available<br/>Principal<br/>Amount</b> | <b>Outstanding<br/>Principal<br/>Amount</b> | <b>Interest Rate</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Maturity</b> | <b>Remaining<br/>Repayment<br/>Installments</b>                                                                                                                                     |
|--------------------------------|---------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>DNB NOR BANK<br/>ASA(3)</b> |                                                         | \$67.48 million                             | The interest rate margin over LIBOR varies with the ratio of the aggregate market value of the vessels mortgaged under the loan to the amount outstanding thereunder. If the ratio is equal to or lower than 130%, the interest rate will be 0.85% over LIBOR; if the ratio is between 130% and 150%, the interest rate is 0.75% over LIBOR and if the ratio is equal to or higher than 150%, the interest rate is 0.70% over LIBOR. The facility bore an average interest rate, including margin, of 2.63% during 2009, which represented an average LIBOR rate of 1.88% plus the prevailing margin of 0.75%. | Due March 2016  | One semi-annual payment of \$8.19 million and eleven semi-annual payments of \$3.37 million, plus a balloon payment of \$22.22 million payable together with the final installment. |
| <b>DNB NOR BANK<br/>ASA(4)</b> |                                                         | \$4.13 million                              | The interest rate margin over LIBOR varies with the ratio of the aggregate market value of the vessel mortgaged under the loan to the amount outstanding thereunder. If the ratio is equal to or lower than 130%, the interest rate will be 0.85% over LIBOR;                                                                                                                                                                                                                                                                                                                                                  | Due June 2016   | Thirteen semi-annual installments of \$0.24 million plus a balloon payment of \$1.01 million payable together with the last installment.                                            |

if the ratio is between  
130% and 150%, the  
interest rate is 0.75%  
over LIBOR and if  
the ratio is equal to or  
higher than 150%,

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| <b>Lender(1)</b>                      | <b>Remaining<br/>Available<br/>Principal<br/>Amount</b> | <b>Outstanding<br/>Principal<br/>Amount</b> | <b>Interest Rate</b><br>the interest rate is<br>0.70% over LIBOR.<br>The facility bore an<br>average interest rate,<br>including margin, of<br>1.83% during 2009,<br>which represented an<br>average LIBOR rate<br>of 1.13% plus the<br>prevailing margin of<br>0.70%. | <b>Maturity</b>                       | <b>Remaining<br/>Repayment<br/>Installments</b>                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------|---------------------------------------------------------|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>SCOTIABANK(5)</b>                  |                                                         | \$42.11 million                             | LIBOR plus 0.70%                                                                                                                                                                                                                                                       | Due June 2015<br>Due<br>December 2017 | \$5.15 million is<br>repayable in ten<br>consecutive,<br>semi-annual<br>installments of<br>\$0.34 million each,<br>plus a balloon<br>payment of \$1.75<br>million payable<br>together with the last<br>installment.<br>\$36.96 million is<br>repayable, in fifteen<br>consecutive<br>semi-annual<br>installments of<br>\$1.54 million each,<br>plus a balloon<br>payment of \$13.86<br>million payable<br>together with the last<br>installment. |
| <b>NATIONAL BANK<br/>OF GREECE(6)</b> |                                                         | \$31.30 million                             | LIBOR plus 0.95%<br>until the repayment<br>of the third<br>installment and<br>LIBOR plus 0.80%<br>thereafter.                                                                                                                                                          | Due Nov 2020                          | Twenty-two<br>consecutive<br>semi-annual<br>installments of<br>\$0.97 million each<br>plus a balloon<br>payment of \$9.96<br>million payable<br>together with the last                                                                                                                                                                                                                                                                           |

|                             |                 |                                                                                       |              |                                                                                                                                       |
|-----------------------------|-----------------|---------------------------------------------------------------------------------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------|
| <b>DEUTSCHE<br/>BANK(7)</b> | \$35.88 million | LIBOR plus 0.70%<br>up to October 21,<br>2009 and. LIBOR<br>plus 2.00%<br>thereafter. | Due Feb 2020 | installment.<br><br>Forty consecutive<br>quarterly installments<br>of \$0.625 million and<br>a balloon payment of<br>\$10.88 million. |
|-----------------------------|-----------------|---------------------------------------------------------------------------------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------|

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| <b>Lender(1)</b>                        | <b>Remaining<br/>Available<br/>Principal<br/>Amount</b> | <b>Outstanding<br/>Principal<br/>Amount</b> | <b>Interest Rate</b> | <b>Maturity</b> | <b>Remaining<br/>Repayment<br/>Installments</b>                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------|---------------------------------------------------------|---------------------------------------------|----------------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>EMPORIKI<br/>BANK(8)</b>             |                                                         | \$27.72 million                             | LIBOR plus 0.90%.    | Due Oct 2020    | Twenty two semi-annual installments of \$0.86 million, plus a balloon payment of \$8.8 million, payable together with the last installment.                                                                                                                                                                                                                                             |
| <b>DVB BANK(9)</b>                      |                                                         | \$31.16 million                             | LIBOR plus 2.85%.    | Due Jul 2014    | \$18.43 million is repayable in eighteen consecutive, quarterly installments of \$0.41 million each, plus a balloon payment of \$11.05 million payable together with the last installment.<br>\$12.73 million is repayable, in nineteen consecutive quarterly installments of \$0.22 million each, plus a balloon payment of \$8.55 million payable together with the last installment. |
| <b>NIBC BANK(10)</b>                    |                                                         | \$26.70 million                             | LIBOR plus 3.00%.    | Due Jul 2014    | Five semi-annual installments of \$1.64 million each and five semi-annual installments of \$1.08 million and a balloon payment of \$13.10 million.                                                                                                                                                                                                                                      |
| <b>EFG EUROBANK -<br/>ERGASIAS (11)</b> |                                                         | \$28.65 million                             | LIBOR plus 2.50%.    | Due Jul 2019    | Nine consecutive, quarterly installments of \$0.60 million each, thirty consecutive, quarterly installments                                                                                                                                                                                                                                                                             |

of \$0.39 million and a  
balloon payment of  
\$11.55 million.

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- (1) Our credit facility with Fortis Bank Athens Branch was, as of December 31, 2009, collateralized by mortgages and other security relating to eleven LPG vessels, the *Sir Ivor*, the *Lyne*, the *Gas Prophet*, the *Gas Tiny*, the *Gas Courchevel*, the *Gas Shanghai*, the *Gas Emperor*, the *Gas Ice*, the *Gas Arctic*, the *Gas Texiana* and the *Gas Amazon*.
- (2) Borrowings under our credit facility with Fortis Bank Athens Branch repaid the outstanding balance of our credit facility with Fortis Bank for up to \$54.0 million, which was fully drawn in May 2005.
- (3) Our 2005 credit facility with DnB NOR Bank ASA was, as of December 31,

2009,  
collateralized by  
mortgages and  
other security  
relating to the  
*Gas Marathon*,  
the *Gas*  
*Sincerity*, the  
*Gas Cathar*, the  
*Gas Legacy*, the  
*Sweet Dream*  
(renamed in  
February 2006  
as the *Gas*  
*Monarch*), the  
*Gas Czar*, the  
*Gas Eternity*,  
the *Gas*  
*Flawless* and  
the *Gas*  
*Premiership*

(4) Our 2006 credit  
facility with  
DnB NOR Bank  
ASA was, as of  
December 31,  
2009,  
collateralized by  
mortgages and  
other security  
relating to the  
*Gas Pasha*.

(5) Our credit  
facility  
agreement is  
with the  
Scotiabank  
(Ireland)  
Limited, as  
lender,  
Scotiabank  
Europe plc, as  
security trustee,  
and The Bank of  
Nova Scotia, as  
swap bank. Our  
Scotiabank  
credit facility  
was, as of

December 31,  
2009,  
collateralized by  
mortgages and  
other security  
relating to the  
Gas Icon and  
the *Navig8  
Fidelity*.

(6) Our 2008 credit  
facility with  
National Bank  
of Greece was,  
as of  
December 31,  
2009,  
collateralized by  
mortgages and  
other security  
relating to the  
*Gas Defiance*  
and the *Gas  
Shuriken*.

(7) Our 2008 credit  
facility with  
Deutsche Bank  
was, as of  
December 31,  
2009,  
collateralized by  
mortgages and  
other security  
relating to the  
*Navig8 Faith*.

(8) Our 2008 credit  
facility with  
Emporiki Bank  
was, as of  
December 31,  
2009,  
collateralized by  
mortgages and  
other security  
relating to the  
*Gas Sikousis*  
and the *Gas  
Kalogeros*.

(9) Our 2009 credit facility with DVB Bank was, as of December 31, 2009, collateralized by mortgages and other security relating to the *Gas Astrid*, the *Chiltern* and the *Gas Exelero*.

(10) Our 2009 credit facility with NIBC Bank was, as of December 31, 2009, collateralized by mortgages and other security relating to the *Gas Haralambos*, the *Gas Spirit* and the *Sea Bird II*.

(11) Our 2009 credit facility with EFG Eurobank Ergasias S.A. was, as of December 31, 2009, collateralized by mortgages and other security relating to the Alpine Endurance.

As of June 15, 2010, five of our 37 vessels, the *Gas Chios*, the *Gas Crystal*, the *Gas Evoluzione*, the *Gas Zael* and the *Catterick* were unencumbered.

#### **New DnB NOR Bank ASA Credit Facility**

On June 8, 2010, we signed a commitment letter with the DnB NOR Bank to partially finance the acquisition of an under construction Aframax tanker named *Spike* (formerly Hull No 1757 ), by one of our wholly-owned

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subsidiaries and secured by the *Gas Zael*, a vessel already owned by one of our wholly-owned subsidiaries. The senior secured term loan facility will be comprised of two tranches aggregating up to \$45,000,000. One tranche will be in an amount equal to the lesser of \$40,000,000 and 70% of the market value of the *Spike* at the time of delivery and the second tranche will be for the lesser of \$5,000,000 and 50% of *Gas Zael*'s market value at the same time. The senior secured term loan will be fully drawn down in a single tranche no later than September 15, 2010 and will be repayable in twenty four consecutive quarterly installments of \$850,000 each plus a balloon payment of \$24,600,000 payable together with the last installment. The term loan charges interest at LIBOR plus 2.40% and is secured by a first priority mortgage over the vessels involved and cross-collateralized with security vessels under the DnB Loan plus the assignment of the vessel's insurances, earnings and the vessel's operating and retention account, and the guarantee of StealthGas Inc. We expect this credit facility to contain such other financial covenants and events of default similar to those contained in our existing credit facilities.

### **Financial Covenants**

Our credit facilities contain financial covenants requiring us to:

ensure that our leverage, which is defined as total debt net of cash/total market adjusted assets, does not at any time exceed 80%;

maintain a ratio of the aggregate market value of the vessels securing the loan to the principal amount outstanding under such loan (which we sometimes refer to as the value, maintenance clause) at all times in excess of (i) 130% under our loan agreement with Fortis Bank-Athens Branch and NIBC Bank N.V. (ii) 125% under our loan agreements with Deutsche Bank, DnB NOR Bank ASA, DVB Bank S.E., Nordic Branch, EFG Eurobank Ergasias S.A., Emporiki Bank, National Bank of Greece and Scotiabank;

ensure that our ratio of EBITDA to interest expense over the preceding twelve months is at all times more than 2.5 times; and

ensure that members of the Vafias family at all times own at least 15% of our outstanding capital stock.

In addition, our loan agreement with Fortis Bank-Athens Branch requires us to maintain a minimum cash balance equivalent to six months interest in a pledged account with the lender at all times; our loan agreements with Scotiabank and Deutsche Bank each require us to maintain a cash balance equivalent of \$200,000 for each vessel mortgaged to Scotiabank or Deutsche Bank, as applicable, at all times; our loan agreement with Emporiki Bank requires us to maintain an average cash balance equivalent of \$800,000 with Emporiki Bank at all times our loan agreement with EFG Eurobank requires us to maintain an aggregate cash balance equivalent of \$200,000 with EFG Eurobank at all times; our loan agreement with National Bank of Greece requires us to deposit on a monthly basis 1/6th of the relevant installment of principal and 1/6th of the relevant fraction of the next interest payment that are both due on a six monthly basis. Our loan agreements with DnB Nor Bank require us at all times to keep the equivalent of six months interest payable on deposit with the DnB Nor Bank at all times.

Under our credit facilities, we are also restricted from paying cash dividends in amounts that exceed 50% of our consolidated free cash flow generally on a rolling 12 months basis.

As of December 31, 2009, we were in breach of the value maintenance clause in two loan facilities, with Deutsche Bank and Scotiabank, and we obtained waivers from these lenders regarding the above covenant breaches. In consideration for the waivers granted through September 30, 2010, the interest margin for the Deutsche Bank facility was increased to 2.5% over LIBOR until the maturity of the loan facility. The interest margin for the Scotiabank facility was increased to 2.0% over LIBOR until the maturity of the loan facility.

Our existing credit facility agreements contain customary events of default with respect to us and our applicable subsidiaries, including upon the non-payment of amounts due under the credit facility; breach of covenants; matters affecting the collateral under such facility; and the occurrence of any event that, in light of which, the lender considers that there is a significant risk that the borrowers are, or will later become, unable to discharge their



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liabilities as they fall due. In addition, our credit facility with Emporiki Bank of Greece S.A. contains events of default with respect to insolvency or bankruptcy, while our credit facility with Scotiabank (Ireland) Limited, as lender, Scotiabank Europe plc, as security trustee, and The Bank of Nova Scotia, as swap bank, contains events of default with respect to insolvency or bankruptcy, as well as defaults under our other debt obligations.

Our credit facilities provide that upon the occurrence of an event of default, the lenders may require that all amounts outstanding under the credit facility be repaid immediately and terminate our ability to borrow under the credit facility and foreclose on the mortgages over the vessels and the related collateral. Our loan agreements also contain cross-default clauses.

**Capital Expenditures**

Our capital expenditures consist of the purchase of vessels comprising our fleet.

As of December 31, 2009, we had agreements to acquire five newbuilding LPG carriers with expected delivery from February 2011 through May 2012 for an aggregate of \$126.7 million, of which \$104.16 remained to be paid as of December 31, 2009. On June 4, 2010, we agreed to acquire one Aframax crude oil tanker for \$56.5 million, payable upon its delivery to us in July 2010.

During the year ended December 31, 2009 we acquired four vessels, three Handy Size LPG carriers and one Medium Range Product carrier.

During the year ended December 31, 2008, we acquired five vessels, two medium range type product carriers, the *Navig8 Fidelity* in January 2008 and the *Navig8 Faith* in February 2008, plus three LPG carriers, the *Gas Premiership* in March 2008, the *Gas Defiance* in July 2008 and the *Gas Shuriken* in October 2008, for an aggregate purchase price of \$178.3 million. In addition we placed aggregate deposits of \$23.0 million on the *Stealth Argentina*, the *Alpine Endurance* and the five LPG newbuildings ordered by us. The *Gas Natalie* was delivered to us on January 22, 2009.

During the year ended December 31, 2007, we acquired 10 vessels for an aggregate purchase price of \$138.5 million. In addition, we placed aggregate deposits of \$12.5 million on the *Gas Premiership*, the *Navig8 Faith* and the *Navig8 Fidelity*, which were subsequently delivered to us on March 19, 2008, February 27, 2008 and January 9, 2008, respectively.

**Off Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Contractual Obligations**

Contractual obligations as of December 31, 2009 were:

|                                                 |            | Payments due by period (in thousands) |                          |                          |                                                             |
|-------------------------------------------------|------------|---------------------------------------|--------------------------|--------------------------|-------------------------------------------------------------|
|                                                 |            | Less than<br>1<br>year<br>(2010)      | 1-3 years<br>(2011-2012) | 3-5 years<br>(2013-2014) | More<br>than<br>5 years<br>(After<br>January<br>1,<br>2015) |
| Long-term debt obligations                      | \$ 345,822 | \$ 36,167                             | \$ 60,718                | \$ 89,963                | \$ 158,975                                                  |
| Interest on principal amounts<br>outstanding(1) | 60,048     | 7,248                                 | 16,908                   | 15,748                   | 20,144                                                      |
| Management fees(2)                              | 7,592      | 5,127                                 | 2,465                    |                          |                                                             |
| Office lease(3)                                 | 120        | 60                                    | 60                       |                          |                                                             |
| Operating lease(4)                              | 90         | 49                                    | 41                       |                          |                                                             |
| Vessel purchase agreements(5)                   | 104,157    | 14,217                                | 89,940                   |                          |                                                             |
| Total                                           | \$ 517,832 | \$ 62,869                             | \$ 170,133               | \$ 105,711               | \$ 179,119                                                  |



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- (1) Based on assumed LIBOR rates of 0.75% for 2010, 1.50% for 2011-2012, 2.25% for 2013-2014 and 3.0% thereafter, and the effect of our interest rate swap arrangements.
- (2) Under our management agreement with Stealth Maritime, we pay it \$125 per vessel per day for vessels on bareboat charter and \$440 per vessel per day for vessels not on bareboat charter. Based on the payment of a management fee of \$440 per vessel per day for vessels not on bareboat charter and \$125 per day for vessels on bareboat charter and our currently contracted vessel acquisitions, we expect to pay at least \$5.1 million per year to Stealth Maritime as

management fees under the management agreement. We also will pay 1.25% of the gross freight, demurrage and charter hire collected from employment of our ships and 1% of the contract price of any vessels bought or sold on our behalf. In addition, we will reimburse Stealth Maritime for its payment of the compensation to our Chief Executive Officer and Chief Financial Officer. Such compensation was in the aggregate amount of 902,990 (US \$1,267,981 based on the average exchange rate of 1.00: US \$1.404 in effect throughout 2009). The initial term of our management agreement expires in June 2010 but extends on a year-to-year basis thereafter unless six-month

written notice is provided prior to the expiration of the term.

Such notice has not been given by either party.

- (3) We lease office space from the Vafias Group. This lease was renewed effective January 3, 2010 for two years at a rate of 42,000 per year.

- (4) In October 2005, we entered into a three year cancelable operating lease for a motor vehicle. The initial term of the lease terminated in October 2008. The lease was renewed effective October 2008 for a further three years. The cost is Euro 34,200 per year.

- (5) The \$104.16 million set forth in the above table (converted from our contractual obligation for Yen 9,606,400,000 at the exchange rate on

December 31, 2009), represents the remaining balance, as of December 31, 2009, for five newbuilding handy size LPG carriers which is due upon the respective delivery of these vessels to us scheduled from February 2011 and May 2012. On June 4, 2010, we agreed to acquire one crude oil tanker for \$56.5 million, payable upon its delivery to us scheduled for July 2010, which amount is not reflected in the above table.

### **Critical Accounting Policies**

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

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies that involve a high degree of judgment and the methods of their application. For a description of all of our significant accounting policies, see Note 2 to our consolidated financial statements included elsewhere herein.

*Revenue and Expenses:* We generate our revenues from charterers for the charter hire of our vessels. Vessels are chartered using either voyage charters, where a contract is made in the spot market for the use of a vessel for a specific voyage for a specified charter rate, or time and bareboat charters, where a contract is entered into for the use of a vessel for a specific period of time and a specified daily or monthly charter hire rate payable monthly in advance. If a charter agreement exists and the price is fixed, service is provided and collection of the related revenue is reasonably assured, revenue is recognized as it is earned ratably on a straight-line basis over the duration of the period of each voyage or period charter. A voyage is deemed to commence upon the completion of discharge of the vessel's previous cargo and is deemed to end upon the completion of discharge of the current cargo. Demurrage income represents payments by a charterer to a vessel owner when loading or discharging time exceeds the stipulated time in the voyage charter and is recognized ratably as earned during the related voyage charter's duration period. Deferred income

includes cash received prior to the balance sheet date and is related to revenue earned after such date.

Voyage expenses comprise commissions, bunkers and port expenses and are unique to a particular charter. Commissions in all cases are paid by us and are recognized on a pro-rata basis. All other voyage expenses are paid by the charterer under time charter arrangements or by us under voyage charter arrangements and are recognized as incurred.

Vessel operating expenses comprise all expenses relating to the operation of the vessel, including crewing, repairs and maintenance, insurance, stores, lubricants and miscellaneous expenses. Vessel operating expenses are paid by us and are accounted for on an accrual basis.

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Under a bareboat charter, the charterer assumes responsibility for all voyage and vessel operating expenses and risk of operation.

*Impairment of long-lived assets:* We follow the standard about the Impairment or Disposal of Long-lived Assets. The standard requires that long-lived assets and certain identifiable intangible assets held and used or disposed of 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. An impairment loss for an asset held for use should be recognized 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. Measurement of the impairment loss is based on the fair value of the asset. In this respect, management reviews the carrying amount of the vessels when events or changes in circumstances indicate that the carrying amount of the vessels may not be recoverable.

The current economic and market conditions, including the significant disruptions in the global credit markets, are having broad effects on participants in a wide variety of industries. Since mid 2008, the charter rates in most sectors in the shipping industry have declined significantly and vessel values have also declined both as a result of a slowdown in the availability of global credit and the deterioration in charter rates.

However, our core operating sector, the transportation of liquefied petroleum gas has, unlike most other shipping sectors, not experienced the level of downturn either in charter rates or asset values if compared with other sectors in the shipping industry.

Despite the apparent steadiness in the values of our core fleet, the decline in global economy was considered to be an indicator of potential impairment. Therefore, as of December 31, 2009, we performed the step one, undiscounted cash flow test as required by the standard. We determined undiscounted projected net operating cash flows for each vessel and compared it to the vessel's carrying value. This assessment was made at the individual vessel level since separately identifiable cash flow information for each vessel was available. In developing estimates of future cash flows to be generated over remaining useful lives of the vessels, we made assumptions about the future, such as: (1) vessel charter rates, (2) vessel utilization rates, (3) vessel operating expenses, (4) dry docking costs, (5) vessel scrap values at the end of vessels' remaining useful lives and (6) the remaining useful lives of the vessels. These assumptions were based on historical trends as well as future expectations in line with our historical performance and our expectations for future fleet utilization under our current fleet deployment strategy, vessel sales and purchases, and overall market conditions.

Our impairment test exercise is highly sensitive on variances and future estimates of the time charter rates, fleet effective utilization rate, estimated scrap values, future drydocking costs and estimated vessel operating costs. Our current analysis, which involved also a sensitivity analysis by assigning possible alternative values to these inputs, indicates that there is no impairment of individual long lived assets.

As a result of the impairment review, as of December 31, 2009, undiscounted net operating cash flows exceeded each vessel's carrying values except for one vessel which was scheduled to be delivered by us in 2010, accordingly, we identified and recorded an impairment loss of \$0.2 million in 2009. In addition, we recorded an impairment loss of \$9.7 million for three of our vessels that were classified as held for sale as of December 31, 2009, and were subsequently delivered to their new owners in 2010. We did not identify impairment indicators in the years ended December 31, 2008 and 2007 and so, no impairment loss was recorded in that years.

The carrying values of our vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings.

*Depreciation:* We record the value of our vessels at their cost (which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. We depreciate our vessels on a straight-line basis over their estimated useful lives, estimated to be 25 to 30 years from date of initial delivery from the shipyard. We believe that a 30-year depreciable life is consistent with that of other gas vessel owners and reflects management's intended use and a 25-year depreciable life is consistent with other product carrier vessel owners and reflects management's intended use. Depreciation is based on cost less the estimated residual scrap value. An increase in the useful life of the vessel or in the residual value would have the effect of decreasing the annual depreciation charge and extending it into later periods. A decrease in



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the useful life of the vessel or in the residual value would have the effect of increasing the annual depreciation charge. No events or circumstances occurred in 2009 that would require us to revise estimates related to depreciation and such revisions are not expected to occur in the future.

*Vessels Acquisitions:* Our vessels are stated at cost, which consists of the contract price less discounts and any material expenses incurred upon acquisition (initial repairs, improvements, acquisition and expenditures made to prepare the vessel for its initial voyage). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels, and otherwise are charged to expenses as incurred.

We record all identified tangible and intangible assets associated with the acquisition of a vessel or liabilities at fair value. Where vessels are acquired with existing time charters, we allocate the purchase price to the time charters based on the present value (using an interest rate which reflects the risks associated with the acquired charters) of the difference between (i) the contractual amounts to be paid pursuant to the charter terms and (ii) management's estimate of the fair market charter rate, measured over a period equal to the remaining term of the charter. The capitalized above-market (assets) and below-market (liabilities) charters are amortized as a reduction and increase, respectively, to voyage revenues over the remaining term of the charter.

*Derivative Financial Instruments:* We follow the standard Accounting for Derivative Instruments and Hedging Activities as amended, to account for and report on derivative instruments. During 2008 and 2009, we engaged in six interest rate swap agreements in order to hedge the exposure of interest rate fluctuations associated with the cash flows on a portion of our variable rate borrowings. These swap agreements are designated and qualify as cash flow hedges. Their fair value is included in financial instruments in the Company's consolidated balance sheets with changes in the effective portion of the instruments' fair value recorded in accumulated other comprehensive income. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in the consolidated statements of operations. If the hedged items are forecasted transactions that later are not expected to or will not occur, then the derivative financial instrument no longer qualifies as a cash flow hedge. As a result, fair value changes that were previously recorded in accumulated other comprehensive income are immediately recognized in earnings. In all other instances, when a derivative financial instrument ceases to be designated or to qualify as an effective cash flow hedge but if it is still possible the hedged forecasted transaction may occur, hedge accounting ceases from that date and the instrument is prospectively marked to market through earnings, but previously recorded changes in fair value remain in accumulated other comprehensive income until the hedged item affects earnings or until it becomes probable that the hedged forecasted transaction will not occur. It is our intention to hold these swap agreements to maturity. During 2008, we discontinued hedge accounting for two of our interest rate swap contracts and during 2009 we ceased hedge accounting for one more of our interest rate swap contracts due to their becoming ineffective under the guidance. As of December 31, 2009, none of our interest rate swap contracts qualified for hedge accounting and we recorded their change in fair values in our income statement.

During 2008, we entered into forward exchange contracts to hedge foreign currency risks of anticipated cash payments in Japanese Yen relating to certain vessels under construction for periods consistent with these committed exposures. We have not applied cash flow hedge accounting to the foreign exchange derivative instruments, and therefore, recorded the change in fair value in earnings.

In January 2008, we adopted the standard about the Fair Value Measurements, which provides guidance for using fair value to measure assets and liabilities by defining fair value and establishing a framework for measuring fair value. The standard applies to all financial instruments that are measured and reported on a fair value basis, including our derivative financial instruments. In regard to the Fair Value Measurement, please refer to notes 2 and 13 of our notes to the consolidated financial statements.

*Stock Incentive Plan:* Share-based compensation includes vested and non-vested shares granted to employees and to non-employee directors in 2008 and 2009, for their services as directors, is included in General and administrative expenses in the consolidated statements of operations. These shares are measured at their fair value, which is 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 a total fair value of such shares is recognized in full on the grant date. The shares that contain a time-based service vesting condition are considered non-vested



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shares on the grant date and a total fair value of such shares recognized over the vesting period on a straight-line basis over the requisite service period for each separately portion of the award as if the award was, in substance, multiple awards (graded vesting attribution method). No events or circumstances occurred in 2009 that would require us to revise estimates related to stock-based compensation and such revisions are not expected to occur in the future.

**Recent Accounting Pronouncements**

In March 2008, new guidance was issued with the intent to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods within those fiscal years, beginning after November 15, 2008, with early application allowed. The new guidance allows but does not require comparative disclosures for earlier periods at initial adoption. We adopted the new guidance and included the required disclosures.

On June 16, 2008, new guidance clarified that all unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The new guidance is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We adopted the new guidance in 2009 and presents earnings per share pursuant to the two-class method.

In April 2009, new guidance was issued for interim disclosures about fair value of financial instruments, which amends previous guidance for disclosures about fair value of financial instruments to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The guidance also requires those disclosures in summarized financial information at interim reporting periods. The new guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We adopted the new guidance in the second quarter of 2009 and included the required disclosures.

In May 2009, new guidance was issued relating to management's assessment of subsequent events. This new guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, the new guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The new guidance is effective for fiscal years and interim periods ended after June 15, 2009 and will be applied prospectively. We adopted the new guidance in the second quarter of 2009 and included the required disclosures.

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which became the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification's content will carry the same level of authority, effectively superseding previous guidance. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and non-authoritative. The new guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the new guidance in the third quarter of 2009 and updated references to U.S. GAAP in these consolidated financial statements to reflect the guidance in the Codification.

In June 2009, new guidance was issued with regards to the consolidation of variable interest entities (VIE). This guidance responds to concerns about the application of certain key provisions of the FASB Interpretation, including those regarding the transparency of the involvement with VIEs. The new guidance revises the approach to determining the primary beneficiary of a VIE to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. Specifically, the new guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an



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entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, the standard requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. We are evaluating the impact of this guidance on our consolidated financial statements.

In September 2009, clarifying guidance was issued on multiple-element revenue arrangements. The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. The new guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We are currently assessing the future impact of this new accounting pronouncement to its consolidated financial statements.

**Item 6. Directors, Senior Management and Employees**

The following table sets forth, as of December 31, 2009, information for each of our directors and senior managers.

| <b>Name</b>         | <b>Age</b> | <b>Positions</b>                                                | <b>Year<br/>Became<br/>Director</b> | <b>Year<br/>Director s<br/>Current<br/>Term<br/>Expires</b> |
|---------------------|------------|-----------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|
| Harry N. Vafias     | 32         | President, Chief Executive Officer<br>and<br>Class III Director | 2004                                | 2012                                                        |
| Andrew J. Simmons   | 55         | Chief Financial Officer                                         |                                     |                                                             |
| Michael G. Jolliffe | 60         | Chairman of the Board, Class II<br>Director                     | 2004                                | 2010                                                        |
| Lambros Babilis     | 42         | Deputy Chairman and Class I<br>Director                         | 2007                                | 2011                                                        |
| Markos Drakos       | 50         | Class III Director                                              | 2006                                | 2012                                                        |

Certain biographical information about each of these individuals is set forth below.

*Harry N. Vafias* has been our President and Chief Executive Officer and a member of our Board of Directors since our inception in December 2004. Mr. Vafias has been actively involved in the tanker and gas shipping industry since 1999. Mr. Vafias worked at Seascope, a leading ship brokering firm specializing in sale and purchase of vessels and chartering of oil tankers. Mr. Vafias also worked at Braemar, a leading ship brokering firm, where he gained extensive experience in tanker and dry cargo chartering. Seascope and Braemar merged in 2001 to form Braemar Seascope Group plc, a public company quoted on the London Stock Exchange and one of the world's largest ship brokering and shipping service groups. From 2000 until 2004, he worked at Brave Maritime and Stealth Maritime, companies providing comprehensive ship management services, where Mr. Vafias headed the operations and chartering departments of Stealth Maritime and served as manager for the sale and purchase departments of both Brave Maritime and Stealth Maritime. Mr. Vafias graduated from City University Business School in the City of London in 1999 with a B.A. in Management Science and from Metropolitan University in 2000 with a Masters degree in Shipping, Trade and Transport.

*Andrew J. Simmons*, our Chief Financial Officer, joined us in June 2005. Mr. Simmons has over 34 years of experience in the banking industry, with particular expertise in shipping finance. From 2002 until June 2005, Mr. Simmons served as General Manager of Heath Lambert Middle East in Bahrain and subsequently as Director at Heath Lambert (UAE) LLC in the Marine and Project Finance Division where he was responsible for overseeing the identification and development of marine finance for clients within the Dubai and Gulf regions. Mr. Simmons served as the Managing Director of Talal Al Zawawi Enterprises, a conglomerate encompassing trading, business services

and retail business units in Oman, from 2000 until 2002, where he was responsible for overseeing the day-to-day operational activities of the company. From 1973 until 2000, Mr. Simmons served as Director, Manager and Vice President at a number of banks including Bankers Trust Company, BHF Bank and Guinness Mahon & Co. Ltd., in the United Kingdom, Marine Midland Bank in New York, TAIB Bank EC in Bahrain and Mid-Med Bank PLC in Dubai and also served as International Treasurer for Saatchi & Saatchi Company PLC in London from 1986 to 1988.

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*Michael G. Jolliffe* has been Chairman of our Board of Directors since 2004. He is a director of a number of companies in shipping, oil, textiles, telecommunications and other industries. He is Deputy Chairman of Tsakos Energy Navigation Limited, an oil and product carrier shipping company listed on the New York Stock Exchange. Mr. Jolliffe is also Deputy Chairman of Lannet S.A., Greece's second largest telephone company, which is also quoted on the Athens Stock Exchange. Mr. Jolliffe is also Chairman of Wigham-Richardson Shipbrokers Ltd, one of the oldest established shipbroking companies in the City of London, and of Shipping Spares Repairs and Supplies Ltd, an agency company based in Piraeus, Greece. He is also joint president of Hanjin Eurobulk Ltd., a joint venture broking company with Hanjin Shipping of Korea. Additionally, Mr. Jolliffe is the President of Eurotrans Hermes Hellas S.A., the Greek agent of the Skoda Group for trams, buses and trains.

*Lambros Babilis* has been Deputy Chairman of our Board of Directors and an Executive Director since 2007. Mr. Babilis has been the Technical Manager of Stealth Maritime Corporation since 2006 and has worked for the Vafias Group since 2000. From 1997 until 2000, Mr. Babilis worked in the Technical Department of Multi Trading Ship Management, a company specializing in chemical tankers. From 1993 until 1997, Mr. Babilis worked in a consulting or research capacity for various EEC Shipping related projects and worked as a consultant to shipping companies and as a representative of the Technical Chamber of Greece to the Joint Committee of Health and Safety of Ship Repair (Perama Zone). In addition, from 1996 until 1997, Mr. Babilis was involved in the construction of the Landing Ships at Eleusis Shipyards (Detachment of Hellenic Navy). From 1992 until 1993, Mr. Babilis worked for an international consortium, including PricewaterhouseCoopers and Port and Transport Consulting of Bremen, for the design of the Port Management Information System of Piraeus Port Authority. Mr. Babilis started his career in the Operations Department of Trade and Transport Inc. Mr. Babilis has been involved in the research center of Athens University of Economics and Business and in the Ocean Transportation Economics department at the National Technical University of Athens. From 1994 until 1996, Mr. Babilis was the General Secretary of the Hellenic Association of Naval Architects. Mr. Babilis graduated from the National Technical University of Athens, department of Naval Architecture and Marine Engineering, in 1990, and received an honorary scholarship from the Hellenic Scholarship foundation.

*Markos Drakos* has been a member of our Board of Directors since 2006 and Chairman of our Audit Committee. In 1998, Mr. Drakos co-founded Touche Ross & Co (Cyprus), later renamed Deloitte & Touche, Nicosia and served as co-managing partner of the company's Nicosia office in Cyprus until 2002. Following the December 2002 reorganization of Deloitte & Touche, Nicosia, Mr. Drakos founded Markos Drakos Consultants Group, a consulting company, which served as successor to the consulting, special services and international business division of Deloitte & Touche, Nicosia. From 2000 until 2003, Mr. Drakos also served as Vice Chairman of the Cyprus Telecommunications Authority, the leading telecommunications company in Cyprus. Mr. Drakos has also served as a member of the Offshore, Shipping & Foreign Investment Committee of the Institute of Certified Public Accountants of Cyprus. Mr. Drakos received a Bachelor of Science degree in Economics from the London School of Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Certified Public Accountants of Cyprus.

**Board Practices**

At December 31, 2009 and June 15, 2010, we had five and four members respectively on our Board of Directors. Effective April 22, 2010, Thanassis J. Martinos, who was determined by our Board of Directors to be an independent director within the meaning of the applicable NASDAQ listing requirements and SEC independence requirements, resigned from our Board of Directors and from the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. As a result, we only have two independent directors on our four person board and we no longer comply with NASDAQ and SEC audit committee requirements and NASDAQ Listing Rule 5605, which requires a listed company to have a majority of independent directors on the Board of Directors. We are relying on the 180-day cure period provided for in NASDAQ Listing Rule 5605(b)(1)(A), pursuant to which we have 180 days to regain compliance. We expect to elect a new independent director and regain compliance with these corporate governance standards within this time period.

The board of directors may change the number of directors by a vote of a majority of the entire board. Each director shall be elected to serve until the third succeeding annual meeting of stockholders and until his or her

successor shall have been duly elected and qualified, except in the event of death, resignation or removal. A vacancy on the board created by death, resignation, removal (which may only be for cause), or failure of the stockholders to

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elect the entire class of directors to be elected at any election of directors or for any other reason, may be filled only by an affirmative vote of a majority of the remaining directors then in office, even if less than a quorum, at any special meeting called for that purpose or at any regular meeting of the board of directors.

Our Board of Directors has determined that Michael G. Jolliffe and Markos Drakos are independent directors within the meaning of the applicable NASDAQ listing requirements and SEC independence requirements applicable to Audit Committee members since none of them has received any compensation from the company except for director's fees and restricted stock awards to directors and none of them has any relationship or has had any transaction with the company which the Board believes would compromise their independence. Officers are elected from time to time by vote of our Board of Directors and hold office until a successor is elected.

We have no service contracts with any of our officers or directors that provide for benefits upon termination of employment. Our Chief Executive Officer and Chief Financial Officer are technically employees of Stealth Maritime, our fleet manager. Under our management agreement with Stealth Maritime, our relationship with each of our Chief Executive Officer and Chief Financial Officer is governed by terms substantially similar to those typically included in employment agreements. We do not have an employment agreement with Lambros Babilis, our Deputy Chairman and Executive Director.

During the fiscal year ended December 31, 2009, the full board of directors held five meetings. Each director attended all of the meetings of the board of directors and meetings of committees of which the director was a member, except for Thanassis Martinos who missed two meetings of the Board of Directors and two of each of the committee meetings during 2009.

To promote open discussion among the independent directors, those directors met four times in 2009 in regularly scheduled executive sessions without participation of our company's management and will continue to do so in the remainder of 2010 and in 2011. Mr. Jolliffe has served as the presiding director for purposes of these meetings. Stockholders who wish to send communications on any topic to the board of directors or to the independent directors as a group, or to the presiding director, Mr. Jolliffe, may do so by writing to StealthGas Inc., 331 Kifissias Avenue, Erithrea 14561 Athens, Greece.

### **Corporate Governance**

Our Board of Directors and our company's management have engaged in an ongoing review of our corporate governance practices in order to oversee our compliance with the applicable corporate governance rules of the NASDAQ Stock Market and the SEC.

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

- a Code of Business Conduct and Ethics;

- a Nominating and Corporate Governance Committee Charter;

- a Compensation Committee Charter; and

- an Audit Committee Charter.

We will provide a paper copy of any of these documents upon the written request of a stockholder. Stockholders may direct their requests to the attention of Andrew Simmons, StealthGas Inc., 331 Kifissias Avenue, Erithrea 14561 Athens, Greece. These documents are also available on our website at [www.stealthgas.com](http://www.stealthgas.com) under the heading "Investor Relations."

### **Committees of the Board of Directors**

The Board of Directors has established an Audit Committee, a Nominating and Corporate Governance Committee and a Compensation Committee. The members of each committee are Messrs. Jolliffe and Drakos. Mr.

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Martinos was a member of each committee prior to his resignation from the board on April 22, 2010. We are currently in the process of identifying a director to replace Mr. Martinos.

**Audit Committee**

The Audit Committee is governed by a written charter, which is approved and annually adopted by the Board. The Board has determined that the members of the Audit Committee meet the applicable independence requirements of the SEC and the NASDAQ Stock Market, that all members of the Audit Committee fulfill the requirement of being financially literate and that Mr. Drakos is an Audit Committee financial expert as defined under current SEC regulations.

The Audit Committee is appointed by the Board and is responsible for, among other matters overseeing the: integrity of the Company's financial statements, including its system of internal controls;

the Company's compliance with legal and regulatory requirements;

the independent auditor's qualifications and independence; and

the performance of the Company's independent audit function and independent auditors, as well preparing an Audit Committee Report to be included in our annual proxy statement.

***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee is appointed by the Board and is responsible for, among other matters:

reviewing the Board structure, size and composition and making recommendations to the Board with regard to any adjustments that are deemed necessary;

identifying candidates for the approval of the Board to fill Board vacancies as and when they arise as well as developing plans for succession, in particular, of the chairman and executive officers;

overseeing the Board's annual evaluation of its own performance and the performance of other Board committees; and

developing and recommending to the Board for adoption a set of Corporate Governance Guidelines applicable to the Company and to periodically review the same.

***Compensation Committee***

The Compensation Committee is appointed by the Board and is responsible for, among other matters:

establishing and periodically reviewing the Company's compensation programs;

reviewing the performance of directors, officers and employees of the Company who are eligible for awards and benefits under any plan or program and adjust compensation arrangements as appropriate based on performance;

reviewing and monitoring management development and succession plans and activities;

reporting on compensation arrangements and incentive grants to the Board; and

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preparing a Compensation Committee report to be included in our annual proxy statement.

### **Compensation of Directors and Senior Management**

Beginning February 2006, the Chairman of our Board of Directors received annual fees of \$70,000, plus reimbursement for his out-of-pocket expenses, while each of our other independent directors continued to receive fees of \$35,000 per annum, plus reimbursement of their out-of-pocket expenses. Executive directors received no compensation for their services as directors. In addition, we reimbursed Stealth Maritime for its payment of the compensation to our Chief Executive Officer, Deputy Chairman and Executive Director, Chief Financial Officer and Internal Auditor. During the year ended December 31, 2009, such compensation was in the aggregate amount of 902,990 (US \$1,267,981 based on the average exchange rate of 1.00: US \$1.404 throughout 2009).

Our executive officers are also eligible to receive awards under our equity compensation plan described below under Equity Compensation Plan. On August 14, 2007, we awarded 100,000 restricted shares to our Chief Executive Officer, of which 50,000 restricted shares vested on October 1, 2007, 25,000 restricted shares vested on October 1, 2008 and 25,000 restricted shares vested on October 1, 2009. On November 20, 2007, we awarded 100,000 restricted shares to our Chief Executive Officer, of which 50,000 vested on October 31, 2008 and 50,000 vested on October 31, 2009. The remaining 25,000 restricted shares will vest on October 31, 2010.

On August 14, 2007 and November 20, 2007, we also awarded restricted shares to our non-employee directors. On August 14, 2007, we awarded: (i) 6,000 restricted shares to Michael G. Joliffe, of which 2,000 restricted shares vested on October 1, 2007, 2,000 restricted shares vested on October 1, 2008 and 2,000 restricted shares vested on October 1, 2009; (ii) 2,000 restricted shares to Thanassis J. Martinos, of which 666 restricted shares vested on October 1, 2007, 667 restricted shares vested on October 1, 2008 and 667 restricted shares vested on October 1, 2009; and (iii) 4,000 restricted shares to Markos Drakos, of which 1,333 restricted shares vested on October 1, 2007, 1,333 restricted shares vested on October 1, 2008 and 1,334 restricted shares vested on October 1, 2009. On November 20, 2007, we awarded: (i) 6,000 restricted shares to Michael G. Joliffe, of which 2,000 restricted shares vested on October 31, 2008, 2,000 restricted shares vested on October 31, 2009 and 2,000 restricted shares will vest on October 31, 2010; (ii) 2,000 restricted shares to Thanassis J. Martinos, of which 666 restricted shares vested on October 31, 2008, 666 restricted shares vested on October 31, 2009 and 667 restricted shares were forfeited due to Mr. Martinos resigning from the Board of Directors prior to the vesting date for such restricted shares; and (iii) 4,000 restricted shares to Markos Drakos, of which 1,333 restricted shares vested on October 31, 2008, 1,333 restricted shares vested on October 31, 2009 and 1,334 restricted shares vested on October 31, 2010. On March 18, 2008, we awarded 9,396 restricted shares to our Deputy Chairman and Executive Director, Mr. Lambros Babilis, of which 4,698 vested on March 18, 2009. The remaining 4,698 restricted shares vest as follows: 2,349 on March 18, 2010 and 2,349 on March 18, 2011.

The vesting of all of the restricted share awards is subject (i) in the case of Mr. Vafias and Mr. Babilis, such individuals continuing to perform services for the Company and its subsidiaries as of such date or (ii) in the case of Messrs. Joliffe and Drakos, such individual remaining a member of our Board of Directors.

We did not grant any awards under our equity compensation plan to directors or officers of the Company during the year ended December 31, 2009. During the year ended December 31, 2009, we recognized stock-based compensation expenses of \$0.6 million with respect to awards for officers and directors.

### **Employees**

As of December 31, 2009, 541 officers and 405 crew members served on board the vessels in our fleet. However, these officers and crew are not directly employed by the Company.

### **Share Ownership**

The shares of common stock beneficially owned by our directors and senior managers and/or companies affiliated with these individuals are disclosed in Item 7. Major Shareholders and Related Party Transactions below.

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### **Equity Compensation Plan**

We have an equity compensation plan, which we refer to as the Plan. The Plan is generally administered by the Compensation Committee of our Board of Directors, except that the full board may act at any time to administer the Plan, and authority to administer any aspect of the Plan may be delegated by our Board of Directors or by the Compensation Committee to an executive officer or any other person. The Plan allows the plan administrator to grant awards of shares of our common stock or the right to receive or purchase shares of our common stock (including options to purchase common stock, restricted stock and stock units, bonus stock, performance stock, and stock appreciation rights) to our employees, directors or other persons or entities providing significant services to us or our subsidiaries, and further provides the plan administrator the authority to re price outstanding stock options or other awards. The actual terms of an award, including the number of shares of common stock relating to the award, any exercise or purchase price, any vesting, forfeiture or transfer restrictions, the time or times of exercisability for, or delivery of, shares of common stock, are to be determined by the plan administrator and set forth in a written award agreement with the participant.

The aggregate number of shares of our common stock for which awards may be granted under the Plan cannot exceed 10% of the number of shares of our common stock issued and outstanding at the time any award is granted. Awards made under the Plan that have been forfeited (including our repurchase of shares of common stock subject to an award for the price, if any, paid to us for such shares of common stock, or for their par value), cancelled or have expired, will not be treated as having been granted for purposes of the preceding sentence. In addition to awards to our executive officers and directors described above, on March 18, 2008, under the Plan, we awarded 9,396 restricted shares of our common stock to Mr. Babilis, our Deputy Chairman and Executive Director, and 16,609 restricted shares of our common stock to certain employees of our manager who provide services to us and such employees were treated as non-employees for stock-based compensation purposes. As of June 15, 2010, 250,005 shares of our common stock have been granted under the Plan since its adoption.

The Plan permits the plan administrator to make an equitable adjustment to the number, kind and exercise price per share of awards in the event of our recapitalization, reorganization, merger, spin-off, share exchange, dividend of common stock, liquidation, dissolution or other similar transaction or events. In addition, the plan administrator may make adjustments in the terms and conditions of any awards in recognition of any unusual or nonrecurring events. Our Board of Directors may, at any time, alter, amend, suspend or discontinue the Plan. The Plan will automatically terminate ten years after it has been most recently approved by our stockholders.

### **Item 7. Major Shareholders and Related Party Transactions**

#### **Major Shareholders**

The following table sets forth certain information regarding the beneficial ownership of our outstanding shares of common stock as June 18, 2010 by:

each person or entity that we know beneficially owns 5% or more of our shares of common stock;

our chief executive officer and our other members of senior management;

each of our directors; and

all of our current directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. In general, a person who has or shares voting power and/or dispositive power with respect to securities is treated as a beneficial owner of those securities. It does not necessarily imply that the named person has the economic or other benefits of ownership. For purposes of this table, shares subject to options, warrants or rights currently exercisable or exercisable within 60 days of June 18, 2010 are considered as beneficially owned by the person holding such options, warrants or rights. Each shareholder is entitled to one vote for each share held. The applicable percentage of ownership for each

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shareholder is based on 21,104,214 shares of common stock outstanding as of June 18, 2010. Information for certain holders is based on their latest filings with the Securities and Exchange Commission or information delivered to us.

| Name of Beneficial Owner                                                                                             | <b>Shares Beneficially Owned</b> |                   |
|----------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------|
| <b>Principal Stockholders</b>                                                                                        | <b>Number</b>                    | <b>Percentage</b> |
| Flawless Management Inc.(1)<br>331 Kifissias Avenue<br>Erithrea 14561<br>Athens, Greece                              | 4,000,000                        | 19.0%             |
| The Bessemer Group, Incorporated(2)<br>100 Woodbridge Center Drive<br>Woodbridge, New Jersey 07095-0980              | 2,194,200                        | 10.4%             |
| Castor Investment Company(3)<br>Trust Company Complex<br>Ajeltake Road, Ajeltake Island<br>Marshall Islands MH 96960 | 2,000,000                        | 9.5%              |
| Zesiger Capital Group LLC(4)<br>320 Park Avenue, 30th Floor<br>New York, New York 10022                              | 1,919,250                        | 9.1%              |
| Royce & Associates, LLC(5)<br>745 Park Avenue<br>New York, New York 10021                                            | 1,137,339                        | 5.4%              |
| <b>Executive Officers and Directors</b>                                                                              |                                  |                   |
| Harry N. Vafias(6)                                                                                                   | 4,200,000                        | 19.9(1)           |
| Andrew J. Simmons                                                                                                    |                                  |                   |
| Michael G. Jolliffe(7)                                                                                               | 12,000                           | *                 |
| Lambros Babilis(8)                                                                                                   | 9,396                            | *                 |
| Markos Drakos(9)                                                                                                     | 8,000                            | *                 |
| Thanassis J. Martinos(10)                                                                                            | 403,333                          | 1.9%              |
| All executive officers and directors as a group (5 persons)                                                          | 4,229,396                        | 20.1%             |

\* Less than 1%.

(1) According to  
Amendment  
No. 2 to a  
Schedule 13G  
filed with the  
SEC on June 27,  
2009 jointly filed

by Flawless Management Inc. and Harry N. Vafias, Flawless Management Inc. beneficially owns 4,000,000 shares of common stock and has sole voting power and sole dispositive power with respect to all such shares. Harry N. Vafias, our Chief Executive Officer, President and Director, is the sole stockholder of Flawless Management Inc.

- (2) According to a Schedule 13G filed with the SEC on February 16, 2010, The Bessemer Group, Incorporated ( BGI ), as a parent holding company, and Bessemer Trust Company, N.A. ( BTNA ), Bessemer Investment management LLC ( BIM ) and Old Westbury Real Return Fund (the Old Westbury Fund ) beneficially own an aggregate of 2,194,200 shares of our common stock. The filing indicates that BTNA is wholly

owned by BGI, BIM is a wholly owned subsidiary of BTNA and is the investment advisor to the Old Westbury Fund, BTNA is a trust company that manages accounts for the benefit of others and BIM is a registered investment advisor that furnishes investment advisory services to the Old Westbury Fund. The filing also indicates that the shares are held by the Old Westbury Fund and that BGI, BTNA, BIM and the Old Westbury Fund have shared voting and shared dispositive power with respect to the 2,194,200 shares. The address of BGI is 100 Woodbridge Center Drive, Woodbridge, NJ 07095-01980. The address of BTNA and BIM is 630 Fifth Avenue, New York, NY 10111. The address of Old Westbury Fund is 3435 Steltzer Road, Columbus, OH 43219.

(3) With respect to the 2,000,000 shares owned by Castor Investment Company, Mr. Constantinos Tsousoglou has sole voting and dispositive power. Castor Investment Company's address is Trust Company Complex, Ajeltake Road, Ajeltake Island, Marshall Islands MH 96960

(4) According to Amendment No. 3 to Schedule 13G filed with the SEC on February 10, 2010, Zesiger Capital Group LLC beneficially owns 1,919,250 shares of common stock and has sole voting power with respect to 1,539,000 such shares and sole dispositive power with respect to all such shares. The shares of common stock are owned of record by clients of Zesiger Capital Group LLC, an investment advisor.

- (5) According to a Schedule 13G filed on February 9, 2010, Royce & Associates, LLC beneficially owns, and has sole voting and dispositive power with respect to 1,137,339 shares of common stock. Royce & Associates, LLC's address is 745 Fifth Avenue, New York, NY 10151.
- (6) According to Amendment No. 2 to a Schedule 13G filed with the SEC on July 27, 2009 jointly filed by Flawless Management Inc. and Harry N. Vafias, Harry N. Vafias beneficially owns 4,200,000 shares of common stock, which includes (i) 4,200,000 shares of common stock, 4,175,000 of which by virtue of the shares owned indirectly through Flawless Management Inc., and (ii) 25,000 restricted shares which are scheduled to vest on October 31, 2010. Harry N.

Vafias has sole voting power and sole dispositive power with respect to all such shares.

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- (7) Mr. Michael G. Jolliffe  
beneficially  
owns (i) 10,000  
shares of  
common stock  
and (ii) 2,000  
restricted shares  
which are  
scheduled to  
vest on  
October 31,  
2010.
- (8) Mr. Lambros Babilis  
beneficially  
owns (i) 7,047  
shares of  
common stock  
and (ii) 2,349  
restricted shares  
which are  
scheduled to  
vest on  
March 18, 2011.
- (9) Mr. Markos Drakos  
beneficially  
owns (i) 6,666  
shares of  
common stock  
and (ii) 1,334  
restricted shares  
which are  
scheduled to  
vest on  
October 31,  
2010.
- (10) Mr. Thanassis Martinos  
beneficially  
owns 400,000  
shares of  
common stock  
by virtue of  
shares owned

indirectly  
through Nike  
Investments  
Corporation, the  
beneficial owner  
being  
Mr. Thanassis  
Martinis, a  
former director  
of the Company.  
The address of  
Nike  
Investments  
Corporation is  
80 Broad Street,  
Monrovia,  
Liberia. In  
addition, Mr.  
Thanassis G.  
Martinis  
beneficially  
owns 3,333  
shares of  
common stock.  
Mr. Martinis  
resigned from  
our Board of  
Directors,  
effective  
April 22, 2010.

We effected a registered public offering of our common stock and our common stock began trading on the NASDAQ National Market in October 2005. Accordingly, certain of our principal shareholders acquired their shares of common stock either at or subsequent to this time. Our major stockholders have the same voting rights as our other shareholders. As of June 15, 2010, we had approximately 20 shareholders of record. Seven of the stockholders of record were located in the United States and held in the aggregate 16,972,951 shares of common stock representing approximately 78.5% of our outstanding shares of common stock. However, the seven United States shareholders of record include CEDEFEST, which, as nominee for The Depository Trust Company, is the record holder of 16,966,913 shares of common stock. Accordingly, we believe that the shares held by CEDEFEST include shares of common stock beneficially owned by both holders in the United States and non-United States beneficial owners. As a result, these numbers may not accurately represent the number of beneficial owners in the United States.

We are not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

On March 22, 2010 our Board of Directors approved a repurchase programme of the Company's common stock of up to \$15.0 million. There is no fixed time period for this repurchase programme. As at June 18, 2010, 1,205,229 common shares had been repurchased at an average price of \$5.21 per share. The Company may discontinue this programme at any time.

#### **Related Party Transactions**

Pursuant to our Audit Committee Charter, our Audit Committee is responsible for establishing procedures for the approval of all related party transactions involving executive officers and directors. Our Code of Business Conduct and Ethics requires our Audit Committee to review and approve any related party transaction as defined in Item 7.B of Form 20-F before it is consummated.

It is our policy that transactions with related parties are entered into on terms no less favorable to us than would exist if these transactions were entered into with unrelated third parties on an arm's length basis.

***Management Affiliations***

Harry Vafias, our president, chief executive officer and one of our directors, is an officer, director and the sole shareholder of Flawless Management Inc., our largest stockholder. He is also the son of the principal and founder of Brave Maritime, an affiliate of Stealth Maritime, which is our management company.

***Management and Other Fees***

In the year ended December 31, 2009, we paid Stealth Maritime a fixed management fee of \$440 per vessel operating under a voyage or time charter per day on a monthly basis in advance, pro rated for the calendar days we own the vessels. We paid a fixed fee of \$125 per vessel per day for each of our vessels operating on bareboat charter. As a consequence of the amendment to the Management Agreement, effective January 1, 2007, the management fee is no longer adjusted quarterly as it was previously based on the U.S. dollar/Euro exchange rate

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published by Bloomberg LP two days prior to the end of the previous calendar quarter. Management fees for the years ended December 31, 2007, 2008 and 2009 were \$4.1 million, \$4.6 million and \$5.2 million, respectively.

We are also obligated to pay Stealth Maritime a fee equal to 1.25% of the gross freight, demurrage and charter hire collected from the employment of our vessels. Stealth Maritime also earns a fee equal to 1.0% calculated on the price as stated in the relevant memorandum of agreement for any vessel bought or sold by them on our behalf. For the years ended December 31, 2007, 2008 and 2009, total brokerage commissions of 1.25% amounted to \$1.1 million, \$1.4 million and \$1.4 million, respectively, and were included in voyage expenses. For the years ended December 31, 2007, 2008 and 2009, the amounts of \$1.1 million, \$1.3 million and \$0.6 million, respectively, were capitalized to the cost of the vessels.

We also reimburse Stealth Maritime for its payment of the compensation to our Chief Executive Officer, Deputy Chairman and Executive Director, Chief Financial Officer and Internal Auditor. During the year ended December 31, 2009, such compensation was in the aggregate amount of 902,990 (US \$1,267,981, based on the average exchange rate of 1.00: US \$1.404 in effect throughout the year ended December 31, 2009). During the year ended December 31, 2008, such compensation was in the aggregate amount of 878,857 (US \$1,295,739 based on the average exchange rate of 1.00: US \$1.474 in effect throughout the year ended December 31, 2008). During the year ended December 31, 2007, such compensation was in the aggregate amount of 1,415,923 (US \$1,966,497 based on the average exchange rate of 1.00: US \$1.3888).

In addition, as long as Stealth Maritime is our fleet manager, Stealth Maritime has granted us a right of first refusal to acquire any LPG carrier, which Stealth Maritime may acquire in the future. Stealth Maritime has also agreed that it will not charter-in any LPG carrier without first offering the opportunity to charter-in such vessel to us. This right of first refusal does not prohibit Stealth Maritime from managing vessels owned by unaffiliated third parties in competition with us, nor does it cover product carriers. Additional vessels that we may acquire in the future may be managed by Stealth Maritime or other unaffiliated management companies.

The initial term of our management agreement with Stealth Maritime expires in June 2010 but extends on a year-to-year basis thereafter unless six-month written notice is provided prior to the expiration of the term. Such notice has not been given by either party.

***Deemed Dividend***

Deemed dividends recorded in the year ended December 31, 2007 reduced additional paid in capital by \$287,500. This represents the difference in the acquisition cost paid by us for the *Gas Eternity*, which was delivered to us in March 2006, compared to the price paid by the Vafias Group as part of the Vafias Group of LPG Carriers.

***Office Space***

We lease office space from the Vafias Group. The initial lease term was for three years beginning January 3, 2005 with an annual rate was 24,000. For the years ended December 31, 2005, 2006 and 2007, the total rent paid was Euros 72,000, which amounted to \$94,647 at the prevailing exchange rates over that period. This lease was renewed effective January 3, 2008 for two years at a rate of 32,000 per year. The total rent paid was 64,000, which amounted to \$93,303 at the prevailing exchange rates over that period. This lease was renewed effective January 3, 2010 for two years at a rate of 42,000 per year.

***Nike Investments Corporation***

Pursuant to a letter agreement, dated August 2, 2006, with Nike Investments Corporation, which is beneficially owned by one of our then-directors, Thanassis J. Martinos, we sold 400,000 shares of our common stock in a transaction exempt from the registration requirements of the Securities Act. Under the registration rights provisions of the letter agreement for the sale of the 400,000 shares, as amended, we agreed to register the shares of our common stock held by Nike Investments Corporation and, in connection therewith, to indemnify Nike Investments Corporation and Nike Investments Corporation agreed to indemnify us against specified liabilities arising under the Securities Act. We agreed, among other things, to bear all expenses, other than underwriting discounts and selling

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commissions, in connection with the registration and sale of the shares of common stock held by Nike Investments Corporation. We registered the 400,000 shares of our common stock held by Nike Investments Corporation under the Securities Act on the Registration Statement on Form F-3 which we filed with the SEC as described in a prospectus supplement covering the 400,000 shares filed with the SEC on November 12, 2007.

### ***Brave Maritime Corp. Bridge Loan***

On May 16, 2007, we entered into a 60-day unsecured bridge facility, the maturity of which we extended for an additional 60 days pursuant to our option to do so, with our affiliate Brave Maritime Corp. in the amount of \$35.0 million with interest payable at a margin of 0.80% over three month LIBOR. The facility was utilized to fund a portion of the purchase price for the *Chiltern*, the *Gas Evoluzione* and the *Gas Renovatio*. The *Gas Renovatio* was delivered to us on May 29, 2007, the *Chiltern* was delivered to us on June 28, 2007 and the *Gas Evoluzione* was delivered to us July 23, 2007.

On July 24, 2007, we repaid the full outstanding principal amount of \$26.5 million under the unsecured bridge facility from Brave Maritime Corp; plus accrued interest of \$144,418, utilizing a portion of the proceeds of our follow-on public offering completed in July 2007. The facility was subsequently cancelled.

### ***Vessel Acquisitions***

In July 2007 and August 2007, respectively, we acquired the *Gas Kalogeros*, a 5,000 cbm fully pressurized newbuilding LPG carrier delivered ex-shipyard to its previous owner in March 2007, and the *Gas Sikousis*, a 2006-built 3,500 cbm fully pressurized LPG carrier, from Dreamship Inc. and Stellar Management Limited, each an affiliate of ours, for an aggregate of \$34.5 million.

On February 29, 2008, we entered into agreements to acquire the *Gas Defiance*, a 5,000 cbm fully pressurized newbuilding LPG carrier, the *Gas Shuriken*, a 5,000 cbm fully pressurized newbuilding LPG carrier, the *Gas Astrid*, a 3,500 cbm fully pressurized newbuilding LPG carrier, and the *Gas Exelero*, a 3,500 cbm fully pressurized newbuilding LPG carrier from Newgas Limited, Galactic Imports Limited, Lullaby Products Inc and Evolution Inc, respectively, each an affiliate of ours, for an aggregate of \$81.92 million. The *Gas Defiance*, *Gas Shuriken* and *Gas Astrid* were delivered to us in August 2008, November 2008 and April 2009, respectively. The *Gas Exelero* is scheduled to be delivered to us in June 2009.

On February 29, 2008, we entered into an agreement with Event Holdings Inc, an affiliate of ours, to acquire the *Gas Natalie*, a 3,213 cbm fully pressurized 1997-built LPG carrier, for \$10.7 million, which was delivered to on January 22, 2009, subject to a bareboat charter scheduled to expire in September 2011.

On June 4, 2010, we entered into a memorandum of agreement to acquire from an affiliated entity an under construction Aframax crude oil tanker named *Spike* (formerly *Hull No 1757* ) which is scheduled to be delivered in the third quarter of 2010. The purchase price of this vessel is \$56,500,000. As provided by the related memorandum of agreement, no advance payment will be given.

In all cases, the acquisition price for vessels described above was set at the average of the assessed value of the acquired vessels by two unaffiliated international sale and purchase brokers.

### **Item 8. Financial Information**

See Item 18. Financial Statements below.

**Significant Changes.** Other than as described in Note 22 Subsequent Events to our consolidated financial statements included in this Annual Report, no significant change has occurred since the date of such consolidated financial statements.

**Legal Proceedings.** To our knowledge we are not currently a party to any material lawsuit that, if adversely determined, would have a material adverse effect on our financial position, results of operations or liquidity From

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time to time in the future we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We have not been involved in any legal proceedings which may have, or have had a significant effect on our financial position, results of operations or liquidity, nor are we aware of any proceedings that are pending or threatened which may have a significant effect on our financial position, results of operations or liquidity.

**Dividend Policy.** We declared and paid twelve quarterly dividends per share of \$0.1875 in the years ended December 31, 2007, 2007 and 2008, and paid a dividend of \$0.1875 per share in March 2009. Our board of directors has determined to suspend the payment of cash dividends as a result of weakening market conditions in the international shipping industry and to preserve the Company's liquid cash resources. Declaration and payment of any future dividend is subject to the discretion of our board of directors.

Declaration and payment of any dividend is subject to the discretion of our Board of Directors. The timing and amount of dividend payments will be dependent upon our earnings, financial condition, cash requirements and availability, fleet renewal and expansion, restrictions in our loan agreements, the provisions of Marshall Islands law affecting the payment of distributions to stockholders and other factors. Because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends depends on the earnings and cash flow of our subsidiaries and their ability to pay dividends to us. If there is a substantial decline in the LPG carrier market, our earnings would be adversely affected thus limiting our ability to pay dividends. Marshall Islands law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividend.

Under the terms of our existing credit facilities, we are permitted to declare or pay cash dividends in any twelve month period as long as the amount of the dividends do not exceed 50% of the Company's free cash flow (as defined in our credit agreements) and provided we are not in default under the other covenants contained in these credit facilities. See Item 3. Key Information Risk Factors Risks Related To Our Common Stock Our Board of Directors has determined to suspend the payment of cash dividends as a result of market conditions in the international shipping industry, and until such market conditions improve, it is unlikely we will reinstate the payment of dividends.

**Item 9. The Offer and Listing****Trading on the NASDAQ Stock Market**

Following our initial public offering in the United States in October 2005, our shares of common stock were quoted on the NASDAQ National Market, and are now listed on the NASDAQ Global Select Market, under the symbol GASS. The following table shows the high and low sales prices for our shares of common stock during the indicated periods.

|                                                                          | <b>High</b> | <b>Low</b> |
|--------------------------------------------------------------------------|-------------|------------|
| Year Ended December 31, 2005 (October 6, 2005 through December 31, 2005) | \$ 14.59    | \$ 10.80   |
| Year Ended December 31, 2006                                             | 14.79       | 10.90      |
| Year Ended December 31, 2007                                             | 20.00       | 11.40      |
| 2008                                                                     |             |            |
| Year Ended December 31, 2008                                             | 17.91       | 2.51       |
| First Quarter                                                            | 16.30       | 12.34      |
| Second Quarter                                                           | 17.91       | 13.75      |
| Third Quarter                                                            | 17.09       | 12.55      |
| Fourth Quarter                                                           | 13.41       | 2.51       |
| 2009                                                                     |             |            |
| Year Ended December 31, 2009                                             | 17.91       | 2.51       |
| First Quarter                                                            | 6.73        | 3.93       |
| Second Quarter                                                           | 6.38        | 4.05       |
| Third Quarter                                                            | 6.64        | 4.44       |
| Fourth Quarter                                                           | 7.64        | 5.65       |

|               |      |      |
|---------------|------|------|
| October 2009  | 7.64 | 6.03 |
| November 2009 | 7.06 | 5.65 |
| December 2009 | 6.60 | 5.95 |

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|                                                      | <b>High</b> | <b>Low</b> |
|------------------------------------------------------|-------------|------------|
| 2010                                                 |             |            |
| Year Ended December 31, 2010 (through June 18, 2010) | 6.45        | 4.42       |
| First Quarter                                        | 6.45        | 4.55       |
| January 2010                                         | 6.45        | 4.69       |
| February 2010                                        | 5.11        | 4.55       |
| March 2010                                           | 5.50        | 4.56       |
| Second Quarter (through June 18, 2010)               | 5.98        | 4.42       |
| April 2010                                           | 5.98        | 4.42       |
| May 2010                                             | 5.63        | 4.78       |
| June 2010 (through June 18, 2010)                    | 5.40        | 4.62       |

**Comparison of Cumulative Total Shareholder Return**

Set forth below is a graph comparing the cumulative total shareholder return of our common stock between October 6, 2005 and December 31, 2009, with the cumulative total return of the Dow Jones Marine Transportation Index and the S&P 500 Index. Total stockholder return represents stock price changes and assumes the reinvestment of dividends. The graph assumes the investment of \$100 on October 6, 2005. Past performance is not necessarily an indicator of future results.

**Item 10. Additional Information****Share Capital**

Under our articles of incorporation, our authorized capital stock consists of 100,000,000 shares of common stock, \$0.01 par value per share, of which 22,310,110 shares were issued and outstanding and fully paid as of December 31, 2009, and 5,000,000 shares of blank check preferred stock, \$0.01 par value per share, none of which were issued and outstanding as of December 31, 2009 and June 18, 2010. All of our shares of stock are in registered form. As of June 18, 2010, there were 21,104,881 issued shares of common stock and 21,104,214 outstanding shares of common stock, in each case, including 35,501 unvested shares of restricted stock, and no outstanding options.

**Common Stock**

As of December 31, 2009, we had 22,310,110 shares issued and 21,104,214 shares of common stock outstanding, out of 100,000,000 shares authorized to be issued. As of June 18, 2010, we had 21,104,881 shares issued and 21,104,214 shares of common stock outstanding. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Subject to preferences that

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may be applicable to any outstanding shares of preferred stock, holders of shares of common stock are entitled to receive ratably all dividends, if any, declared by our Board of Directors out of funds legally available for dividends. Holders of common stock do not have conversion, redemption or preemptive rights to subscribe to any of our securities. All outstanding shares of common stock are, and the shares to be sold in this offering when issued and paid for will be, 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 we may issue in the future.

### ***Blank Check Preferred Stock***

Under the terms of our articles of incorporation, our Board of Directors has authority, without any further vote or action by our stockholders, to issue up to 5,000,000 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.

### ***Dividends***

We currently do not intend to declare and pay regular cash dividends on a quarterly basis from our net profits. We have had to make additional provisions for the equity component of our vessel acquisitions that have reduced the cash available for distribution as dividends. We declared and paid twelve quarterly dividends per share of \$0.1875 in the years ended December 31, 2006, 2007 and 2008. There can be no assurance that we will recommence paying regular quarterly dividends in the future. Such dividends as we do pay may be in amounts less than the \$0.1875 per share quarterly dividend we declared and paid in 2006, 2007, 2008 and March 2009.

Declaration and payment of any dividend is subject to the discretion of our Board of Directors. The timing and amount of dividend payments will be dependent upon our earnings, financial condition, cash requirements and availability, restrictions in our loan agreements, or other financing arrangements, the provisions of Marshall Islands law affecting the payment of distributions to stockholders and other factors. Because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends will depend on the earnings and cash flow of our subsidiaries and their ability to pay dividends to us. If there is a substantial decline in the LPG carrier market or product carrier market, our earnings would be negatively affected thus limiting our ability to pay dividends. Marshall Islands law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment thereof.

### ***Articles of Incorporation and Bylaws***

Our purpose 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, or BCA. Our articles of incorporation and bylaws do not impose any limitations on the ownership rights of our stockholders.

Under our bylaws, annual stockholder meetings will be held at a time and place selected by our Board of Directors. The meetings may be held in or outside of the Marshall Islands. Special meetings may be called by the Board of Directors. Our Board of Directors may set a record date between 15 and 60 days before the date of any meeting to determine the stockholders that will be eligible to receive notice and vote at the meeting.

*Directors.* Our directors are elected by a plurality of the votes cast at a meeting of the stockholders by the holders of shares entitled to vote in the election. There is no provision for cumulative voting.

The Board of Directors may change the number of directors by a vote of a majority of the entire board. Each director shall be elected to serve until his successor shall have been duly elected and qualified, except in the event of his death, resignation, removal, or the earlier termination of his term of office. The Board of Directors has the authority to fix the amounts which shall be payable to the members of our Board of Directors for attendance at any meeting or for services rendered to us.

*Dissenters Rights of Appraisal and Payment.* Under the BCA, our stockholders have the right to dissent from various corporate actions, including any merger or sale of all or substantially all of our assets not made in the usual

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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 stockholder also has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. The dissenting stockholder must follow the procedures set forth in the BCA to receive payment. In the event that we and any dissenting stockholder fail to agree on a price for the shares, the BCA procedures involve, among other things, the institution of proceedings in the circuit court in the judicial circuit in the Marshall Islands in which our Marshall Islands office is situated. The value of the shares of the dissenting stockholder is fixed by the court after reference, if the court so elects, to the recommendations of a court-appointed appraiser.

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

*Anti-takeover Provisions of our Charter Documents.* Several provisions of our articles of incorporation and 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 stockholder 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 stockholder 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 stockholders, to issue up to 5,000,000 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. This classified board provision could discourage a third party from making a tender offer for our shares or attempting to obtain control of our company. It could also delay stockholders who do not agree with the policies of the Board of Directors from removing a majority of the Board of Directors for two years.

*Election and Removal of Directors.* Our articles of incorporation and bylaws prohibit cumulative voting in the election of directors. Our bylaws require parties other than the Board of Directors to give advance written notice of nominations for the election of directors. Our bylaws also provide that our directors may be removed only for cause and only upon the affirmative vote of the holders of at least 80% of the outstanding shares of our capital stock entitled to vote for those directors. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

*Calling of Special Meetings of Stockholders.* Our bylaws provide that special meetings of our stockholders may be called only by resolution of our Board of Directors.

*Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary.

Generally, to be timely, a stockholder's notice must be received at our principal executive offices not less than 90 days or more than 120 days prior to the first anniversary date of the date on which we first mailed our proxy materials for the previous year's annual meeting. Our bylaws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders.

*Business Combinations.* Although the BCA does not contain specific provisions regarding business combinations between companies organized under the laws of the Marshall Islands and interested stockholders,

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we have included these provisions in our articles of incorporation. Specifically, our articles of incorporation prohibit us from engaging in a business combination with certain persons for three years following the date the person becomes an interested stockholder. Interested stockholders generally include:

persons who are the beneficial owners of 15% or more of the outstanding voting stock of the corporation; and

persons who are affiliates or associates of the corporation and who hold 15% or more of the corporation's outstanding voting stock at any time within three years before the date on which the person's status as an interested stockholder is determined.

Subject to certain exceptions, a business combination includes, among other things:

certain mergers or consolidations of the corporation or any direct or indirect majority-owned subsidiary of the company;

the sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets having an aggregate market value equal to 10% or more of either the aggregate market value of all assets of the corporation, determined on a consolidated basis, or the aggregate value of all the outstanding stock of the corporation;

certain transactions that result in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series, or securities convertible into the stock of any class or series, of the corporation that is owned directly or indirectly by the interested stockholder; and

any receipt by the interested stockholder of the benefit (except as a stockholder) of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

These provisions of our articles of incorporation do not apply to a business combination if:

before a person becomes an interested stockholder, the board of directors of the corporation approves the business combination or transaction in which the stockholder became an interested stockholder;

upon consummation of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, other than certain excluded shares;

following a transaction in which the person became an interested stockholder, the business combination is (a) approved by the board of directors of the corporation and (b) authorized at a regular or special meeting of stockholders, and not by written consent, by the vote of the holders of at least two-thirds of the voting stock of the corporation not owned by the stockholder; or

a transaction with a stockholder that was or became an interested stockholder prior to the consummation of our initial public offering.

## **Material Contracts**

The following is a summary of each material contract that we entered into outside the ordinary course of business during the two year period immediately preceding the date of this Annual Report, or which we have otherwise determined are material. Such summaries are not intended to be complete and reference is made to the contracts themselves, which are included as exhibits to this Annual Report:

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***(a) Amended and Restated Management Agreement***

Amended and Restated Management Agreement dated as of June 20, 2005, as amended by Addendum No. 1 thereto dated as of January 1, 2007, between the Company and Stealth Maritime S.A. for an initial term expiring June 20, 2010. Unless six months notice of non-renewal is given by either party prior to the end of the then current term, this agreement automatically extends for additional 12-month periods. No such notice has been given, and accordingly this agreement will extend to June 2011. Pursuant to our management agreement with Stealth Maritime, Stealth Maritime is responsible for the administration of our affairs and the commercial and technical management of our fleet. Under the agreement, we pay Stealth Maritime a fixed management fee of \$440 per day per vessel operating under a voyage or time charter and \$125 per vessel per day for any vessel on bareboat charter, in advance on a monthly basis, pro rated for the calendar days we own the vessels. We are also obligated to pay Stealth Maritime a fixed fee equal to 1.25% of the gross freight, demurrage and charter hire collected from the employment of our vessels. Stealth Maritime will also earn a fee equal to 1.0% calculated on the price as stated in the relevant memorandum of agreement for any vessel bought or sold by them on our behalf. We currently reimburse Stealth Maritime for its payment of the compensation to our Chief Executive Officer, Deputy Chairman and Executive Director, Chief Financial Officer and Internal Auditor.

***(b) Right of First Refusal Agreement***

Right of First Refusal Agreement dated as of August 26, 2005 among the Company, Harry N. Vafias and Stealth Maritime S.A. Under the Right of First Refusal Agreement, Stealth Maritime has granted the Company a right of first refusal to acquire any LPG carrier which Stealth Maritime may acquire in the future. In addition, under the agreement, Stealth Maritime agreed that it will not charter-in any LPG carrier without first offering the opportunity to charter-in such vessel to the Company. Under the agreement, Stealth Maritime is not prohibited from managing vessels owned by unaffiliated third parties in competition with us, nor does it cover product carriers. The agreement is effective for as long as Stealth Maritime (or any entity with respect to which Harry Vafias is an executive officer, director or principal shareholder) manages vessels owned or chartered in by the Company and Harry N. Vafias is an executive officer or director of the Company.

***(c) Nike Investments Corporation***

Pursuant to a letter agreement, dated August 2, 2006, with Nike Investments Corporation, which is beneficially owned by one of our then-directors, Thanassis J. Martinos, we sold 400,000 shares of our common stock in a transaction exempt from the registration requirements of the Securities Act. Under the registration rights provisions of the letter agreement for the sale of the 400,000 shares, as amended, we agreed to register the shares of our common stock held by Nike Investments Corporation and, in connection therewith, to indemnify Nike Investments Corporation and Nike Investments Corporation agreed to indemnify us against specified liabilities arising under the Securities Act. We agreed, among other things, to bear all expenses, other than underwriting discounts and selling commissions, in connection with the registration and sale of the shares of common stock held by Nike Investments Corporation. We registered the 400,000 shares of our common stock held by Nike Investments Corporation under the Securities Act on the Registration Statement on Form F-3 which we filed with the SEC as described in a prospectus supplement covering the 400,000 shares filed with the SEC on November 12, 2007.

***(d) Fortis Bank***

On March 16, 2005, we entered into a loan agreement with Fortis Bank, the outstanding balance of which was repaid on May 31, 2006 with borrowings under a \$79.9 million loan agreement with Fortis Bank Athens Branch entered into in May 2006. For additional information regarding the terms and conditions of our loan agreement with Fortis Bank Athens Branch, see Item 5. Operating and Financial Review and Prospects Credit Facilities.

***(e) DnB NOR Bank ASA***

In December 2005, we entered into a loan agreement with DnB NOR Bank ASA in which it agreed to provide a credit facility of up to \$50.0 million, which was supplemented in March 2006 by a \$14.0 million supplemental agreement dated February 27, 2006, increasing the total amount available under that facility to \$64.0 million. On

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January 30, 2007, we entered into a further supplemental loan agreement with DnB NOR Bank ASA in the amount of \$20.3 million. On March 14, 2008, we entered into a third supplemental loan agreement to our December 2005 loan agreement with DnB NOR Bank.

In June 2006, we entered into a term loan agreement with DnB NOR Bank ASA in an amount of \$6.6 million. On January 30, 2009, we entered into a loan agreement with DnB NOR Bank for a senior secured term loan facility for the lesser of the amount of \$43.0 million or 75% of the vessel's charter free market value at the time of delivery. For additional information regarding the terms and conditions of our loan agreements with DnB NOR Bank ASA, see

Item 5. Operating and Financial Review and Prospects Credit Facilities.

### ***(f) Brave Maritime Corp.***

For a description of the Brave Maritime Corp. Bridge Loan, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Brave Maritime Corp. Bridge Loan.

### ***(g) Scotiabank Credit Facility***

On June 21, 2007, we entered into a \$46.9 million facility agreement with the Scotiabank (Ireland) Limited, as lender, Scotiabank Europe plc, as security trustee, and The Bank of Nova Scotia, as swap bank. On December 21, 2007, this facility agreement was amended and increased to provide for a \$49.6 million non-revolving term loan, which we refer to as the Scotiabank Facility. For additional information regarding the terms and conditions of our Scotiabank Credit Facility agreement, see Item 5. Operating and Financial Review and Prospects Credit Facilities.

### ***(h) Deutsche Bank***

On February 12, 2008, we entered into a \$40.25 million loan agreement with Deutsche Bank. For additional information regarding the terms and conditions of our loan agreement with Deutsche Bank, see Item 5. Operating and Financial Review and Prospects Credit Facilities.

### ***(i) Emporiki Bank***

On August 28, 2008, we entered into a \$29.44 million facility agreement with Emporiki Bank of Greece S.A. For additional information regarding the terms and conditions of our loan agreement with Emporiki Bank, see Item 5. Operating and Financial Review and Prospects Credit Facilities.

### ***(j) National Bank of Greece***

On July 30, 2008, we entered into a \$33.2 million credit facility agreement with the National Bank of Greece. For additional information regarding the terms and conditions of our loan agreement with National Bank of Greece, see Item 5. Operating and Financial Review and Prospects Credit Facilities.

### ***(k) EFG Eurobank Ergasias S.A.***

For a description of our loan agreement, dated February 19, 2009, with EFG Eurobank Ergasias S.A., see Item 5. Operating and Financial Review and Prospects Credit Facilities EFG Eurobank Ergasias S.A. Credit Facility.

### ***(l) DVB Bank S.E. Nordic Branch***

For a description of our loan agreement, dated February 18, 2009, with DVB Bank S.E. Nordic Branch, see Item 5. Operating and Financial Review and Prospects Credit Facilities New DVB Bank S.E. Nordic Branch Credit Facility.

### ***(m) NIBC Bank N.V***

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For a description of our loan agreement, dated June 25, 2009 with NIBC Bank N.V. see Item 5. Operating and Financial Review and Prospects Credit Facilities New NIBC Bank N.V. Credit Facility.

### ***(n) Vessel Acquisition Agreements***

Pursuant to separate memoranda of agreement each dated March 30, 2007, we agreed to acquire the *Gas Kalogeros*, a 5,000 cbm fully pressurized newbuilding LPG carrier delivered ex-shipyard to its previous owner in March 2007, and the *Gas Sikousis* a 2006-built 3,500 cbm fully pressurized LPG carrier, from Dreamship Inc. and Stellar Management Limited, respectively, each an affiliate of ours, for an aggregate of \$34.5 million. We took delivery of the *Gas Kalogeros* and the *Gas Sikousis* on July 27, 2007 and August 3, 2007, respectively.

On February 29, 2008, we entered into agreements to acquire the *Gas Defiance*, a 5,000 cbm fully pressurized newbuilding LPG carrier, the *Gas Shuriken*, a 5,000 cbm fully pressurized newbuilding LPG carrier, the *Gas Astrid*, a 3,500 cbm fully pressurized newbuilding LPG carrier, and the *Gas Exelero*, a 3,500 cbm fully pressurized newbuilding LPG carrier from Newgas Limited, Galactic Imports Limited, Lullaby Products Inc and Evolution Inc, respectively, each an affiliate of ours, for an aggregate of \$81.92 million. The *Gas Defiance*, *Gas Shuriken* and *Gas Astrid* were delivered to us in August 2008, November 2008 and April 2009, respectively. The *Gas Exelero* is scheduled to be delivered to us in June 2009.

On February 29, 2008, we entered into an agreement with Event Holdings Inc, an affiliate of ours, to acquire the *Gas Natalie*, a 3,213 cbm fully pressurized 1997-built LPG carrier, which was delivered to us in January 2009, subject to a bareboat charter until September 2011. The vessel was subsequently sold in January 2010.

On June 4, 2010, we entered into a memorandum of agreement to acquire from an affiliated entity an under construction Aframax tanker named *Spike* (formerly *Hull No 1757* ) which is scheduled to be delivered in the third quarter of 2010. The purchase price of this vessel is \$56,500,000. As provided by the relate memorandum of agreement, no advance payment will be given.

In all cases, the acquisition price for vessels described above was set at the average of the assessed value of the acquired vessels by two unaffiliated international sale and purchase brokers.

### **Exchange Controls and Other Limitations Affecting Stockholders**

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 stock.

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

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### **Tax Considerations**

#### ***Marshall Islands Tax Consequences***

We are incorporated in the Marshall Islands. Because we and our subsidiaries do not, and we do not expect that we and our subsidiaries will, conduct business or operations in the Republic of The Marshall Islands, under current Marshall Islands law we are not subject to tax on income or capital gains and no Marshall Islands withholding tax will be imposed upon payments of dividends by us to our stockholders so long as such stockholders do not reside in, maintain offices in, or engage in business in the Republic of The Marshall Islands. In addition, holders of shares of our common stock will not be subject to Marshall Islands stamp, capital gains or other taxes on the purchase, ownership or disposition of shares of our common stock and will not be required by the Republic of The Marshall Islands to file a tax return relating to such common stock.

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

Except as otherwise noted, this discussion is based on the assumption that we will not maintain an office or other fixed place of business within the United States. We have no current intention of maintaining such an office. References in this discussion to we and us are to StealthGas Inc. and its subsidiaries on a consolidated basis, unless the context otherwise requires.

##### *United States Federal Income Taxation of Our Company*

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

Unless exempt from United States federal income taxation under the rules discussed below, a foreign corporation is subject to United States federal income taxation in respect of any income that is derived from the use of vessels, from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis, from the participation in a pool, partnership, strategic alliance, joint operating agreement or other joint venture it directly or indirectly owns or participates in that generates such income, or from the performance of services directly related to those uses, which we refer to as shipping income, to the extent that the shipping income is derived from sources within the United States. For these purposes, 50% of 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, which we refer to as United States-source shipping income.

Shipping income attributable to transportation that both begins and ends in the United States is generally considered to be 100% from sources within the United States. We do not expect to engage in transportation that produces income which is considered to be 100% from sources within the United States.

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

In the absence of exemption from tax under Section 883, our gross United States-source shipping income, unless determined to be effectively connected with the conduct of a United States trade or business, as described below, would be subject to a 4% tax imposed without allowance for deductions as described below.

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

Under Section 883 of the Code, an entity, such as us and our vessel-owning subsidiaries, that is treated for United States federal income tax purposes as a non-United States on-United States corporation will be exempt from United States federal income taxation on its United States-source shipping income if:

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(i) the entity is organized in a country other than the United States (an equivalent exemption jurisdiction) that grants an exemption to corporations organized in the United States that is equivalent to that provided for in Section 883 of the Code (an equivalent exemption); and

(ii) either (A) for more than half of the days in the relevant tax year more than 50% of the value of the entity's stock is owned, directly or under applicable constructive ownership rules, by individuals who are residents of equivalent exemption jurisdictions or certain other qualified shareholders (the 50% Ownership Test) and certain ownership certification requirements are complied with or (B) for the relevant tax year the entity's stock is primarily and regularly traded on an established securities market in an equivalent exemption jurisdiction or the United States (the Publicly-Traded Test).

We believe, based on Revenue Ruling 2008-17, 2008-12 IRB 626, and the exchanges of notes referred to therein, that each of Malta, the Marshall Islands, Hong Kong, the Bahamas, Cyprus and Panama, the jurisdictions in which we and our vessel-owning subsidiaries are organized, is an equivalent exemption jurisdiction with respect income from bareboat and time or voyage charters. Under the rules described in the preceding paragraph, our wholly-owned vessel-owning subsidiaries that are directly or indirectly wholly-owned by us throughout a taxable year will be entitled to the benefits of Section 883 for such taxable year if we satisfy the 50% Ownership Test or the Publicly-Traded Test for such year. Due to the widely-held ownership of our stock, it may be difficult for us to satisfy the 50% Ownership Test. Our ability to satisfy the Publicly-Traded Test is discussed below.

The Section 883 regulations provide, in pertinent part, that stock of a foreign corporation will be considered to be primarily traded on an established securities market in a particular 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, which is the sole class of our issued and outstanding stock is primarily traded on the NASDAQ Global Select Market.

Under the regulations, our common stock will be considered to be regularly traded on an established securities market if one or more classes of our stock representing more than 50% of our outstanding shares, by total combined voting power of all classes of stock entitled to vote and total value, is listed on the market. We refer to this as the listing threshold. Since our common stock is the sole class of stock listed on the NASDAQ Global Select Market, we will satisfy the listing requirement.

It is further required that with respect to each class of stock relied upon to meet the listing threshold (i) such class of the stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or 1/6 of the days in a short taxable year; and (ii) the aggregate number of shares of such class of stock traded on such market is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year. We believe we will satisfy the trading frequency and trading volume tests. Even if this were not the case, the regulations provide that the trading frequency and trading volume tests will be deemed satisfied if, as we believe to be the case with our common stock, such class of stock is traded on an established market in the United States and such stock is regularly quoted by dealers making a market in such stock.

Notwithstanding the foregoing, the regulations provide, in pertinent part, that a class of our stock will not be considered to be regularly traded on an established securities market for any taxable year in which 50% or more of such class of our outstanding shares of the stock is owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the value of such class of our outstanding stock, which we refer to as the 5% Override Rule.

For purposes of being able to determine the persons who own 5% or more of our stock, or 5% Stockholders, the regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the United States Securities and Exchange Commission, or the SEC, as having a 5% or more beneficial interest in our common stock. The 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% Stockholder for such purposes.

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Our shares of common stock are currently and may in the future also be, owned, actually or under applicable attribution rules, such that 5% Stockholders own, in the aggregate, 50% or more of our common stock. In such circumstances, we will be subject to the 5% Override Rule unless we can establish that among the shares included in the closely-held block of our shares of common stock are a sufficient number of shares of common stock that are owned or treated as owned by qualified stockholders that the shares of common stock included in such block that are not so treated could not constitute 50% or more of the shares of our common stock for more than half the number of days during the taxable year. In order to establish this, such qualified stockholders would have to comply with certain documentation and certification requirements designed to substantiate their identity as qualified stockholders. For these purposes, a qualified stockholder includes (i) an individual that owns or is treated as owning shares of our common stock and is a resident of a jurisdiction that provides an exemption that is equivalent to that provided by Section 883 of the Code and (ii) certain other persons. There can be no assurance that we will not be subject to the 5% Override Rule.

Our Chief Executive Officer, who is treated under applicable ownership attribution rules as owning approximately 19.9% of our shares of common stock, has entered into an agreement with us regarding his compliance, and the compliance by certain entities that he controls and through which he owns our shares, with the certification requirements designed to substantiate status as qualified stockholders. In certain circumstances, his compliance and the compliance of such entities he controls with the terms of that agreement may enable us and our subsidiaries to qualify for the benefits of Section 883 even where persons each of whom owns, either directly or under applicable attribution rules, 5% or more of our shares own, in the aggregate, more than 50% of our outstanding shares. There can be no assurance, however, that his compliance and the compliance of such entities he controls with the terms of that agreement will enable us or our subsidiaries to qualify for the benefits of Section 883.

We do not believe that we or our subsidiaries derived a material amount of United States-source shipping income in 2009.

There can be no assurance that we or any of our subsidiaries will qualify for the benefits of Section 883 for any year.

To the extent the benefits of Section 883 are unavailable, our United States-source shipping income and that at our subsidiaries, to the extent not considered to be effectively connected with the conduct of a United States trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. Since under the sourcing rules described above, we expect that no more than 50% of our shipping income and that of our subsidiaries would be treated as being derived from United States-sources, we expect that the maximum effective rate of United States federal income tax on such gross shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent the benefits of the Section 883 exemption are unavailable and our United States-source shipping income or that of our subsidiaries is considered to be effectively connected with the conduct of a United States trade or business, as described below, any such effectively connected United States-source shipping income, net of applicable deductions, would be subject to the United States federal corporate income tax currently imposed at rates of up to 35%. In addition, we or our subsidiaries may be subject to the 30% branch profits taxes on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of a United States trade or business by us or our subsidiaries.

Our United States-source shipping income and that of our subsidiaries, other than leasing income, will be considered effectively connected with the conduct of a United States trade or business only if:

we or our subsidiaries have, or are considered to have, a fixed place of business in the United States involved in the earning of shipping income; and

substantially all (at least 90%) of our United States-source shipping income, other than leasing income or that of a subsidiary, is attributable to regularly scheduled transportation, such as the operation of a vessel

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that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

We do not intend to have, or permit circumstances that would result in having, any vessel operating to the United States on a regularly scheduled basis.

Our United States-source shipping income from leasing or that of our subsidiaries will be considered effectively connected with the conduct of a United States trade or business only if:

we or our subsidiaries have, or are considered to have a fixed place of business in the United States that is involved in the meaning of such leasing income; and

substantially all (at least 90%) of our United States-source shipping income from leasing or that of a subsidiary is attributable to such fixed place of business.

For these purposes, leasing income is treated as attributable to a fixed place of business where such place of business is a material factor in the realization of such income and such income is realized in the ordinary course of business carried on through such fixed place of business. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our United States-source shipping income or that of our subsidiaries is effectively connected with the conduct of a United States trade or business.

*United States Taxation of Gain on Sale of Vessels*

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

*United States Federal Income Taxation of United States Holders*

As used herein, the term United States Holder means a beneficial owner of common stock that is a United States citizen or resident, United States corporation or other United States entity taxable as a corporation, an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding our common stock, you are encouraged to consult your tax advisor.

*Distributions*

Subject to the discussion of passive foreign investment companies below, any distributions made by us with respect to our common stock to a United States Holder will generally constitute dividends, which may be taxable as ordinary income or qualified dividend income as described in more detail below, to the extent of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of the United States Holder's tax basis in his common stock on a dollar for dollar basis and thereafter as capital gain. Because we are not a United States corporation, United States Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common stock will generally be treated as passive category income or, in the case of certain types of United States Holders, general category income for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

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Dividends paid on our common stock to a United States Holder who is an individual, trust or estate (a United States Individual Holder) should be treated as qualified dividend income that is taxable to such United States Individual Holders at preferential tax rates (through 2010) provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the NASDAQ Global Select Market); (2) we are not a passive foreign investment company, or PFIC, for the taxable year during which the dividend is paid or the immediately preceding taxable year see the discussion under the heading PFIC Status and Significant Tax Consequences below for a discussion of our potential qualification as a PFIC; and (3) the United States Individual Holder owns the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend. Special rules may apply to any extraordinary dividend. Generally, an extraordinary dividend is a dividend in an amount which is equal to or in excess of ten percent of a stockholder's adjusted basis (or fair market value in certain circumstances) in a share of common stock paid by us. If we pay an extraordinary dividend on our common stock that is treated as qualified dividend income, then any loss derived by a United States Individual Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a United States Individual Holder. Any dividends paid by us which are not eligible for these preferential rates will be taxed to a United States Individual Holder at the standard ordinary income rates. Legislation has been proposed which, if enacted into law in its present form, would likely preclude, prospectively from the date of enactment, our dividends from being treated as qualified dividend income eligible for the preferential tax rates described above.

*Sale, Exchange or other Disposition of Common Stock*

Assuming we do not constitute a PFIC for any taxable year, a United States Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the United States Holder from such sale, exchange or other disposition and the United States Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the United States 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 United States-source income or loss, as applicable, for United States foreign tax credit purposes. A United States Holder's ability to deduct capital losses is subject to certain limitations.

*PFIC Status and Significant Tax Consequences*

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

at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or

at least 50% of the average value of our assets during such taxable year produce, or are held for the production of, passive income.

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

We may hold, directly or indirectly, interests in other entities that are PFICs (Subsidiary PFICs). If we are a PFIC, each United States Holder will be treated as owning its pro rata share by value of the stock of any such Subsidiary PFICs.

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In connection with determining our PFIC status we treat and intend to continue to treat the gross income that we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. We believe that our income from time chartering activities does not constitute passive income and that the assets that we own and operate in connection with the production of that income do not constitute assets held for the production of passive income. We treat and intend to continue to treat, for purposes of the PFIC rules, the income that we derive from bareboat charters as passive income and the assets giving rise to such income as assets held for the production of passive income. We believe there is substantial authority supporting our position consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. There is, however, no legal authority specifically under the PFIC rules regarding our current and proposed method of operation and it is possible that the Internal Revenue Service, or IRS, may not accept our positions and that a court may uphold such challenge, in which case we and certain of our subsidiaries could be treated as PFICs. In this regard we note that a recent federal court decision, *Tidewater Inc. and Subsidiaries v. United States*, 565 F.3d 299 (5th Cir. 2009), held that income derived from certain time chartering activities should be treated as rental income rather than services income for purposes of the foreign sales corporation rules under the Code. The IRS has stated that it disagrees with and will not acquiesce to the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. However, the IRS's statement with respect to the *Tidewater* decision was an administrative action that cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would agree with the *Tidewater* decision. However, if the principles of the *Tidewater* decision were applicable to our time charters, we would likely be treated as a PFIC. Moreover, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC, we cannot assure you that the nature of our assets, income and operations will not change, or that we can avoid being treated as a PFIC for any taxable year.

We do not believe that we were a PFIC for 2009. This belief is based in part upon our beliefs regarding the value of the assets that we hold for the production of or in connection with the production of passive income relative to the value of our other assets. Should these beliefs turn out to be incorrect, then we and certain of our subsidiaries could be treated as PFICs for 2009. In this regard we note that our beliefs and expectations regarding the relative values of our assets place us close to the threshold for PFIC status, and thus a relatively small deviance between our beliefs and expectations and actual values could result in the treatment of us and certain of our subsidiaries as PFICs. There can be no assurance that the IRS or a court will not determine values for our assets that would cause us to be treated as a PFIC for 2009 or a subsequent year. Moreover, we may qualify as a PFIC for 2010 or a subsequent year if there were to be a change in the nature of our operations.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a United States Holder would be subject to different taxation rules depending on whether the United States Holder makes an election to treat us as a Qualified Electing Fund, which election we refer to as a QEF election. As an alternative to making a QEF election, a United States Holder should be able to make a mark-to-market election with respect to our common stock, as discussed below.

#### *Taxation of United States Holders Making a Timely QEF Election*

If a United States Holder makes a timely QEF election, which United States Holder we refer to as an Electing Holder, the Electing Holder must report each year for United States federal income tax purposes his pro-rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. Generally, a QEF election should be made on or before the due date for filing the electing United States Holder's U.S. federal income tax return for the first taxable year in which our common stock is held by such United States Holder and we are classified as a PFIC. The Electing Holder's adjusted tax basis in the common stock will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common stock and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common stock. A United States Holder would make a QEF election with respect to any year

that our company and any PFIC Subsidiary is a PFIC by filing one copy of IRS Form 8621 with his United States federal income tax return and a second copy in accordance with the instructions to such form. If we

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were aware that we were to be treated as a PFIC for any taxable year, we would provide each United States Holder with all necessary information in order to make the QEF election described above with respect to our common stock and the stock of any Subsidiary PFIC.

### *Taxation of United States Holders Making a Mark-to-Market Election*

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we anticipate, our common stock is treated as marketable stock, a United States Holder would be allowed to make a mark-to-market election with respect to our common stock, provided the United States Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the United States Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such holder's adjusted tax basis in the common stock. The United States Holder would also be permitted an ordinary loss in respect of the excess, if any, of the United States Holder's adjusted tax basis in the common stock over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A United States Holder's tax basis in his common stock would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our common stock would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the United States Holder. A mark-to-market election under the PFIC rules with respect to our common stock would not apply to a Subsidiary PFIC, and a United States Holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in that Subsidiary PFIC. Consequently, United States Holders of our common stock could be subject to the PFIC rules with respect to income of the Subsidiary PFIC, the value of which already had been taken into account indirectly via mark-to-market adjustments.

### *Taxation of United States Holders Not Making a Timely QEF or Mark-to-Market Election*

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

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common stock;

- the amount allocated to the current taxable year or to any portion of the United States Holder's holding period prior to the first taxable year for which we were a PFIC would be taxed as ordinary income; and

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

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of our common stock.

### *Other PFIC Elections.*

If a United States Holder held our stock during a period when we were treated as a PFIC but the United States Holder did not have a QEF election in effect with respect to us, then in the event that we failed to qualify as a PFIC for a subsequent taxable year, the United States Holder could elect to cease to be subject to the rules described above with respect to those shares by making a deemed sale or, in certain circumstances, a deemed dividend election with respect to our stock. If the United States Holder makes a deemed sale election, the United States Holder will be

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treated, for purposes of applying the rules described above under the heading "Taxation of United States Holders Not Making a Timely QEF or Mark-to-Market Election", as having disposed of our stock for its fair market value on the last day of the last taxable year for which we qualified as a PFIC (the "termination date"). The United States Holder would increase his, her or its basis in such common stock by the amount of the gain on the deemed sale described in the preceding sentence. Following a deemed sale election, the United States Holder would not be treated, for purposes of the PFIC rules, as having owned the common stock during a period prior to the termination date when we qualified as a PFIC.

If we were treated as a controlled foreign corporation for United States federal income tax purposes for the taxable year that included the termination date, then a United States Holder could make a deemed dividend election with respect to our common stock. If a deemed dividend election is made, the United States Holder is required to include in income as a dividend his, her or its pro rata share (based on all of our stock held by the United States Holder, directly or under applicable attribution rules, on the termination date) of our post-1986 earnings and profits as of the close of the taxable year that includes the termination date (taking only earnings and profits accumulated in taxable years in which we were a PFIC into account). The deemed dividend described in the preceding sentence is treated as an excess distribution for purposes of the rules described above under the heading "Taxation of United States Holders Not making a Timely QEF or Mark-to-Market Election". The United States Holder would increase his, her or its basis in our stock by the amount of the deemed dividend. Following a deemed dividend election, the United States Holder would not be treated, for purposes of the PFIC rules, as having owned the stock during a period prior to the termination date when we qualified as a PFIC. For purposes of determining whether the deemed dividend election is available, we generally will be treated as a controlled foreign corporation for a taxable year when, at any time during that year, United States persons, each of whom owns, directly or under applicable attribution rules, shares having 10% or more of the total voting power of our stock, in the aggregate own, directly or under applicable attribution rules, shares representing more than 50% of the voting power or value of our stock.

A deemed sale or deemed dividend election must be made on the United States Holder's original or amended return for the shareholder's taxable year that includes the termination date and, if made on an amended return, such amended return must be filed not later than the date that is three years after the due date of the original return for such taxable year. Special rules apply where a person is treated, for purposes of the PFIC rules, as indirectly owning our common stock.

#### *United States Federal Income Taxation of Non-United States Holders*

A beneficial owner of common stock that is not a United States Holder and is not treated as a partnership for United States federal income tax purposes is referred to herein as a Non-United States Holder.

#### *Dividends on Common Stock*

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

#### *Sale, Exchange or Other Disposition of Common Stock*

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

the gain is effectively connected with the Non-United States Holder's conduct of a trade or business in the United States. If the Non-United States Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain generally is taxable only if it is attributable to a permanent establishment maintained by the Non-United States Holder in the United States; or

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the Non-United States 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.

If the Non-United States Holder is engaged in a United States trade or business for United States federal income tax purposes, the income from the common stock, including dividends and the gain from the sale, exchange or other disposition of the stock that is effectively connected with the conduct of that trade or business will generally be subject to regular United States federal income tax in the same manner as discussed in the previous section relating to the taxation of United States Holders. In addition, in the case of a corporate Non-United States Holder, such holder's earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable income tax treaty.

***Backup Withholding and Information Reporting***

In general, dividend payments, or other taxable distributions, made within the United States to a non corporate United States holder will be subject to information reporting requirements and backup withholding tax if such holder: fails to provide an accurate taxpayer identification number;

is notified by the Internal Revenue Service that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or

in certain circumstances, fails to comply with applicable certification requirements.

Non-United States Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If a holder sells our common stock to or through a United States office or broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless the holder certifies that it is a non-United States person, under penalties of perjury, or the holder otherwise establishes an exemption. If a holder sells our common stock through a non-United States office of a non-United States broker and the sales proceeds are paid outside the United States then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the United States, if a holder sells our common stock through a non-United States office of a broker that is a United States person or has some other contacts with the United States.

Backup withholding tax is not an additional tax. Rather, a holder generally may obtain a refund of any amounts withheld under backup withholding rules that exceed such stockholder's income tax liability by filing a refund claim with the Internal Revenue Service.

**Dividends and Paying Agents**

Not applicable.

**Statement by Experts**

Not applicable.

**Documents on Display**

We are subject to the informational requirements of the Exchange Act. In accordance with these requirements, we file reports and other information as a foreign private issuer with the SEC. You may inspect and copy our public filings without charge at the public reference facilities maintained by the Securities and Exchange Commission at

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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, and you may obtain copies at prescribed rates from the Public Reference Section of the SEC at its principal office at 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

**Subsidiary Information**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk****Our risk management policy**

Our primary market risks relate to adverse movements in freight rates in the Handy Size LPG Carrier sector and any declines that may occur in the value of our assets which are made up primarily of Handy Size LPG Carriers. Our policy is to also continuously monitor our exposure to other business risks, including the impact of changes in interest rates, currency rates, and bunker prices on earnings and cash flows. We assess these risks and, when appropriate, enter into derivative contracts with credit-worthy counter parties to minimize our exposure to the risks. In regard to bunker prices, as our employment policy for our vessels has continued to be and is expected to continue with a high percentage of our fleet on period employment, we are not directly exposed for the majority of our fleet to increases in bunker fuel prices as these are the responsibility of the charterer under period charter arrangements.

**Interest rate risk**

We are subject to market risks relating to changes in interest rates, because we have floating rate debt outstanding under our loan agreements on which we pay interest based on LIBOR plus a margin. In order to manage our exposure to changes in interest rates due to this floating rate indebtedness, we enter into interest rate swap agreements. Set forth below is a table of our interest rate swap arrangements converting floating interest rate exposure into fixed as of December 31, 2007, 2008 and 2009.

| Effective Date | Effective Date     | Termination Date   | Notional Amount on | Fixed Rate<br>(StealthGas Pays) | Floating Rate             | Fair Value December 31, 2007 | Fair Value December 31, 2008 |
|----------------|--------------------|--------------------|--------------------|---------------------------------|---------------------------|------------------------------|------------------------------|
|                |                    |                    |                    |                                 | (StealthGas Receives)     |                              |                              |
| 2005           | May 30, 2007       | May 30, 2016       | \$22.5 million     | 4.55%(1)                        | 3 month U.S. dollar LIBOR | \$(0.3) million              | \$(1.0) million              |
| 2006           | March 9, 2006      | March 9, 2016      | \$22.5 million     | 4.52%(2)                        | 6 month U.S. dollar LIBOR | \$(0.3) million              | \$(1.7) million              |
| 2006           | September 11, 2006 | September 11, 2011 | \$25.0 million     | 5.42%                           | 6 month U.S. dollar LIBOR | \$(1.2) million              | \$(2.6) million              |
| 2007           | September 11, 2007 | September 11, 2012 | \$25.0 million     | 5.58%                           | 6 month U.S. dollar LIBOR | \$(1.5) million              | \$(3.5) million              |
| 2008           | January 17, 2008   | January 17, 2013   | \$41.7 million     | 3.66%                           | 3 month U.S. dollar LIBOR |                              | \$(2.4) million              |
| 2008           | March 20, 2008     | March 20, 2013     | \$40.3 million     | 3.09%                           | 6 month U.S. dollar LIBOR |                              | \$(1.5) million              |
| 2009           | September 9, 2009  | March 9, 2016      | \$53.3 million     | 4.73%                           | 3 month U.S. dollar LIBOR |                              |                              |
| 2009           | July 20, 2009      | July 2, 2014       | \$23.9 million     | 2.77%                           | 3 month U.S. dollar LIBOR |                              |                              |

(1) If the United States dollar three month

LIBOR is less than 7.5%, the fixed rate is 4.55%. If the United States dollar three month LIBOR is equal to or higher than 7.5%, then the fixed rate would be the United States dollar three month LIBOR.

- (2) If the United States dollar six month LIBOR is less than or equal to 5.75%, the fixed rate is 4.52%. If the United States dollar six month LIBOR is higher than 5.75%, then the fixed rate would be the United States dollar six month LIBOR less 123 basis points.

As of December 31, 2009, total bank indebtedness of the Company was \$345.8 million, of which \$178.0 million was covered by the interest rate swap agreements described above. As set forth in the above table, as of December 31, 2009, we paid fixed rates ranging from 2.77% to 4.73% and received floating rates based on LIBOR of approximately 0.83% for three month LIBOR and 1.59% for six month LIBOR under our six floating-to-fixed rate interest rate swap agreements. As of December 31, 2009 and April 30, 2010, our interest rate swap agreements are, on an average basis, above the prevailing three-month and six-month LIBOR rates over which our loans are priced due to the steep reduction in prevailing interest rates during 2009 and the first half of 2010. Accordingly, the effect of these interest rate swap agreements in 2009 and the first half of 2010 has been to increase our interest expense.

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Specifically, we incurred additional interest expense of \$4.8 million and \$1.2 million for the years ended December 31, 2009 and 2008, respectively.

Based on the amount of our outstanding indebtedness as of December 31, 2009, and our interest swap arrangements as of December 31, 2009, a hypothetical one percentage point increase or decrease in relevant interest rates (three and six month U.S. dollar LIBOR) would increase our interest rate expense, on an annualized basis, by approximately \$0.5 million and decrease our interest rate expense by approximately \$2.8 million, respectively. We have not and do not intend to enter into interest rate swaps for speculative purposes.

**Foreign exchange rate fluctuation**

We generate all of our revenues in U.S. dollars and incur less than 10% of our expenses in currencies other than U.S. dollars. For accounting purposes, expenses incurred in Euros are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. At December 31, 2009, less than 10% of our outstanding accounts payable was denominated in currencies other than the U.S. dollar mainly in Euros. Other than with regard to five LPG carrier construction contracts denominated in Japanese Yen, which are discussed below, we have not hedged currency exchange risks associated with our revenues and expenses from operations and our operating results could be adversely affected as a result. Due to our relatively low percentage exposure, other than with regard to the five LPG carrier construction contracts denominated in Japanese Yen, to currencies other than our base currency, which is the U.S. dollar we believe that such currency movements will not otherwise have a material effect on us. As such, we do not hedge these exposures as the amounts involved do not make hedging economic.

On February 25, 2008, we signed contracts with Mitsubishi Corporation of Japan for the construction of five LPG carriers scheduled for delivery between February 2011 and May 2012, at an aggregate contract price of Yen 12,008,000,000 (\$111,185,185, based upon the prevailing USD/JPY exchange rate of \$1.00:JPY 108 as of February 25, 2008). On February 29, 2008, we paid the first 10% installment of Yen 1,200,800,000 (\$11,118,519, based upon the prevailing USD/JPY exchange rate of \$1.00:JPY108 as of February 25, 2008). On August 5, 2008, we entered into 14 foreign currency forward contracts to hedge part of our exposure to fluctuations of our anticipated cash payments in Japanese Yen relating to the construction of the five LPG carriers. The contracts which have different forward value dates are at different rates of exchange, the weighted average rate for these contracts is 98.86 JPY/USD. Under the 14 contracts, we will convert approximately JPY5.4 billion of cash outflows to U.S. dollars at various dates from 2009 to 2011. As of December 31, 2009, we recorded an asset of \$3.64 million in respect of the fair value of these forward contracts on our balance sheet.

We have entered into forward foreign exchange contracts covering Japanese Yen 4,803,200,000, which represents 50% of the remaining amounts to be paid under our Japanese Yen-denominated newbuilding construction contracts with Mitsubishi Corporation of Japan at an overall rate of JPY98.40 to the US\$1.00. The remaining amount payable under these newbuilding construction contracts is unhedged. A hypothetical 10% movement in the outright USD/JPY exchange rate would result in a reduction in the cost of the vessels of \$4.4 million should the USD/JPY exchange rate move higher (i.e., JPY appreciates against the dollar), and an increase in the cost of the vessels of \$5.46 million should the USD/JPY exchange rate move lower (i.e., JPY depreciates against the dollar)

As our forward foreign exchange contracts do not qualify for hedge accounting any marked to market fluctuations in their value will be recognized in our statement of income.

We have not and do not intend to enter into foreign currency contracts for speculative purposes.

**Item 12. Description of Securities Other than Equity Securities**

Not Applicable.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

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

Not applicable.

**Item 15. Controls and Procedures**

**Disclosure Controls and Procedures**

StealthGas's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2009. Disclosure controls and procedures are defined under SEC rules as controls and other procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on the Company's evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2009.

**Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, and for the assessment of the effectiveness of internal control over financial reporting. The 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 in the United States (GAAP).

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

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

In making its assessment of the Company's internal control over financial reporting as of December 31, 2009, management, including the Chief Executive Officer and Chief Financial Officer, used the criteria set forth in

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Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) and evaluated the internal control over financial reporting.

Management concluded that, as of December 31, 2009 the Company s internal control over financial reporting was effective.

### **Attestation Report of the Registered Public Accounting Firm**

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Deloitte Hadjipavlou, Sofianos & Cambanis S.A., an independent registered public accounting firm, as stated in their report which appears herein.

### **Changes in Internal Control Over Financial Reporting**

During the period covered by this Annual Report on Form 20-F, we have made no changes to our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of StealthGas Inc., Majuro, Republic of the Marshall Islands

We have audited the internal control over financial reporting of StealthGas Inc. and subsidiaries (the Company ) as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal

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control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated June 28, 2010 expressed an unqualified opinion on those financial statements.

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

Athens, Greece

June 28, 2010

**Item 16A. Audit Committee Financial Expert**

The Board has determined that Markos Drakos is an Audit Committee financial expert as defined by the U.S. Securities and Exchange Commission and meets the applicable independence requirements of the U.S. Securities and Exchange Commission and the NASDAQ Stock Market.

**Item 16B. Code of Ethics**

We have adopted a Code of Business Conduct and Ethics, a copy of which are posted on our website, and may be viewed at <http://www.stealthgas.com>. We will also provide a paper copy free of charge upon written request by our stockholders. Stockholders may direct their requests to the attention of Andrew J. Simmons, Chief Financial Officer, 331 Kifissias Avenue, Erithrea 14561 Athens, Greece. No waivers of the Code of Business Conduct and Ethics were granted to any person during the fiscal year ended December 31, 2009.

**Item 16C. Principal Accountant Fees and Services**

Remuneration of Deloitte Hadjipavlou, Sofianos & Cambanis S.A., an Independent Registered Public Accounting Firm (in thousands):

|                                      | <b>2009</b>   | <b>2008</b>   |
|--------------------------------------|---------------|---------------|
| Audit fees                           | \$ 713        | \$ 661        |
| Further assurance/audit related fees |               |               |
| Tax fees                             |               |               |
| All other fees                       |               |               |
| Total                                | <b>\$ 713</b> | <b>\$ 661</b> |

**(1) Audit fees**

Audit fees paid to Deloitte Hadjipavlou, Sofianos & Cambanis S.A., which we refer to as Deloitte, in 2009 and 2008 were compensation for professional services rendered for the audits of the Company's financial statements for the years ended December 31, 2009 and 2008 and review of the quarterly financial information for the first three quarters of 2009 included in reports on Form 6-K furnished to the SEC by the Company.

**(2) Further Assurance /Audit Related Fees**

Deloitte did not provide any services that would be classified in this category in 2009 and 2008

**(3) Tax Fees**

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Deloitte did not provide any tax services in 2009 and 2008.

**(4) All Other Fees**

Deloitte did not provide any other services that would be classified in this category in 2009 and 2008.

**Non-audit services**

The Audit Committee of our Board of Directors has the authority to pre-approve permissible audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees.

Engagements for proposed services either may be separately pre-approved by the audit committee or entered into pursuant to detailed pre-approval policies and procedures established by the audit committee, as long as the audit committee is informed on a timely basis of any engagement entered into on that basis.

Approval for other permitted non-audit services has to be sought on an ad hoc basis.

Where no Audit Committee meeting is scheduled within an appropriate time frame, the approval is sought from the Chairman of the Audit Committee subject to confirmation at the next meeting.

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

None.

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

We did not repurchase any shares of our common stock in 2009. On March 22, 2010, our Board of Directors approved a stock repurchase program of up to \$15.0 million. As at June 18, 2010, 1,205,229 common shares had been repurchased at an average price of \$5.21 per share. We may discontinue or cancel this program at any time.

| Period                            | Total<br>Number<br>of<br>Shares<br>Purchased<br>(a) | Average<br>Price<br>Paid<br>Per<br>Share<br>(b) | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs<br>(c) | Maximum<br>Number of<br>Shares<br>that May Yet<br>Be<br>Purchased<br>Under<br>the Plans or<br>Programs<br>(d) |
|-----------------------------------|-----------------------------------------------------|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
|                                   |                                                     |                                                 |                                                                                                              |                                                                                                               |
| April 22, to April 29, 2010       | 545,843                                             | \$ 5.40                                         | 545,843                                                                                                      | N/A(1)                                                                                                        |
| May 6, to May 28, 2010            | 112,629                                             | \$ 5.05                                         | 658,472                                                                                                      | N/A(1)                                                                                                        |
| June 2010 (through June 18, 2010) | 546,757                                             | \$ 5.06                                         | 1,205,229                                                                                                    | N/A(1)                                                                                                        |

(1) Approximately \$8.72 million remains unused under the approved stock repurchase program as of the date of this report.

**Item 16F. Change in Registrant's Certifying Accountant**

Not Applicable.

**Item 16G. Corporate Governance**

**Statement of Significant Differences Between our Corporate Governance Practices and Nasdaq Corporate Governance Standards for Non-Controlled U.S. Issuers**

Pursuant to certain exceptions for foreign private issuers, we are not required to comply with certain of the corporate governance practices followed by U.S. companies under Nasdaq corporate governance standards, however, we voluntarily comply in full with all applicable Nasdaq corporate governance standards.

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Please see Item 6. Directors, Senior Management and Employees for a description of our current non-compliance with certain corporate governance standards due to the resignation of one of our independent directors on April 22, 2010 and our reliance on a Nasdaq exemption from such compliance until October 19, 2010, prior to which time we expect to elect a new independent director and regain compliance with these corporate governance standards.

**PART III**

**Item 17. Financial Statements**

Not Applicable.

**Item 18. Financial Statements**

Reference is made to pages F-1 through F-37 incorporated herein by reference.

**Item 19. Exhibits**

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| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                    |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1           | Amended and Restated Articles of Incorporation of the Company*                                                                                                                                                                        |
| 1.2           | Amended and Restated Bylaws of the Company*                                                                                                                                                                                           |
| 4.1           | Amended and Restated Management Agreement between the Company and Stealth Maritime S.A., as amended***                                                                                                                                |
| 4.2           | Form of Right of First Refusal among the Company, Harry Vafias and Stealth Maritime S.A.*                                                                                                                                             |
| 4.3           | StealthGas Inc. s 2005 Equity Compensation Plan, amended and restated*****                                                                                                                                                            |
| 4.4           | Loan Agreement with Fortis Bank (Nederland) N.V. and Deed of Release of Security and Obligations*                                                                                                                                     |
| 4.5           | Loan Agreement, dated December 5, 2005 with DnB Nor Bank ASA**                                                                                                                                                                        |
| 4.6           | Supplemental Agreement, dated February 27, 2006, with DnB Nor Bank ASA**                                                                                                                                                              |
| 4.7           | Loan Agreement, dated May 17, 2006, with Fortis Bank-Athens Branch***                                                                                                                                                                 |
| 4.8           | Loan Agreement, dated June 28, 2006, with DnB Nor Bank ASA***                                                                                                                                                                         |
| 4.9           | Letter Agreement, dated August 2, 2006, with Nike Investments Corporation, as amended***                                                                                                                                              |
| 4.10          | Memorandum of Agreement, dated March 30, 2007, for the <i>Gas Kalogeros</i> ***                                                                                                                                                       |
| 4.11          | Memorandum of Agreement, dated March 30, 2007, for the <i>Gas Sikousis</i> ***                                                                                                                                                        |
| 4.12          | Promissory Note dated May 16, 2007 issued in favor of Brave Maritime Corp.***                                                                                                                                                         |
| 4.13          | Second Supplemental Agreement, between Empire Spirit Ltd., Independent Trader Ltd., Triathlon Inc., Soleil Trust Inc., Jungle Investment Limited and Northern Yield Shipping Limited and DnB NOR Bank ASA, dated January 30, 2007**** |
| 4.14          | Loan Agreement, dated as of June 21, 2007, between StealthGas Inc., as borrower, Scotiabank (Ireland) Limited, as lender, Scotiabank Europe plc, as security trustee, and The Bank of Nova Scotia, as swap bank*****                  |
| 4.15          | Supplemental Agreement, dated January 8, 2008, between StealthGas Inc., as borrower, Scotiabank (Ireland) Limited, as lender, Scotiabank Europe plc, as security trustee, and The Bank of Nova Scotia, as swap bank*****              |
| 4.16          | Memorandum of Agreement, dated February 29, 2008, for the <i>Gas Defiance</i> *****                                                                                                                                                   |
| 4.17          | Memorandum of Agreement, dated February 29, 2008, for the <i>Gas Shuriken</i> *****                                                                                                                                                   |
| 4.18          | Memorandum of Agreement, dated February 29, 2008, for the <i>Gas Astrid</i> *****                                                                                                                                                     |

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- 4.19 Memorandum of Agreement, dated February 29, 2008, for the *Gas Exelero*\*\*\*\*\*
- 4.20 Memorandum of Agreement, dated February 29, 2008, for the *Gas Natalie*\*\*\*\*
- 4.21 Loan Agreement, dated July 30, 2008, between StealthGas Inc., as borrower, and National Bank of Greece, as lender\*\*\*\*\*
- 4.22 Loan Agreement, dated August 28, 2008, between StealthGas Inc., as borrower, and Emporiki Bank of Greece, S.A., as lender\*\*\*\*\*
- 4.23 Third Supplemental Agreement, dated March 14, 2008, Empire Spirit Ltd., Independent Trader Ltd., Triathlon Inc., Soleil Trust Inc., Jungle Investment Limited and Northern Yield Shipping Limited, as joint and several borrowers, and DnB NOR Bank ASA, as lender\*\*\*\*\*
- 4.24 Loan Agreement, dated January 30, 2009, between Casteli Castle Inc., as borrower, DnB NOR Bank ASA, as lender, DnB NOR Bank ASA, as Agent, Account Bank and Security Trustee, and DnB NOR Bank ASA as Swap Bank\*\*\*\*\*
- 4.25 Loan Agreement, dated February 12, 2008, between StealthGas Inc., as borrower, and Deutsche Bank AG Filiale Deutschlandsgeschaft, as lender\*\*\*\*\*
- 4.26 Loan Agreement, dated February 19, 2009, between EFG Eurobank Ergasias S.A., as lender, and StealthGas Inc., as borrower\*\*\*\*\*
- 4.27 Loan Agreement, dated February 18, 2009, between StealthGas Inc., as borrower, DVB Bank S.E., Nordic Branch, as lender, and DVB BANK S.E., Nordic Branch as Arranger, Agent, Security Trustee and Swap Bank\*\*\*\*\*
- 4.28 Memorandum for Agreement, dated June 4, 2010, for the *M/V Spike*, and Addendum No. 1 thereto, date June 22, 2010
- 4.29 Amendment Letter, dated March 18, 2010, between StealthGas and Scotiabank (Ireland) Limited, in respect of Loan Agreement, dated June 21, 2007, as amended
- 4.30 Supplemental Agreement, dated October 21, 2009, between StealthGas Inc., as borrower, and Deutsche Bank AG Filiale Deutschlandsgeschaft
- 4.31 Second Supplemental Agreement, dated April 27, 2010, between StealthGas Inc., as borrower, and

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**Number      Description**

Deutsche Bank AG Filiale Deutschlandgesellschaft in respect of loan agreement, dated February 12, 2008, as amended, as supplemented by a supplemental agreement dated October 21, 2009.

8              Subsidiaries

11.1          Code of Business Conduct and Ethics\*\*\*

12.1          Certification of the Chief Executive Officer

12.2          Certification of the Chief Financial Officer

13.1          Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002

13.2          Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002

15.1          Consent of Independent Registered Public Accounting Firm

\*              Previously filed  
as an exhibit to  
the Company's  
Registration  
Statement on  
Form F-1 (File  
No. 333-127905)  
filed with the  
SEC and hereby  
incorporated by  
reference to such  
Registration  
Statement.

\*\*             Previously filed  
as an exhibit to  
the Company's  
Annual Report on  
Form 20-F for the  
year ended  
December 31,  
2005 filed with  
the SEC on  
April 20, 2006.

\*\*\*           Previously filed  
as an exhibit to  
the Company's

Annual Report on  
Form 20-F for the  
year ended  
December 31,  
2007 filed with  
the SEC on  
June 5, 2007.

\*\*\*\* Previously filed  
as an exhibit to  
the Company's  
Report on Form  
6-K filed with the  
SEC on July 17,  
2007.

\*\*\*\*\* Previously filed  
as an exhibit to  
the Company's  
Annual Report on  
Form 20-F for the  
year ended  
December 31,  
2008 filed with  
the SEC on  
June 11, 2008.

\*\*\*\*\* Previously filed  
as an exhibit to  
the Company's  
Annual Report on  
Form 20-F for the  
year ended  
December 31,  
2009 filed with  
the SEC on  
June 18, 2009.

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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.

**STEALTHGAS INC.**

By: /s/ Harry N. Vafias

Name: Harry N. Vafias

Title: President and Chief Executive

Officer

Date: June 29, 2010

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**StealthGas Inc.**

**Consolidated Financial Statements**

**Index to consolidated financial statements**

|                                                                                                                      | <b>Pages</b> |
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| <u>Consolidated Statements of Operations for the years ended December 31, 2007, 2008 and 2009</u>                    | F-4          |
| <u>Consolidated Statement of Changes in Stockholders Equity for the years ended December 31, 2007, 2008 and 2009</u> | F-5          |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2008 and 2009</u>                    | F-6          |
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of StealthGas Inc., Majuro, Republic of the Marshall Islands

We have audited the accompanying consolidated balance sheets of StealthGas Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of StealthGas Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 28, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

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

Athens, Greece

June 28, 2010

**Table of Contents****StealthGas Inc.****Consolidated Balance Sheets****As of December 31, 2008 and 2009 (Expressed in United States Dollars, except for share data)**

|                                                                                      | <b>Note</b> | <b>December 31,</b> |                    |
|--------------------------------------------------------------------------------------|-------------|---------------------|--------------------|
|                                                                                      |             | <b>2008</b>         | <b>2009</b>        |
| <b>Assets</b>                                                                        |             |                     |                    |
| <b>Current assets</b>                                                                |             |                     |                    |
| Cash and cash equivalents                                                            |             | 41,848,059          | 44,076,339         |
| Trade and other receivables                                                          |             | 2,325,438           | 1,685,558          |
| Claims receivable                                                                    |             | 607,306             | 493,852            |
| Inventories                                                                          | 4           | 1,254,142           | 2,146,919          |
| Advances and prepayments                                                             |             | 812,654             | 625,870            |
| Restricted cash                                                                      |             | 3,672,439           | 4,399,188          |
| Vessels held for sale                                                                | 6           |                     | 13,829,512         |
| Fair value of derivatives                                                            |             | 1,938,480           | 1,774,515          |
| <b>Total current assets</b>                                                          |             | <b>52,458,518</b>   | <b>69,031,753</b>  |
| <b>Non current assets</b>                                                            |             |                     |                    |
| Advances for vessels under construction and acquisitions                             | 5           | 23,009,597          | 23,485,905         |
| Vessels, net                                                                         | 6           | 551,771,040         | 594,931,791        |
| Other receivables                                                                    |             | 246,219             | 169,616            |
| Restricted cash                                                                      |             | 600,000             | 1,550,000          |
| Deferred finance charges, net of accumulated amortization of \$267,118 and \$469,888 | 7           | 550,226             | 1,466,756          |
| Fair value of derivatives                                                            | 13          | 5,711,523           | 1,861,189          |
| <b>Total non current assets</b>                                                      |             | <b>581,888,605</b>  | <b>623,465,257</b> |
| <b>Total assets</b>                                                                  |             | <b>634,347,123</b>  | <b>692,497,010</b> |
| <b>Liabilities and Stockholders Equity</b>                                           |             |                     |                    |
| <b>Current liabilities</b>                                                           |             |                     |                    |
| Payable to related party                                                             | 3           | 2,407,377           | 7,310,097          |
| Trade accounts payable                                                               |             | 3,256,175           | 4,223,548          |
| Other accrued liabilities                                                            | 8           | 4,518,097           | 6,095,322          |
| Customer deposits                                                                    | 11          | 1,436,369           | 3,522,287          |
| Deferred income                                                                      | 10          | 4,776,359           | 3,643,963          |
| Other current liability                                                              | 5           |                     | 8,061,250          |
| Current portion of long-term debt                                                    | 12          | 24,380,554          | 31,612,718         |
| Current portion of long-term debt associated with vessel held for sale               | 6           |                     | 4,554,270          |
| <b>Total current liabilities</b>                                                     |             | <b>40,774,931</b>   | <b>69,023,455</b>  |

**Non current liabilities**

|                                                  |    |             |             |
|--------------------------------------------------|----|-------------|-------------|
| Fair value of derivatives                        | 13 | 12,762,979  | 10,327,792  |
| Customer deposits                                | 11 | 3,467,017   |             |
| Fair value of below market acquired time charter | 9  | 181,552     |             |
| Other non current liability                      | 5  |             | 2,688,750   |
| Long-term debt                                   | 12 | 259,313,319 | 309,655,082 |

|                                      |  |                    |                    |
|--------------------------------------|--|--------------------|--------------------|
| <b>Total non current liabilities</b> |  | <b>275,724,867</b> | <b>322,671,624</b> |
|--------------------------------------|--|--------------------|--------------------|

|                          |  |                    |                    |
|--------------------------|--|--------------------|--------------------|
| <b>Total liabilities</b> |  | <b>316,499,798</b> | <b>391,695,079</b> |
|--------------------------|--|--------------------|--------------------|

|                                      |    |  |  |
|--------------------------------------|----|--|--|
| <b>Commitments and contingencies</b> | 21 |  |  |
|--------------------------------------|----|--|--|

**Stockholders equity**

|                                                                                                                                   |    |             |             |
|-----------------------------------------------------------------------------------------------------------------------------------|----|-------------|-------------|
| Capital stock                                                                                                                     |    |             |             |
| 5,000,000 preferred shares authorized and zero outstanding with a par value of \$0.01 per share                                   |    |             |             |
| 100,000,000 common shares authorized 22,310,110 and 22,310,110 shares issued and outstanding with a par value of \$0.01 per share | 14 | 223,101     | 223,101     |
| Additional paid-in capital                                                                                                        | 14 | 283,526,241 | 284,100,096 |
| Retained earnings                                                                                                                 |    | 34,910,189  | 17,415,158  |
| Accumulated other comprehensive (loss)                                                                                            |    | (812,206)   | (936,424)   |

|                                  |  |                    |                    |
|----------------------------------|--|--------------------|--------------------|
| <b>Total stockholders equity</b> |  | <b>317,847,325</b> | <b>300,801,931</b> |
|----------------------------------|--|--------------------|--------------------|

|                                                  |  |                    |                    |
|--------------------------------------------------|--|--------------------|--------------------|
| <b>Total liabilities and stockholders equity</b> |  | <b>634,347,123</b> | <b>692,497,010</b> |
|--------------------------------------------------|--|--------------------|--------------------|

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

**Table of Contents****StealthGas Inc.****Consolidated Statements of Operations****For the years ended December 31, 2007 2008 and 2009****(Expressed in United States Dollars, except for share data)**

|                                                            | <b>Note</b> | <b>2007</b>         | <b>December 31,<br/>2008</b> | <b>2009</b>         |
|------------------------------------------------------------|-------------|---------------------|------------------------------|---------------------|
| <b>Revenues</b>                                            |             |                     |                              |                     |
| Voyage revenues                                            |             | 89,995,123          | 112,551,901                  | 113,045,961         |
| <b>Expenses</b>                                            |             |                     |                              |                     |
| Voyage expenses                                            | 18          | 5,369,546           | 6,180,754                    | 10,522,573          |
| Vessels operating expenses                                 | 18          | 25,435,578          | 32,178,385                   | 38,001,481          |
| Dry-docking costs                                          |             | 314,181             | 1,112,992                    | 1,266,455           |
| Management fees                                            | 3           | 4,126,610           | 4,618,025                    | 5,230,990           |
| General and administrative expenses                        |             | 5,024,912           | 4,772,615                    | 3,564,779           |
| Depreciation                                               | 6           | 16,546,692          | 23,283,393                   | 26,766,672          |
| Impairment loss                                            |             |                     |                              | 9,867,777           |
| Forfeiture of vessel deposit and contract termination fees |             |                     |                              | 16,500,000          |
| Charter termination fees                                   |             |                     |                              | (753,000)           |
| Net (gain)/loss on sale of vessels                         |             |                     | (1,673,321)                  | 791,659             |
| <b>Total expenses</b>                                      |             | <b>56,817,519</b>   | <b>70,472,843</b>            | <b>111,759,386</b>  |
| <b>Income from operations</b>                              |             | <b>33,177,604</b>   | <b>42,079,058</b>            | <b>1,286,575</b>    |
| <b>Other income and (expenses)</b>                         |             |                     |                              |                     |
| Interest and finance costs                                 |             | (9,831,404)         | (9,962,504)                  | (9,109,222)         |
| Change in fair value of derivatives                        |             | (2,573,992)         | (2,713,055)                  | (5,478,163)         |
| Interest income                                            |             | 1,888,070           | 743,193                      | 250,326             |
| Foreign exchange loss                                      |             | (122,171)           | (159,208)                    | (261,401)           |
| <b>Other expenses, net</b>                                 |             | <b>(10,639,497)</b> | <b>(12,091,574)</b>          | <b>(14,598,460)</b> |
| <b>Net Income / (Loss)</b>                                 |             | <b>22,538,107</b>   | <b>29,987,484</b>            | <b>(13,311,885)</b> |
| <b>Earnings / (Loss) per share</b>                         |             |                     |                              |                     |
| Basic                                                      |             | 1.25                | 1.35                         | (0.60)              |
| Diluted                                                    |             | 1.25                | 1.34                         | (0.60)              |

**Weighted average number of shares**

|         |            |            |            |
|---------|------------|------------|------------|
| Basic   | 17,900,576 | 22,130,542 | 22,219,442 |
| Diluted | 17,943,346 | 22,182,118 | 22,219,442 |

**Cash dividends declared per share**

|      |      |        |
|------|------|--------|
| 0.75 | 0.75 | 0.1875 |
|------|------|--------|

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

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**Table of Contents****StealthGas Inc.**

**Consolidated Statement of Changes in Stockholders' Equity**  
**For the years ended December 31, 2007, 2008 and 2009**  
**(Expressed in United States Dollars, except for share data)**

|                                                                                |                         | Capital<br>stock<br>Number of |                        | Additional<br>Paid-in<br>Capital | Accumulated<br>Other |                                |              |
|--------------------------------------------------------------------------------|-------------------------|-------------------------------|------------------------|----------------------------------|----------------------|--------------------------------|--------------|
|                                                                                | Comprehensive<br>Income | Shares<br>(Note 14)           | Amount<br>(Note<br>14) | (Note 14)                        | Retained Earnings    | Comprehensive<br>Income/(Loss) | Total        |
| <b>Balance as of<br/>January 1,<br/>2007</b>                                   |                         | 14,000,000                    | 144,000                | 150,607,621                      | 12,826,845           | 223,762                        | 163,802,228  |
| Follow-on<br>public offering<br>net of issuance<br>cost                        |                         | 7,200,000                     | 72,000                 | 121,860,958                      |                      |                                | 121,932,958  |
| Underwriters<br>over-allotment<br>option exercised<br>net of issuance<br>cost  |                         | 460,105                       | 4,601                  | 7,821,785                        |                      |                                | 7,826,386    |
| Issuance of<br>restricted shares<br>and related<br>stock based<br>compensation |                         | 224,000                       | 2,240                  | 1,322,503                        |                      |                                | 1,324,743    |
| Dividends paid<br>(\$0.75 per share<br>per year)                               |                         |                               |                        |                                  | (13,714,540)         |                                | (13,714,540) |
| Net income for<br>the year                                                     | 22,538,107              |                               |                        |                                  | 22,538,107           |                                | 22,538,107   |
| Other<br>comprehensive<br>income                                               |                         |                               |                        |                                  |                      |                                |              |
| Cash flow<br>hedges:                                                           |                         |                               |                        |                                  |                      |                                |              |
| Swap contract                                                                  | (628,334)               |                               |                        |                                  |                      | (628,334)                      | (628,334)    |
| Reclassification<br>adjustment                                                 | (50,760)                |                               |                        |                                  |                      | (50,760)                       | (50,760)     |

|                                                                    |              |            |         |             |              |           |              |
|--------------------------------------------------------------------|--------------|------------|---------|-------------|--------------|-----------|--------------|
| Comprehensive income                                               | 21,859,013   |            |         |             |              |           |              |
| <b>Balance,<br/>December 31,<br/>2007</b>                          |              | 22,284,105 | 222,841 | 281,612,867 | 21,650,412   | (455,332) | 303,030,788  |
| Issuance of restricted shares and related stock based compensation |              | 26,005     | 260     | 1,913,374   |              |           | 1,913,634    |
| Dividends paid (\$0.75 per share per year)                         |              |            |         |             | (16,727,707) |           | (16,727,707) |
| Net income for the year                                            | 29,987,484   |            |         |             | 29,987,484   |           | 29,987,484   |
| Other comprehensive income                                         |              |            |         |             |              |           |              |
| Cash flow hedges:                                                  |              |            |         |             |              |           |              |
| Swap contract                                                      | (347,162)    |            |         |             |              | (347,162) | (347,162)    |
| Reclassification adjustment                                        | (9,712)      |            |         |             |              | (9,712)   | (9,712)      |
| Comprehensive income                                               | 29,630,610   |            |         |             |              |           |              |
| <b>Balance,<br/>December 31,<br/>2008</b>                          |              | 22,310,110 | 223,101 | 283,526,241 | 34,910,189   | (812,206) | 317,847,325  |
| Stock based compensation                                           |              |            |         | 573,855     |              |           | 573,855      |
| Dividends paid (\$0.1875 per share)                                |              |            |         |             | (4,183,146)  |           | (4,183,146)  |
| Loss for the year                                                  | (13,311,885) |            |         |             | (13,311,885) |           | (13,311,885) |
| Other comprehensive income                                         |              |            |         |             |              |           |              |

|                  |              |  |  |           |  |           |
|------------------|--------------|--|--|-----------|--|-----------|
| Cash flow        |              |  |  |           |  |           |
| hedges:          |              |  |  |           |  |           |
| Swap contract    | 168,825      |  |  | 168,825   |  | 168,825   |
| Reclassification |              |  |  |           |  |           |
| adjustment       | (293,043)    |  |  | (293,043) |  | (293,043) |
| Comprehensive    |              |  |  |           |  |           |
| income           | (13,436,103) |  |  |           |  |           |

**Balance,  
December 31,  
2009**

22,310,110 223,101 284,100,096 17,415,158 (936,424) 300,801,931

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

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**Table of Contents****StealthGas Inc.****Consolidated Statements of Cash Flows****For the years ended December 31, 2007 2008 and 2009****(Expressed in United States Dollars)**

|                                                               | <b>2007</b>          | <b>December 31,<br/>2008</b> | <b>2009</b>          |
|---------------------------------------------------------------|----------------------|------------------------------|----------------------|
| <b>Cash flows from operating activities</b>                   |                      |                              |                      |
| Net income / (loss) for the year                              | 22,538,107           | 29,987,484                   | (13,311,885)         |
| <b>Items included in net income not affecting cash flows:</b> |                      |                              |                      |
| Depreciation and amortization of deferred finance charges     | 16,621,400           | 23,388,379                   | 26,969,442           |
| Amortization of fair value of time charter                    | (1,377,146)          | (1,005,865)                  | (181,552)            |
| Forfeiture of vessel deposit and contract termination fees    |                      |                              | 16,500,000           |
| Share based compensation                                      | 1,324,743            | 1,913,634                    | 573,855              |
| Change in fair value of derivatives                           | 2,573,992            | 1,467,113                    | 1,454,894            |
| Impairment loss                                               |                      |                              | 9,867,777            |
| (Gain)/loss on sale of vessels                                |                      | (1,673,321)                  | 791,659              |
| <b>Changes in operating assets and liabilities:</b>           |                      |                              |                      |
| <b>(Increase)/decrease in</b>                                 |                      |                              |                      |
| Trade and other receivables                                   | (1,252,630)          | (222,382)                    | 716,483              |
| Claims receivable                                             | (26,041)             | (561,236)                    | (642,259)            |
| Inventories                                                   | (89,491)             | (417,777)                    | (892,777)            |
| Advances and prepayments                                      | 57,451               | (599,735)                    | 186,784              |
| <b>Increase/(decrease) in</b>                                 |                      |                              |                      |
| Payable to related party                                      | 5,648,235            | (5,439,314)                  | 4,902,720            |
| Trade accounts payable                                        | 1,356,965            | (150,246)                    | 967,373              |
| Other accrued liabilities                                     | (753,460)            | 590,069                      | 1,577,225            |
| Deferred income                                               | 1,082,372            | 803,989                      | (1,132,396)          |
| <b>Net cash provided by operating activities</b>              | <b>47,704,497</b>    | <b>48,080,792</b>            | <b>48,347,343</b>    |
| <b>Cash flows from investing activities</b>                   |                      |                              |                      |
| Insurance proceeds                                            | 269,893              |                              | 755,713              |
| Advances for vessel under construction and acquisitions       | (12,450,000)         | (23,009,597)                 | (11,976,308)         |
| Proceeds from sale of vessels, net                            |                      | 26,883,889                   | 11,669,374           |
| Acquisition of vessels                                        | (133,846,574)        | (167,509,111)                | (100,335,745)        |
| Decrease/(increase) in restricted cash account                | (3,609,934)          | 3,654,833                    | (1,676,749)          |
| <b>Net cash used in investing activities</b>                  | <b>(149,636,615)</b> | <b>(159,979,986)</b>         | <b>(101,563,715)</b> |
| <b>Cash flows from financing activities</b>                   |                      |                              |                      |
| Capital stock                                                 | 76,601               |                              |                      |
| Follow-on offering                                            | 129,528,000          |                              |                      |
| Underwriters' over allotment option exercised                 | 8,277,289            |                              |                      |

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|                                                                    |                    |                    |                   |
|--------------------------------------------------------------------|--------------------|--------------------|-------------------|
| Stock Issuance costs                                               | (8,122,546)        |                    |                   |
| Dividends paid                                                     | (13,714,540)       | (16,727,707)       | (4,183,146)       |
| Deferred finance charges                                           | (145,795)          | (304,549)          | (1,119,300)       |
| Customer deposits                                                  | 3,190,821          | (270,707)          | (1,381,099)       |
| Loan repayment                                                     | (48,757,211)       | (23,866,656)       | (26,021,803)      |
| Proceeds from short-term bridge facility                           | 26,500,000         |                    |                   |
| Proceeds from long-term debt                                       | 27,067,500         | 161,802,000        | 88,150,000        |
| <b>Net cash provided by financing activities</b>                   | <b>123,900,119</b> | <b>120,632,381</b> | <b>55,444,652</b> |
| Net increase in cash and cash equivalents                          | 21,968,001         | 8,733,187          | 2,228,280         |
| Cash and cash equivalents at beginning of year                     | 11,146,871         | 33,114,872         | 41,848,059        |
| <b>Cash and cash equivalents at end of year</b>                    | <b>33,114,872</b>  | <b>41,848,059</b>  | <b>44,076,339</b> |
| <b>Supplemental Cash Flow Information:</b>                         |                    |                    |                   |
| Cash paid during the year for interest, net of amounts capitalized | 9,329,123          | 10,743,998         | 8,716,032         |
| Non cash items:                                                    |                    |                    |                   |
| Fair value of below market acquired time charter                   | 1,572,000          |                    |                   |

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

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****1. Basis of Presentation and General Information**

The accompanying consolidated financial statements include the accounts of StealthGas Inc. and its wholly owned subsidiaries (collectively, the Company) which, as of December 31, 2009 owned a fleet of thirty nine liquefied petroleum gas (LPG) carriers and three medium range (M.R.) type product carriers providing worldwide marine transportation services under long, medium or short-term charters. StealthGas Inc. was formed under the laws of Marshall Islands on December 22, 2004.

As of December 31, 2009, StealthGas Inc. included the ship-owing companies listed below:

**LPG carriers**

|     | <b>Name of Company</b>       | <b>Vessel Name</b> | <b>Acquisition /<br/>Disposition Date</b>       | <b>cbm</b> |
|-----|------------------------------|--------------------|-------------------------------------------------|------------|
| 1.  | VCM Trading Ltd.             | Ming Long          | October 12, 2004                                | 3,515.55   |
| 2.  | Gaz De Brazil Inc.           | Gas Prodigy        | October 15, 2004                                | 3,014.59   |
| 3.  | LPGONE Ltd.                  | Gas Tiny           | October 29, 2004                                | 1,319.96   |
| 4.  | Geneve Butane Inc.           | Gas Courchevel     | November 24, 2004                               | 4,102.00   |
| 5.  | Matrix Gas Trading Ltd.      | Gas Shanghai       | December 7, 2004                                | 3,525.92   |
| 6.  | Pacific Gases Ltd.           | Gas Emperor        | February 2, 2005                                | 5,009.07   |
| 7.  | Semichlaus Exports Ltd.      | Gas Ice            | April 7, 2005                                   | 3,434.08   |
| 8.  | Ventspils Gases Ltd.         | Gas Arctic         | April 7, 2005                                   | 3,434.08   |
| 9.  | Industrial Materials Inc.    | Gas Texiana        | April 11, 2005                                  | 5,013.33   |
|     | Independent Trader Ltd.      | Gas Oracle         | April 26, 2005<br>(sold on January 28, 2008)    | 3,014.59   |
| 10. | Aracruz Trading Ltd.         | Gas Amazon         | May 19, 2005                                    | 6,562.41   |
| 11. | Continent Gas Inc.           | Gas Chios          | May 20, 2005                                    | 6,562.09   |
| 12. | Empire Spirit Ltd.           | Gas Monarch        | May 31, 2005                                    | 5,018.35   |
| 13. | Jungle Investment Limited    | Gas Cathar         | July 27, 2005                                   | 7,517.18   |
| 14. | Northern Yield Shipping Ltd. | Gas Legacy         | October 27, 2005                                | 3,500.00   |
| 15. | Triathlon Inc.               | Gas Marathon       | November 2, 2005                                | 6,572.20   |
| 16. | Iceland Ltd.                 | Gas Crystal        | November 11, 2005                               | 3,211.04   |
| 17. | Soleil Trust Inc.            | Gas Sincerity      | November 14, 2005                               | 4,128.98   |
| 18. | East Propane Inc.            | Catterick          | November 24, 2005                               | 5,001.41   |
| 19. | Petchem Trading Inc.         | Gas Spirit         | December 16, 2005                               | 4,112.18   |
|     | Malibu Gas Inc.              | Feisty Gas*        | December 16, 2005                               | 4,111.24   |
| 20. | Balkan Holding Inc.          | Gas Czar           | February 14, 2006                               | 3,509.65   |
|     | Transgalaxy Inc.             | Gas Fortune        | February 24, 2006<br>(sold on December 9, 2009) | 3,512.78   |
| 21. | International Gases Inc      | Gas Zael*          | April 03, 2006                                  | 4,111.24   |
| 22. | Balkan Profit Ltd            | Gas Eternity       | March 09, 2006                                  | 3,528.21   |
| 23. | Oxfordgas Inc.               | Lyne               | May 19, 2006                                    | 5,013.90   |
| 24. | Energetic Peninsula Limited  | Sir Ivor           | May 26, 2006                                    | 5,000.00   |
|     | Ocean Blue Limited           | Gas Nemesis        | June 15, 2006<br>(sold on January 29, 2008)     | 5,016.05   |
| 25. | Baroness Holdings Inc.       | Gas Pasha          | June 30, 2006                                   | 3,244.04   |
| 26. | Evolution Crude Inc.         | Gas Flawless       | February 1, 2007                                | 6,300.00   |
| 27. | Aura Gas Inc.                | Sea Bird II        | May 18, 2007                                    | 3,518.00   |

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|     |                      |               |                                          |          |
|-----|----------------------|---------------|------------------------------------------|----------|
|     | European Energy Inc. | Gas Renovatio | May 29, 2007<br>(sold on March 19, 2008) | 3,312.50 |
| 28. | Fighter Gas Inc.     | Gas Icon      | June 27, 2007                            | 5,000.00 |
| 29. | Luckyboy Inc.        | Chiltern      | June 28, 2007                            | 3,312.00 |
|     |                      | F-7           |                                          |          |

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****1. Basis of Presentation and General Information    Continued**

|     | <b>Name of Company</b> | <b>Vessel Name</b> | <b>Acquisition /<br/>Disposition Date</b>   | <b>cbm</b> |
|-----|------------------------|--------------------|---------------------------------------------|------------|
| 30. | Italia Trades Inc.     | Gas Evoluzione     | July 23, 2007                               | 3,517.00   |
| 31. | Studio City Inc.       | Gas Kalogeros      | July 27, 2007                               | 5,000.00   |
| 32. | Gastech Inc.           | Gas Sikousis       | August 03, 2007                             | 3,500.00   |
|     | Espace Inc.            | Gas Sophie         | October 15, 2007<br>(sold on June 10, 2009) | 3,500.00   |
| 33. | Cannes View Inc.       | Gas Haralambos     | October 30, 2007                            | 7,000.00   |
| 34. | Ecstasea Inc.          | Gas Premiership    | March 19, 2008                              | 7,200.00   |
| 35. | Spacegas Inc.          | Gas Defiance       | August 1, 2008                              | 5,000.00   |
| 36. | Financial Power Inc.   | Gas Shuriken       | November 3, 2008                            | 5,000.00   |
| 37. | Tankpunk Inc.          | Gas Natalie        | January 22, 2009                            | 3,213.92   |
| 38. | Sound Effex Inc.       | Gas Astrid         | April 16, 2009                              | 3,500.00   |
| 39. | Revolution Inc.        | Gas Exelero        | June 30, 2009                               | 3,500.00   |

|  | <b>Name of Company</b> | <b>Vessel Name</b> | <b>To be delivered on</b> | <b>cbm</b> |
|--|------------------------|--------------------|---------------------------|------------|
|  | Pelorus Inc.           | Hull K 421         | July 2011                 | 5,000.00   |
|  | Rising Sun Inc.        | Hull K 422         | February 2011             | 5,000.00   |
|  | Carinthia Inc.         | Hull K 423         | March 2011                | 5,000.00   |
|  | Tatoosh Beauty Inc.    | Hull K 424         | May 2012                  | 7,500.00   |
|  | Octopus Gas Inc.       | Hull K 425         | November 2011             | 7,500.00   |

**M.R. type product  
carriers**

|     | <b>Name of Company</b> | <b>Vessel Name</b> | <b>Acquisition Date</b> | <b>dwt</b> |
|-----|------------------------|--------------------|-------------------------|------------|
| 40. | Clean Power Inc.       | Navig8 Fidelity    | January 9, 2008         | 46,754.29  |
| 41. | MR Roi Inc.            | Navig8 Faith       | February 27, 2008       | 46,754.29  |
| 42. | King of Hearts Inc.    | Alpine Endurance   | July 14, 2009           | 47,000.00  |

|  | <b>Name of Company</b> | <b>Vessel Name</b> | <b>Cancelled on</b> | <b>dwt</b> |
|--|------------------------|--------------------|---------------------|------------|
|  | Castell Castle Inc.    | Stealth Argentina  | December 18, 2009   | 50,500.00  |

\* On April 3, 2006, the Feisty Gas was delivered to International Gases Inc., subsidiary of

StealthGas Inc.,  
and renamed to  
Gas Zael .

The Company's vessels are managed by Stealth Maritime Corporation S.A. Liberia (the Manager), a related party. The Manager is a company incorporated in Liberia and registered in Greece on May 17, 1999 under the provisions of law 89/1967, 378/1968 and article 25 of law 27/75 as amended by the article 4 of law 2234/94. (See Note 3).

During 2007, 2008 and 2009, four charterers individually accounted for more than 10% of the Company's voyage revenues as follows:

| Charterer | Year ended December 31, |      |      |
|-----------|-------------------------|------|------|
|           | 2007                    | 2008 | 2009 |
| A         | 27%                     | 22%  | 17%  |
| B         | 21%                     | 21%  | 15%  |
| C         | 20%                     | 20%  | 13%  |
| D         |                         |      | 10%  |

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**2. Significant Accounting Policies**

**Principles of Consolidation:** The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ) and include the accounts of the StealthGas Inc. and its wholly owned subsidiaries referred to in note 1 above. All inter-company balances and transactions have been eliminated upon consolidation.

**Use of Estimates:** The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Other Comprehensive Income:** The Company follows the provisions of guidance regarding reporting comprehensive income/(loss) which requires separate presentation of certain transactions, such as unrealized gains and losses from effective portion of cash flow hedges, which are recorded directly as components of stockholders' equity.

**Foreign Currency Translation:** The functional currency of the Company and each of its subsidiaries is the U.S. Dollar because the Company's vessels operate in international shipping markets, which utilize the U.S. Dollar as the functional currency. The accounting books of the Company are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are translated to reflect the current exchange rates. Resulting gains or losses are separately reflected in the accompanying consolidated statements of operations.

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

**Restricted Cash:** Restricted cash reflects deposits with certain banks that can only be used to pay the current loan installments or are required to be maintained as a certain minimum cash balance per mortgaged vessel.

**Trade Receivables:** The amount shown as trade receivables includes estimated recoveries from charterers for hire, freight and demurrage billings, net of allowance for doubtful accounts. During 2008 and 2009, all potentially un-collectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No provision for doubtful accounts was required at December 31, 2007, 2008 and 2009.

**Claims Receivable:** Claims receivable are recorded on the accrual basis and represent the claimable expenses, net of deductibles, incurred through each balance sheet date, for which recovery from insurance companies is probable and claim is not a subject to litigation. Any remaining costs to complete the claims are included in accrued liabilities.

**Inventories:** Inventories consist of bunkers (for vessels under voyage charter) and lubricants. The cost is determined by the first-in, first-out method. The Company considers victualling and stores as being consumed when purchased and, therefore, such costs are expensed when incurred.

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**2. Significant Accounting Policies Continued**

***Vessels Acquisitions:*** Vessels are stated at cost, which consists of the contract price less discounts and any material expenses incurred upon acquisition (initial repairs, improvements, acquisition and expenditures made to prepare the vessel for its initial voyage). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels, or otherwise are charged to expenses as incurred.

The Company records all identified tangible and intangible assets associated with the acquisition of a vessel or liabilities at fair value. Where vessels are acquired with existing time charters, the Company allocates the purchase price to the time charters based on the present value (using an interest rate which reflects the risks associated with the acquired charters) of the difference between (i) the contractual amounts to be paid pursuant to the charter terms and (ii) management's estimate of the fair market charter rate, measured over a period equal to the remaining term of the charter. The capitalized above-market (assets) and below-market (liabilities) charters are amortized as a reduction and increase, respectively, to voyage revenues over the remaining term of the charter (Note 9).

***Impairment or Disposal of Long-lived Assets:*** The Company follows the standard about the Impairment or Disposal of Long-lived Assets. The standard requires that long-lived assets and certain identifiable intangible assets held and used or disposed of 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. An impairment loss for an asset held for use should be recognized 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. Measurement of the impairment loss is based on the fair value of the asset. In this respect, management reviews the carrying amount of the vessels when events or changes in circumstances indicate that the carrying amount of the vessels may not be recoverable.

The Company evaluates the carrying amounts of its vessels and the periods over which they are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions.

The Company determines undiscounted projected net operating cash flows for each vessel and compares it to the vessel's carrying value. In developing estimates of future cash flows, the Company must make assumptions about future charter rates, vessel operating expenses, fleet utilization, vessel scrap values and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations.

At December 31, 2009, the Company performed an impairment review of the Company's long-lived and intangible assets, due to the global economic downturn and the prevailing conditions in the shipping industry. As a result of the impairment review, undiscounted net operating cash flows exceeded each vessel's carrying value with the exception of the one which was scheduled to be delivered in 2010 and the Company identified and recorded an impairment loss of \$160,237 in 2009. In 2009 the Company recorded impairment on assets held for sale in the amount of \$9,707,540. The total amount of \$9,867,777 is presented under the caption "Impairment loss" in the consolidated statements of operations. No impairment was identified or recorded in 2008 and 2007.

***Vessels Depreciation:*** The cost of each of the Company's vessels is depreciated on a straight-line basis over the vessels' remaining economic useful life, after considering the estimated residual value. Management estimates the useful life of each of the Company's vessels, LPG and product carriers, to be 30 and 25 years, respectively, from the date of their construction.

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****2. Significant Accounting Policies Continued**

**Assets held for sale:** It is the Company's policy to dispose of vessels when suitable opportunities occur and not necessarily to keep them until the end of their useful life. The Company classifies vessels as being held for sale when the following criteria are met: (i) management possessing the necessary authority has committed to a plan to sell the vessels, (ii) the vessels are available for immediate sale in its present condition, (iii) an active program to find a buyer and other actions required to complete the plan to sell the vessels have been initiated, (iv) the sale of the vessels is probable, and transfer of the asset is expected to qualify for recognition as a completed sale within one year and (v) the vessels are being actively marketed for sale at a price that is reasonable in relation to its current fair value and 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. These vessels are not depreciated once they meet the criteria to be classified as held for sale. Furthermore, in the period a vessel meets the held for sale criteria of guidance, a loss is recognized for any reduction of the vessel's carrying amount to its fair value less cost to sell. Except for 2009, no such adjustments were identified for the years ended December 31, 2008 (Note 6).

**Trade Accounts Payable:** The amount shown as trade accounts payable at the balance sheet date includes payables to suppliers of port services, bunkers, and other goods and services payable by the Company.

**Segmented Reporting:** The Company reports financial information and evaluates its operations 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 decision makers, reviews operating results solely by revenue per day and operating results of the fleet, and thus, the Company has determined that it operates under one reportable segment. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, the disclosure of geographical information is impracticable.

**Accounting for Special Survey and Dry-docking Costs:** Special survey and dry-docking costs and all non-capitalizable repair and maintenance expenses are expensed in the period incurred.

**Deferred Finance Charges:** Fees incurred for obtaining new loans or refinancing existing ones are deferred and amortized to interest expense over the life of the related debt using the effective interest method. Unamortized fees relating to loans repaid or refinanced are expensed in the period the repayment or refinancing is made.

**Pension and Retirement Benefit Obligations Crew:** The ship-owning companies included in the consolidation employ the crew on board under short-term contracts (usually up to seven months) and accordingly, they are not liable for any pension or any post-retirement benefits.

**Accounting for Revenue and Related Expenses:** The Company generates its revenues from charterers for the charter hire of its vessels. Vessels are chartered using either voyage charters, where a contract is made in the spot market for the use of a vessel for a specific voyage for a specified charter rate, or time and bareboat charters, where a contract is entered into for the use of a vessel for a specific period of time and a specified daily or monthly charter hire rate payable monthly in advance. If a charter agreement exists and the price is fixed, service is provided and collection of the related revenue is reasonably assured, revenue is recognized as it is earned ratably on a straight-line basis over the duration of the period of each voyage or period charter. A voyage is deemed to commence upon the completion of discharge of the vessel's previous cargo and is deemed to end upon the completion of discharge of the current cargo. Demurrage income represents payments by a charterer to a vessel owner when loading or discharging time exceeds the stipulated time in the voyage charter and is recognized ratably as earned during the related voyage charter's duration period. Deferred income includes cash received prior to the balance sheet date and is related to revenue earned after such date.

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**2. Significant Accounting Policies Continued**

Voyage expenses comprise commissions, bunkers and port expenses and are unique to a particular charter.

Commissions in all cases are paid by the Company and are recognized on a pro-rata basis. All other voyage expenses are paid by the charterer under time charter arrangements or by the Company under voyage charter arrangements and are recognized as incurred.

Vessel operating expenses comprise all expenses relating to the operation of the vessel, including crewing, repairs and maintenance, insurance, stores, lubricants and miscellaneous expenses. Vessel operating expenses are paid by the Company and are accounted for on an accrual basis.

Under a bareboat charter, the charterer assumes responsibility for all voyage and vessel operating expenses and risk of operation.

**Leasing:** Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**Stock Incentive Plan:** Share-based compensation includes vested and non-vested shares granted to employees and to non-employee directors, for their services as directors, is included in General and administrative expenses in the consolidated statements of operations. These shares are measured at their fair value, which is 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 a total fair value of such shares is recognized in full on the grant date. 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 recognized over the vesting period on a straight-line basis over the requisite service period for each separately portion of the award as if the award was, in substance, multiple awards (graded vesting attribution method). In addition, non-vested awards granted to non-employees are measured at its then-current fair value as of the financial reporting dates until non-employees complete the service (Note 15).

**Earnings/(Loss) per Share:** Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised. Dilution has been computed by the treasury stock method whereby all of the Company's dilutive securities are assumed to be exercised or converted and the proceeds used to repurchase common shares at the weighted average market price of the Company's common stock during the relevant periods. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings per share computation. The treasury stock method is used in calculating diluted earnings per share for convertible senior notes as the Company expects to settle the principle partially or wholly in cash (Note 16).

On January 1, 2009, the Company adopted new guidance which clarified that unvested share-based payment awards that contain rights to receive non forfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (EPS). This standard was applied retroactively to all periods presented, for the years ended December 31, 2005, 2006, and reduced basic EPS by \$0.01 for the years ended December 31, 2007 and 2008 respectively

**Income Taxes:** The Company is not liable for any income tax on its net income derived from shipping operations because the countries in which the subsidiaries ship-owning companies are incorporated do not levy tax on income, but rather a tonnage tax on the vessel (Note 19).

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****2. Significant Accounting Policies Continued**

**Derivatives:** The guidance, Accounting for Derivative Instruments and Hedging Activities as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivatives' fair value recognized currently in earnings unless specific hedge accounting criteria are met.

During 2008 and 2009, the Company engaged in six interest rate swap agreements in order to hedge the exposure of interest rate fluctuations associated with the cash flows on a portion of the Company's variable rate borrowings (Notes 12, 13). These swap agreements are designated and qualify as cash flow hedges. Their fair value is included in financial instruments in the accompanying consolidated balance sheets at December 31, 2008 and December 31, 2009 with changes in the effective portion of the instruments' fair value recorded in accumulated other comprehensive income/(loss). The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in the consolidated statements of operations under the caption Change in fair value of derivatives. If the hedged items are forecasted transactions that later no longer expected to occur, then the derivative financial instrument no longer qualifies as a cash flow hedge. As a result, fair value changes that were previously recorded in accumulated other comprehensive income are immediately recognized in earnings. In all other instances, when a derivative financial instrument ceases to be designated or to qualify as an effective cash flow hedge but if it is still possible the hedged forecasted transaction may occur, hedge accounting ceases from that date and the instrument is prospectively marked to market through earnings, but previously recorded changes in fair value remain in accumulated other comprehensive income until the hedged item affects earnings or until it becomes probable that the hedged forecasted transaction will not occur. It is the Company's intention to hold these swap agreements to maturity. For interest rate swap agreements, which did not qualify for cash flow hedge accounting, the Company recorded the change in fair values currently in earnings under the caption Change in fair value of derivatives. Additional interest paid or received on interest rate swaps is also recognized under the caption Change in fair value of derivatives.

During 2008, the Company entered into forward exchange contract to hedge foreign currency risks of anticipated cash payments in Japanese Yen relating to certain vessels under construction for periods consistent with these committed exposures. The Company has not applied cash flow hedge accounting to the foreign exchange derivative instruments, and therefore, recorded the change in fair value currently in earnings under the caption Change in fair value of derivatives.

**Fair Value Measurements:** Effective January 1, 2008, the Company adopted the guidance Fair Value Measurements and Disclosures. In addition, on January 1, 2008, the Company made no election to account for its monetary assets and liabilities at fair values as allowed by FASB guidance for financial instruments. (Note 13).

**Recent Accounting Pronouncements:** In March 2008, new guidance was issued with the intent to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods within those fiscal years, beginning after November 15, 2008, with early application allowed. The new guidance allows but does not require comparative disclosures for earlier periods at initial adoption. The Company adopted the new guidance in 2009 and included the required disclosures (Note 13).

On June 16, 2008, new guidance clarified that all unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The new guidance is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited.

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**2. Significant Accounting Policies Continued**

The Company adopted the new guidance in 2009 and presents earnings per share pursuant to the two-class method (Note 16).

In April 2009, new guidance was issued for interim disclosures about fair value of financial instruments, which amends previous guidance for disclosures about fair value of financial instruments to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements.

The guidance also requires those disclosures in summarized financial information at interim reporting periods. The new guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted the new guidance in the second quarter of 2009 and included the required disclosures (Note 13).

In May 2009, new guidance was issued relating to management's assessment of subsequent events. This new guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, the new guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The new guidance is effective for fiscal years and interim periods ended after June 15, 2009 and will be applied prospectively. The Company adopted the new guidance in the second quarter of 2009 and included the required disclosures (Note 22).

In June 2009, the Financial Accounting Standards Board ( FASB ) issued *Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which became the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification's content will carry the same level of authority, effectively superseding previous guidance. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and non-authoritative. The new guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted the new guidance in the third quarter of 2009 and updated references to U.S. GAAP in these consolidated financial statements to reflect the guidance in the Codification.

In June 2009, new guidance was issued with regards to the consolidation of variable interest entities ( VIE ). This guidance responds to concerns about the application of certain key provisions of the FASB Interpretation, including those regarding the transparency of the involvement with VIEs. The new guidance revises the approach to determining the primary beneficiary of a VIE to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a VIE. Specifically, the new guidance requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, the standard requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. The guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and early adoption is prohibited. The Company is evaluating the impact of this guidance on the Company's consolidated financial statements.

In September 2009, clarifying guidance was issued on multiple-element revenue arrangements. The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**2. Significant Accounting Policies Continued**

expands the disclosure requirements for revenue recognition. The new guidance will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting pronouncement to its consolidated financial statements.

**3. Transactions with Related Party**

The Manager provides the vessels with a wide range of shipping services such as chartering, technical support and maintenance, insurance, consulting, financial and accounting services, for a fixed daily fee of \$440 per vessel operating under a voyage or time charter or \$125 per vessel operating under a bareboat charter and a brokerage commission of 1.25% on freight, hire and demurrage per vessel, effective after an amendment on January 1, 2007 of the Management Agreement. For the years ended December 31, 2007, 2008 and 2009, total brokerage commissions of 1.25% amounted to \$1,096,426, \$1,385,767 and \$1,418,024, respectively, and were included in voyage expenses. For the years ended December 31, 2007, 2008 and 2009, the management fees were \$4,126,610, \$4,618,025 and \$5,230,990, respectively.

The Manager also acts as a sales and purchase broker of the Company in exchange for a commission fee equal to 1% of the gross sale or purchase price of vessels or companies. For the years ended December 31, 2007, 2008 and 2009 commission fees of \$1,008,090, \$1,340,000 and \$575,000, respectively, were incurred and capitalized to the cost of the vessels. For the years ended December 31, 2008 and 2009 the amounts of \$272,750 and \$121,000, respectively, were recognized as expenses relating the sale of vessels and are included in the consolidated statements of operations under the caption Net (gain)/loss on sale of vessels .

The Manager has subcontracted the technical management some of the vessels to two unaffiliated ship-management companies, EMS Ship Management ( EMS ) and Swan Shipping Corporation (Manila). These companies provide technical management to the Company s vessels for a fixed annual fee per vessel.

In addition to management services, the Company reimburses the Manager for compensation of our Chief Executive Officer, our Chief Financial Officer, our Internal Auditor and our Deputy Chairman and Executive Director for the amounts of \$1,966,497, \$1,295,739 and \$1,267,981 for the years ended December 31, 2007, 2008 and 2009, respectively, and are included in the consolidated statements of operations under the caption General and administrative expenses .

The current account balance with the Manager at December 31, 2008 and at December 31, 2009 was a liability of \$2,407,377 and \$7,310,097, respectively. The liability represents revenues collected less payments made by the Manager on behalf of the ship-owning companies.

The Company occupies office space that is owned by an affiliated company of the Vafias Group with which it has a new two-year cancelable agreement for the provided office facilities. Rental expense for the years ended December 31, 2007, 2008 and 2009 amounted to \$33,388, \$48,201 and \$45,102, respectively.

On February 29, 2008, the Company entered into separate memoranda of agreement with its affiliate Brave Maritime Corporation Inc. to acquire one second hand LPG carrier named Gas Natalie which was delivered on January 22, 2009 and four under construction LPG carriers, the Gas Defiance , the Gas Shuriken which were delivered on August 1, 2008 and November 3, 2008, respectively, Gas Astrid (formerly Hull K411 ) and the Gas Exelero (formerly Hull K412 ) which were delivered on April 16, 2009 and June 30, 2009, respectively. There

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****3. Transactions with Related Party – Continued**

were no advance payments made for these vessels. The aggregate purchase price of the vessels delivered in 2008 and 2009 was \$44,320,000 and \$48,300,000, respectively.

**4. Inventories**

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

|              | <b>December 31,</b> |                  |
|--------------|---------------------|------------------|
|              | <b>2008</b>         | <b>2009</b>      |
| Bunkers      | 384,481             | 956,903          |
| Lubricants   | 869,661             | 1,190,016        |
| <b>Total</b> | <b>1,254,142</b>    | <b>2,146,919</b> |

**5. Advances for Vessels Under Construction and Acquisitions**

During the year ended December 31, 2009, the movement of the account, advances for vessels under construction and acquisitions, was as follows:

|                                         |                   |
|-----------------------------------------|-------------------|
| <b>Balance, December 31, 2007</b>       | <b>12,450,000</b> |
| Advances for vessels acquisitions       | 11,500,000        |
| Advances for vessels under construction | 11,120,002        |
| Capitalized interest                    | 389,595           |
| Vessels delivered                       | (12,450,000)      |
| <b>Balance, December 31, 2008</b>       | <b>23,009,597</b> |
| Advances for vessels under construction | 11,375,989        |
| Capitalized interest                    | 600,319           |
| Vessel delivered                        | (5,750,000)       |
| Forfeiture of vessel deposit            | (5,750,000)       |
| <b>Balance, December 31, 2009</b>       | <b>23,485,905</b> |

The amounts shown in the accompanying consolidated balance sheets as of December 31, 2008 and December 31, 2009 amounting to \$23,009,597 and \$23,485,905, respectively, represent advance payments to a ship-builder for five LPG carriers under construction and to sellers for two new re-sale M.R. product tankers.

On February 25, 2008, the Company signed contracts with Mitsubishi Corporation of Japan for the construction of five LPG carriers at an aggregate contract price of Yen 12,008,000,000 (approx. \$124,486,017 based upon an aggregate average USD/JPY exchange rate of \$1.00:JPY 96.46). The vessels, after an agreement signed on February 27, 2009, are scheduled for delivery between February 2011 and May 2012. On February 29, 2008, the Company paid the first 10% installment of Yen 1,200,800,000 (\$11,120,002) to the shipbuilding yard and on February 27, 2009, the Company paid the second 10% installment of Yen 1,200,800,000 (\$11,375,989).

On March 18, 2008, the Company entered into a memorandum of agreement to acquire from an unaffiliated entity an under construction M.R. type product carrier named Alpine Endurance (formerly Hull No. 2139 ) which was delivered on July 14, 2009. The purchase price of this vessel is \$57,500,000. On March 27, 2008, the Company paid 10% of the purchase price, to a joint escrow account in the name of the seller and buyer.



**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****5. Advances for Vessels Under Construction and Acquisitions Continued**

On June 25, 2008, the Company entered into a memorandum of agreement to acquire from an unaffiliated entity an under construction M.R. type product carrier named *Stealth Argentina* (formerly *Hull No 061*) which was scheduled to be delivered in the fourth quarter of 2009. The purchase price of this vessel was \$57,500,000. On June 30, 2008, the Company paid 10% of the purchase price, to a joint escrow account in the name of the seller and buyer. In December 2009 the Company began negotiations with the seller to cancel the acquisition of the vessel due to various technical deficiencies identified in vessel's design. In December 2009, the Company and the seller mutually agreed to cancel the memorandum of agreement to acquire the vessel. The cancellation fee consisted of forfeiture of the Company's deposit totaling \$5,750,000, plus a cash payment of \$10,750,000. The total cancellation fee of \$16,500,000 is included in the consolidated statements of operations under the caption *Forfeiture of vessel deposit and contract termination fees*.

**6. Vessels, net**

|                                   | <b>Vessel cost</b> | <b>Accumulated<br/>Depreciation</b> | <b>Net Book Value</b> |
|-----------------------------------|--------------------|-------------------------------------|-----------------------|
| <b>Balance, December 31, 2007</b> | 428,842,324        | (33,747,002)                        | 395,095,322           |
| Acquisitions                      | 179,959,111        |                                     | 179,959,111           |
| Depreciation for the year         |                    | (23,283,393)                        | (23,283,393)          |
| <b>Balance, December 31, 2008</b> | 608,801,435        | (57,030,395)                        | 551,771,040           |
| Acquisitions                      | 106,085,745        |                                     | 106,085,745           |
| Held for sale                     | (16,271,256)       | 2,441,744                           | (13,829,512)          |
| Disposals                         | (14,741,063)       | 2,280,030                           | (12,461,033)          |
| Impairment loss                   | (9,867,777)        |                                     | (9,867,777)           |
| Depreciation for the year         |                    | (26,766,672)                        | (26,766,672)          |
| <b>Balance, December 31, 2009</b> | <b>674,007,084</b> | <b>(79,075,293)</b>                 | <b>594,931,791</b>    |

During the year ended December 31, 2009, the Company acquired the vessels *Gas Natalie*, *Gas Astrid*, *Gas Exelero* and *Alpine Endurance* for a total consideration of \$106,085,745.

On May 19, 2009 the Company concluded a memorandum of agreement for the disposal of the vessel *Gas Sophie* to an unaffiliated third party for \$6,500,000. The vessel was delivered to her new owners on June 10, 2009 and the Company realized an aggregate loss from the sale of vessel of \$791,659 which is included in the Company's consolidated statement of operations in the second quarter of 2009.

On October 22, 2009, the Company concluded a memorandum of agreement for the disposal of the vessel *Gas Fortune* to an unaffiliated third party for \$5,600,000. The vessel was delivered to her new owners on December 09, 2009. The Company recorded an impairment charge of \$2,501,503 to write down the carrying amount of the vessel to fair market value less costs to sell and was included in the Company's consolidated statement of operations in the fourth quarter of 2009.

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****6. Vessels, net Continued**

On November 10, 2009, the Company concluded a memorandum of agreement for the disposal of the vessel Gas Natalie to an unaffiliated third party for \$6,800,000. The vessel was classified as vessel held for sale in the fourth quarter of 2009 and was delivered to her new owners on January 15, 2010. The Company recorded an impairment charge of \$3,616,878 to write down the carrying amount of the vessel to fair market value less costs to sell and was included in the Company's consolidated statement of operations in the fourth quarter of 2009.

On December 31, 2009, the Company concluded a memorandum of agreement for the disposal of the vessel Gas Eternity to an unaffiliated third party for \$7,300,000. The vessel was classified as vessel held for sale in the fourth quarter of 2009 and was delivered to her new owners on May 6, 2010. The Company recorded an impairment charge of \$3,589,159 to write down the carrying amount of the vessel to fair market value less costs to sell and was included in the Company's consolidated statement of operations in the fourth quarter of 2009. The Company will prepay \$4,554,270 to the DnB Bank in order to release the mortgage of the vessel.

On January 26, 2010, the Company concluded a memorandum of agreement for the disposal of the vessel Gas Prophet to an unaffiliated third party for \$6,800,000. Although the vessel was not classified as vessel held for sale in the fourth quarter of 2009, the Company determined that the carrying value of the vessel exceeded its fair value which was calculated on the basis of agreed price to sell the vessel. Therefore, the Company recorded an impairment charge of \$160,237 to write down the carrying amount of the vessel to fair market value less costs to sell and was included in the Company's consolidated statement of operations in the fourth quarter of 2009. The vessel was delivered to her new owners on March 16, 2010.

**7. Deferred Finance Charges**

Gross deferred finance charges amounting to \$817,344 and \$1,936,644 as at December 31, 2008 and December 31, 2009, respectively, represent fees paid to the lenders for obtaining the related loans, net of amortization. For the years ended December 31, 2007, 2008 and 2009, the amortization of deferred financing charges amounted to \$74,708, \$104,986 and \$202,770, respectively and is included in Interest and finance costs in the accompanying consolidated statements of operations.

**8. Accrued Liabilities**

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

|                                        | <b>December 31,</b> |                  |
|----------------------------------------|---------------------|------------------|
|                                        | <b>2008</b>         | <b>2009</b>      |
| Interest on long-term debt             | 1,875,515           | 1,358,831        |
| Administrating expenses                | 202,904             | 377,588          |
| Vessels' operating and voyage expenses | 2,439,678           | 4,358,903        |
| <b>Total</b>                           | <b>4,518,097</b>    | <b>6,095,322</b> |

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****9. Fair value of acquired time charter**

The fair value of the time charters acquired at below / (above) fair market charter rates on the date of vessels acquisition is summarized below. These amounts are amortized on a straight-line basis to the end of the charter period. For the years ended December 31, 2007, 2008 and 2009, the amounts of \$1,377,146, \$1,005,865 and \$181,552, respectively, are included in voyage revenues.

|                                                      |              | Fair             | Unamortized    |               | Unamortized | Amortization |             | Amortization |             |
|------------------------------------------------------|--------------|------------------|----------------|---------------|-------------|--------------|-------------|--------------|-------------|
|                                                      |              | value of         | balance        | Amortization  | balance as  | for the      | Unamortized | for the      | Unamortized |
|                                                      | End          | Acquired         | as at          | for           | at          | year         | balance     | year         | balance     |
|                                                      | of           |                  |                |               |             | ended        | as at       | ended        | as at       |
|                                                      | Time         | Time             | December       | the year      | December    | December     | December    | December     | December    |
|                                                      | Charter      | Charter          | 31, 2006       | ended         | 31, 2007    | 31, 2008     | 31, 2008    | 31, 2009     | 31, 2009    |
|                                                      |              |                  |                | December      |             |              |             |              |             |
|                                                      |              |                  |                | 31, 2007      |             |              |             |              |             |
| <b>Fair value of acquired time charter Asset</b>     |              |                  |                |               |             |              |             |              |             |
| Catterick                                            | January 2007 | (421,000)        | 397,282        | 23,718        |             |              |             |              |             |
| <b>Total</b>                                         |              | <b>(421,000)</b> | <b>397,282</b> | <b>23,718</b> |             |              |             |              |             |
| <b>Fair value of acquired time charter Liability</b> |              |                  |                |               |             |              |             |              |             |
| Sir Ivor                                             | April 2009   | 479,000          | (98,406)       | (164,010)     | 216,584     | (164,459)    | 52,125      | (52,125)     |             |
| Lyne                                                 | April 2009   | 483,000          | (101,732)      | (164,303)     | 216,965     | (164,751)    | 52,214      | (52,214)     |             |
| Gas Pasha                                            | June 2008    | 340,000          | (85,581)       | (169,767)     | 84,652      | (84,652)     |             |              |             |
| Sea Bird II                                          | May 2009     | 409,000          |                | (127,008)     | 281,992     | (204,779)    | 77,213      | (77,213)     |             |
| Gas Renovatio                                        | January 2008 | 310,000          |                | (271,093)     | 38,907      | (38,907)     |             |              |             |
| Chiltern                                             | March 2008   | 300,000          |                | (201,444)     | 98,556      | (98,556)     |             |              |             |
|                                                      |              | 411,000          |                | (231,280)     | 179,720     | (179,720)    |             |              |             |

|              |      |                  |                  |                    |                  |                    |                          |
|--------------|------|------------------|------------------|--------------------|------------------|--------------------|--------------------------|
| Gas          | May  |                  |                  |                    |                  |                    |                          |
| Kalogeros    | 2008 |                  |                  |                    |                  |                    |                          |
| Gas          | May  |                  |                  |                    |                  |                    |                          |
| Sikousis     | 2008 | 142,000          | (71,959)         | 70,041             | (70,041)         |                    |                          |
| <b>Total</b> |      | <b>2,874,000</b> | <b>(285,719)</b> | <b>(1,400,864)</b> | <b>1,187,417</b> | <b>(1,005,865)</b> | <b>181,552 (181,552)</b> |
|              |      | <b>2,453,000</b> | <b>111,563</b>   | <b>(1,377,146)</b> | <b>1,187,417</b> | <b>(1,005,865)</b> | <b>181,552 (181,552)</b> |

**10. Deferred Income**

The amounts shown in the accompanying consolidated balance sheets amounted to \$4,776,359 and \$3,643,963 represent time charter revenues received in advance as of December 31, 2008 and as of December 31, 2009, respectively.

**11. Customer Deposits**

These amounts represent deposits received from charterers as guarantees and are comprised as follows:

(a) On January 30, 2007 an amount of \$367,500 was received from the bareboat charterer of LPG carrier Gas Eternity which is equal to three-months hire. This amount followed by a subsequent receipt of a nine-months hire on April 12, 2007 amounted to \$1,102,500 plus any interest earned (\$151,166 up to December 31, 2009) will be returned to the charterer at the end of the three-year bareboat charter.

(b) On June 8, 2007 an amount of \$449,978 was received from the bareboat charterer of LPG carrier Gas Monarch which is equal to three-months hire. This amount followed by a subsequent receipt of a nine-months hire on October 23, 2007 amounted to \$1,349,978 plus any interest earned (\$101,165 up to December 31, 2009) will be returned to the charterer at the end of the three-year bareboat charter.

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****12. Long-term Debt**

|                                | <b>December<br/>31,<br/>2008</b> | <b>Movement in 2009</b> |                     | <b>December<br/>31,<br/>2009</b> |
|--------------------------------|----------------------------------|-------------------------|---------------------|----------------------------------|
|                                |                                  | <b>Additions</b>        | <b>Repayments</b>   |                                  |
| <b>Fortis Bank</b>             | 56,635,280                       |                         | (5,921,680)         | 50,713,600                       |
| <b>DnB Nor Bank</b>            | 80,139,579                       |                         | (8,547,208)         | 71,592,371                       |
| <b>Scotia Bank</b>             | 45,867,014                       |                         | (3,755,500)         | 42,111,514                       |
| <b>Deutsche Bank</b>           | 38,375,000                       |                         | (2,500,000)         | 35,875,000                       |
| <b>National Bank of Greece</b> | 33,240,000                       |                         | (1,939,000)         | 31,301,000                       |
| <b>Emporiki Bank</b>           | 29,437,000                       |                         | (1,717,166)         | 27,719,834                       |
| <b>DVB Bank</b>                |                                  | 32,200,000              | (1,041,249)         | 31,158,751                       |
| <b>NIBC</b>                    |                                  | 26,700,000              |                     | 26,700,000                       |
| <b>EFG Eurobank</b>            |                                  | 29,250,000              | (600,000)           | 28,650,000                       |
| <b>Total</b>                   | <b>283,693,873</b>               | <b>88,150,000</b>       | <b>(26,021,803)</b> | <b>345,822,070</b>               |

a. In May 2006, the Company entered into a \$79,850,000 loan agreement with Fortis Bank Athens Branch (the Fortis-Athens Loan ). The term loan was fully drawn down in four tranches. The three tranches of \$11,000,000, \$15,700,000 and \$6,800,750 were drawn down on May 19, 2006, May 26, 2006, June 12, 2006, respectively in order to finance the acquisition of three LPG vessels, and the forth tranche of \$46,349,250 was drawn down on May 31, 2006 in order to refinance the previous outstanding balance with Fortis Bank.

The term loan is repayable from August 2006 through June 2016 in forty quarterly installments. The total facility loan will be repaid in four quarterly installments of \$2,200,000 each, eight quarterly installments of \$1,640,000 each, and twenty-eight quarterly installments of \$1,560,000 each plus a balloon payment of \$14,250,000 payable together with the last installment. The interest rate margin over LIBOR on the Fortis-Athens Loan varies with the ratio of the outstanding balance of the loan to the aggregate market value of the vessels mortgaged there under as follows: if the ratio is less than 67% the interest rate is 0.75% over LIBOR; if the ratio is more than 67% but less than 77% the interest rate is 0.80% over LIBOR and if the ratio exceeds 77% the interest rate is 0.90% over LIBOR. The applicable interest rate during the years ended December 2007, 2008 and 2009 has been 0.75% over LIBOR.

The term loan is secured by a first priority mortgage over the eleven vessels involved plus the assignment of the vessels' insurances, earnings and the vessels' operating and retention accounts. The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessels at all times exceed 130% of the amount outstanding under the term loan, to maintain minimum cash balance equivalent to 6 months interest in a pledged account with the Bank at all times, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company to be at all times greater than to 2.5:1 and that at least 15% of the Company is to always be owned by members of the Vafias family. There are also restrictions on the payment of dividends. Dividends paid by the Company or Guarantor will not exceed 50% of free cash flow of the Company. No subsidiary of the Company or borrower will pay any dividend or make any other form of distribution or effect any form of retention, purchase or return of share capital except in accordance with the above clause.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the amount outstanding of \$50,713,600 bore an average interest rate (including the margin) of 1.70%.



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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**12. Long-term Debt Continued**

**b.** In December 2005, the Company entered into a \$50,000,000 loan agreement with DnB NOR bank (the DnB Loan ). The term loan was fully drawn down in two tranches, an amount of \$28,000,000 was drawn down on December 7, 2005, and an amount of \$22,000,000 was drawn down on December 8, 2005 and was repayable from June 2006 through December 2015.

In March 2006, in January 2007 and in February 2008, the Company increased its facility by \$14,000,000, \$20,317,500 and \$15,750,000, respectively, for a total of \$100,067,500 by DnB NOR bank. These additional facilities were fully drawn down on March 9, 2006, on January 30, 2007 and on March 19, 2008, respectively, and the total loan is repayable from March 2008 through March 2016.

On March 10, 2008, following the delivery of Gas Oracle to her new owners, the Company repaid \$3,500,000 of the then outstanding amount of the loan.

The total facility loan will be repaid in two semi-annual installments of \$4,362,378 each, thirteen semi-annual installments of \$3,632,110 each, and one semi-annual installment of \$690,000 plus a balloon payment of \$23,184,811 payable together with the last installment. The interest rate margin over LIBOR on the DnB Loan varies with the ratio of the amount outstanding under the loan to the aggregate market value of the vessels mortgaged there under. If the ratio is equal to or lower than 130%, the interest rate will be 0.85% over LIBOR; if the ratio is between 130% and 150%, the interest rate is 0.75% over LIBOR and if the ratio is equal to or higher than 150%, the interest rate is 0.70% over LIBOR. The prevailing interest rate during the years ended December 2007, 2008 and 2009 has been 0.70% over LIBOR.

The term loan is secured by a first priority mortgage over the vessels involved plus the assignment of the vessels insurances, earnings and the vessels operating and retention accounts, and the guarantee of StealthGas Inc. The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessels at all times exceeds 125% of the amount outstanding under the term loan, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company to be at all times equal or greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. The Company should maintain minimum cash balance equivalent to 6 months interest in a pledged account with the Bank. Dividends paid by the Company or Guarantor to investors cannot exceed 50% of consolidated free cash flow of the Company per annum. Subsidiaries or Borrowers will only be restricted to pay dividends if an event of default has occurred.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the amount outstanding was \$67,460,131 and bore an average interest rate (including the margin) of 2.63%.

**c.** In June 2006, the Company entered into a \$6,580,000 loan agreement with DnB NOR bank to finance the acquisition of one LPG vessel. The term loan was fully drawn down on June 29, 2006 and is repayable in two semi-annual installments of \$473,760 each, four semi-annual installments of \$315,840 each, and fourteen semi-annual installments of \$236,880 each plus a balloon payment of \$1,052,800 payable together with the last installment. The term loan charges interest at LIBOR plus 0.75% and is secured by a first priority mortgage over the vessel involved plus the assignment of the vessel's insurances, earnings and the vessel's operating and retention account, and the guarantee of StealthGas Inc.

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**12. Long-term Debt Continued**

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessel at all times exceeds 125% of the amount outstanding under the term loan the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. There are also restrictions to the Company or Guarantor on the payment of dividends to investors to pay amount exceeding 50% of its consolidated free cash flow. Subsidiaries or Borrowers will only be restricted to pay dividends if an event of default has occurred. The Company should maintain minimum cash balance equivalent to 6 months interest in a pledged account with the Bank.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the amount outstanding was \$4,132,240 and bore an average interest rate (including the margin) of 1.83%.

**d.** On June 21, 2007, the Company entered into a \$46,875,000 facility agreement with the Scotiabank (Ireland) Limited, as lender, Scotiabank Europe plc, as security trustee, and The Bank of Nova Scotia, as swap bank. On December 21, 2007, this facility agreement was amended and increased to a \$49,622,514 non revolving term loan (the

Scotiabank Facility ). The Scotiabank Facility was fully drawn down no later than four months from the date of commitment letter in two advances in order to partially finance the acquisition of two vessels by the Company's wholly owned subsidiaries. The first advance amounted to \$6,750,000 was drawn down on June 21, 2007 to part finance the acquisition of the Gas Icon (formerly Dorado Gas ) and as of December 31, 2007 the outstanding amount was \$6,497,514. This amount is repayable in fifteen consecutive semi-annual installments of \$336,500 each, starting on June 23, 2008 plus a balloon payment of \$1,450,014 payable together with the last installment.

The second advance, which was drawn down on January 8, 2008, amounts to \$43,125,000 and is repayable in twenty consecutive semi-annual installments of \$1,541,250 each, starting in June 2008, plus a balloon payment of \$12,300,000 payable together with the last installment. The term loan charges interest at LIBOR plus 0.70% and is secured by first priority mortgages over the vessels Gas Icon and Navig8 Fidelity , plus the assignment of the vessels insurances, earnings and the vessels operating and retention account, specific assignment of the bareboat charter and the corporate guarantee of StealthGas Inc.

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessels Gas Icon and Navig8 Fidelity at all times exceeds 125% and 100% of the first and second advances outstanding under the term loan, respectively, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company defined as EBITDA to interest expense to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family.

The Company should maintain minimum cash balance of \$200,000 per mortgaged vessel in an earnings account with the Bank and dividends paid by the borrower will not exceed 50% of free cash flow of the Company.

As at December 31, 2010 the Company was not in compliance with the aggregate market value covenant contained in the loan agreement. On March 18, 2010, the Company signed an agreement with Scotiabank whereby it obtained a waiver until September 30, 2010 for the aggregate market value covenant contained in the loan agreement to be reduced to 90% from 100% of the outstanding facility. The waiver letter increases the applicable margin, with effect from January 1, 2010, for the duration of this facility to 2%. Management has the intention and the ability to cure this breach in the event that the Company is still not in compliance with this covenant upon the expiry of this existing waiver, and has not renegotiated the waiver, and therefore this loan has not been classified as current liabilities on the Company's consolidated balance sheet.

At December 31, 2009, the outstanding amount of \$42,111,514 bore an average interest rate (including the margin) of 1.85%.

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****12. Long-term Debt Continued**

On February 12, 2008 the Company entered into a \$40,250,000 facility agreement with the Deutsche Bank (the Deutsche Facility ) to partially finance the acquisition of one new M.R. product carrier, named Navig8 Faith , by one of the Company's wholly owned subsidiaries. The Deutsche Facility was fully drawn down in one tranche on February 19, 2008. The tranche is repayable in forty-seven consecutive quarterly installments of \$625,000 each, starting in May 2009, plus a balloon payment of \$10,875,000 payable together with the last installment. The term loan charges interest at LIBOR plus 0.70% and is secured by first priority mortgage over the vessel involved, plus the assignment of the vessel insurances, earnings and the pledge of the Company's earnings account with the lender, and the guarantee of the ship-owning company, as owner of the vessel.

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessel Navig8 Faith at all times exceeds 125% of the amount outstanding under the term loan, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total assets, the Interest Coverage Ratio of the Company defined as EBITDA to interest expense to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. The Company should maintain minimum cash balance of \$200,000 per mortgaged vessel in an earnings account with the Bank and dividends paid by the borrower will not exceed 50% of free cash flow of the Company.

On October 7, 2009, the Company entered into an agreement with Deutsche Bank to obtain waiver for certain covenant amendments contained in loan agreement until September 30, 2010. The waiver letter increased the applicable margin on this facility to 2% for the remaining duration of the term loan.

As at December 31, 2010 the Company was not in compliance with the aggregate market value covenant contained in the loan agreement. On March 11, 2010, the Company obtained a further waiver from Deutsche Bank reducing the aggregate market value covenant contained in the loan agreement through September 30, 2010 to zero from 125% of the outstanding facility. The covenant will revert to the 125% level after September 30, 2010. The new waiver letter increases the applicable margin, with effect from January 1, 2010, for the duration of this facility to 2.5%.

Management has the intention and the ability to cure this breach in the event that the Company is still not in compliance with this covenant upon the expiry of this existing waiver, and has not renegotiated the waiver and therefore this loan has not been classified as current liabilities on the Company's consolidated balance sheet.

At December 31, 2009, the outstanding amount of \$35,875,000 bore an average interest rate (including the margin) of 2.04%.

e. On July 30, 2008 the Company entered into a \$33,240,000 facility agreement with the National Bank of Greece (the NBG Facility ) to partially finance the acquisition of two under construction LPG carriers, named Gas Defiance , and Gas Shuriken by two of the Company's wholly owned subsidiaries. The NBG facility was fully drawn down in two tranches of \$16,620,000 on August 1, 2008 and November 3, 2008 upon delivery of each vessel. The NBG Facility is repayable in twenty-four consecutive semi-annual installments of \$969,500 each, starting in May 2009, plus a balloon payment of \$9,972,000 payable together with the last installment. The term loan charges interest at LIBOR plus 0.95% until the repayment of the third installment and 0.80% thereafter and is secured by first priority mortgage over the vessels involved, plus the assignment of the vessels' insurances, earnings and the pledge of the Company's earnings account with the lender, and the guarantee of the ship-owning companies, as owners of the vessels.

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****12. Long-term Debt Continued**

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessels at all times exceeds 125% of the amount outstanding under the term loan, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company defined as EBITDA to interest expense to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. The Company should maintain on a monthly basis cash balance of a proportionate amount of the next installment and relevant interest in an earnings account with the Bank and dividends paid by the borrower will not exceed 50% of free cash flow of the Company.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the outstanding amount of \$31,301,000 bore an average interest rate (including the margin) of 2.70%.

**f.** On August 28, 2008, the Company entered into a \$29,437,000 facility agreement with the Emporiki Bank, secured by the Gas Sikousis and the Gas Kalogeros, two vessels already owned by two of the Company's wholly-owned subsidiaries. The senior secured term loan facility was drawn down in full on October 9, 2008 in connection with the part funding of deposits required for vessels under construction as ordered by the Company. The term loan is repayable in twenty four semi-annual installments of \$858,583 each plus a balloon payment of \$8,831,008 payable together with the last installment. The term loan's interest rate is LIBOR plus 0.90%. In addition to first priority mortgages over the Gas Sikousis and the Gas Kalogeros, the term loan is secured by the assignment of these vessels insurances, earnings and operating and retention accounts and Company's guarantee.

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessels at all times exceeds 125% of the amount outstanding under the term loan, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company defined as EBITDA to interest expense to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. The Company should maintain on a monthly basis cash balance of a proportionate amount of the next installment and relevant interest in an earnings account with the Bank and dividends paid by the borrower will not exceed 50% of free cash flow of the Company.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the outstanding amount of \$27,719,834 bore an average interest rate (including the margin) of 3.01%.

**g.** On February 18, 2009, the Company entered into an up to \$33,880,000 facility agreement with DVB Bank SE Nordic Branch to partially finance the acquisition of a second-hand and two under construction LPG carriers, named Chiltern, Gas Astrid (formerly Hull K411) and Gas Exelero (formerly Hull K412), respectively, by three of the Company's wholly owned subsidiaries. The senior secured term loan facility will be the lesser of the amount of \$33,880,000 and the 70% of the vessels' charter free market value at the time of delivery. The term loan was drawn down in two tranches upon the delivery of each vessel. The first tranche amounted to \$19,250,000 was drawn down on April 16, 2009 and the second tranche of \$12,950,000 was drawn down on July 1, 2009. The total facility of \$32,200,00 is repayable, with the first installment commencing three months after the drawdown, in twenty consecutive quarterly installments of \$628,541 each plus a balloon payment of \$19,629,180 payable together with the last installment. The term loan's interest rate is LIBOR plus 2.85%. In addition to a first priority mortgage over the vessels, the term loan is secured by the assignment of the vessels' insurances, earnings, operating and retention accounts and the guarantee of the ship owning subsidiary.

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**12. Long-term Debt Continued**

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessels at all times exceeds 125% of the amount outstanding under the term loan, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company defined as EBITDA to interest expense to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. The Company should maintain on a monthly basis cash balance of a proportionate amount of the next installment and relevant interest in an earnings account with the Bank and dividends paid by the borrower will not exceed 50% of free cash flow of the Company.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the outstanding amount of \$31,158,751 bore an average interest rate (including the margin) of 3.80%.

**h.** On February 19, 2009, the Company entered into a \$37,500,000 facility agreement with EFG Eurobank Ergasias S.A. to partially finance the acquisition of the under construction M.R. type product carrier named Alpine Endurance (formerly Hull No. 2139 ). Following a revaluation of the vessel on April 13, 2009, the senior secured term loan facility will be the lesser of the amount of \$31,500,000 and the 75% of the vessel's charter free market value at the time of delivery. The term loan, amounted to \$29,250,000, was fully drawn down in one tranche upon the delivery of the vessel, which was delivered on July 14, 2009, and is repayable, with the first installment commencing three months after the drawdown, in ten consecutive quarterly installments of \$600,000 each and thirty consecutive quarterly installments of \$390,000 each plus a balloon payment of \$11,550,000 payable together with the last installment. The term loan's interest rate is LIBOR plus 2.50%. In addition to first priority mortgage over the vessel, the term loan is secured by the assignment of this vessel's insurances, earnings, operating and retention accounts and the guarantee of the ship owning subsidiary.

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessel at all times exceeds 125% of the amount outstanding under the term loan, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company defined as EBITDA to interest expense to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. The Company should maintain on a monthly basis cash balance of a proportionate amount of the next installment and relevant interest plus a minimum cash balance of \$200,000 in an earnings account with the Bank and dividends paid by the borrower will not exceed 50% of free cash flow of the Company.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the outstanding amount of \$28,650,000 bore an average interest rate (including the margin) of 2.90%.

**i.** On May 25, 2009, the Company entered into a \$26,700,000 facility agreement with NIBC, secured by the Gas Haralambos, Gas Spirit and the Gas Natalie, (which subsequently replaced by Sea Bird II) three vessels already owned by three of the Company's wholly-owned subsidiaries. The senior secured term loan facility will be the lesser of the amount of \$26,700,000 or 65% of the vessels' market value at the time of drawdown and was drawn down in three tranches on July 2, 2009 in connection with the part funding of deposits required for vessels under construction as ordered by the Company. The term loan is repayable in five semi-annual installments of \$1,637,634 each and five semi-annual installments of \$1,077,634 each plus a balloon payment of \$13,123,660 payable together with the last installment. The term loan's interest rate is LIBOR plus 3.00%. In addition to first priority mortgages over the vessels, the term loan is secured by the assignment of these vessels' insurances, earnings and operating and retention accounts and the guarantee of the ship owning subsidiaries.

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****12. Long-term Debt Continued**

The term loan contains financial covenants requiring the Company to ensure that the aggregate market value of the mortgaged vessels at all times exceeds 130% of the amount outstanding under the term loan, the leverage of the Company defined as Total Debt net of Cash should not exceed 80% of total market value adjusted assets, the Interest Coverage Ratio of the Company defined as EBITDA to interest expense to be at all times greater than to 2.5:1, and that at least 15% of the Company is to always be owned by members of the Vafias family. The Company should maintain on a monthly basis cash balance of a proportionate amount of the next installment and relevant interest plus a minimum cash balance of \$250,000 per mortgage vessel in an earnings account with the Bank and dividends paid by the borrower will not exceed 50% of free cash flow of the Company.

At December 31, 2009, the Company was in compliance with all covenants under the term loan and the outstanding amount of \$26,700,000 bore an average interest rate (including the margin) of 3.44%.

Bank loan interest expense for the above loans for the year ended December 31, 2007, 2008 and 2009 amounted to \$9,521,720, \$9,944,394 and \$8,010,850, respectively. Of these amounts, for the years ended December 31, 2008 and 2009, the amounts of \$389,595 and \$600,320, respectively, were capitalized as part of advances paid for vessels under construction. Interest expense, net of interest capitalized, is included in interest and finance costs in the accompanying consolidated statements of operations.

On January 30, 2009, the Company entered into a \$43,000,000 facility agreement with DnB NOR Bank to partially finance the acquisition of one under construction M.R. type product carrier named Stealth Argentina (formerly Hull No 061 ) to be constructed in Korea for delivery in the fourth quarter of 2009. Due to the cancellation of delivery (see note 5), the drawn down of the facility was cancelled and the Company was charged a commitment fee of \$174,389 for the year ended December 31, 2009, which was included in interest and finance costs in the accompanying consolidated statements of operations.

The annual principal payments to be made, for the ten loans, after December 31, 2009 are as follows:

| <b>December 31,</b> | <b>Amount</b>      |
|---------------------|--------------------|
| 2010                | 36,166,988         |
| 2011                | 30,822,022         |
| 2012                | 29,895,588         |
| 2013                | 29,125,588         |
| 2014                | 60,837,179         |
| Thereafter          | 158,974,705        |
| <b>Total</b>        | <b>345,822,070</b> |

**13. Derivatives and Fair Value Disclosures**

On July 16, 2009, the Company entered into an amortizing interest rate swap agreement for a notional amount of \$53,330,131 in regard to DnB facility. The agreement was effective starting September 9, 2009 and expires on March 9, 2016; under this agreement the Company receives each quarter interest on the notional amount based on the three month LIBOR rate and pays interest based on a fixed interest rate of 4.73%. This agreement replaces the two un-amortizing interest rate swap agreements with notional amounts of \$25,000,000 each, dated May 22, 2006 and June 22, 2007, which were due to expire on September 9, 2011 and September 11, 2012, respectively, and which bore fixed interest rates of 5.42% and 5.58%, respectively.

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****13. Derivatives and Fair Value Disclosures – Continued**

On July 16, 2009, the Company as a condition of its facility with NIBC Bank, entered into an amortizing interest rate swap agreement for a notional amount of \$23,900,000. The agreement was effective starting July 20, 2009 and expires on July 20, 2014; under this agreement the Company receives each quarter interest on the notional amount based on the three month LIBOR rate and pays interest based on a fixed interest rate of 2.77%.

The Company uses interest rate swaps for the management of interest rate risk exposure. The interest rate swaps effectively convert a portion of the Company's debt from a floating to a fixed rate and are designated as cash flow hedges. The Company is a party to six floating-to-fixed interest rate swaps with various major financial institutions covering notional amounts aggregating approximately \$177,948,731 at December 31, 2009 pursuant to which it pays fixed rates ranging from 2.77% to 4.73% and receives floating rates based on the London interbank offered rate (LIBOR) (approximately 1.25% at December 31, 2009). These agreements contain no leverage features and have maturity dates ranging from February 2013 to March 2016.

The Company enters into foreign currency forward contracts in order to manage risks associated with fluctuations in foreign currencies. On August 5, 2008 the Company entered into a series of foreign currency forward contracts to hedge part of its exposure to fluctuations of its anticipated cash payments in Japanese Yen relating to certain vessels under construction described in note 7. Under the contracts the Company will convert U.S. dollars to approximately JPY5.4 billion of cash outflows at various dates from 2009 to 2011.

The Company's swap agreements did not meet hedge accounting criteria. All derivatives are recorded in the consolidated balance sheet at fair value at each period end with the resulting unrealized gains (losses) during the period reflected in "Change of fair value of derivatives" on its consolidated statement of operations. The following tables present information on the location and amounts of derivatives fair values reflected in the consolidated balance sheet and with respect to gains and losses on derivative positions reflected in the consolidated condensed statement of operations or in the consolidated balance sheet, as a component of accumulated other comprehensive loss.

Tabular disclosure of financial is as follows:

| Derivatives not designated as hedging instruments              | Balance Sheet Location                              | December 31, 2008 |                   | December 31, 2009 |                   |
|----------------------------------------------------------------|-----------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                |                                                     | Asset             | Liability         | Asset             | Liability         |
|                                                                |                                                     | Derivatives       | Derivatives       | Derivatives       | Derivatives       |
| Foreign Currency Contract                                      | Current assets - Fair value of derivatives          | 1,938,480         |                   | 1,774,515         |                   |
| Foreign Currency Contract                                      | Non current assets - Fair value of derivatives      | 5,711,523         |                   | 1,861,189         |                   |
| Interest Rate Swap Agreements                                  | Non current liabilities - Fair value of derivatives |                   | 12,762,979        |                   | 10,327,792        |
| <b>Total derivatives not designated as hedging instruments</b> |                                                     | <b>7,650,003</b>  | <b>12,762,979</b> | <b>3,635,704</b>  | <b>10,327,792</b> |

|                          |                  |                   |                  |                   |
|--------------------------|------------------|-------------------|------------------|-------------------|
| <b>Total derivatives</b> | <b>7,650,003</b> | <b>12,762,979</b> | <b>3,635,704</b> | <b>10,327,792</b> |
|--------------------------|------------------|-------------------|------------------|-------------------|

The effect of derivative instrument on the consolidated balance sheets as of December 31, 2008 and 2009 is as follows:

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****13. Derivatives and Fair Value Disclosures    Continued**

|                                                      | <b>December 31, 2008</b>                                                               | <b>December 31, 2009</b> |
|------------------------------------------------------|----------------------------------------------------------------------------------------|--------------------------|
| <b>Derivatives designated as hedging instruments</b> | <b>Amount of Gain / (Loss) Recognized in OCL<br/>on Derivative (Effective Portion)</b> |                          |

|                              |                  |                  |
|------------------------------|------------------|------------------|
| Interest Rate Swap Agreement | <b>(356,874)</b> | <b>(124,218)</b> |
|------------------------------|------------------|------------------|

The effect of derivative instruments on the consolidated statements of operations for the year ended December 31, 2008 and 2009 are as follows:

| <b>Derivatives designated as hedging instruments</b> |                                                                                                      | <b>December<br/>31, 2008</b>                                                                                 | <b>December 31,<br/>2009</b> |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------|
|                                                      | Location of Gain / (Loss)<br>Reclassified from<br>Accumulated OCL into<br>Income (Effective Portion) | <b>Amount of Gain / (Loss)<br/>Reclassified from Accumulated<br/>OCL into Income (Effective<br/>Portion)</b> |                              |

|                              |                                        |                |                |
|------------------------------|----------------------------------------|----------------|----------------|
| Interest Rate Swap Agreement | Change in fair value of<br>derivatives | <b>203,699</b> | <b>484,369</b> |
|------------------------------|----------------------------------------|----------------|----------------|

|                              |                                                                                             |                                                                                                 |                  |
|------------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------|
|                              | Location of Gain / (Loss)<br>Recognized in Income on<br>Derivative (Ineffective<br>Portion) | <b>Amount of Gain / (Loss)<br/>Recognized in Income on<br/>Derivative (Ineffective Portion)</b> |                  |
| Interest Rate Swap Agreement | Change in fair value of<br>derivatives                                                      | <b>(193,987)</b>                                                                                | <b>(191,325)</b> |

| <b>Derivatives not designated as hedging instruments</b>                   | <b>Location of Gain /<br/>(Loss) Recognized</b> |                    |                    |
|----------------------------------------------------------------------------|-------------------------------------------------|--------------------|--------------------|
| Interest Rate Swap - Fair Value                                            | Change in fair value of<br>derivatives          | (9,126,828)        | 2,266,362          |
| Interest Rate Swap - Realized loss                                         | Change in fair value of<br>derivatives          | (1,245,942)        | (4,023,270)        |
| Foreign Currency Contract    Fair Value                                    | Change in fair value of<br>derivatives          | 7,650,003          | (4,014,299)        |
| <b>Total loss on derivatives not designated as hedging<br/>instruments</b> |                                                 | <b>(2,722,767)</b> | <b>(5,771,207)</b> |
| <b>Total loss on derivatives</b>                                           |                                                 | <b>(2,713,055)</b> | <b>(5,478,163)</b> |

***Fair Value of Financial Instruments:*** The carrying values of cash, accounts receivable and accounts payable are reasonable estimates of 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 the recorded values. Additionally, the Company considers the creditworthiness when determining the fair value of the credit facilities. The carrying value approximates the fair market value of the floating rate loans. The Company's interest rate swap agreements are based on LIBOR swap rates. LIBOR swap rates are observable at commonly quoted intervals for the full terms of the swap and therefore are considered Level 2 items. The fair values of the interest rate swaps determined through Level 2 of the fair value hierarchy are derived principally from or corroborated by observable market data. Inputs include quoted prices for similar assets, liabilities (risk adjusted) and market-corroborated inputs, such as market

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****13. Derivatives and Fair Value Disclosures – Continued**

comparables, interest rates, yield curves and other items that allow value to be determined. The fair value of the interest rate swaps is determined using a discounted cash flow method based on market-base LIBOR swap yield curves. The fair value of the Company's interest rate swaps and foreign currency contracts was the estimated amount the Company would pay or receive to terminate the swap agreements and contracts at the reporting date, taking into account current interest rates and the prevailing USD/JPY exchange rate, respectively, and the current creditworthiness of the Company and its counter parties.

**Fair Value Disclosures:** The Company has categorized our assets and liabilities recorded at fair value based upon the fair value hierarchy specified by the guidance. The levels of fair value hierarchy are as follows:

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

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

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

The following table presents the fair values for assets and liabilities measured on a recurring basis categorized into a Level based upon the lowest level of significant input to the valuations as of December 31, 2009:

| Description                   | Fair Value as of<br>December 31,<br>2009 | Fair Value Measurements Using                                                             |                                                           |                                                    |
|-------------------------------|------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                               |                                          | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets/(Liabilities):         |                                          |                                                                                           |                                                           |                                                    |
| Foreign Currency Contract     | 3,635,704                                |                                                                                           | 1,774,515                                                 | 1,861,189                                          |
| Interest Rate Swap Agreements | (10,327,792)                             |                                                                                           | (10,327,792)                                              |                                                    |
| <b>Total</b>                  | <b>(6,692,088)</b>                       |                                                                                           | <b>(8,553,277)</b>                                        | <b>1,861,189</b>                                   |

The company determined the fair value of the derivative contracts using standard valuation models that are based on market-based observable inputs including forward and spot exchange rates and interest rate curves. Level 2 derivative assets include interest rate swaps and foreign currency forward contracts.

The fair value of the foreign currency forward contracts with various potential levels of profit participating in the Deutsche Bank Harvest Fund were determined by using Black-Scholes option valuation model. The inputs into the valuation model included USD/JPY currency forward rates, contract expiration dates, strike price, risk free interest rate and harvest volatility. This asset is included in Level 3 because some of the inputs into the valuation model represent significant unobservable inputs.

The following table presents additional information about assets measured at fair value on a recurring basis and for which we utilized Level 3 inputs to determine fair value:

**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****13. Derivatives and Fair Value Disclosures    Continued**

|                                   | <b>Fair Value Measurements Using<br/>Significant Unobservable Inputs<br/>(Level 3)</b> |
|-----------------------------------|----------------------------------------------------------------------------------------|
|                                   | <b>Foreign Currency Contract</b>                                                       |
| Balance, January 1, 2009          | 6,514,523                                                                              |
| Total unrealized (losses)         |                                                                                        |
| Included in earnings              | (4,653,334)                                                                            |
| <b>Balance, December 31, 2009</b> | <b>1,861,189</b>                                                                       |

The amount of total (losses) for the period included in earnings attributable to the change in unrealized (losses) relating to assets still held at the reporting date

**(4,653,334)**

The following table presents the fair values for assets measured on a non-recurring basis as of December 31, 2009:

|                                   | <b>Fair Value Measurements Using</b>                  |                                                                                                           |                                                                      |                                                              |
|-----------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
|                                   |                                                       | <b>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| <b>Description</b>                | <b>Fair Value as<br/>of<br/>December 31,<br/>2009</b> |                                                                                                           |                                                                      | <b>(Losses)</b>                                              |
| Vessels and vessels held for sale | 25,728,913                                            |                                                                                                           | 25,728,913                                                           | (9,867,777)                                                  |
| <b>Total</b>                      | <b>25,728,913</b>                                     |                                                                                                           | <b>25,728,913</b>                                                    | <b>(9,867,777)</b>                                           |

In accordance with the provisions of relevant guidance, the vessels and vessels held for sale with a carrying amount of \$35,596,690 were written down to their fair value of \$25,728,913, resulting in an impairment charge of \$9,867,777 which was included in accompanying consolidated statement of operations for December 31, 2009.

**14. Common Stock and Additional Paid-in Capital**

The amounts shown in the accompanying consolidated balance sheets, as additional paid-in capital, represent payments made by the stockholders for the acquisitions of the Company's vessels, or investments in the Company's common stock.

The total authorized common stock of the Company is 100,000,000 shares. On October 5, 2005 the Company completed its initial public offering. It issued eight million additional shares bringing the total number of shares outstanding to fourteen million. The holders of the shares are entitled to one vote on all matters submitted to a vote of stockholders and to receive all dividends, if any.

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**14. Common Stock and Additional Paid-in Capital Continued**

On August 3, 2006, Nike Investments Corporation agreed to purchase 400,000 newly issued shares of common stock from the Company at a price of \$12.54 per share, representing the average of the closing prices of the common stock over the five trading days ended August 1, 2006. Mr. Thanassis J. Martinos, a director of StealthGas Inc., is the President and principal owner of Nike Investments Corporation. The transaction took place on August 7, 2006 and as of December 31, 2006 the Company had 14,400,000 common shares outstanding with par value of \$0.01.

On July 18, 2007, the Company completed a follow-on public offering of 7,200,000 shares at par value of \$0.01 for \$18.00 per share. The gross proceeds from the offering amounted to \$129,600,000, the net proceeds after the underwriters' discounts and commissions and other related expenses amounted to \$121,932,958. The Company also granted the underwriters a 30 day option to purchase up to an additional 1,080,000 shares of common stock to cover any over-allotments.

On August 1, 2007 the underwriters partially exercised the over-allotment option, purchasing from the Company 460,105 shares at par value of \$0.01 of the Company's common stock. The gross proceeds from the sale of these shares amounted to \$8,281,890, the net proceeds after the underwriters' discounts and commissions amounted to \$7,826,386.

**15. Equity Compensation Plan**

The Company's board of directors has adopted an Equity Compensation Plan (the Plan), under which the Company's employees, directors or other persons or entities providing significant services to the Company or its subsidiaries are eligible to receive stock-based awards including restricted stock, restricted stock units, unrestricted stock, bonus stock, performance stock and stock appreciation rights. The Plan is administered by the Compensation Committee of the Company's board of directors and the aggregate number of shares of common stock reserved under this plan cannot exceed 10% of the number of shares of Company's common stock issued and outstanding at the time any award is granted. The Company's board of directors may terminate the Plan at any time.

As of December 31, 2009 a total of 250,005 restricted shares had been granted under the Plan since the first grant in the third quarter of 2007.

On August 14, 2007, the Company granted 112,000 of non-vested restricted shares to the Company's CEO and non-executive members of Board of Directors of the Company. The fair value of each share granted was \$17.10 which is equal to the market value of the Company's common stock on that day. The restricted shares will be vested over 3 years from the grant date (54,000 restricted shares on October 1, 2007, 29,000 restricted shares on October 1, 2008 and 29,000 restricted shares on October 1, 2009).

On November 20, 2007, the Company granted 112,000 of non-vested restricted shares to the Company's CEO and non-executive members of Board of Directors of the Company. The fair value of each share granted was \$15.95 which is equal to the market value of the Company's common stock on that day. The restricted shares will be vested over 3 years from the grant date, (54,000 restricted shares on October 31, 2008, 29,000 restricted shares on October 31, 2009 and 29,000 restricted shares on October 1, 2010).

On March 18, 2008, the Company granted 9,396 of non-vested restricted shares to the Deputy Chairman of the Board and Executive Director of the Company and 16,609 restricted shares to certain employees of the Manager (a related party) under the Plan, treated as non-employees for stock based compensation recording purposes. The fair value of each share granted was \$13.52 which is equal to the market value of the Company's common stock on the

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****15. Equity Compensation Plan Continued**

day of a grant. The restricted shares will be vested over 3 years from the grant date, (13,003 shares on March 18, 2009, 6,501 shares on March 18, 2010 and 6,501 shares on March 18, 2011).

All unvested restricted shares are conditional upon the option holder's continued service as an employee of the Company, or as a director until the applicable vesting date. Until the forfeiture of any restricted shares, the grantee has the right to vote such restricted shares, to receive and retain all regular cash dividends paid on such restricted shares and to exercise all other rights provided that the Company will retain custody of all distributions other than regular cash dividends made or declared with respect to the restricted shares.

The Company pays dividends on all restricted shares regardless of whether it has vested and there is no obligation of the employee to return the dividend when employment ceases. As of December 31, 2008 and 2009, the Company paid dividends on all non-vested shares, amounted to \$111,003 and \$21,188, respectively. As restricted share grantees retained dividends on awards that are expected vest, such dividends were charged to retained earnings.

The Company estimates the forfeitures of restricted shares to be immaterial. The Company will, however, re-evaluate the reasonableness of its assumption at each reporting period.

Management has selected the accelerated method allowed by the guidance with respect to recognizing stock based compensation expense for restricted share awards with graded vesting because it considers that this method to better match expense with benefits received.

In addition, non-vested awards granted to non-employees are measured at its then-current fair value as of the financial reporting dates until non-employees complete the service.

The stock based compensation expense for the restricted vested and non-vested shares for the period from inception (August 14, 2007 and November 20, 2007) to December 31, 2008 and for the year ended December 31, 2009 amounted to \$1,913,634 and \$573,855, respectively, and is included in the consolidated statements of operations under the caption General and administrative expenses.

A summary of the status of the Company's vested and non-vested restricted shares as of December 31, 2009, is presented below:

|                                      | <b>Number<br/>of<br/>restricted<br/>shares</b> | <b>Weighted<br/>average<br/>grant date fair<br/>value per<br/>non-vested<br/>share</b> |
|--------------------------------------|------------------------------------------------|----------------------------------------------------------------------------------------|
| Non-vested, January 1, 2009          | 113,005                                        | 15.69                                                                                  |
| Granted                              |                                                |                                                                                        |
| Vested                               | (71,003)                                       | 15.98                                                                                  |
| Forfeited                            |                                                |                                                                                        |
| <b>Non-vested, December 31, 2009</b> | <b>42,002</b>                                  | <b>15.20</b>                                                                           |

As of December 31, 2009, there was \$241,060 of total unrecognized compensation cost related to non-vested restricted shares granted under this Plan. That cost is expected to be recognized over an average period of 1.1 years. The total fair value of shares vested during the years ended December 31, 2008 and 2009 was \$1,357,200 and \$1,134,296, respectively.



**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****16. Earnings per share**

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share give effect to all potentially dilutive securities. Our non-vested restricted shares were potentially dilutive securities during the year ended December 31, 2009. All of the Company's shares (including non-vested common stock issued under the Plan) participate equally in dividend distributions and in undistributed earnings. Non-vested common stock does not have a contractual obligation to share in the losses and therefore, excluded from the basic loss per share calculation for the year ended December 31, 2009 due to the losses in 2009.

On January 1, 2009 the Company adopted new guidance which clarified that unvested share-based payment awards that contain rights to receive non forfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (EPS). This standard was applied retroactively to all periods presented and reduced basic EPS by \$0.01 for the years ended December 31, 2007 and 2008, respectively.

Dividends declared during the period for non-vested common stock as well as undistributed earnings allocated to non-vested stock are deducted from net income for the purpose of the computation of basic earnings per share in accordance with two-class method as required by the new guidance. The denominator of the basic earnings per common share excludes any non-vested shares as such are not considered outstanding until the time-based vesting restriction has elapsed.

For purposes of calculating diluted earnings per share, dividends declared during the period for non-vested common stock and undistributed earnings allocated to non-vested stock are not deducted from net income as reported since such calculation assumes non-vested common stock is fully vested from the grant date.

The Company calculates the number of shares outstanding for the calculation of basic and diluted earnings / (loss) per share as follows:

|                                                                                    | <b>Year ended December 31,</b> |             |              |
|------------------------------------------------------------------------------------|--------------------------------|-------------|--------------|
|                                                                                    | <b>2007</b>                    | <b>2008</b> | <b>2009</b>  |
| <b>Numerator</b>                                                                   |                                |             |              |
| Net income/(loss)                                                                  | 22,538,107                     | 29,987,484  | (13,311,885) |
| Less: Dividends declared and undistributed Earnings allocated to non-vested shares | (114,899)                      | (217,727)   |              |
| Net income/(loss) attributable to common shareholders, basic                       | 22,423,208                     | 29,769,757  | (13,311,885) |
| <b>Denominator</b>                                                                 |                                |             |              |
| Basic Weighted average shares outstanding                                          | 17,900,576                     | 22,130,542  | 22,219,442   |
| Effect on dilutive securities:                                                     |                                |             |              |
| Non-vested restricted shares                                                       | 42,770                         | 51,576      |              |
| Diluted Weighted average shares outstanding                                        | 17,943,346                     | 22,182,118  | 22,219,442   |
| Basic earnings /(loss) per share                                                   | 1.25                           | 1.35        | (0.60)       |
| Diluted earnings /(loss) per share                                                 | 1.25                           | 1.34        | (0.60)       |



**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****17. Dividends Paid**

On February 19, 2009 the Company's Board of Directors declared a cash dividend for 22,310,110 common shares outstanding of \$0.1875 per common share, payable on March 9, 2009 to stockholders of record on March 2, 2009. The total amount of \$4,183,146 was paid on March 06, 2009.

**18. Voyage Expenses and Vessel Operating Expenses**

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

|                                      | <b>Year ended December 31,</b> |                  |                   |
|--------------------------------------|--------------------------------|------------------|-------------------|
| <b>Voyage Expenses</b>               | <b>2007</b>                    | <b>2008</b>      | <b>2009</b>       |
| Port expenses                        | 1,227,235                      | 773,058          | 2,015,814         |
| Bunkers                              | 1,546,050                      | 2,265,062        | 5,065,204         |
| Commissions charged by third parties | 1,397,945                      | 1,598,447        | 1,731,276         |
| Commissions charged by related party | 1,096,426                      | 1,385,767        | 1,418,024         |
| Other voyage expenses                | 101,890                        | 158,420          | 292,255           |
| <b>Total</b>                         | <b>5,369,546</b>               | <b>6,180,754</b> | <b>10,522,573</b> |

|                                   | <b>Year ended December 31,</b> |                   |                   |
|-----------------------------------|--------------------------------|-------------------|-------------------|
| <b>Vessels Operating Expenses</b> | <b>2007</b>                    | <b>2008</b>       | <b>2009</b>       |
| Crew wages and related costs      | 14,009,471                     | 19,227,571        | 23,706,087        |
| Insurance                         | 1,561,173                      | 1,497,568         | 1,696,571         |
| Repairs and maintenance           | 3,386,081                      | 4,104,822         | 4,574,386         |
| Spares and consumable stores      | 4,185,461                      | 4,967,128         | 5,641,944         |
| Miscellaneous expenses            | 2,293,392                      | 2,381,296         | 2,382,493         |
| <b>Total</b>                      | <b>25,435,578</b>              | <b>32,178,385</b> | <b>38,001,481</b> |

**19. Income Taxes**

Under the laws of the countries of the companies' incorporation and/or vessels' registration, the companies are not subject to tax on international shipping income, however, they are subject to registration and tonnage taxes, which have been included in Vessel operating expenses in the accompanying consolidated statements of operations.

Pursuant to the Internal Revenue Code of the United States (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the Company operating the ships meets certain requirements. Among other things, in order to qualify for this exemption, the Company operating the ships must be incorporated in a country, which grants an equivalent exemption from income taxes to U.S. corporations. All the Company's ship-operating subsidiaries satisfy these initial criteria. In addition, these companies must be more than 50% owned by individuals who are residents, as defined, in the country of incorporation or another foreign country that grants an equivalent exemption to U.S. corporations. These companies also currently satisfy the more than 50% beneficial ownership requirement.



**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****19. Income Taxes Continued**

In addition, the management of the Company believes that by virtue of a special rule applicable to situations where the ship-operating companies are beneficially owned by a publicly traded company like the Company, the more than 50% beneficial ownership requirement can also be satisfied based on the trading volume and the anticipated widely-held ownership of the Company's shares, but no assurance can be given that this will remain so in the future, since continued compliance with this rule is subject to factors outside the Company's control.

**20. Financial Instruments**

The principal financial assets of the Company consist of cash, accounts receivable due from charterers, and fair value of derivatives. The principal financial liabilities of the Company consist of accounts payable due to suppliers, payable to related party, customer deposits, fair value of derivatives and the loan repayable to the bank. The recorded value of all of the Company's financial assets and liabilities except derivatives approximate their fair value due to their short-term nature and the variable interest rate of the loan. The fair value of the derivatives at December 31, 2009, is determined based on observable Level 2 and unobservable Level 3 inputs, as defined in relative guidance (Note 13).

**21. Commitments and Contingencies**

From time to time the Company expects to be subject to legal proceedings and claims in the ordinary course of its business, principally personal injury and property casualty claims. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. The Company is not aware of any such claims or contingent liabilities which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

In January 2005, the Company entered into a three-year cancelable operating lease for its office facilities that terminated in January 2008. In January 2008, the Company entered into a new two-year cancelable operating lease for its office facilities that terminated in January 2010. In January 2010, the Company entered into a new two-year cancelable operating lease for its office facilities that terminates in January 2012. Rental expense for the years ended December 31, 2007, 2008 and 2009 was \$33,388, \$48,201 and \$45,102, respectively. In October 2005, the Company entered into a three-year cancelable operating lease for an armored car that terminated in October 2008. In October 2008 the Company entered into a new three-year cancelable operating lease for an armored car that terminates in October 2011. Rental expense for the years ended December 31, 2007, 2008 and 2009 was \$46,642, \$50,016 and \$47,955 and are recorded in the consolidated statements of operations under the caption General and administrative expenses.

Future rental commitments were payable as follows:

| <b>December 31,</b> | <b>Office Lease</b> | <b>Car Rent</b> | <b>Total</b>   |
|---------------------|---------------------|-----------------|----------------|
| <b>2010</b>         | 60,488              | 49,255          | 109,743        |
| <b>2011</b>         | 60,488              | 41,046          | 101,534        |
|                     | <b>120,976</b>      | <b>90,301</b>   | <b>211,277</b> |

As described in Note 5, as of December 31, 2009 the Company has long-term outstandings commitments for installment payments for five vessels under construction, as follows:

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**Table of Contents****StealthGas Inc.****Notes to the consolidated financial statements****(Expressed in United States Dollars)****21. Commitments and Contingencies    Continued**

| <b>Year ended</b> | <b>Shipbuilding<br/>Contracts</b> |
|-------------------|-----------------------------------|
| 2010              | 14,216,631                        |
| 2011              | 68,734,683                        |
| 2012              | 21,205,681                        |
| <b>Total</b>      | <b>104,156,995</b>                |

As of December 31, 2009, the Company's long term obligations due under the shipbuilding contracts with Mitsubishi Corporation of Japan totaled to JPY9,606,400,000 were converted to US Dollars based upon the foreign currency forward contracts entered into by the Company and the prevailing USD/JPY exchange rate as at December 31, 2009. The total obligation under these contracts was \$104,156,995.

Based upon the above the prevailing USD/JPY exchange rate used for the calculation of the total obligation was 92.23 JPY to \$1.

Future minimum contractual charter revenue, based on vessels committed to noncancelable, long-term time and bareboat charter contracts as of December 31, 2009, will be \$62,575,271 during 2010, \$28,045,200 during 2011, \$17,278,684 during 2012, \$11,678,200 during 2013 and \$11,198,200 during 2014. These amounts do not include any assumed off-hire.

**22. Subsequent Events**

The Company has evaluated the following subsequent events:

- (a) On January 15, 2010, the Company sold the vessel "Gas Natalie". The Company had previously recorded an impairment charge of \$3,616,878 to write down the carrying amount of this vessel to fair market value less costs to sell and this was included in the Company's consolidated statement of operations in the fourth quarter of 2009.
- (b) On January 26, 2010, the Company concluded a memorandum of agreement for the disposal of the vessel "Gas Prophet" to an unaffiliated third party for \$6,800,000. The vessel was delivered to her new owners on March 16, 2010 and the Company realized a gain from the sale of this vessel of \$11,118 which was included in the Company's consolidated statement of income in the first quarter of 2010. The Company had previously recorded an impairment charge of \$160,237 to write down the carrying amount of the vessel to fair market value less costs to sell and was included in the Company's consolidated statement of operations in the fourth quarter of 2009.
- (c) On February 18, 2010, the Company concluded a memorandum of agreement for the disposal of the vessel "Gas Texiana" to an unaffiliated third party for \$11,180,000. The vessel was delivered to her new owners on April 6, 2010 and the Company realized a gain from the sale of this vessel of \$1,048,415 which will be included in the Company's consolidated statement of income in the second quarter of 2010.
- (d) On February 26, 2010, before the delivery of "Gas Prophet" to her new owners, the Company prepaid \$3,756,563 of the then outstanding amount of the Fortis-Athens loan.

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**StealthGas Inc.**

**Notes to the consolidated financial statements**

**(Expressed in United States Dollars)**

**22. Subsequent Events Continued**

- (e) On March 3, 2010, before the delivery of Gas Texiana to her new owners, the Company prepaid \$6,091,665 of the then outstanding amount of the Fortis-Athens loan.
- (f) On March 9, 2010, before the delivery of Gas Eternity to her new owners, the Company prepaid \$4,554,270 of the then outstanding amount of the DnB loan.
- (g) On March 22, 2010, the Company's Board of Directors adopted a new stock repurchase plan for up to \$15,000,000 to be used for repurchasing the Company's common shares. All repurchased common shares shall be cancelled and removed from the Company's capital stock. As of June 18, 2010, the Company had completed the repurchase of 1,205,229 shares.
- (h) On March 26, 2010, the Company concluded a memorandum of agreement for the disposal of the vessel Gas Prodigy to an unaffiliated third party for \$6,050,000. The vessel was delivered to her new owners on April 9, 2010. The Company had previously recorded an impairment charge of \$83,852 to write down the carrying amount of the vessel to fair market value less costs to sell which was included in the Company's consolidated statement of income in the first quarter of 2010.
- (i) On June 4, 2010, the Company entered into a memorandum of agreement to acquire from an affiliated entity an under construction Aframax crude oil tanker named Spike (formerly Hull No 1757 ) which is scheduled to be delivered in the third quarter of 2010. The purchase price of this vessel is \$56,500,000. As provided by the relate memorandum of agreement, no advance payment will be given.
- (j) On June 8, 2010, the Company signed a commitment letter with the DnB NOR Bank to partially finance the acquisition of an under construction Aframax tanker named Spike (formerly Hull No 1757 ), by one of the Company's wholly owned subsidiary and secured by the Gas Zael, a vessel already owned by a Company's wholly owned subsidiary. The senior secured term loan facility comprised of two tranches aggregating up to \$45,000,000. The one tranche will be the lesser of the amount of \$40,000,000 or 70% of the under construction tanker market value at the time of delivery and the second tranche will be the lesser of the amount of \$5,000,000 or 50% of Gas Zael's market value at the same time. The senior secured term loan will be fully drawn down in a single tranche no later than September 15, 2010 and will be repayable in twenty four consecutive quarterly installments of \$850,000 each plus a balloon payment of \$24,600,000 payable together with the last installment. The term loan charges interest at LIBOR plus 2.40% and is secured by a first priority mortgage over the vessels involved and cross-collateralized with security vessels under the DnB Loan plus the assignment of the vessel's insurances, earnings and the vessel's operating and retention account, and the guarantee of StealthGas Inc.

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