EUROSEAS LTD.
Form 6-K
November 23, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16 OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2016

Commission File Number: 001-33283

EUROSEAS LTD.
(Translation of registrant's name into English)

4 Messogiou & Evropis Street
151 24 Maroussi, Greece
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F [X]   Form 40-F [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): [ ].

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): [ ].

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

INFORMATION CONTAINED IN THIS REPORT ON FORM 6-K

Attached hereto as Exhibit 1 is Management's Discussion and Analysis of Financial Condition and Results of Operations and unaudited interim condensed consolidated financial statements and related information and data of Euroseas Ltd. (the "Company") as of and for the nine-month period ended September 30, 2016. Also attached hereto as Exhibit 101 is the Interactive Data file relating to the materials in this Report on Form 6-K, formatted in Extensible Business Reporting Language (XBRL).

This Report on Form 6-K is hereby incorporated by reference into the Company's Registration Statement on Form F-3 (File No. 333-194922) filed with the U.S. Securities and Exchange Commission (the "Commission") on March 31, 2014, as amended, and the Company's Registration Statement on Form F-3 (File No. 333-208305) filed with the Commission on December 2, 2015, as amended from time to time.

Exhibit 1

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the nine months ended September 30, 2016. Unless otherwise specified herein, references to the "Company" or "we" shall include Euroseas Ltd and its subsidiaries. You should read the following discussion and analysis together with the unaudited interim condensed consolidated financial statements and related notes included elsewhere in this report. For additional information relating to our management's discussion and analysis of financial condition and results of operations, please see our annual report on Form 20-F for the year ended December 31, 2015 filed with the U.S. Securities and Exchange Commission on May 2, 2016.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents the Company's selected consolidated financial and other data for each of the two nine-month periods ended September 30, 2015 and 2016, and as of December 31, 2015 and September 30, 2016. The selected consolidated statement of operations and balance sheet data is derived from, and is qualified by reference to, our unaudited financial results for the nine-month periods ended September 30, 2015 and 2016.

Euroseas Ltd. – Summary of Selected Historical Financials

	Nine Months Ended September 30, 2015	2016
Statement of Operations Data		
Voyage revenues	30,357,715	22,111,476
Related party revenue	180,000	180,000
Commissions	(1,672,566)	(1,179,636)
Voyage expenses	(1,204,320)	(1,088,633)
Vessel operating expenses	(19,575,241)	(13,608,596)
Drydocking expenses	(1,882,654)	(1,725,240)
Management fees	(3,177,465)	(2,361,821)
Vessel depreciation	(8,605,776)	(6,569,978)
Loss on termination of newbuilding contracts	-	(3,202,030)
Gain on vessel sale	-	10,597
Other general and administration expenses	(2,533,286)	(2,694,252)
Operating loss	(8,113,593)	(10,128,113)
Total other expenses, net	(1,985,515)	(16,464,085)
Net loss	(10,099,108)	(26,592,198)
Dividend Series B Preferred Shares	(1,220,382)	(1,283,808)
Net loss available to common shareholders	(11,319,490)	(27,876,006)
Other Financial Data		
Net cash provided by operating activities	132,966	213,419
Net cash used in investing activities	(8,601,437)	(18,691,826)
Net cash provided by financing activities	3,619,134	11,490,997
Loss per share attributable to common shareholders, basic and diluted	(1.92)	(3.43)
Weighted average number of shares outstanding during period, basic and diluted	5,903,609	8,116,343
Balance Sheet Data	December 31, 2015	September 30, 2016
Total current assets	21,584,299	23,602,528
Vessels, net	88,957,752	114,628,730

Advances for vessels under construction	32,701,867	3,847,758
Investment in joint venture	16,515,701	1,105,381
Other non-current assets	12,364,772	14,077,915
Total Assets	172,124,391	157,262,312
Current liabilities	19,241,147	9,149,402
Long term liabilities	25,755,402	47,368,818
Long term debt, net of current portion	25,552,702	47,010,657
Total liabilities	44,996,549	56,518,220
Mezzanine Equity	32,079,249	33,363,057
Total shareholders' equity	95,048,593	67,381,035

	Nine Months Ended September 30,	
	2015	2016
Other Fleet Data (1)		
Number of vessels	15.00	11.33
Calendar days	4,095	3,105
Available days	4,005	3,047
Voyage days	3,872	2,912
Utilization Rate (percent)	96.7 %	95.6 %
(In U.S. dollars per day per vessel)		
Average TCE rate (2)	7,529	7,220
Vessel Operating Expenses	4,780	4,383
Management Fees	776	760
G&A Expenses	619	867
Total Operating Expenses excluding drydocking expenses	6,175	6,010
Drydocking expenses	460	556

(1) For the definition of calendar days, available days, voyage days and utilization rate see our annual report on Form 20-F for the year ended December 31, 2015 ("Item 5A-Operating Results.") filed on May 2, 2016.

(2) Time charter equivalent rate, or TCE rate, is determined by dividing voyage revenues less voyage expenses or time charter equivalent revenue, or TCE revenues, by the number of voyage days during the relevant time period. TCE revenues, a non-GAAP measure, provides additional meaningful information in conjunction with shipping 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 the Company's financial performance. TCE revenues and TCE rate are also standard shipping industry performance measures 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 (see also Item 5A-Operating Results).

Reconciliation of TCE revenues as reflected in the consolidated statement of operations and calculation of TCE rate follow:

	Nine Months Ended September 30,	
	2015	2016
(In U.S. dollars, except for voyage days and TCE rates which are expressed in U.S. dollars per day)		
Voyage revenues	30,357,715	22,111,476
Voyage expenses	(1,204,320)	(1,088,633)
Time Charter Equivalent or TCE Revenues	29,153,395	21,022,843
Voyage days(1)	3,872	2,912
Average TCE rate	7,529	7,220

Nine months ended September 30, 2016 compared to nine months ended September 30, 2015.

Voyage revenues. Voyage revenues for the nine month period ended September 30, 2016 were $22.11 million, down 27.2% compared to the same period in 2015 during which voyage revenues amounted to $30.36 million. This decrease was due to the lower number of vessels operating during the period as compared to the same period of 2015. An average of 11.33 vessels operated in the nine months of 2016 for a total of 3,105 ownership days against an average of 15.0 vessels during the same period in 2015 or 4,095 ownership days, a 24.2% decrease. The total number of days our vessels earned revenue decreased by 24.8% to 2,912 days in the first nine months of 2016 from 3,872 days in the same period in 2015. While employed, our vessels generated a TCE rate of $7,220 per day per vessel in the first nine months of 2016 compared to $7,529 per day per vessel for the same period in 2015 (see calculation in table above). The average TCE rate our vessels achieved is a combination of the time charter rate earned by our vessels under time charter contracts, which is not influenced by market developments during the duration of the charter and the TCE rate earned by our vessels employed in the spot market or in market-indexed linked contracts which is influenced by market developments. Market charter rates in the nine months of 2016 were lower for our drybulk vessels and for our containership vessels compared to the first nine months of 2015 which was reflected in the average earnings our ships earned. We had 57.7 scheduled offhire days, including drydocking and laid-up time, 127.8 commercial offhire and 7.5 operational offhire days in the first nine months of 2016 compared to 89.6 scheduled offhire days, including drydocking and laid-up time, 117.8 commercial offhire and 15.6 operational offhire days in the first nine months of 2015.

Related party revenue. Related party revenues reflect $0.18 million received from Euromar LLC, a joint venture of Euroseas, for administration services for the nine month period ended September 30, 2016 unchanged as compared to the same period of 2015.

Commissions. Commissions for the nine month period ended September 30, 2016 were $1.18 million. At 5.3% of voyage revenues, commissions were lower than in the same period of 2015 during which they accounted for 5.5% of our revenues. The overall level of commissions depends on the agreed commission for each charter contract.

Voyage expenses. Voyage expenses for the nine month period ended September 30, 2016 were $1.09 million and related to expenses for repositioning voyages between time charter contracts, ballast voyages and owners expenses at certain ports, compared to $1.2 million for the same period of 2015. Voyage expenses depend on the number of days our vessels are employed under voyage contracts (as opposed to time charter contracts), the number of days they are sailing for repositioning and any port or other costs incurred without a contract. Because our vessels are generally chartered under time charter contracts, voyage expenses represent a small percentage (4.9% and 4.0% during the first nine months of 2016 and 2015, respectively) of voyage revenues and are mainly incurred while our vessels are repositioned between time charter contracts and while our vessels are under voyage charters.

Vessel operating expenses. Vessel operating expenses excluding management fees were $13.6 million during the first nine months of 2016 compared to $19.58 million for the same period of 2015. Daily vessel operating expenses excluding management fees per vessel decreased between the two periods to $4,383 per day per vessel in the first nine months of 2016 compared to $4,780 per day during the same period of 2015, a 8.3% decrease, mainly due to the disposal of three of our older vessels with higher daily cost at the end of 2015 and the addition of our newbuilding, Xenia, in February 2016 with lower daily cost which further reduced the average daily cost during the first nine months of 2016.

Related party management fees. These are part of the fees we pay to Eurobulk Ltd. ("Eurobulk") under our Master Management Agreement and Eurobulk (Far East) Ltd. Inc. ("Eurobulk FE") under a management agreement with our vessel owning subsidiary for vessel m/v Xenia. During the first nine months of 2016, Eurobulk charged us 685 Euros per day per vessel totalling $2.36 million for the period, or $760 per day per vessel. In the same period of 2015, management fees amounted to $3.18 million, or $776 per day per vessel based on the daily rate per vessel of 685 Euros. The decline in the total management fees is primarily due to the lower number of vessels operating during the first nine months of 2016 compared to the same period of 2015.

Gain on sale of a vessel. In April 2016, the Company agreed to sell one of its older container carriers M/V "Cpt Costas". The 24 years old vessel was sold for a net amount of $2.6 million. The Company recorded a $0.01 million gain on the sale.

Loss on termination of newbuilding contracts. On June 29, 2016, we cancelled the newbuilding contract for Hull Number DY 160, under construction at Dayang yard due to excessive construction delays as per the terms of the contract. On September 2, 2016, we cancelled the newbuilding contract for Hull Number DY 161, under construction at Dayang yard due to excessive construction delays as per the terms of the contract. We have demanded the return of our progress payments and other expenses of $16.96 million (included in the line "Other receivables" of the consolidated balance sheets) as specified in the newbuilding contracts and secured by refund guarantees which were classified as a receivable and expensed the remaining payments made amounting to $3.2 million consisting mainly of supervision, management fees and certain other expenses. There was no loss on newbuilding contract during the same period in 2015.

Other general and administrative expenses. These are expenses we pay as part of our operation as a public company and include the fixed portion of our management agreement fees, legal and auditing fees, directors' and officers' liability insurance and other miscellaneous corporate expenses. In the first nine months of 2016, we had a total of $2.69 million of general and administrative expenses as compared to $2.53 million in same period of 2015. The 2016 figure includes higher professional and legal expenses as well as travelling expenses for the year 2016 compared to the same period of 2015 partly offset by lower incentive compensation costs due to a lower share price.

Dry-docking expenses. These are expenses we pay for our vessels to complete a dry-docking as part of an intermediate or special survey or in some cases an in-water survey in lieu of a drydocking. The cost of passing a survey increases significantly if a dry-docking is required and depends on the extent of work that needs to be performed (like amount of steel replacement required), where the yard is located that the dry-docking takes place and whether it is an intermediate or a special survey with the latter frequently requiring a dry-docking and more extensive work. In the first nine months of 2016, we had two vessels completing their special survey by undergoing drydocking for an expense of $1.7 million. During the first nine months of 2015, we had two vessels completing their intermediate surveys one with drydocking and one in-water (in lieu of drydock) and two vessels completing their special survey with drydocking, for a total expense of $1.88 million incurred during the period.

Vessel depreciation. Vessel depreciation for the nine month period ended September 30, 2016 was $6.57 million. Comparatively, vessel depreciation for the same period in 2015 amounted to $8.61 million. Vessel depreciation in the first nine months of 2016 was lower compared to the same period of 2015 mainly due to the decreased fleet of the Company in 2016.

Interest and other financing costs. Interest and other financing costs for the nine month period ended September 30, 2016 were $1.84 million. Comparatively, during the same period in 2015, interest and finance costs amounted to $1.23 million. The difference is primarily due to increase in the interest paid as a result of the higher average margin and higher LIBOR in the first nine months of 2016 as compared to the same period in 2015 partly offset by higher imputed interest calculated, based on the contract value of our new-building vessels and booked against interest expense, in the first nine months of 2016 as compared to the same period in 2015. The average LIBOR rate on our debt as of September 30, 2016 was 0.49% and the average margin over LIBOR was 4.28% for a total interest rate of 4.77% as compared to an average LIBOR rate on September 30, 2015 of 0.34% and an average margin over LIBOR of 3.97% for a total interest rate of 4.31%.

Other expenses, net. This line includes in addition to Interest and other financing costs, discussed above, Loss on Derivatives, net, Other investment income, Foreign exchange gain / (loss) and Interest income. In the first nine months of 2016, we had a Loss on derivatives, net of $0.22 million from three interest rate swap contracts which consisted of a realized loss of $0.11 million and an unrealized loss of $0.1 million. For the same period of 2015, we had a total derivative loss of $0.38 million from three interest rate swap contracts which consisted of a realized loss of $0.23 million and an unrealized loss of $0.14 million from the interest rate swaps. The performance of our derivative contracts depends on the movement of interest rates. A decline in interest rates increases our loss in our derivative contracts. Other investment income includes accrued income from our preferred equity investment in Euromar LLC, "Euromar", of $1.02 million and $0.85 million during the first nine months of 2016 and 2015, respectively. Overall, Other expenses, net, including Interest and other financing costs, amounted to a net expense of $1.05 million and $0.71 million during the first nine months of 2016 and 2015, respectively.

Equity loss and impairment in joint venture. In the second quarter of 2016 the Company concluded that its equity investment in Euromar was impaired due to developments during the period that related to absence of the seasonal market recovery during March and April as well as the completion of loan restructuring agreements between Euromar and its lenders that provided the latter with increased total payments, partly in-kind, and participation in the profits of Euromar. Furthermore, the largest of Euromar's vessels came off a high rate charter and was able to only find employment at a significantly lower charter rate. As a result, the Company booked an impairment of $14.0 million on its investment in its joint venture, Euromar. The Company estimated the fair value of its investment in Euromar by calculating the fair value of Euromar's assets based on cost of capital, earnings and operating cost assumptions and the terms of the loan restructuring agreements and subtracting the fair value of its liabilities; as a result, the Company recorded the afore-mentioned impairment. The Company's share of the loss of Euromar was $1.41 million in the first nine months of 2016 compared to a loss of $1.28 in the comparative period of 2015, as the revenues of Euromar were lower in the first nine months of 2016 based on lower time charter rates as compared to the same period of 2015.

Net loss and net loss attributable to common shareholders. As a result of the above, net loss for the nine months ended on September 30, 2016 was $26.59 million compared to $10.1 million for the same period in 2015. After in kind payment of dividends of $1.28 million to our Series B Preferred Shares, the net loss attributable to common shareholders amounted to $27.88 million for the nine months ended September 30, 2016 compared to a loss of $11.32 million for the same period of 2015 after in kind payment of dividends of $1.22 million to our Series B Preferred Shares.

Liquidity and capital resources

Historically, our sources of funds have been equity provided by our shareholders, operating cash flows and long-term borrowings. Our principal use of funds has been capital expenditures to establish and expand our fleet, maintain the quality of our vessels, comply with international shipping standards and environmental laws and regulations, fund working capital requirements, make principal repayments on outstanding loan facilities, and pay dividends.

Cash Flows

As of September 30, 2016, we had a cash balance of $1.73 million, funds due to a related company of $0.14 million and cash in restricted retention accounts of $7.07 million. Amounts due to such related company represent net disbursements and collections made by our fleet managers, Eurobulk and Eurobulk Far East, on behalf of the ship-owning companies during the normal course of operations for which they have the right of offset. Working capital is current assets minus current liabilities, including the current portion of long term debt. We had a working capital surplus of $14.45 million as of September 30, 2016. This working capital surplus includes the deposits from our cancelled newbuilding contracts for Hull DY 160 and Hull DY 161 of $8.59 million and $8.37 million which we expect to receive during the second and third quarter of 2017, respectively.

We have under construction one bulk carrier newbuilding with a total contracted amount of $24.93 million remaining to be paid. The amount of $5.54 million is to be paid within the following twelve months and the remaining $19.39 million within the first quarter of 2018 upon the delivery of the vessel. We plan to finance the remaining capital commitments for this vessel with bank debt and equity. However, on July 20, 2016, we signed an addendum to this newbuilding contract that gave us the option until the end of December 2016 to cancel the contract without any financial penalty except for the progress payment already made; consequently, our newbuilding capital commitments are under our control. Should we decide to exercise our option to cancel this newbuilding contract we will expense the progress payment made and other capitalized expenses totaling $3.85 million.

In November 2016, we agreed to purchase M/V Capetan Tassos, a drybulk vessel of 75,100 dwt, built in 2000 in Japan for approximately $4.40 million. The vessel will be delivered to us in January 2017. We plan to finance this acquisition and any short term working capital requirements via the following options:

a) cash from operations,

b) drawings from a loan facility from an affiliate, which facility is subject to final documentation,

c) cash from potential sale of vessels.

We believe that we will be able to finance all our obligations over the next twelve months. Therefore, the consolidated financial statements have been prepared on a going concern basis. Furthermore, we plan to proceed with our previously announced at-the-market offering.

Net cash from operating activities.

Our cash flow from operations represents the net amount of cash, after expenses, generated by our vessels and it is influenced by the earnings of our vessels, the cost required to operate them, adjustments for non-cash items and changes in our working capital. Our vessel earnings depend on number of vessels we operate and their employment contract rates we have secured which, in turn, are affected by the market rates and the length of the contract. Our vessel costs depend on the number of vessels we operate, their daily cost and could fluctuate depending on the number of vessels passing intermediate or special survey in each period, whether an in-water survey or drydocking is done as well as the extent of the work performed on each vessel during each drydocking. During the first nine months of 2016, our net cash provided by operating activities was $0.21 million consisting of net loss after non-cash items of $1.57 million plus a decrease in working capital of $1.78 million; we operated 11.33 vessels on average. Two vessels completed their drydocking during the period. During the same period of 2015, net cash flow provided by operating activities was $0.13 million consisting of net loss after non-cash items of $0.55 million plus a decrease in working capital of $0.68 million while operating 15 vessels. Two vessels underwent their special survey and two underwent their intermediate survey (one with drydocking and one with in-water survey).

.

Net cash from investing activities.
In the first nine months of 2016, we spent $23.26 million in advances for our vessels under construction of which $21.82 million related to the final instalment and delivery of our vessel Xenia. We also spent $3.02 million for the acquisition of vessel Aegean Express. We had approximately a $5.33 million release and $1.93 million increase of restricted funds for net of $3.4 million release of restricted funds and $4.2 million proceeds from sale of two vessels, for total funds used in investment activities of $18.69 million. In the same period of 2015, we spent $10.67 million in advances for our vessels under construction. We had approximately a $3.20 million release and $1.13 million increase of restricted funds for net of $2.07 million release, for total funds used in investment activities of $8.6 million.
Net cash from financing activities.
In the first nine months of 2016, net cash provided by financing activities amounted to $11.49 million. These funds consisted primarily of $16.03 million of loan repayments, $28.3 million proceeds from long term debt for the financing of M/V Xenia and refinancing of the loan facilities with Eurobank Ergasias S.A., $0.73 million loan fees paid and $0.05 million of offering expenses paid. In the same period of 2015, net cash used in financing activities amounted to $3.62 million. These funds consisted primarily of $11.44 million of loan repayments, $5.0 million proceeds from a long term debt refinancing, $0.35 million loan fees paid, $0.14 million of offering expenses paid and $10.55 million from issuance of common stock through our shareholders rights offering.
Debt Financing
We operate in a capital intensive industry, which requires significant amounts of investment, and we fund a portion of this investment through long term debt. We target debt levels we consider prudent at the time of conclusion of such debt funding based on our market expectations, cash flow, interest coverage and percentage of debt to capital amongst other factors.
As of September 30, 2016, our long term debt comprised of six outstanding loans with a combined outstanding balance of $52.79 million. These loans have maturity dates between 2016 and 2023. A description of our loans as of September 30, 2016 is provided in Note 6 to our attached unaudited interim condensed consolidated financial statements. Over the next twelve months, we have scheduled repayments of approximately $5.46 million of the above debt.

We have partly hedged our interest rate exposure and entered into one interest rate swap agreements for a notional amount of $10 million which expires on May 28, 2019.

Euroseas Ltd. and Subsidiaries
Unaudited Interim Condensed Consolidated Financial Statements

Index to unaudited interim condense