

DIANA SHIPPING INC.  
Form 20-F  
March 25, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F  
(Mark One)

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report : Not applicable

Commission file number 001-32458

DIANA SHIPPING INC.  
(Exact name of Registrant as specified in its charter)

Diana Shipping Inc.  
(Translation of Registrant's name into English)

Republic of The Marshall Islands  
(Jurisdiction of incorporation or organization)

Pendelis 16, 175 64 Palaio Faliro, Athens, Greece  
(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
8.875% Series B Cumulative Redeemable Perpetual Preferred Shares, \$0.01 par value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2014, there were 81,859,821 shares of the registrant's common stock outstanding

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 as issued Other  
by the International Accounting Standards Board

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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## FORWARD-LOOKING STATEMENTS

Diana Shipping Inc., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe", "except," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect" and similar expressions identify forward-looking statements.

Please note in this annual report, "we", "us", "our" and "the Company" all refer to Diana Shipping Inc. and its subsidiaries.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein, including under the heading "Item 3.D.—Risk Factors," important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the dry-bulk shipping industry, changes in the supply of vessels, changes in the Company's operating expenses, including bunker prices, crew costs, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions or labor disruptions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the SEC.

## PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data and other operating data. The selected consolidated financial data in the table as of December 31, 2014, 2013, 2012, 2011 and 2010 are derived from our audited consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The following data should be read in conjunction with Item 5. "Operating and Financial Review and Prospects", the consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

	As of and for the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands of U.S. dollars, except for share and per share data, fleet data and average daily results)				
Statement of Operations Data:					
Time charter revenues	\$ 175,576	\$ 164,005	\$ 220,785	\$ 255,669	\$ 275,448
Other revenues	-	447	2,447	1,117	-
Voyage expenses	10,665	8,119	8,274	10,597	12,392
Vessel operating expenses	86,923	77,211	66,293	55,375	52,585
Depreciation and amortization of deferred charges	70,503	64,741	62,010	55,278	53,083
General and administrative expenses	26,217	23,724	24,913	25,123	25,347
Foreign currency gains	(528 )	(690 )	(1,374 )	(503 )	(1,598 )
Operating income / (loss)	(18,204 )	(8,653 )	63,116	110,916	133,639
Interest and finance costs	(8,427 )	(8,140 )	(7,618 )	(4,924 )	(5,213 )
Interest and other income	3,627	1,800	1,432	1,033	920

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	As of and for the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands of U.S. dollars, except for share and per share data, fleet data and average daily results)				
Loss from derivative instruments	68	(118	) (518	) (737	) (1,477
Income / (loss) from investment in Diana Containerships Inc.	12,668	(6,094	) (1,773	) 1,207	-
Net income / (loss)	\$(10,268	) \$(21,205	) \$54,639	\$107,495	\$127,869
Loss assumed by non controlling interests	\$-	\$-	\$-	\$2	\$910
Preferred dividends	\$(5,080	) \$-	\$-	\$-	\$-
Net income / (loss) attributed to Diana Shipping Inc.	\$(15,348	) \$(21,205	) \$54,639	\$107,497	\$128,779
Earnings / (loss) per common share, basic	\$(0.19	) \$(0.26	) \$0.67	\$1.33	\$1.60
Earnings / (loss) per common share, diluted	\$(0.19	) \$(0.26	) \$0.67	\$1.33	\$1.59
Weighted average number of common shares, basic	81,292,290	81,328,390	81,083,485	81,081,774	80,682,770
Weighted average number of common shares, diluted	81,292,290	81,328,390	81,083,485	81,124,348	80,808,232
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$218,901	\$240,633	\$446,624	\$416,674	\$345,414
Total current assets	238,234	251,868	466,986	432,691	354,649
Vessels' net book value	1,373,133	1,320,375	1,211,138	1,046,719	1,160,850
Property and equipment, net	23,887	22,826	22,774	21,659	21,842
Total assets	1,787,122	1,701,981	1,742,802	1,604,471	1,585,389
Total current liabilities	98,092	62,297	61,477	48,095	32,510
Deferred revenue, non-current portion	-	-	-	-	4,227
Long-term debt (including current portion), net of deferred financing costs	484,256	431,557	459,112	373,338	383,623
Total stockholders' equity	1,282,226	1,253,392	1,266,424	1,208,878	1,169,930
<b>Cash Flow Data:</b>					
Net cash provided by operating activities	\$44,910	\$67,400	\$119,886	\$154,230	\$178,292
Net cash used in investing activities	(152,513)	(245,156)	(169,913)	(90,428)	(252,313)
Net cash provided by / (used in) financing activities	85,871	(28,235	) 79,977	7,458	136,997

Fleet Data:

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Average number of vessels (1)	37.9	33.0	27.6	23.6	22.9
Number of vessels at year-end	39.0	36.0	30.0	24.0	25.0
Weighted average age of dry bulk vessels at year-end (in years)	7.1	6.6	6.0	6.3	5.4
Weighted average age of containerships at year-end (in years)	-	-	-	-	0.6

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	As of and for the Year Ended December 31,				
	2014	2013	2012	2011	2010
Ownership days (2)	13,822	12,049	10,119	8,609	8,348
Available days (3)	13,650	12,029	9,998	8,474	8,208
Operating days (4)	13,564	11,944	9,865	8,418	8,180
Fleet utilization (5)	99.4 %	99.3 %	98.7 %	99.3 %	99.7 %

## Average Daily Results:

Time charter equivalent (TCE) rate (6)	\$12,081	\$12,959	\$21,255	\$28,920	\$32,049
Daily vessel operating expenses (7)	6,289	6,408	6,551	6,432	6,299

Average number of vessels is the number of vessels that constituted our fleet for the relevant period, as measured (1) 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 the period.

Ownership days are the aggregate number of days in a period during which each vessel in our fleet has been owned (2) by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

Available days are the number of our ownership days less the aggregate number of days that our vessels are (3) off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

Operating days are the number of available days in a period less the aggregate number of days that our vessels are (4) off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in (5) finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning for such events.

Time charter equivalent rates, or TCE rates, are defined as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel) expenses, canal charges and commissions. TCE rate is a (6) non-GAAP measure, and management believes it is useful to investors because it is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters are generally expressed in such amounts. The following table reflects the calculation of our TCE rates for the periods presented.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands of U.S. dollars, except for TCE rates, which are expressed in U.S. dollars, and available days)				
Time charter revenues	\$ 175,576	\$ 164,005	\$ 220,785	\$ 255,669	\$ 275,448
Less: voyage expenses	(10,665 )	(8,119 )	(8,274 )	(10,597 )	(12,392 )
Time charter equivalent revenues	\$ 164,911	\$ 155,886	\$ 212,511	\$ 245,072	\$ 263,056
Available days	13,650	12,029	9,998	8,474	8,208
Time charter equivalent (TCE) rate	\$ 12,081	\$ 12,959	\$ 21,255	\$ 28,920	\$ 32,049

Daily vessel operating expenses, which include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other (7) miscellaneous expenses, are calculated by dividing vessel operating expenses by ownership days for the relevant period.

#### B. Capitalization and Indebtedness

Not Applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not Applicable.

#### D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our common stock. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition or operating results or the trading price of our common stock.

##### Industry Specific Risk Factors

Charter hire rates for dry bulk carriers may decrease in the future, which may adversely affect our earnings.

The dry bulk shipping industry is cyclical with attendant volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of dry bulk carriers has varied widely, and charter hire rates for Panamax and Capesize dry bulk carriers have reached near historically low levels. Because we charter some of our vessels pursuant to short-term time charters, we are exposed to changes in spot market and short-term charter rates for dry bulk carriers and such changes may affect our earnings and the value of our dry bulk carriers at any given time. In addition, more than half of our vessels are scheduled to come off of their current charters in 2015, based on their earliest redelivery date, for which we may be seeking new employment. We cannot assure you that we will be able to successfully charter our vessels in the future or renew existing charters at rates sufficient to allow us to meet our obligations or pay any dividends in the future. Fluctuations in charter rates result from changes in the supply and demand for vessel capacity and changes in the supply and demand for the major commodities carried by water internationally. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.



Factors that influence demand for vessel capacity include:

Supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products;

changes in the exploration or production of energy resources, commodities, semi-finished and finished consumer and industrial products;

The location of regional and global exploration, production and manufacturing facilities;

the location of consuming regions for energy resources, commodities, semi-finished and finished consumer and industrial products;

The globalization of production and manufacturing;

global and regional economic and political conditions, including armed conflicts and terrorist activities; embargoes and strikes;

Natural disasters and other disruptions in international trade;

Developments in international trade;

Changes in seaborne and other transportation patterns, including the distance cargo is transported by sea;

Environmental and other regulatory developments;

Currency exchange rates; and

Weather.

Factors that influence the supply of vessel capacity include:

The number of newbuilding deliveries;

The scrapping rate of older vessels;

Vessel casualties; and

the number of vessels that are out of service, namely those that are laid-up, drydocked, awaiting repairs or otherwise not available for hire.

In addition to the prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to scrap prices, costs of bunkers and other operating costs, costs associated with classification society surveys, normal maintenance and insurance coverage, the efficiency and age profile of the existing dry bulk fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These factors influencing the supply of and demand for shipping capacity are outside of our control, and we may not be able to correctly assess the nature, timing and degree of changes in industry conditions.

Demand for our dry bulk carriers is dependent upon economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the global dry bulk carrier fleet and the sources and supply of dry bulk cargo transported by sea. Given the large number of new dry bulk carriers currently on order with shipyards, the capacity of the global dry bulk carrier fleet seems likely to increase and economic growth may not resume in areas that have experienced a recession or continue in other areas. Adverse economic, political, social or other developments could have a material adverse effect on our business and operating results.

The dry bulk carrier charter market remains significantly below its high in 2008, which has had and may continue to have an adverse effect on our revenues, earnings and profitability, and may affect our ability to comply with our loan covenants.

The abrupt and dramatic downturn in the dry bulk charter market, from which we derive substantially all of our revenues, has severely affected the dry bulk shipping industry and has adversely affected our business. The Baltic Dry Index, or the BDI, has long been viewed as the main benchmark to monitor the movements of the dry bulk vessel charter market and the performance of the entire dry bulk shipping market. The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and has remained volatile since then. During 2014, the BDI remained volatile, ranging from a high of 2,113 to a low of 723. The BDI recorded a 25-year record low of 509 in February 2015 and has since increased to 591 as of March 20, 2015. There can be no assurance that the dry bulk charter market will not decrease further. The decline and volatility in charter rates is due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which has resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which has resulted in falling iron ore prices and increased stockpiles in Chinese ports. The decline and volatility in charter rates in the dry bulk market also affects the value of our dry bulk vessels, which follows the trends of dry bulk charter rates, and earnings on our charters, and similarly, affects our cash flows, liquidity and compliance with the covenants contained in our loan agreements.

The decline in the dry bulk carrier charter market has had and may continue to have additional adverse consequences for our industry, including an absence of financing for vessels, no active secondhand market for the sale of vessels, charterers seeking to renegotiate the rates for existing time charters, and widespread loan covenant defaults in the dry bulk shipping industry. Accordingly, the value of our common shares could be substantially reduced or eliminated.

If economic conditions throughout the world do not improve, it will impede our earnings, financial condition and cash flows.

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. In addition, the world economy continues to face a number of new challenges, including recent turmoil and hostilities in the Middle East and other geographic areas and countries and continuing economic weakness in the European Union. The deterioration in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods and, thus, shipping. We cannot predict how long the current market conditions will last. However, recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, have had a material adverse effect on our earnings, financial condition and cash flows, have caused the price of our common shares to decline and could cause the price of our common shares to decline further.



The economies of the United States, the European Union and other parts of the world continue to experience relatively slow growth or remain in recession and exhibit weak economic trends. The credit markets in the United States and Europe have experienced significant contraction, deleveraging and reduced liquidity, and the U.S. federal government and state governments and European authorities continue to implement a broad variety of governmental action and/or new regulation of the financial markets. Global financial markets and economic conditions have been, and continue to be, severely disrupted and volatile. Since 2008, lending by financial institutions worldwide remains at very low levels compared to the period preceding 2008.

A significant economic slowdown in the Asia Pacific region could exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and earnings.

Continued economic slowdown in the Asia Pacific region, especially in Japan and China, may exacerbate the effect on us of the recent slowdown in the rest of the world. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The growth rate of China's GDP remains below pre-2008 levels. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our earnings and ability to grow our fleet would be impeded by a continuing or worsening economic downturn in any of these countries.

A decrease in the level of China's export of goods or an increase in trade protectionism could have a material adverse impact on our charterers' business and, in turn, could cause a material adverse impact on our earnings, financial condition and cash flows.

Our vessels may be deployed on routes involving trade in and out of emerging markets, and our charterers' shipping and business revenue may be derived from the shipment of goods from the Asia Pacific region to various overseas export markets including the United States and Europe. Any reduction in or hindrance to the output of China-based exporters could have a material adverse effect on the growth rate of China's exports and on our charterers' business.

For instance, the government of China has recently implemented economic policies aimed at increasing domestic consumption of Chinese-made goods. This may have the effect of reducing the supply of goods available for export and may, in turn, result in a decrease of demand for shipping. Additionally, though in China there is an increasing level of autonomy and a gradual shift in emphasis to a "market economy" and enterprise reform, many of the reforms, particularly some limited price reforms that result in the prices for certain commodities being principally determined by market forces, are unprecedented or experimental and may be subject to revision, change or abolition. The level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government.

Our operations expose us to the risk that increased trade protectionism will adversely affect our business. If the continuing global recovery is undermined by downside risks and the recent economic downturn is prolonged, governments may turn to trade barriers to protect their domestic industries against foreign imports, thereby depressing the demand for shipping. Specifically, increasing trade protectionism in the markets that our charterers serve has caused and may continue to cause an increase in: (i) the cost of goods exported from China, (ii) the length of time required to deliver goods from China and (iii) the risks associated with exporting goods from China, as well as a decrease in the quantity of goods to be shipped.

Any increased trade barriers or restrictions on trade, especially trade with China, would have an adverse impact on our charterers' business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could have a material adverse effect on our business, earnings and financial condition and our ability to pay dividends to our shareholders.

The current state of global financial markets and current economic conditions may adversely impact our ability to obtain additional financing or refinance our existing loan and credit facilities on acceptable terms which may hinder or prevent us from expanding our business.

Global financial markets and economic conditions continue to be volatile. This volatility has negatively affected the general willingness of banks and other financial institutions to extend credit, particularly in the shipping industry, due to the historically volatile asset values of vessels. The current state of global financial markets might adversely impact our ability to issue additional equity at prices which will not be dilutive to our existing shareholders or preclude us from issuing equity at all.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that additional financing will be available if needed and to the extent required, or that we will be able to refinance our existing loan and credit facilities, on acceptable terms or at all. If additional financing or refinancing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

The instability of the euro or the inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.

As a result of the credit crisis in Europe, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In September 2012, the European Council established a permanent stability mechanism, the European Stability Mechanism, or the ESM, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for dry bulk cargoes and for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, earnings and cash flow.

An over-supply of dry bulk carrier capacity may prolong or further depress the current low charter rates and, in turn, adversely affect our profitability.

The market supply of dry bulk carriers has been increasing due to the high level of new deliveries in the last few years. Dry bulk newbuildings were delivered in significant numbers starting at the beginning of 2006 and continued to be delivered in significant numbers through the end of 2014. While vessel supply will continue to be affected by the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or accidental losses, an over-supply of dry bulk carrier capacity could prolong the period during which low charter rates prevail. Currently, more than half of our vessels are scheduled to come off of their current charters in 2015, based on their earliest redelivery date, for which we may be seeking new employment.



World events could affect our earnings and financial condition.

Continuing conflicts and recent developments in the Middle East, North Africa and Ukraine, and the presence of U.S. and other armed forces in the Middle East, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea, the Gulf of Aden off the coast of Somalia and the Gulf of Guinea. Any of these occurrences could have a material adverse impact on our operating results.

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, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased during 2014 as compared to 2013, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea, with dry bulk vessels and tankers particularly vulnerable to such attacks. If these piracy attacks occur in regions in which our vessels are deployed that insurers characterized as "war risk" zones or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage 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. Furthermore, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charterhire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not "on-hire" for a certain number of days and is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any 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 earnings.

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

We operate our vessels 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, if any, that we may pay to our shareholders from quarter to quarter. The dry bulk carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere 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 weaker during the fiscal quarters ended June 30 and September 30, and, conversely, our revenues may be stronger in fiscal quarters ended December 31 and March 31. While this seasonality will not directly affect our operating results and cash available for distribution to our shareholders as dividends as long as our fleet is employed on period time charters, it could materially affect our operating results to the extent our vessels are employed in the spot market in the future.

Fuel, or bunker prices, may adversely affect profits.

While we generally will not bear the cost of fuel, or bunkers for vessels operating on time charters, fuel is a significant factor in negotiating charter rates. As a result, an increase in the price of fuel beyond our expectations may adversely affect our profitability at the time of charter negotiation. Fuel is also a significant, if not the largest, expense in our shipping operations when vessels are under voyage charter. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, European Union Regulations, the United Nation's International Maritime Organization, or IMO, International Convention for the Prevention of Pollution from Ships of 1973, or MARPOL, including designation of Emission Control Areas, or ECAs, thereunder, the IMO International Convention for the Safety of Life at Sea of 1974, the International Convention on Load Lines of 1966, the International Convention on Civil Liability for Bunker Oil Pollution Damage, the U.S. Oil Pollution Act of 1990, or OPA, requirements of the U.S. Coast Guard and the U.S. Environmental Protection Agency, or EPA, the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, the U.S. Clean Air Act, U.S. Clean Water Act and the U.S. Marine Transportation Security Act of 2002. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast and bilge waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, earnings, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. Furthermore, the 2010 explosion of the Deepwater Horizon and the subsequent release of oil into the Gulf of Mexico, or other events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes, which could have a material adverse effect on our business, financial condition, earnings and cash flows. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have arranged insurance to cover certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, earnings, cash flows and financial condition and our ability to pay dividends.

We are subject to international safety regulations and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports.

The operation of our vessels is affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires ship owners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. Each of the vessels that has been delivered to us is ISM Code-certified and we expect that each other vessel that we have agreed to purchase will be ISM Code-certified when delivered to us.

In addition, vessel classification societies also impose significant safety and other requirements on our vessels. In complying with current and future environmental requirements, vessel-owners and operators may also incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance.

The operation of our vessels is also affected by other 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. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates, and financial assurances with respect to our operations. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations.

Increased inspection procedures, tighter import and export controls and new security regulations could increase costs and disrupt our business.

International shipping is subject to various security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. These security procedures can result in cargo seizure, delays in the loading, offloading, trans-shipment or delivery and the levying of customs duties, fines or other penalties against us.

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

The operation of dry bulk carriers has certain unique operational risks which could affect our earnings and cash flow.

The operation of vessels, such as dry bulk carriers, has certain unique risks. With a dry bulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, dry bulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, dry bulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach to the sea. Hull breaches in dry bulk carriers may lead to the flooding of the vessels' holds. If a dry bulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads leading to the loss of a vessel. If we are unable to adequately repair our vessels after such damages, we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition, earnings and ability to pay dividends, if any, in the future. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

If our vessels call on ports located in countries that are subject to sanctions and embargoes imposed by the U.S. or other governments, that could adversely affect our reputation and the market for our common stock.

From time to time on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the U.S. government as state sponsors of terrorism, including Cuba, Iran, Sudan and Syria. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to companies such as ours and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, in 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years. In addition, the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA) and Executive Order 13645 went into effect on July 1, 2013. Pursuant to the IFCA, as implemented by Executive Order 13645, a person is subject to sanctions for the provision of material support to Iranian Specially Designated Nationals, members of the Iranian energy, shipping and shipbuilding sectors and Iranian port operators. The foregoing also expanded existing Iran sanctions against persons or foreign financial institutions relating to, among other things, the sale and transport of Iranian petroleum, petroleum products and petrochemicals.



On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the "Joint Plan of Action" ("JPOA"). Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is used only for peaceful purposes, the U.S. and E.U. would voluntarily suspend certain sanctions for a period of six months.

On January 20, 2014, the U.S. and E.U. indicated that they would begin implementing the temporary relief measures provided for under the JPOA. These measures include, among other things, the suspension of certain sanctions on the Iranian petrochemicals, precious metals, and automotive industries from January 20, 2014 until July 20, 2014. The U.S. initially extended the JPOA until November 24, 2014, and it has since extended it until June 30, 2015.

Although it is our intention to comply with the provisions of the JPOA, there can be no assurance that we will be in compliance in the future as such regulations and U.S. Sanctions may be amended over time, and the U.S. retains the authority to revoke the aforementioned relief if Iran fails to meet its commitments under the JPOA.

Certain of our charterers or other parties that we have entered into contracts with may be affiliated with persons or entities that are the subject of sanctions imposed by the Obama administration, and European Union and / or other international bodies as a result of the annexation of Crimea by Russia in March 2014. If we determine that such sanctions require us to terminate existing contracts or if we are found to be in violation of such applicable sanctions, our results of operations may be adversely affected or we may suffer reputational harm.

Although we believe that we have been in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines, penalties or other sanctions that could severely impact our ability to access U.S. capital markets and conduct our business, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in, or to divest from, our common stock may adversely affect the price at which our common stock trades. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. In addition, our reputation and the market for our securities may be adversely affected if we engage in certain other activities, such as entering into charters with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Maritime claimants could arrest one or more of our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a claimant may seek to obtain security for its claim 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 money to have the arrest or attachment 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 attempt to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels.

We conduct business in China, where the legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to us.

Some of our vessels could be chartered to Chinese customers and from time to time on our charterers' instructions, our vessels may call on Chinese ports. Such charters and voyages may be subject to regulations in China that may require us to incur new or additional compliance or other administrative costs and may require that we pay to the Chinese government new taxes or other fees. Changes in Chinese laws and regulations, including with regards to tax matters, or changes in their implementation by local authorities could affect our vessels if chartered to Chinese customers as well as our vessels calling to Chinese ports and could have a material adverse impact on our business, financial condition and results of operations.

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

A government could requisition one or more of our vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes her owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would be entitled to compensation in the event of a requisition of one or more of our vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of our vessels may negatively impact our revenues and reduce the amount of cash we may have available for distribution as dividends to our shareholders, if any such dividends are declared.

Failure to comply with the U.S. Foreign Corrupt Practices Act could result in fines, criminal penalties and an adverse effect on our business.

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt Practices Act of 1977, or the FCPA. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, earnings or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

#### Company Specific Risk Factors

The market values of our vessels have decreased, which could limit the amount of funds that we can borrow under our credit facilities.

The fair market values of our vessels are related to prevailing freight charter rates. While the fair market value of vessels and the freight charter market have a very close relationship as the charter market moves from trough to peak, the time lag between the effect of charter rates on market values of ships can vary.

The fair market values of our vessels have generally experienced high volatility, and you should expect the market value of our vessels to fluctuate depending on a number of factors including:

- the prevailing level of charter hire rates;
- general economic and market conditions affecting the shipping industry;
- competition from other shipping companies and other modes of transportation;
- the types, sizes and ages of vessels;
- the supply and demand for vessels;
- applicable governmental regulations;



- technological advances; and
- the cost of newbuildings.

As a result of the decline in the market value of our fleet, we may not be able to obtain other financing or incur debt on terms that are acceptable to us or at all.

A decrease in the market values of our vessels could cause us to breach covenants in our credit facilities and adversely affect our operating results.

The market values of our vessels are at relatively low levels compared to historical averages. As at December 31, 2014, we believe we are in compliance with all of the covenants of our credit facilities. If we are not in compliance with our credit facilities or are unable to obtain waivers, our lenders could accelerate our debt and foreclose on our fleet. In addition, if the book value of a vessel is impaired due to unfavorable market conditions or a vessel is sold at a price below its book value, we would incur a loss that could adversely affect our operating results.

We charter some of our vessels on short-term time charters in a volatile shipping industry and the decline in charter hire rates could affect our results of operations and our ability to pay dividends.

We charter certain of our vessels pursuant to short-term time charters, although we have also entered into long-term time charters of up to 61 months. Although significant exposure to short-term time charters is not unusual in the dry bulk shipping industry, the short-term time charter market is highly competitive and spot market charter hire rates (which affect time charter rates) may fluctuate significantly based upon available charters and the supply of, and demand for, seaborne shipping capacity. While the short-term time charter market may enable us to benefit in periods of increasing charter hire rates, we must consistently renew our charters and this dependence makes us vulnerable to declining charter rates. As a result of the volatility in the dry bulk carrier charter market, we may not be able to employ our vessels upon the termination of their existing charters at their current charter hire rates. The dry bulk carrier charter market is volatile, and in the recent past, short-term time charter and spot market charter rates for some dry bulk carriers declined below the operating costs of those vessels before rising. We cannot assure you that future charter hire rates will enable us to operate our vessels profitably, or to pay dividends.

Rising crew costs could adversely affect our results of operations.

Due to an increase in the size of the global shipping fleet, the limited supply of and increased demand for crew has created upward pressure on crew costs. Continued higher crew costs or further increases in crew costs could adversely affect our results of operations.

Our investment in Diana Containerships Inc. exposes us to the risks of the containership market.

As at December 31, 2014 we had a \$50 million loan facility with and owned approximately 26.34% of Diana Containerships Inc., or Diana Containerships, which operates in the containership market. Through this investment, we are partially exposed to containership market risks such as the cyclical and volatility of charterhire rates; the reduction in demand for container shipping due to the recent global economic recession; increased risk of charter counterparty risk due to financial pressure on liner companies as a result of a decline in global trade; and the risk of over-supply of containership capacity. Containership market risks may reduce the value of our investment in Diana Containerships and could adversely affect our financial condition.

Our earnings, and the payment of dividends, may be adversely affected if we are not able to take advantage of favorable charter rates.

We charter certain of our dry bulk carriers to customers pursuant to short-term time charters. However, as part of our business strategy, the majority of our vessels are currently fixed on time charters ranging in duration from 11 months to 61 months. We may extend the charter periods for additional vessels in our fleet, including additional dry bulk carriers that we may purchase in the future, to take advantage of the relatively stable cash flow and high utilization rates that are associated with long-term time charters. While we believe that long-term charters provide us with relatively stable cash flows and higher utilization rates than shorter-term charters, our vessels that are committed to long-term charters may not be available for employment on short-term charters during periods of increasing short-term charter hire rates when these charters may be more profitable than long-term charters.

Investment in derivative instruments such as forward freight agreements could result in losses.

From time to time, we may take positions in derivative instruments including forward freight agreements, or FFAs. FFAs and other derivative instruments may be used to hedge a vessel owner's exposure to the charter market by providing for the sale of a contracted charter rate along a specified route and period of time. Upon settlement, if the contracted charter rate is less than the average of the rates, as reported by an identified index, for the specified route and period, the seller of the FFA is required to pay the buyer an amount equal to the difference between the contracted rate and the settlement rate, multiplied by the number of days in the specified period. Conversely, if the contracted rate is greater than the settlement rate, the buyer is required to pay the seller the settlement sum. If we take positions in FFAs or other derivative instruments and do not correctly anticipate charter rate movements over the specified route and time period, we could suffer losses in the settling or termination of the FFA. This could adversely affect our results of operations and cash flows.

We may have difficulty effectively managing our planned growth, which may adversely affect our earnings.

Since the completion of our initial public offering in March 2005, we have increased our fleet to 40 vessels in operation, and we expect to take delivery of three newbuilding vessels in 2016. The addition of these vessels to our fleet has resulted in a significant increase in the size of our fleet and imposes significant additional responsibilities on our management and staff. While we expect our fleet to grow further, this may require us to increase the number of our personnel. We will also have to increase our customer base to provide continued employment for the new vessels.

Our future growth will primarily depend on our ability to:

- locate and acquire suitable vessels;
- identify and consummate acquisitions or joint ventures;
- enhance our customer base;
- manage our expansion; and
- obtain required financing on acceptable terms.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations, the possibility that indemnification agreements will be unenforceable or insufficient to cover potential losses and difficulties associated with imposing common standards, controls, procedures and policies, obtaining additional qualified personnel, managing relationships with customers and integrating newly acquired assets and operations into existing infrastructure. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with our future growth.

Because the Public Company Accounting Oversight Board is not currently permitted to inspect our independent accounting firm, you may not benefit from such inspections.

Auditors of U.S. public companies are required by law to undergo periodic Public Company Accounting Oversight Board (PCAOB) inspections that assess their compliance with U.S. law and professional standards in connection with performance of audits of financial statements filed with the SEC. Certain European Union countries, including Greece, do not currently permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries, even if they are part of major international firms. Accordingly, unlike for most U.S. public companies, the PCAOB is prevented from evaluating our auditor's performance of audits and its quality control procedures, and, unlike shareholders of most U.S. public companies, we and our shareholders are deprived of the possible benefits of such inspections.

We cannot assure you that we will be able to borrow amounts under our credit and loan facilities and restrictive covenants in our credit and loan facilities may impose financial and other restrictions on us.

Since February 2005 we have entered into several loan agreements to finance vessel acquisitions and the construction of newbuildings. As of December 31, 2014, we had \$486.0 million outstanding under our facilities. Our ability to borrow amounts under our facilities is subject to the execution of customary documentation relating to the facility, including security documents, satisfaction of certain customary conditions precedent and compliance with terms and conditions included in the loan documents. Prior to each drawdown, we are required, among other things, to provide the lender with acceptable valuations of the vessels in our fleet confirming that the vessels in our fleet have a minimum value and that the vessels in our fleet that secure our obligations under the facilities are sufficient to satisfy minimum security requirements. To the extent that we are not able to satisfy these requirements, including as a result of a decline in the value of our vessels, we may not be able to draw down the full amount under the facilities without obtaining a waiver or consent from the lender. We will also not be permitted to borrow amounts under the facilities if we experience a change of control.

The credit and loan facilities also impose operating and financial restrictions on us. These restrictions may limit our ability to, among other things:

- pay dividends if we do not repay amounts drawn under our loan facilities, if there is a default under the loan facilities or if the payment of the dividend would result in a default or breach of a loan covenant;
- incur additional indebtedness, including through the issuance of guarantees;
- change the flag, class or management of our vessels;
- create liens on our assets;

- sell our vessels;
- enter into a time charter or consecutive voyage charters that have a term that exceeds, or which by virtue of any optional extensions may exceed a certain period;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; and
- enter into a new line of business.

Therefore, 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 cannot guarantee that we will be able to obtain our lenders' permission when needed. This may limit our ability to finance our future operations, make acquisitions or pursue business opportunities.

We cannot assure you that we will be able to refinance indebtedness incurred under our loan facilities.

We cannot assure you that we will be able to refinance indebtedness with equity offerings on terms that are acceptable to us or at all. If we are not able to refinance these amounts with the net proceeds of equity offerings on terms acceptable to us or at all, we will have to dedicate a greater portion of our cash flow from operations to pay the principal and interest of this indebtedness than if we were able to refinance such amounts. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our fleet, among other things, may materially affect our ability to obtain alternative financing. In addition, debt service payments under our loan facilities or alternative financing may limit funds otherwise available for working capital, capital expenditures and other purposes. If we are unable to meet our debt obligations, or if we otherwise default under our loan facilities or an alternative financing arrangement, our lenders could declare the debt, together with accrued interest and fees, to be immediately due and payable and foreclose on our fleet, which could result in the acceleration of other indebtedness that we may have at such time and the commencement of similar foreclosure proceedings by other lenders.

Purchasing and operating secondhand vessels may result in increased operating costs and reduced operating days.

While we have the right to inspect previously owned vessels prior to our purchase of them and we usually inspect secondhand vessels that we acquire, such inspections do not provide us with the same knowledge about their condition that we would have if these vessels had been built for, and operated exclusively by, us. A secondhand vessel may have conditions or defects that we were not aware of when we bought the vessel and which may require us to incur costly repairs to the vessel. These repairs may require us to put a vessel into drydock which would reduce our operating days. Furthermore, we usually do not receive the benefit of warranties on secondhand vessels.

We are subject to certain risks with respect to our counterparties on contracts, and failure of such counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business.

We enter into, among other things, charter parties with our customers. Such agreements subject us to counterparty risks. The ability of each of our counterparties to perform its obligations under a contract 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 maritime and offshore industries, the overall financial condition of the counterparty, charter rates received for specific types of vessels, and various expenses. In addition, in depressed market conditions, our charterers may no longer need a vessel that is currently under charter or may be able to obtain a comparable vessel at lower rates. As a result, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under agreements with us, we

could sustain significant losses, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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In the highly competitive international shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources, and as a result, we may be unable to employ our vessels profitably.

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than we do. Competition for the transportation of dry bulk cargo by sea is intense and depends on price, location, size, age, condition and the acceptability of the vessel and its operators to the charterers. Due in part to the highly fragmented market, competitors with greater resources than us could enter the dry bulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates and higher quality vessels than we are able to offer.

We may be unable to attract and retain key management personnel and other employees in the shipping industry, which may negatively impact the effectiveness of our management and results of operations.

Our success depends to a significant extent upon the abilities and efforts of our management team. We have entered into employment contracts with our Chairman and Chief Executive Officer, Mr. Simeon Palios; our President, Mr. Anastasios Margaronis; our Chief Financial Officer, Mr. Andreas Michalopoulos; and our Chief Operating Officer, Mr. Ioannis Zafirakis. Our success will depend upon our ability to retain key members of our management team and to hire new members as may be necessary. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining replacement personnel could have a similar effect. We do not currently, nor do we intend to, maintain "key man" life insurance on any of our officers or other members of our management team.

The fiduciary duties of our officers and directors may conflict with those of the officers and directors of Diana Containerships.

Certain of our officers and directors are officers and directors of Diana Containerships and have fiduciary duties to manage our business in a manner beneficial to us and our shareholders, as well as a duty to the shareholders of Diana Containerships. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Diana Containerships and to us are in conflict. The resolution of these conflicts may not always be in our best interest or that of our shareholders and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

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

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

- marine disaster;
- terrorism;
- environmental accidents;
- cargo and property losses or damage;

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

· piracy.

These hazards may result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to our customer relationships, delay or rerouting. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and may be substantial. We may have to pay drydocking costs that our insurance does not cover in full. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or our vessels may be forced to travel to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to steam to more distant drydocking facilities would decrease our earnings. The involvement of our vessels in an environmental disaster may also harm our reputation as a safe and reliable vessel owner and operator.

We may not have adequate insurance to compensate us if we lose our vessels or to compensate third parties.

We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We can give no assurance that we are adequately insured against all risks or that our insurers will pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

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

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. The loss of earnings while a vessel is being repaired and repositioned, as well as the actual cost of these repairs not covered by our insurance, would decrease our earnings and cash available for dividends, if declared. We may not have insurance that is sufficient to cover all or any of the costs or losses for damages to our vessels and may have to pay drydocking costs not covered by our insurance.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Currently, our fleet consists of 40 vessels in operation, having a combined carrying capacity of 4.6 million dead weight tons, or dwt, and a weighted average age of 7.0 years as of March 20, 2015, and we have shipbuilding contracts for the construction of three additional vessels. As our fleet ages, we will incur increased costs. 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 and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.





We are exposed to U.S. dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.

We generate all of our revenues in U.S. dollars but currently incur around half of our operating expenses and our general and administrative expenses in currencies other than the U.S. dollar, primarily the Euro. Because a significant portion of our expenses is incurred in currencies other than the U.S. dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. dollar and the Euro, which could affect the amount of net income that we report in future periods. While we historically have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may employ such instruments from time to time in the future in order to minimize this risk. Our use of financial derivatives would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

Volatility in LIBOR could affect our profitability, earnings and cash flow.

LIBOR may be volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of disruptions in the international markets. Because the interest rates borne by our outstanding indebtedness fluctuate with changes in LIBOR, it would affect the amount of interest payable on our debt, which, in turn, could have an adverse effect on our profitability, earnings and cash flow.

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

We have historically derived a significant part of our revenues from a small number of charterers. During 2014, approximately 55% of our revenues derived from four charterers. During 2013, approximately 58% of our revenues derived from four charterers. During 2012, approximately 40% of our revenues derived from three charterers. If one or more of our charterers chooses not to charter our vessels or is unable to perform under one or more charters with us and we are not able to find a replacement charter, we could suffer a loss of revenues that could adversely affect our financial condition and results of operations.

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

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to satisfy our financial obligations depends on our subsidiaries and their ability to distribute funds to us. If we are unable to obtain funds from our subsidiaries, we may not be able to satisfy our financial obligations.

As we expand our business, we may need to improve our operating and financial systems and will need to recruit suitable employees and crew for our vessels.

Our current operating and financial systems may not be adequate as we expand the size of our fleet and our attempts to improve those systems may be ineffective. In addition, as we expand our fleet, we will need to recruit suitable additional seafarers and shoreside administrative and management personnel. While we have not experienced any difficulty in recruiting to date, we cannot guarantee that we will be able to continue to hire suitable employees as we expand our fleet. If we or our crewing agent encounter business or financial difficulties, we may not be able to adequately staff our vessels. If we are unable to grow our financial and operating systems or to recruit suitable employees as we expand our fleet, our financial performance may be adversely affected, among other things.



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

Under the U.S. Internal Revenue Code of 1986, as amended, or the "Code", 50% of the gross shipping income of a vessel-owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income and such income is generally subject to a 4% U.S. federal income tax without allowance for deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

We expect that we and each of our subsidiaries qualify for this statutory tax exemption for the 2014 taxable year and we will take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption in future years and thereby become subject to U.S. federal income tax on our U.S. source shipping income. For example, in certain circumstances we may no longer qualify for exemption under Code Section 883 for a particular taxable year if shareholders, other than "qualified shareholders", with a five percent or greater interest in our common shares owned, in the aggregate, 50% or more of our outstanding common shares for more than half the days during the taxable year. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this exemption under Section 883 of the Code for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our gross U.S.-source shipping income. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders, although, for the 2014 taxable year, we estimate our maximum U.S. federal income tax liability to be immaterial if we were subject to this U.S. federal income tax. See Item 10.E "Taxation" for a more comprehensive discussion of U.S. federal income tax considerations.

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

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

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

There is substantial legal authority supporting this position consisting of case law and U.S. Internal Revenue Service, or "IRS", pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept this position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if the nature and extent of our operations changed.

If the IRS or a court of law were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders would face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be subject to U.S. federal income tax at the then prevailing U.S. federal income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our common stock. See Item 10.E "Taxation – United States Taxation of U.S. Holders – PFIC Status and Significant Tax Consequences" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. holders of our common stock if we are or were to be treated as a PFIC.

#### Risks Relating to Our Common Stock

Our board of directors decided to suspend the payment of cash dividends on our common stock. We cannot assure you that our board of directors will reinstate dividend payments in the future, or when such reinstatement might occur.

In order to position us to take advantage of market opportunities, in a deteriorating market our board of directors, beginning with the fourth quarter of 2008, has suspended our common stock dividend. Our dividend policy will be assessed by the board of directors from time to time. We believe that this suspension has enhanced our flexibility by permitting cash flow that would have been devoted to dividends to be used for opportunities that arise in the current marketplace, such as funding our operations, acquiring vessels or servicing our debt.

Our policy, historically, was to declare quarterly distributions to shareholders by each February, May, August and November substantially equal to our available cash from operations during the previous quarter after accounting for cash expenses and reserves for scheduled drydockings, intermediate and special surveys and other purposes as our board of directors may from time to time determine are required, and after taking into account contingent liabilities, the terms of our loan facilities, our growth strategy and other cash needs and the requirements of Marshall Islands law. The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things, our earnings, financial condition and cash requirements and availability, our ability to obtain debt and equity financing on acceptable terms as contemplated by our growth strategy and provisions of Marshall Islands law affecting the payment of dividends. In addition, other external factors, such as our lenders imposing restrictions on our ability to pay dividends under the terms of our loan facilities, may limit our ability to pay dividends. Further, we may not be permitted to pay dividends under the terms of our loan agreements, that would result in an event of default or if an event of default has occurred and is continuing.

Our growth strategy contemplates that we will finance the acquisition of additional vessels through a combination of debt and equity financing on terms acceptable to us. If financing is not available to us on acceptable terms, our board of directors may determine to finance or refinance acquisitions with cash from operations, which could also reduce or even eliminate the amount of cash available for the payment of dividends.

Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend. We may not have sufficient surplus in the future to pay dividends. We can give no assurance that we will reinstate our dividends in the future or when such reinstatement might occur.

In addition, our ability to pay dividends to holders of our common shares will be subject to the rights of holders of our Series B Preferred Shares, which rank prior to our common shares with respect to dividends, distributions and payments upon liquidation. No cash dividend may be paid on our common stock unless full cumulative dividends have been or contemporaneously are being paid or provided for on all outstanding Series B Preferred Shares for all prior and the then-ending dividend periods. Cumulative dividends on our Series B Preferred Shares accrue at a rate of 8.875% per annum per \$25.00 stated liquidation preference per Series B Preferred Share, subject to increase upon the occurrence of certain events, and are payable, as and if declared by our board of directors, on January 15, April 15, July 15 and October 15 of each year, or, if any such dividend payment date otherwise would fall on a date that is not a business day, the immediately succeeding business day. For additional information about our Series B Preferred Shares, please see the section entitled "Description of Registrant's Securities to be Registered" of our registration statement on Form 8-A filed with the SEC on February 13, 2014 and incorporated by reference herein.

There is no guarantee that there will continue to be an active and liquid public market for you to resell our common stock in the future.

The price of our common stock may be volatile and may fluctuate due to factors such as:

- actual or anticipated fluctuations in our quarterly and annual results and those of other public companies in our industry;
- mergers and strategic alliances in the dry bulk shipping industry;
- market conditions in the dry bulk shipping industry;
- changes in government regulation;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors; and
- the general state of the securities market.

The dry bulk shipping industry has been highly unpredictable and volatile. The market for common stock in this industry may be equally volatile.

Since we are incorporated in the Marshall Islands, which does not have a well-developed body of corporate law, you may have more difficulty protecting your interests than shareholders of a U.S. corporation.

Our corporate affairs are governed by our amended and restated articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or the 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 Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the laws 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 the United States. The rights of shareholders of the Marshall Islands may differ from the rights of shareholders of companies incorporated in the United States. While the BCA provides that it is to be interpreted according to the laws of the State of Delaware and other states with substantially similar legislative provisions, there have been few, if any, court cases interpreting the BCA in the Marshall Islands and we cannot predict whether Marshall Islands courts would reach the same conclusions as United States courts. Thus, you may have more difficulty in protecting your interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction which has developed a relatively more substantial body of case law.

Certain existing shareholders will be able to exert considerable control over matters on which our shareholders are entitled to vote.

As of the date of this annual report Mr. Simeon Palios, our Chairman and Chief Executive Officer, beneficially owns 16,157,371 shares, or approximately 19.6% of our outstanding common stock, the vast majority of which is held indirectly through entities over which he exercises sole voting power. Please see "Item 7.A. Major Shareholders." While Mr. Palios and the non-voting shareholders of these entities have no agreement, arrangement or understanding relating to the voting of their shares of our common stock, they are able to influence the outcome of matters on which our shareholders are entitled to vote, including the election of directors and other significant corporate actions. The interests of these shareholders may be different from your interests.

Future sales of our common stock could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, may depress the market price for our common stock. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.

Our amended and restated articles of incorporation authorize us to issue up to 200,000,000 shares of common stock, of which as of December 31, 2014, 81,859,821 shares were outstanding. The number of shares of common stock available for sale in the public market is limited by restrictions applicable under securities laws and agreements that we and our executive officers, directors and principal shareholders have entered into.

Anti-takeover provisions in our organizational documents could make it difficult for our shareholders 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 shareholders 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 shareholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue "blank check" preferred stock without shareholder 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 a majority of the outstanding shares of our common stock entitled to vote for the directors;
- prohibiting shareholder action by written consent;
- limiting the persons who may call special meetings of shareholders; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

In addition, we have adopted a shareholder rights plan pursuant to which our board of directors may cause the substantial dilution of any person that attempts to acquire us without the approval of our board of directors.

These anti-takeover provisions, including provisions of our shareholder rights plan, could substantially impede the ability of public shareholders 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.

Our Series B Preferred Shares are senior obligations of ours and rank prior to our common shares with respect to dividends, distributions and payments upon liquidation, which could have an adverse effect on the value of our common shares.

The rights of the holders of our Series B Preferred Shares rank senior to the obligations to holders of our common shares. Upon our liquidation, the holders of Series B Preferred Shares will be entitled to receive a liquidation preference of \$25.00 per share, plus all accrued but unpaid dividends, prior and in preference to any distribution to the holders of any other class of our equity securities, including our common shares. The existence of the Series B Preferred Shares could have an adverse effect on the value of our common shares.

#### Risks Relating to Our Series B Preferred Stock

We may not have sufficient cash from our operations to enable us to pay dividends on our Series B Preferred Shares following the payment of expenses and the establishment of any reserves.

We pay quarterly dividends on our Series B Preferred Shares only from funds legally available for such purpose when, as and if declared by our board of directors. We may not have sufficient cash available each quarter to pay dividends. The amount of dividends we can pay on our Series B Preferred Shares depends upon the amount of cash we generate from and use in our operations, which may fluctuate.

The amount of cash we have available for dividends on our Series B Preferred Shares will not depend solely on our profitability. The actual amount of cash we have available to pay dividends on our Series B Preferred Shares depends on many factors, including the following:

- changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;

- restrictions under our existing or future credit facilities or any future debt securities on our ability to pay dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default, or under certain facilities if it would result in the breach of certain financial covenants;

- the amount of any cash reserves established by our board of directors; and

- restrictions under Marshall Islands law, which generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which is affected by noncash items, and our board of directors in its discretion may elect not to declare any dividends. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

The Series B Preferred Shares represent perpetual equity interests.

The Series B Preferred Shares represent perpetual equity interests in us and, unlike our indebtedness, will not give rise to a claim for payment of a principal amount at a particular date. As a result, holders of the Series B Preferred Shares may be required to bear the financial risks of an investment in the Series B Preferred Shares for an indefinite period of time. In addition, the Series B Preferred Shares will rank junior to all our indebtedness and other liabilities, and to any other senior securities we may issue in the future with respect to assets available to satisfy claims against us.

Our Series B Preferred Shares are subordinate to our indebtedness, and your interests could be diluted by the issuance of additional preferred shares, including additional Series B Preferred Shares, and by other transactions.

Our Series B Preferred Shares are subordinated to all of our existing and future indebtedness. Therefore, our ability to pay dividends on, redeem or pay the liquidation preference on our Series B Preferred Shares in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. Our existing indebtedness restricts, and our future indebtedness may include restrictions on, our ability to pay dividends on or redeem preferred shares. Our amended and restated articles of incorporation currently authorize the issuance of up to 25,000,000 preferred shares, par value \$0.01 per share. Of these preferred shares, 1,000,000 shares have been designated Series A Participating Preferred Stock in connection with our adoption of a stockholder rights plan as described under "Item 10. Additional Information—B. Memorandum and Articles of Association" and 5,000,000 shares have been designated Series B Preferred Shares. The Series B Preferred Shares are senior in rank to the Series A Participating Preferred Shares. The issuance of additional Series B Preferred Shares or other preferred shares on a parity with or senior to the Series B Preferred Shares would dilute the interests of holders of our Series B Preferred Shares, and any issuance of preferred shares senior to our Series B Preferred Shares or of additional indebtedness could affect our ability to pay dividends on, redeem or pay the liquidation preference on our Series B Preferred Shares. The Series B Preferred Shares do not contain any provisions affording the holders of our Series B Preferred Shares protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets or business, which might adversely affect the holders of our Series B Preferred Shares, so long as the rights



of our Series B Preferred Shares are not directly materially and adversely affected.

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We may redeem the Series B Preferred Shares, and you may not be able to reinvest the redemption price you receive in a similar security.

On or after February 14, 2019, we may, at our option, redeem Series B Preferred Shares, in whole or in part, at any time or from time to time. We may have an incentive to redeem Series B Preferred Shares voluntarily if market conditions allow us to issue other preferred shares or debt securities at a rate that is lower than the dividend on the Series B Preferred Shares. If we redeem Series B Preferred Shares, then from and after the redemption date, your dividends will cease to accrue on your Series B Preferred Shares, your Series B Preferred Shares shall no longer be deemed outstanding and all your rights as a holder of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If we redeem the Series B Preferred Shares for any reason, you may not be able to reinvest the redemption price you receive in a similar security.

Market interest rates may adversely affect the value of our Series B Preferred Shares.

One of the factors that will influence the price of our Series B Preferred Shares will be the dividend yield on the Series B Preferred Shares (as a percentage of the price of our Series B Preferred Shares) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our Series B Preferred Shares to expect a higher dividend yield, and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Accordingly, higher market interest rates could cause the market price of our Series B Preferred Shares to decrease.

As a holder of Series B Preferred Shares you have extremely limited voting rights.

Your voting rights as a holder of Series B Preferred Shares will be extremely limited. Our common shares are the only outstanding class or series of our shares carrying full voting rights. Holders of Series B Preferred Shares will have no voting rights other than the ability, subject to certain exceptions, to elect one director if dividends for six quarterly dividend periods (whether or not consecutive) payable on our Series B Preferred Shares are in arrears and certain other limited protective voting rights.

Our ability to pay dividends on and to redeem our Series B Preferred Shares is limited by the requirements of Marshall Islands law.

Marshall Islands law provides that we may pay dividends on and redeem the Series B Preferred Shares only to the extent that assets are legally available for such purposes. Legally available assets generally are limited to our surplus, which essentially represents our retained earnings and the excess of consideration received by us for the sale of shares above the par value of the shares. In addition, under Marshall Islands law we may not pay dividends on or redeem Series B Preferred Shares if we are insolvent or would be rendered insolvent by the payment of such a dividend or the making of such redemption.

The amount of your liquidation preference is fixed and you will have no right to receive any greater payment regardless of the circumstances.

The payment due upon a liquidation is fixed at the redemption preference of \$25.00 per share plus accumulated and unpaid dividends to the date of liquidation. If, in the case of our liquidation, there are remaining assets to be distributed after payment of this amount, you will have no right to receive or to participate in these amounts. Furthermore, if the market price for your Series B Preferred Shares is greater than the liquidation preference, you will have no right to receive the market price from us upon our liquidation.

Item 4. Information on the Company

A. History and development of the Company

Diana Shipping Inc. is a holding company incorporated under the laws of Liberia in March 1999 as Diana Shipping Investments Corp. In February 2005, the Company's articles of incorporation were amended. Under the amended and restated articles of incorporation, the Company was renamed Diana Shipping Inc. and was re-domiciled from the Republic of Liberia to the Marshall Islands. Our executive offices are located at Pendelis 16, 175 64 Palaio Faliro, Athens, Greece. Our telephone number at this address is +30-210-947-0100. Our agent and authorized representative in the United States is our wholly-owned subsidiary, Bulk Carriers (USA) LLC, established in September 2006, in the State of Delaware, which is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

Business Development and Capital Expenditures and Divestitures

In March 2012, we entered into, through two of our wholly owned subsidiaries, shipbuilding contracts with China Shipbuilding Trading Company, Limited and Jiangnan Shipyard (Group) Co., Ltd, for the construction of two ice class Panamax dry bulk carriers for the contract price of \$29.0 million each. One of the vessels, the Crystalia, was delivered on February 20, 2014 and the other vessel the Atalandi, was delivered on May 12, 2014.

In June 2012, the agreement between Jemo Shipping Company Inc. and Nordea Bank Finland Plc was restated and amended by a supplemental agreement in order to include our wholly owned subsidiary, Mandarinina Inc., as a new borrower and increase the loan amount to up to \$26.5 million for the purpose of financing part of the acquisition cost of the Melia.

In December 2012, our wholly-owned subsidiaries Palau Shipping Company Inc. and Guam Shipping Company Inc. entered into a new agreement with Nordea Bank Finland Plc for a term loan facility of \$20.0 million, to finance part of the acquisition cost of vessels Amphitrite and Polymnia.

In 2012, we acquired the Melia, a Panamax dry bulk carrier, built in 2005, for \$20.7 million, delivered in May 2012; the Amphitrite, a new built Post-Panamax dry bulk carrier, for \$25.0 million, delivered in August 2012; the Polymnia, a new built Post-Panamax dry bulk carrier, for \$24.6 million, delivered in November 2012; and we also entered into an agreement to acquire the Myrto, a Kamsarmax dry bulk carrier, for \$26.5 million, which was built and delivered to us in January 2013.

In 2013, we took delivery of the Maia, a Kamsarmax dry bulk carrier, built in 2009, which we acquired at an auction for \$19.7 million; the Baltimore, a 2005 built Capesize dry bulk carrier, which we acquired for \$26.8 million; the Artemis, a 2006 built Panamax dry bulk carrier, which we acquired for \$20.2 million; the Myrsini, a 2010 built Kamsarmax dry bulk vessel, which we acquired in a bid offer for \$22.7 million; and the P.S. Palios, a 2013 built Capesize dry bulk vessel of, which we acquired for \$52.0 million.

On May 17, 2013, we entered, through two separate wholly owned subsidiaries, into two shipbuilding contracts with China Shipbuilding Trading Company, Limited and Jiangnan Shipyard (Group) Co., Ltd. for the construction of two Newcastlemax dry bulk vessels for a contract price of \$48.7 million each. We expect to take delivery of the two vessels in 2016.

On May 20, 2013, we entered into a loan agreement with Eluk Shipping Company Inc., a subsidiary of Diana Containerships, to provide to it an unsecured loan of up to \$50.0 million, the drawdown of which was completed on August 20, 2013.

On May 24, 2013, we entered into, through two separate wholly-owned subsidiaries, a term loan facility for up to \$30.0 million with The Export-Import Bank of China having a majority interest and DNB Bank ASA, as agent, to partly finance, after delivery, the construction cost of our two newbuilding Ice Class Panamax dry bulk carriers, named Crystalia and Atalandi, which we drew down on May 22, 2014.

On June 18, 2013, we signed, through two separate wholly-owned subsidiaries, a term loan facility for up to \$18.0 million with Deutsche Bank Aktiengesellschaft Filiale Deutschlandgeschäft ("Deutsche Bank"), and on June 20, 2013, we completed the drawdown of \$18.0 million in order to partially finance the acquisition costs of the Myrto and the Maia, both delivered earlier in 2013. On the same date, our wholly owned subsidiary, Bikini Shipping Company Inc., entered into a supplemental agreement with Deutsche in order to amend the terms of its loan agreement dated October 9, 2009 with respect to the cross collateralization of the New York with Maia and Myrto. The agreement between Deutsche Bank and Bikini was terminated on March 10, 2015 following full repayment of the outstanding loan balance and on March 20, 2015, we prepaid the outstanding indebtedness under the loan agreement for Myrto and Maia, of \$15.8 million.

On August 8, 2013, Diana Shipping Services S.A., or DSS, our wholly-owned subsidiary, was found guilty on felony counts and on December 5, 2013 was sentenced by the United States District Court in Norfolk, Virginia to a fine of \$1.1 million which was fully settled in two installments, and a period of probation of three years and six months, as a result of a conviction in which DSS was held vicariously liable for the actions of the chief engineer and second assistant engineer of the Thetis, who were found guilty by the Court of violating several U.S. statutes and regulations in failing to properly handle waste oils, maintain required records and for obstruction of justice. In addition, the sentence includes a requirement to maintain an enhanced system subject to independent audit for managing waste oils on vessels managed by DSS.

On November 26, 2013, the charterers of the Houston terminated the charter earlier than the termination date determined under the terms of the charter party and redelivered the vessel. We were awarded damages in arbitration proceedings against the charterers seeking to recover the losses resulting from the early termination. Following the publication of the award, the charterers filed for a creditors' voluntary liquidation in Hong Kong and we have filed our claim in the liquidation in Hong Kong.

On January 8, 2014, we entered, through a separate wholly-owned subsidiary, into a shipbuilding contract with Yangzhou Dayang Shipbuilding Co., Ltd. and Shanghai Sinopacific International Trade Co., Ltd., and since April 21, 2014 with Sumec Marine Co., Ltd., pursuant to an addendum, for the construction of a Kamsarmax dry bulk vessel for a contract price of \$28.8 million. We expect to take delivery of the vessel in 2016.

On January 9, 2014, we entered into, through two separate wholly-owned subsidiaries, a term loan facility for up to \$18.0 million with Commonwealth Bank of Australia to partially finance the acquisition costs of two Panamax dry bulk vessels, the Melite and the Artemis, which were delivered on January 28, 2010 and August 26, 2013, respectively, and we completed the drawdown of \$18.0 million on January 13, 2014.

On February 24, 2014, we completed a public offering of 2,600,000 shares of 8.875% Series B Cumulative Redeemable Perpetual Preferred Shares, par value \$0.01 per share at \$25.00 per share. We received net proceeds from the offering of \$62.7 million, net of underwriting discount and offering expenses.

On May 22, 2014, our Board of Directors authorized a share repurchase plan for up to \$100 million of our common shares of which, until the date of this annual report, we repurchased and retired 3,259,353 shares at the aggregate cost of \$28.0 million and an average price of \$8.6 per share.

On June 24, 2014, we, through a separate wholly-owned subsidiary, entered into a Memorandum of Agreement to acquire from an unaffiliated third party the G. P. Zafirakis" a new-building Capesize dry bulk vessel, built by Qingdao Beihai Shipbuilding Heavy Industry Co., Ltd., Qingdao, People's Republic of China, for a purchase price of \$58.0 million. The vessel was delivered on August 20, 2014.

On July 29, 2014, we purchased 15,936,255 shares of the common stock of Diana Containerships for an aggregate purchase price of \$40.0 million, increasing our ownership in Diana Containerships to 26.34%.

On December 8, 2014, we, through a separate wholly-owned subsidiary, entered into a Memorandum of Agreement to acquire from an unaffiliated third party the Santa Barbara, a new-building Capesize dry bulk vessel, built by Qingdao Beihai Shipbuilding Heavy Industry Co., Ltd., Qingdao, People's Republic of China, for a purchase price of \$50.0 million. The vessel was delivered on January 12, 2015.

On December 18, 2014, we entered into, through two separate wholly-owned subsidiaries, a term loan facility for up to \$55.0 million with BNP Paribas to re-finance part of the acquisition cost of the G.P. Zafirakis and P.S. Palios. We completed the drawdown of \$53.5 million on December 19, 2014.

In December 2014, DSS acquired jointly with two other related entities, from unrelated individuals, a plot of land for an aggregate purchase price of €2.0 million or \$2.5 million (based on the exchange rate of \$ to Euro as of the date of acquisition). DSS paid 1/3 of the purchase price amounting to \$0.9 million, including additional purchase costs incurred. The plot is under the common ownership of the joint purchasers.

On February 27, 2015 we entered into a commitment letter with Danish Ship Finance for a loan facility of \$30.0 million to finance part of the acquisition cost of vessel Santa Barbara, subject to signing the loan agreement by May 01, 2015. On March 12, 2015, ABN AMRO Bank NV offered a term sheet, valid until March 27, 2015, for a loan of up to \$53.0 million to refinance the acquisition cost of New York, Maia and Myrto.

On March 17, 2015, we entered into, through eight separate wholly-owned subsidiaries, a term loan facility of up to \$110.0 million with Nordea Bank to refinance the existing agreements we had with the bank for working capital and general corporate purposes. We completed the drawdown of \$93.1 million on March 19, 2015 and we fully repaid all outstanding indebtedness with the bank at that date.

Please see "Item 5.B Liquidity and Capital Resources" for a discussion of our loan facilities.

## B. Business overview

We are a global provider of shipping transportation services. We specialize in transporting dry bulk cargoes, including such commodities as iron ore, coal, grain and other materials along worldwide shipping routes. Currently, our operating fleet consists of 40 dry bulk carriers, of which 20 are Panamax, three are Kamsarmax, three are Post-Panamax, twelve are Capesize and two are Newcastlemax vessels, having a combined carrying capacity of approximately 4.6 million dwt. In addition, we expect to take delivery of three vessels under construction in 2016.

As of December 31, 2014, our fleet consisted of 39 vessels of which 20 Panamax, three Kamsarmax, three Post-Panamax, eleven Capesize and two Newcastlemax vessels, having a combined carrying capacity of approximately 4.4 million dwt, and a weighted average age of 7.1 years. In addition, we had three vessels under

construction which we expect to take delivery of in 2016 and we had agreed to acquire Santa Barbara, delivered in January 2015.

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As of December 31, 2013, our fleet consisted of 36 vessels of which 18 Panamax, three Kamsarmax, three Post-Panamax, ten Capesize and two Newcastlemax vessels, having a combined carrying capacity of approximately 4.1 million dwt, and a weighted average age of 6.6 years, excluding four vessels we had under construction.

As of December 31, 2012, our fleet consisted of 30 vessels of which 17 Panamax, three Post-Panamax, eight Capesize and two Newcastlemax vessels, having a combined carrying capacity of approximately 3.4 million dwt, and a weighted average age of 6.0 years, excluding two vessels under construction and the Myrto which was delivered in January 2013.

During 2014, 2013 and 2012, we had a fleet utilization of 99.4%, 99.3% and 98.7%, respectively, our vessels achieved daily time charter equivalent rates of \$12,081, \$12,959 and \$21,255, respectively, and we generated revenues of \$175.6 million, \$164.0 million and \$220.8 million, respectively.

The following table presents certain information concerning the dry bulk carriers in our fleet, as of March 24, 2015.

Vessel BUILT DWT	Sister Ships*	Gross Rate (USD Per Day)	Com** Charterer	Delivery Date to Charterer	Redelivery Date to Owners***	Notes	
Panamax Bulk Carriers							
1 DANAE	A	\$8,250	5.00%	Intermare Transport GmbH, Hamburg	10-Mar-13	16-Jan-15	
		\$7,650	3.75%	Glencore Grain B.V., Rotterdam	16-Jan-15	16-Dec-15 - 16-Mar-16	
2001 75,106							
2 DIONE	A	\$9,250	5.00%	RWE Supply & Trading GmbH, Essen	12-Sep-14	12-Oct-15 - 27-Feb-16	
2001 75,172							
3 NIREFS	A	\$7,500	5.00%	Glencore Grain B.V., Rotterdam	25-Dec-14	25-Nov-15 25-Feb-16	
2001 75,311							
4 ALCYON	A	\$7,750	5.00%	EDF Trading Limited, UK	21-Dec-12	11-Apr-15 - 21-May-15	1
2001 75,247							
5 TRITON	A	\$9,250	5.00%	Glencore Grain B.V., Rotterdam	24-Oct-14	24-Sep-15 - 24-Dec-15	
2001 75,336							
6 OCEANIS	A	\$9,000	5.00%	Glencore Grain B.V., Rotterdam	19-Jun-14	22-Mar-15	
		\$4,500	5.00%		22-Mar-15	11-May-15	
		\$7,200	5.00%		11-May-15	22-Feb-16 - 22-May-16	
2001 75,211							
7 THETIS	B	\$8,300	5.00%		1-Sep-13	1-Jul-15 - 1-Dec-15	

EDF Trading Limited,  
UK

2004								
73,583								
8	PROTEFS	B	\$9,000	5.00%	Cargill International S.A., Geneva	14-Sep-12	27-Mar-15	1,2
2004								
73,630								
9	CALIPSO	B	\$8,100	4.75%	Cargill International S.A., Geneva	29-Jul-13	29-Apr-15 - 29-Aug-15	
2005								
73,691								



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10	CLIO 2005 73,691	B \$8,600 4.75%	Cargill International S.A., Geneva	22-Aug-13	22-May-15 - 22-Aug-15	
11	NAIAS 2006 73,546	B \$8,500 5.00%	Bunge S.A., Geneva	3-Sep-14	4-Jul-15 - 4-Oct-15	
12	ARETHUSA 2007 73,593	B \$8,250 5.00% \$7,100 5.00%	Glencore Grain B.V., Rotterdam	20-Nov-14 5-Mar-15	5-Mar-15 - 5-May-16	
13	ERATO 2004 74,444	C \$8,500 5.00% \$8,000 5.00% \$7,100 5.00%	RWE Supply & Trading GmbH, Essen Langlois Enterprises Ltd. Glencore Grain B.V., Rotterdam	27-Nov-14 17-Jan-15 9-Mar-15	14-Jan-15 9-Mar-15 9-Feb-16 - 9-May-16	
14	CORONIS 2006 74,381	C \$11,550 5.00%	Oberon Holdings Limited	12-Jun-14	12-May-15 - 12-Aug-15	
15	MELITE 2004 76,436	D \$7,250 5.00%	Glencore Grain B.V., Rotterdam	29-Jan-15	29-Sep-15 - 29-Jan-16	3
16	MELIA 2005 76,225	D \$12,000 3.75%	Rio Tinto Shipping Pty, Ltd., Melbourne	10-May-14	10-Apr-15 - 10-Jul-15	4
17	ARTEMIS 2006 76,942	\$9,375 3.75%	Rio Tinto Shipping Pty, Ltd., Melbourne	26-Aug-13	26-Jun-15 - 26-Oct-15	
18	LETO 2010 81,297	\$11,350 4.75%	Cargill International S.A., Geneva	19-Jul-14	19-Jun-15 - 19-Sep-15	5
19	CRYSTALIA 2014 77,525	E \$15,800 5.00%	Glencore Grain B.V., Rotterdam	21-Feb-14	21-Aug-15 - 21-Nov-15	
20	ATALANDI 2014 77,529	E \$13,500 5.00%	Glencore Grain B.V., Rotterdam	13-May-14	13-Apr-15 - 18-Apr-15	1
Kamsarmax Bulk Carriers						
21	MAIA 2009 82,193	F \$12,000 5.00%	RWE Supply & Trading GmbH, Essen	29-Sep-14	29-Sep-15 - 29-Jan-16	
22	MYRSINI 2010 82,117	F \$15,500 4.75% \$8,250 4.75%	Clearlake Shipping Pte. Ltd., Singapore	12-Feb-14 18-Feb-15	18-Feb-15 - 18-Apr-16	6
23	MYRTO 2013 82,131	F \$9,000 5.00% \$9,850 5.00%	Cargill International S.A., Geneva Glencore Grain B.V., Rotterdam	25-Jan-13 5-Jan-15	5-Jan-15 - 5-Mar-16	

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Post-Panamax Bulk Carriers							
24	ALCMENE	\$7,250	5.00%	ADM International Sarl, Rolle, Switzerland	22-Feb-13	28-Feb-15	7,8
		\$6,000	5.00%	Topsail Shipping Co., Limited Hong Kong	15-Mar-15	30-Mar-15	9
	2010	93,193					
25	AMPHITRITE	\$11,300	5.00%	Bunge S.A., Geneva	15-Aug-14	15-Jul-15 - 15-Oct-15	
	2012	98,697					
26	POLYMNIA	\$7,600	5.00%	Bunge S.A., Geneva	16-Jan-13	3-Jan-15	10
		\$7,500	5.00%	Vroon Dry Cargo Chartering B.V., Breskens	17-Jan-15	17-Oct-15 - 17-Feb-16	11
	2012	98,704					
Capesize Bulk Carriers							
27	NORFOLK	\$10,700	4.50%	Clearlake Shipping Pte. Ltd., Singapore	16-Jan-13	4-Mar-15	6,12
		\$10,250	4.75%		4-Mar-15	4-Apr-16 - 4-Aug-16	
	2002	164,218					
28	ALIKI	\$26,500	5.00%	Minmetals Logistics Group Co. Ltd., Beijing	1-Mar-11	1-Feb-16 - 1-Apr-16	
	2005	180,235					
29	BALTIMORE	\$15,000	5.00%	RWE Supply & Trading GmbH, Essen	8-Jul-13	8-Jul-16 - 8-Jan-17	
	2005	177,243					
30	SALT LAKE CITY	\$16,200	5.00%	Kawasaki Kisen Kaisha, Ltd., Tokyo	23-Nov-14	7-Feb-15	
		BCI 4TCs AVG + 3.5%	5.00%	K Noble Hong Kong Ltd., Hong Kong	7-Feb-15	7-Nov-16 - 7-Feb-17	
	2005	171,810					
31	SIDERIS GS	G\$13,500	4.75%	Cargill International S.A., Geneva	14-Mar-13	21-Feb-15	
		\$10,000	5.00%	Rio Tinto Shipping (Asia) Pte., Ltd., Singapore	22-Feb-15	22-Dec-15 - 22-Apr-16	
	2006	174,186					
32	SEMIRIO	G\$14,000	4.75%	Cargill International S.A., Geneva	19-Mar-13	20-Feb-15	
		\$10,000	5.00%	Rio Tinto Shipping (Asia) Pte., Ltd., Singapore	20-Feb-15	20-Feb-16 - 20-Jun-16	
	2007	174,261					
33	BOSTON	G\$14,250	4.75%	Clearlake Shipping Pte. Ltd., Singapore	24-Aug-13	9-Aug-15 - 8-Feb-16	6
	2007	177,828					
34	HOUSTON	G\$20,500	4.75%	Clearlake Shipping Pte. Ltd., Singapore	3-Dec-13	4-Jan-15	6
		\$12,750	5.00%	RWE Supply & Trading GmbH, Essen	4-Jan-15	4-Jan-16 - 4-Apr-16	
	2009	177,729					



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35 NEW YORK	G\$12,8504.75%	Clearlake Shipping Pte. Ltd., Singapore	17-Dec-14	17-Feb-16 -	17-Jun-16	6
2010	177,773					
36 P. S. PALIOS	\$18,3505.00%	RWE Supply & Trading GmbH, Essen	3-Dec-13	18-Sep-15 -	31-Dec-15	
2013	179,134					
37 G. P. ZAFIRAKIS	H\$25,2505.00%	RWE Supply & Trading GmbH, Essen	23-Aug-14	14-Feb-16 -	23-Jun-16	
2014	179,492					
38 SANTA BARBARA	H\$12,0005.00%	RWE Supply & Trading GmbH, Essen	13-Jan-15	13-Dec-15 -	13-Mar-16	
2015	179,426					
	Newcastle	max Bulk Carriers				
39 LOS ANGELES	I \$18,0005.00%	EDF Trading Limited, UK	9-Feb-12	9-Dec-15 -	9-Apr-16	
2012	206,104					
40 PHILADELPHIA	I \$18,0005.00%	EDF Trading Limited, UK	17-May-12	17-Jan-16 -	17-Jul-16	
2012	206,040					
	Vessels Under Construction					
41 HULL DY6006	- - -		-	---		13
2016	82,000					
42 HULL H2548	J - - -		-	---		13
(tbn. SAN FRANCISCO)						
2016	208,500					
43 HULL H2549	J - - -		-	---		13
(tbn. NEWPORT NEWS)						
2016	208,500					

\* Each dry bulk carrier is a "sister ship", or closely similar, to other dry bulk carriers that have the same letter.

\*\* Total commission percentage paid to third parties.

\*\*\* Charterers' optional period to redeliver the vessel to owners. Charterers have the right to add the off hire days, if any, and therefore the optional period may be extended.

1 Based on latest information.

2 On October 14, 2014, the Company signed an addendum, extending the initially agreed maximum redelivery date by a month. On December 15, 2014, the Company agreed to further extend the maximum redelivery date till April 14, 2015.

3 Vessel on scheduled drydocking from December 30, 2014 to January 22, 2015.

4 Vessel off-hire for drydocking from January 15, 2015 to February 5, 2015.

5 Vessel off-hire for drydocking from February 7, 2015 to February 18, 2015.

6 Clearlake Shipping Pte. Ltd., Singapore is a member of the Gunvor Group.

7 In February 2015, owners and charterers mutually agreed to extend the optional period.

8 Vessel on scheduled drydocking from February 28, 2015 to March 15, 2015.

9 Redelivery date based on an estimated time charter trip duration of about 15 days.

10 Prior to October 12, 2013, chartered to Augustea Bunge Maritime Limited, Malta.

11 Charter includes a one time gross ballast bonus payment of US\$237,500.

12 Charterers have exercised their right to add the off-hire days and therefore the optional period has been extended up to February 18, 2015. From then onwards, owners and charterers mutually agreed to further extend the optional period.

13 Year of delivery and dwt are based on shipbuilding contract.

Each of our vessels is owned through a separate wholly-owned subsidiary.

#### Management of Our Fleet

The business of Diana Shipping Inc. is the ownership of dry bulk vessels. The parent holding company wholly owns, directly or indirectly, the subsidiaries which own the vessels that comprise our fleet. The holding company sets general overall direction for the company and interfaces with various financial markets. The commercial and technical management of our fleet, as well as providing administrative services relating to the fleet's operations, are carried out by our wholly-owned subsidiary, Diana Shipping Services S.A., which we refer to as DSS, or our fleet manager. In exchange for providing us with commercial and technical services, personnel and office space, we pay our fleet manager a commission that is equal to 2% of our revenues, a fixed management fee of \$15,000 per month for each vessel in operation and a fixed monthly fee of \$7,500 for vessels under construction and for laid up vessels. The administrative services of Diana Shipping Inc and its subsidiaries are also carried out by DSS. On October 1, 2013, Diana Shipping Inc., entered into an agreement with DSS for the provision of administrative services for a fixed monthly fee of \$10,000. Such services may include budgeting, reporting, monitoring of bank accounts, compliance with banks, payroll services and any other possible service that Diana Shipping Inc. or its subsidiaries would require to perform their operations. The amounts deriving from these agreements with DSS are considered inter-company transactions and, therefore, are eliminated from our consolidated financial statements.

Until March 1, 2013, DSS also provided to Diana Containerships commercial, technical, accounting, administrative, financial reporting and other services necessary for the operation of its business, pursuant to an Administrative Services Agreement and Vessel Management Agreements. DSS received a monthly fee of \$10,000 for administrative services; a commission of 1% of the gross hire earned by the vessels and a technical management fee of \$15,000 per vessel per month for each vessel in operation. For 2010 and until January 18, 2011, such fees received by DSS, relating to the management services offered to Diana Containerships, were eliminated from our consolidated financial statements as intercompany transactions. Effective January 19, 2011, after the partial spin-off of Diana Containerships, they were recorded as other revenues.

Pursuant to the Broker Services Agreement, dated June 1, 2010, DSS appointed Diana Enterprises, a related party controlled by our Chief Executive Officer and Chairman, Mr. Simeon Palios, as broker to assist it in providing services to us for an annual fee of \$1.7 million. In February 2012, the agreement between DSS and Diana Enterprises was terminated and replaced by a new agreement for the provision of brokerage services, for an increased commission of \$2.4 million per year, paid quarterly at the beginning of each quarter and with a retroactive effect from January 1, 2012. On March 15, 2013, the agreement between DSS and Diana Enterprises was terminated and replaced by a new agreement providing for a monthly fee of \$0.2 million payable quarterly at the beginning of each quarter and with a retroactive effect from March 1, 2013. On March 4, 2014, this agreement was terminated and replaced by an agreement having a term of fifteen months with retroactive effect from January 1, 2014 and a reduced monthly fee of \$104,166, payable every quarter in advance. On April 9, 2014 this agreement was terminated and replaced by an agreement between DSI and Diana Enterprises, all other terms being the same, with effect from July 1, 2014 and until March 31, 2015.

## Our Customers

Our customers include national, regional and international companies, such as Cargill International S.A., EDF Trading Ltd, RWE Supply and Trading GmbH, Clearlake Shipping Pte Ltd. During 2014, four of our charterers accounted for 55% of our revenues; EDF Trading (15%), Cargill International S.A., (18%), RWE Supply. (10%) and Clearlake (12%). During 2013, four of our charterers accounted for 58% of our revenues; EDF Trading (19%), Cargill International S.A., (17%), Shagang Shipping Co. (11%) and Nippon Yusen Kaisha, Tokyo (11%). During 2012, three of our charterers accounted for 40% of our revenues; EDF Trading (10%), Cargill International S.A., (18%) and Corus UK Limited (12%).

We charter our dry bulk carriers to customers primarily pursuant to time charters. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and canal and port charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel. In 2014, we paid commissions that have ranged from 3.75% to 5.0% of the total daily charter hire rate of each charter to unaffiliated ship brokers and to in-house brokers associated with the charterer, depending on the number of brokers involved with arranging the charter.

We strategically monitor developments in the dry bulk shipping industry on a regular basis and, subject to market demand, seek to adjust the charter hire periods for our vessels according to prevailing market conditions. In order to take advantage of the relatively stable cash flow and high utilization rates associated with long-term time charters, we have fixed the majority of our vessels on long-term time. Those of our vessels on short-term time charters provide us with flexibility in responding to market developments. We will continue to evaluate our balance of short- and long-term charters and may extend or reduce the charter hire periods of the vessels in our fleet according to the developments in the dry bulk shipping industry.

## The Dry Bulk Shipping Industry

The global dry bulk carrier fleet could be divided into seven categories based on a vessel's carrying capacity. These categories consist of:

**Very Large Ore Carriers (VLOC).** Very large ore carriers have a carrying capacity of more than 200,000 dwt and are a comparatively new sector of the dry bulk carrier fleet. VLOCs are built to exploit economies of scale on long-haul iron ore routes.

**Capesize.** Capesize vessels have a carrying capacity of 110,000-199,999 dwt. Only the largest ports around the world possess the infrastructure to accommodate vessels of this size. Capesize vessels are primarily used to transport iron ore or coal and, to a much lesser extent, grains, primarily on long-haul routes.

**Post-Panamax.** Post-Panamax vessels have a carrying capacity of 80,000-109,999 dwt. These vessels tend to have a shallower draft and larger beam than a standard Panamax vessel with a higher cargo capacity. These vessels have been designed specifically for loading high cubic cargoes from draught restricted ports, although they cannot transit the Panama Canal.

**Panamax.** Panamax vessels have a carrying capacity of 60,000-79,999 dwt. These vessels carry coal, iron ore, grains, and, to a lesser extent, minor bulks, including steel products, cement and fertilizers. Panamax vessels are able to pass through the Panama Canal, making them more versatile than larger vessels with regard to accessing different trade routes. Most Panamax and Post-Panamax vessels are "gearless," and therefore must be served by shore-based cargo handling equipment. However, there are a small number of geared vessels with onboard cranes, a feature that enhances trading flexibility and enables operation in

ports which have poor infrastructure in terms of loading and unloading facilities.

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Handymax/Supramax. Handymax vessels have a carrying capacity of 40,000-59,999 dwt. These vessels operate in a large number of geographically dispersed global trade routes, carrying primarily grains and minor bulks. Within the Handymax category there is also a sub-sector known as Supramax. Supramax bulk carriers are ships between 50,000 to 59,999 dwt, normally offering cargo loading and unloading flexibility with on-board cranes, or "gear," while at the same time possessing the cargo carrying capability approaching conventional Panamax bulk carriers.

Handysize. Handysize vessels have a carrying capacity of up to 39,999 dwt. These vessels are primarily involved in carrying minor bulk cargoes. Increasingly, ships of this type operate within regional trading routes, and may serve as trans-shipment feeders for larger vessels. Handysize vessels are well suited for small ports with length and draft restrictions. Their cargo gear enables them to service ports lacking the infrastructure for cargo loading and unloading.

Other size categories occur in regional trade, such as Kamsarmax, with a maximum length of 229 meters, the maximum length that can load in the port of Kamsar in the Republic of Guinea. Other terms such as Seawaymax, Setouchmax, Dunkirkmax, and Newcastlemax also appear in regional trade.

The supply of dry bulk carriers is dependent on the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or loss. The level of scrapping activity is generally a function of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs. The average age at which a vessel is scrapped over the last five years has been 31 years.

The demand for dry bulk carrier capacity is determined by the underlying demand for commodities transported in dry bulk carriers, which in turn is influenced by trends in the global economy. Demand for dry bulk carrier capacity is also affected by the operating efficiency of the global fleet, along with port congestion, which has been a feature of the market since 2004, absorbing tonnage and therefore leading to a tighter balance between supply and demand. In evaluating demand factors for dry bulk carrier capacity, the Company believes that dry bulk carriers can be the most versatile element of the global shipping fleets in terms of employment alternatives.

#### Charter Hire Rates

Charter hire rates fluctuate by varying degrees among dry bulk carrier size categories. The volume and pattern of trade in a small number of commodities (major bulks) affect demand for larger vessels. Therefore, charter rates and vessel values of larger vessels often show greater volatility. Conversely, trade in a greater number of commodities (minor bulks) drives demand for smaller dry bulk carriers. Accordingly, charter rates and vessel values for those vessels are usually subject to less volatility.

Charter hire rates paid for dry bulk carriers are primarily a function of the underlying balance between vessel supply and demand, although at times other factors may play a role. Furthermore, the pattern seen in charter rates is broadly mirrored across the different charter types and the different dry bulk carrier categories. In the time charter market, rates vary depending on the length of the charter period and vessel-specific factors such as age, speed and fuel consumption.



In the voyage charter market, rates are, among other things, influenced by cargo size, commodity, port dues and canal transit fees, as well as commencement and termination regions. In general, a larger cargo size is quoted at a lower rate per ton than a smaller cargo size. Routes with costly ports or canals generally command higher rates than routes with low port dues and no canals to transit. Voyages with a load port within a region that includes ports where vessels usually discharge cargo or a discharge port within a region with ports where vessels load cargo also are generally quoted at lower rates, because such voyages generally increase vessel utilization by reducing the unloaded portion (or ballast leg) that is included in the calculation of the return charter to a loading area.

Within the dry bulk shipping industry, the charter hire rate references most likely to be monitored are the freight rate indices issued by the Baltic Exchange. These references are based on actual charter hire rates under charters entered into by market participants as well as daily assessments provided to the Baltic Exchange by a panel of major shipbrokers. The Baltic Panamax Index is the index with the longest history. The Baltic Capesize Index and Baltic Handymax Index are of more recent origin.

The Baltic Dry Index, or BDI, a daily average of charter rates in 20 shipping routes measured on a time charter and voyage basis and covering Capesize, Panamax, Supramax, and Handysize dry bulk carriers declined from a high of 11,793 in May 2008 to a low of 663 in December 2008. In 2012, the BDI ranged from a high of 1624 in January to a low of 647 in February. In 2013, the BDI ranged from a low of 698 in January to a high of 2,337 in December. In 2014, the BDI ranged from a high of 2113 in January to a low of 723 in July. On March 20, 2015, the BDI stood at 591.

#### Vessel Prices

As of the end of 2014, dry bulk vessel values decreased as compared to 2013. Consistent with these trends, the market value of our dry bulk carriers had also decreased. As charter rates and vessel values remain at low levels, there can be no assurance as to how long charter rates and vessel values will remain at their current levels or whether they will decrease or improve to any significant degree in the near future.

#### Competition

Our business fluctuates in line with the main patterns of trade of the major dry bulk cargoes and varies according to changes in the supply and demand for these items. We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an owner and operator. We compete with other owners of dry bulk carriers in the Panamax, Post-Panamax and smaller class sectors and with owners of Capesize and Newcastlemax dry bulk carriers. Ownership of dry bulk carriers is highly fragmented.

We believe that we possess a number of strengths that provide us with a competitive advantage in the dry bulk shipping industry:

We own a modern, high quality fleet of dry bulk carriers. We believe that owning a modern, high quality fleet reduces operating costs, improves safety and provides us with a competitive advantage in securing favorable time charters. We maintain the quality of our vessels by carrying out regular inspections, both while in port and at sea, and adopting a comprehensive maintenance program for each vessel.

Our fleet includes ten groups of sister ships. We believe that maintaining a fleet that includes sister ships enhances the revenue generating potential of our fleet by providing us with operational and scheduling flexibility. The uniform nature of sister ships also improves our operating efficiency by allowing our fleet manager to apply the technical knowledge of one vessel to all vessels of the same series and creates economies of scale that enable us to realize cost savings when maintaining, supplying and crewing our vessels.

We have an experienced management team. Our management team consists of experienced executives who each have, on average, more than 29 years of operating experience in the shipping industry and has demonstrated ability in managing the commercial, technical and financial areas of our business. Our management team is led by Mr. Simeon Palios, a qualified naval architect and engineer who has more than 40 years of experience in the shipping industry. Internal management of vessel operations. We conduct all of the commercial and technical management of our vessels in-house through DSS. We believe having in-house commercial and technical management provides us with a competitive advantage over many of our competitors by allowing us to more closely monitor our operations and to offer higher quality performance, reliability and efficiency in arranging charters and the maintenance of our vessels. We benefit from strong relationships with members of the shipping and financial industries. We have developed strong relationships with major international charterers, shipbuilders and financial institutions that we believe are the result of the quality of our operations, the strength of our management team and our reputation for dependability.

We have a strong balance sheet and a relatively low level of indebtedness. We believe that our strong balance sheet and relatively low level of indebtedness provide us with the flexibility to increase the amount of funds that we may draw under our loan facilities in connection with future acquisitions and enable us to use cash flow that would otherwise be dedicated to debt service for other purposes.

#### Permits and Authorizations

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required depend upon several factors, including the commodity transported, the waters in which the vessel operates the nationality of the vessel's crew and the age of a vessel. We have been able to obtain all permits, licenses and certificates currently required to permit our vessels to operate. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of us doing business.

#### Disclosure Pursuant to Section 219 of the Iran Threat Reduction And Syrian Human Rights Act

Section 219 of the U.S. Iran Threat Reduction and Syria Human Rights Act of 2012, or the ITRA, added new Section 13(r) to the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") requiring each SEC reporting issuer to disclose in its annual and, if applicable, quarterly reports whether it or any of its affiliates have knowingly engaged in certain activities, transactions or dealings relating to Iran or with the Government of Iran or certain designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the report.

Pursuant to Section 13(r) of the Exchange Act, we note that for the period covered by this annual report, the vessels Amphitrite and Polymnia made four port calls to Iran in 2014 for a combined length of 98 days. The vessel Amphitrite made calls to the port of Bandar Imam Khomeini on March 16, 2014, on September 26, 2014 and on December 29, 2014, discharging corn, and remained in the port of Bandar Imam Khomeini for 41 days in the aggregate. The vessel Polymnia made a call to the port of Bandar Imam Khomeini on December 29, 2013, discharging maize, and remained in the port of Bandar Imam Khomeini during 2014 for 57 days. During this time the Amphitrite was on time charter to Bunge S.A. at a gross rate \$10,000 and \$11,300 per day and the Polymnia was on time charter to Bunge S.A. at a gross rate of \$7,600 per day. Our aggregate gross revenue attributable to these 98 days of port calls was approximately \$0.9 million. As we do not attribute profits to specific voyages under a time charter, we have not attributed any profits to the voyages which included these port calls. Our charter party agreements for the Amphitrite and Polymnia restrict the charterers from calling in Iran in violation of U.S. sanctions, or carrying any cargo to Iran which is subject to U.S. sanctions. However, there can be no assurance that the Amphitrite, Polymnia or another of our vessels will not, from time to time in the future on charterer's instructions, perform voyages which would require disclosure pursuant to Exchange Act Section 13(r).

### Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of our vessels. We are subject to international conventions and treaties, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered relating to safety and health and environmental protection including the storage, handling, emission, transportation and discharge of hazardous and non-hazardous materials, and the remediation of contamination and liability for damage to natural resources. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of government and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (such as the U.S. Coast Guard, harbor master or equivalent), classification societies; flag state administrations (countries of registry) and charterers, particularly terminal operators. Certain of these entities require us to obtain permits, licenses, certificates or approvals for the operation of our vessels. Failure to maintain necessary permits, licenses, certificates or approvals could require us to incur substantial costs or temporarily suspend the 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 dry bulk shipping 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 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 is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other approvals necessary for the conduct of our operations. However, because such laws and regulations are frequently changed and may impose increasingly strict requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident, such as the 2010 Deepwater Horizon oil spill, that results in significant oil pollution, release of hazardous substances, loss of life, or otherwise causes significant adverse environmental impact could result in additional legislation, regulation, or other requirements that could negatively affect our profitability.

The laws and regulations discussed below may not constitute a comprehensive list of all such laws and regulations that are applicable to the operation of our vessels.

#### International Maritime Organization

The IMO has adopted the International Convention for the Prevention of Pollution from Ships of 1973, as modified by the Protocol of 1978 relating thereto (collectively referred to as MARPOL 73/78 and herein as "MARPOL"). MARPOL entered into force on October 2, 1983. It has been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate. MARPOL sets forth pollution-prevention requirements applicable to drybulk carriers, among other vessels, and is broken into six Annexes, each of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI, separately adopted by the IMO in September of 1997, related to air emissions, which entered into force on 19 May 2005.

In 2013, the MEPC adopted by resolution amendments to the MARPOL Annex I Conditional Assessment Scheme, or CAS. The amendments, which are expected to become effective on October 1, 2014, pertain to revising references to the inspections of bulk carriers and tankers after the 2011 ESP Code, which enhances the programs of inspections, becomes mandatory.

#### Air Emissions

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits "deliberate emissions" of "ozone depleting substances," defined to include certain halons and chlorofluorocarbons. "Deliberate emissions" are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship's repair and maintenance. Emissions of "volatile organic compounds" from the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. 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, known as ECAs, (see below).

The IMO's Marine Environment Protection Committee, or MEPC, adopted amendments to Annex VI on October 10, 2008, which amendments were entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulphur contained in any fuel oil used on board ships. As of January 1, 2012, the amended Annex VI required that fuel oil contain no more than 3.50% sulfur. By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Sulfur content standards are even stricter within certain "Emission Control Areas" ("ECAs"). As of July 1, 2010, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 1.0%, which has been further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea, the North Sea and certain coastal areas of North America have been so designated. Furthermore as of January 1, 2014 the applicable areas of the United States Caribbean Sea adjacent to Puerto Rico and the U.S. Virgin Islands were designated ECAs. Ocean-going vessels in these areas will be subject to stringent emissions controls and may cause us to incur additional costs. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures, operational changes, or otherwise increase the costs of our operations.



As of January 1, 2013, MARPOL made mandatory certain measures relating to energy efficiency for ships in part to address greenhouse gas emissions. IMO's Marine Environment Protection Committee (MEPC) has given extensive consideration to control of GHG emissions from ships and finalized in July 2009 a package of specific technical and operational reduction measures. In March 2010 MEPC started the consideration of making the technical and operational measures mandatory for all ships irrespective of flag and ownership. This work was completed in July 2011 with the breakthrough adoption of technical measures for new ships and operational reduction measures for all ships, which are, consequently, the first ever mandatory global GHG reduction regime for an entire industry sector. The adopted measures add to MARPOL Annex VI a new Chapter 4 entitled "Regulations on energy efficiency for ships", making mandatory the Energy Efficiency Design Index (EEDI) for new ships and the Ship Energy Efficiency Plan (SEEMP) for all ships. The regulations apply to all ships over 400 gross tonnage and above and entered into force through the tacit acceptance procedure on 1 January 2013.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation with a "Tier II" emission limit for engines installed on or after January 1, 2011; then with a more stringent "Tier III" emission limit for engines installed on or after January 1, 2016 operating in ECAs. Marine diesel engines installed on or after January 1, 1990 but prior to January 1, 2000 are required to comply with "Tier I" emission limits.

The U.S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009.

#### Safety Management System Requirements

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. May 2012 SOLAS amendments entered into force as of January 1, 2014. The Convention on Limitation of Liability for Maritime Claims (LLMC) was recently amended and the amendments are expected to go into effect on June 8, 2015. The amendments alter the limits of liability for loss of life or personal injury claims and property claims against ship-owners.

The operation of our ships is also affected by the requirements set forth in Chapter IX of SOLAS, which sets forth the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires ship owners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a ship owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports.

The ISM Code requires that vessel operators obtain a safety management certificate, or SMC, for each vessel they operate. This certificate evidences compliance by a vessel's operators with the ISM Code requirements for a safety management system, or SMS. No vessel can obtain an SMC under the ISM Code unless its manager has been awarded a document of compliance, or DOC, issued in most instances by the vessel's flag state. Our appointed ship managers have obtained documents of compliance for their offices and safety management certificates for all of our vessels for which the certificates are required by the IMO. The document of compliance, or the DOC, and ship management certificate, or the SMC, are renewed as required.

## International Labor Organization

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 entered into force on August 20, 2013. The MLC 2006 requires us to develop new procedures to ensure full compliance.

## Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatories to such conventions. IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. To date, there has not been sufficient adoption of this standard for it to take force, but it is close. Many of the implementation dates originally written in the BWM Convention have already passed, so that once the BWM Convention enters into force, the period for installation of mandatory ballast water exchange requirements would be extremely short, with several thousand ships a year needing to install ballast water management systems (BWMS). For this reason, on December 4, 2013, the IMO Assembly passed a resolution revising the application dates of BWM Convention so that they are triggered by the entry into force date and not the dates originally in the BWM Convention. This in effect makes all vessels constructed before the entry into force date 'existing' vessels, and allows for the installation of a BWMS on such vessels at the first renewal survey following entry into force. Once mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of such compliance would be material, it is difficult to predict the overall impact of such a requirement on our operations.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons 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). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In March 2006, the IMO amended Annex I to MARPOL, including a new regulation relating to oil fuel tank protection, which became effective August 1, 2007. The new regulation applies to various ships delivered on or after August 1, 2010. It includes requirements for the protected location of the fuel tanks, performance standards for accidental oil fuel outflow, a tank capacity limit and certain other maintenance, inspection and engineering standards.

Noncompliance with the ISM Code or other IMO regulations may subject the ship owner or bareboat charterer to increased liability, lead to decreases in available insurance coverage for affected vessels or result in the denial of access to, or detention in, some ports.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

The U.S. Oil Pollution Act of 1990 and Comprehensive Environmental Response, Compensation and Liability Act

OPA established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade with 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 around the United States. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define "owner and operator" "in the case of a vessel, as any person owning, operating or chartering by demise, the vessel."

Under OPA, vessel owners and operators are "responsible parties" and are jointly, severally and strictly liable (unless the spill 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. OPA defines these other damages broadly to include:

- (i) injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;
- (ii) injury to, or economic losses resulting from, the destruction of real and personal property;
- (iii) net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;
- (iv) loss of subsistence use of natural resources that are injured, destroyed or lost;
- (v) lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and
- (vi) net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for non-tank vessels (e.g. drybulk) to the greater of \$1,000 per gross ton or \$854,400 (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.



CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5.0 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes.

We currently maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could have an adverse effect on our business and results of operation.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA 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 vessel owners' responsibilities under these laws.

#### Other Environmental Initiatives

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil, hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The EPA regulates the discharge of ballast and bilge water and other substances in U.S. waters under the CWA. EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit, or VGP, authorizing ballast and bilge water discharges and other discharges incidental to the operation of vessels. The VGP imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. On March 28, 2013, the EPA re-issued the VGP for another five years; this VGP took effect of December 19, 2013. The new VGP focuses on authorizing discharges incidental to operations of commercial vessels. The VGP also contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. As of June 21, 2012, the U.S. Coast Guard implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships in U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004. Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of certain engineering equipment and water treatment systems to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act of 1970 (including its amendments of 1977 and 1990), or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. The CAA also requires states to draft State Implementation Plans ("SIPs") designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment.

#### European Union Regulations

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. The directive applies to all types of vessels, irrespective of their flag, but certain exceptions apply to warships or where human safety or that of the ship is in danger.

The European Union has adopted several regulations and directives requiring, among other things, more frequent inspections of high-risk ships, as determined by type, age, and flag as well as the number of times the ship has been detained. The European Union also adopted and then extended a ban on substandard ships and enacted a minimum ban period and a definitive ban for repeated offenses. The regulation also provided the European Union with greater authority and control over classification societies, by imposing more requirements on classification societies and providing for fines or penalty payments for organizations that failed to comply.

With effect from January 1, 2010, the Directive 2005/33/EC of the European Parliament and of the Council of July 6, 2005, amending Directive 1999/32/EC came into force. The objective of the directive is to reduce emission of sulfur dioxide and particulate matter caused by the combustion of certain petroleum derived fuels. The directive imposes limits on the sulfur content of such fuels as a condition of their use within a Member State territory. The maximum sulfur content for marine fuels used by inland waterway vessels and ships at berth in ports in EU countries after January 1, 2010, is 0.10% by mass. As of January 1, 2015, all vessels operating within ECAs worldwide must comply with 0.10% sulfur requirements. Effective July 1, 2010, the reduction of applicable sulfur content limits in the North Sea, the Baltic Sea and the English Channel Sulfur Emission Control Areas was 1%. On July 15, 2011, the European Commission also adopted a proposal for an amendment to Directive 1999/32/EC which would align requirements with those imposed by the revised MARPOL Annex VI which introduced stricter sulphur limits.

### Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. As of January 1, 2013, all new ships must comply with two new sets of mandatory requirements, which were adopted by MEPC in July 2011, to address greenhouse gas emissions from ships. Currently operating ships will be required to develop SEEMPs, and minimum energy efficiency levels per capacity mile, outlined in the Energy Efficiency Design Index, will apply to new ships. The IMO is also planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In April 2013, the European Parliament rejected proposed changes to the European Union Emissions Law regarding carbon trading. In June 2013 the European Commission developed a strategy to integrate maritime emissions into the overall European Union Strategy to reduced greenhouse gas emissions. If the strategy is adopted by the European Parliament and Council large vessels using European Union ports would be required to monitor, report, and verify their carbon dioxide emissions beginning in January 2018. In December 2013 the European Union environmental ministers discussed draft rules to implement monitoring and reporting of carbon dioxide emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures, including capital expenditures to upgrade our vessels, which we cannot predict with certainty at this time.

### Vessel Security Regulations

Since the terrorist attacks of September 11, 2001 in the United States, there have been a variety of initiatives intended to enhance vessel security such as the Maritime Transportation Security Act of 2002, or MTSA. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

Ships operating without a valid certificate may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

The U.S. Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code.

#### Inspection by Classification Societies

Every oceangoing vessel must be "classed" by a classification society. The classification society certifies that the vessel is "in class," signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class certification, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

**Annual Surveys:** For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.

**Intermediate Surveys:** Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.

**Class Renewal Surveys:** Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a shipowner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. Upon a shipowner's request, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

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.

All 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, or IACS. All our vessels are certified as being "in class" either by Lloyd's Register of Shipping, American Bureau of Shipping, DNV-GL, or Bureau Veritas, or Class NK. All new and second hand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memorandum of agreement. For the second hand vessels same is verified by a Class Maintenance Certificate issued within 72 hours prior to delivery, including full certification delivered at the time of closing. If the vessel is not certified on the date of closing, we have the option to cancel the agreement due to Seller's default and not take delivery of the vessel.

## Risk of Loss and Liability Insurance

### General

The operation of any dry bulk vessel includes risks such as mechanical failure, 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 oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market.

While we maintain hull and machinery insurance, war risks insurance, protection and indemnity cover and freight, demurrage and defense cover for our operating fleet in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. Furthermore, 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 & Machinery and War Risks Insurance

We maintain marine hull and machinery and war risks insurance, which cover, among other marine risks, the risk of actual or constructive total loss, for all of our vessels. Our vessels are each covered up to at least fair market value with deductibles ranging to a maximum of \$100,000 per vessel per incident for Panamax, Kamsarmax and Post-Panamax vessels and \$150,000 per vessel per incident for Capesize and Newcastlemax vessels.

### Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which insure our third party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the 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. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "clubs."

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The 13 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. 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 the group's 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. Our vessels may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. We are not aware of any supplemental calls in respect of any policy year that have not been recorded in our consolidated financial statements.

### C. Organizational structure

Diana Shipping Inc. is the sole owner of all of the issued and outstanding shares of the subsidiaries listed in Note 1 "Basis of Presentation and General Information" of our consolidated financial statements under Item 18 and in exhibit 8.1 to this annual report.

D. Property, plants and equipment

Since October 8, 2010, DSS owns the land and the building where we have our principal offices in Athens, Greece and in December 2014, DSS acquired a plot of land jointly with two other related entities from unrelated individuals for an aggregate purchase price of approximately \$2.5 million, of which DSS paid one-third, amounting to \$0.9 million. Other than this interest in real property, our only material properties are the vessels in our fleet.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following management's discussion and analysis should be read in conjunction with our historical consolidated financial statements and their notes included elsewhere in this annual report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" and elsewhere in this annual report.

A. Operating results

We charter our vessels to customers primarily pursuant to short-term and long-term time charters. Currently, the majority of our vessels are employed on time charters ranging in duration from 11 to 61 months. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter.

Factors Affecting Our Results of Operations

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

Ownership days. We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

Available days. We define available days as the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

Operating days. We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

Fleet utilization. We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the 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 other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning for such events.

TCE rates. We define Time Charter Equivalent, or TCE rates as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. TCE rate is a non-GAAP measure and is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters generally are expressed in such amounts.

The following table reflects our ownership days, available days, operating days, fleet utilization and TCE rates for the periods indicated.

	Year Ended December 31,		
	2014	2013	2012
Ownership days	13,822	12,049	10,119
Available days	13,650	12,029	9,998
Operating days	13,564	11,944	9,865
Fleet utilization	99.4 %	99.3 %	98.7 %
Time charter equivalent (TCE) rate (1)	\$ 12,081	\$ 12,959	\$ 21,255

(1) Please see Item 3.A for a reconciliation of TCE to GAAP measures.



### Time Charter Revenues

Our revenues are driven primarily by the number of vessels in our fleet, the number of days during which our vessels operate and the amount of daily charter hire rates that our vessels earn under charters, which, in turn, are affected by a number of factors, including:

- the duration of our charters;
- our decisions relating to vessel acquisitions and disposals;
- the amount of time that we spend positioning our vessels;
- the amount of time that our vessels spend in drydock undergoing repairs;
- maintenance and upgrade work;
- the age, condition and specifications of our vessels;
- levels of supply and demand in the dry bulk shipping industry; and
- other factors affecting spot market charter rates for dry bulk carriers.

Vessels operating on time charters for a certain period of time provide more predictable cash flows over that period of time, but can yield lower profit margins than vessels operating in the spot charter market during periods characterized by favorable market conditions. Vessels operating in the spot charter market generate revenues that are less predictable but may enable their owners to capture increased profit margins during periods of improvements in charter rates although their owners would be exposed to the risk of declining charter rates, which may have a materially adverse impact on financial performance. As we employ vessels on period charters, future spot charter rates may be higher or lower than the rates at which we have employed our vessels on period charters. Currently, all vessels in our fleet are employed on time charters, unless they are on drydock. Our time charter agreements subject us to counterparty risk. In depressed market conditions, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor their obligations under agreements with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Since 2010, our revenues have decreased due to the decrease in the charter rates. In 2014 charter rates continued to decline; however revenue increased due to the enlargement of our fleet. For 2015, we expect our revenues to remain at current levels, or decrease due to further decreases in charter rates.

### Voyage Expenses

We incur voyage expenses that mainly include commissions and bunker (fuel oil) expenses (or income) because all of our vessels are employed under time charters that require the charterer to bear voyage expenses such as bunkers, port and canal charges.

When a vessel is delivered to a charterer, bunkers are purchased by the charterer and sold back to us on the redelivery of the vessel. Bunker expenses, or income, result when a vessel is redelivered by her charterer and delivered to the next charterer at different bunker prices.

We currently pay commissions ranging from 3.75% to 5.00% of the total daily charter hire rate of each charter to unaffiliated ship brokers and in-house brokers associated with the charterers, depending on the number of brokers involved with arranging the charter. In addition to commissions paid to third parties, we pay our fleet manager a commission that is equal to 2% of our revenues in exchange for providing us with technical and commercial management services in connection with the employment of our fleet. However, this commission is eliminated from our consolidated financial statements as an intercompany transaction. During 2010 and until January 18, 2011, Diana Containerships also paid our fleet manager a commission of 1%, which was eliminated from our consolidated financial statements as an intercompany transaction. After its partial spin-off in January 2011 and until March 1, 2013 when the management agreements between DSS and Diana Containerships were terminated, the 1% commission paid by Diana Containerships constituted revenue of DSS. For 2015, we expect our voyage expenses to remain at current levels, or decrease, in line with our expectation for our time charter revenues.

#### Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the cost of spares and consumable stores, tonnage taxes, environmental plan costs and other miscellaneous expenses. Our vessel operating expenses, which generally represent fixed costs, have historically increased as a result of the enlargement of our fleet. For 2015, we expect our operating expenses to increase as a result of the enlargement of our fleet. There may also be other factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for insurance and crew wages that may cause these expenses to increase.

#### Vessel Depreciation

The cost of our vessels is depreciated on a straight-line basis over the estimated useful life of each vessel. Depreciation is based on the cost of the vessel less its estimated salvage value. We estimate the useful life of our dry bulk vessels to be 25 years from the date of initial delivery from the shipyard, which we believe is common in the dry bulk shipping industry. Furthermore, we estimate the salvage values of our vessels based on historical average prices of the cost of the light-weight ton of vessels being scrapped. Our depreciation charges have increased in recent periods due to the enlargement of our fleet. Since January 1, 2013, we increased the salvage value of all of our vessels from \$150 per lightweight ton to \$250 per lightweight ton. This change was made because the historical scrap rates over the past ten years have increased and as such the \$150 value was not considered representative. For 2015, we expect depreciation expense to increase as a result of the enlargement of our fleet.

#### General and Administrative Expenses

We incur general and administrative expenses which include our onshore related expenses such as legal and professional expenses and other general vessel expenses. Our general and administrative expenses also include payroll expenses of employees, executive officers and consultants, compensation cost of restricted stock awarded to senior management and non-executive directors, traveling, promotional and other expenses of the public company. For 2015, we expect our general and administrative expenses to remain at current levels.

## Interest and Finance Costs

We have historically incurred interest expense and financing costs in connection with the vessel-specific debt. As of December 31, 2014 and 2013, we had \$486.0 million and \$433.1 million of indebtedness outstanding, respectively. We incur interest expense and financing costs relating to our outstanding debt. Currently, our debt amounts to \$492.4 million and we expect to incur additional debt in 2015. We may incur additional debt to finance future acquisitions or constructions. We expect to manage any exposure in interest rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. For 2015, we expect interest and finance expenses to increase as a result of increased indebtedness.

## Lack of Historical Operating Data for Vessels before Their Acquisition

Although vessels are generally acquired free of charter, we have acquired (and may in the future acquire) some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is usually delivered to the buyer free of charter. It is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer entering into a separate direct agreement (called a "novation agreement") with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter because it is a separate service agreement between the vessel owner and the charterer.

Where we identify any intangible assets or liabilities associated with the acquisition of a vessel, we record all identified assets or liabilities at fair value. Fair value is determined by reference to market data. We value any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. When the present value of the time charter assumed is greater than the current fair market value of such charter, the difference is recorded as prepaid charter revenue. When the opposite situation occurs, any difference, capped to the vessel's fair value on a charter free basis, is recorded as deferred revenue. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.

We entered into agreements to purchase vessels with time charters assumed for the Thetis, the Salt Lake City, the Norfolk and the Houston. Accordingly, we evaluated the charters of those vessels and recognized an asset in the case of the Thetis and the Houston with a corresponding decrease of the vessel's value, and a liability in the case of the Salt Lake City, with a corresponding increase of the vessel's value and the actual cost for the Norfolk. The asset recognized for the Thetis was fully amortized to revenue in 2007 and for Houston was fully amortized in 2013. The liability recognized for the Salt Lake City was fully amortized in 2012.

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

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- in some cases, obtain the charterer's consent to a new flag for the vessel;

- arrange for a new crew for the vessel, and where the vessel is on charter, in some cases, the crew must be approved by the charterer;
- replace all hired equipment on board, such as gas cylinders and communication equipment;
- negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;
- register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state;
- implement a new planned maintenance program for the vessel; and
- ensure that the new technical manager obtains new certificates for compliance with the safety and vessel security regulations of the flag state.

When we charter a vessel pursuant to a long-term time charter agreement with varying rates, we recognize revenue on a straight line basis, equal to the average revenue during the term of the charter.

The following discussion is intended to help you understand how acquisitions of vessels affect our business and results of operations.

Our business is mainly comprised of the following elements:

- employment and operation of our vessels; and
- management of the financial, general and administrative elements involved in the conduct of our business and ownership of our vessels.

The employment and operation of our vessels mainly require the following components:

- vessel maintenance and repair;
- crew selection and training;
- vessel spares and stores supply;
- contingency response planning;
- onboard safety procedures auditing;
- accounting;
- vessel insurance arrangement;
- vessel chartering;

- vessel security training and security response plans (ISPS);
- obtaining of ISM certification and audit for each vessel within the six months of taking over a vessel;
- vessel hiring management;
- vessel surveying; and
- vessel performance monitoring.

The management of financial, general and administrative elements involved in the conduct of our business and ownership of our vessels mainly requires the following components:

- management of our financial resources, including banking relationships, i.e., administration of bank loans and bank accounts;
- management of our accounting system and records and financial reporting;
- administration of the legal and regulatory requirements affecting our business and assets; and
- management of the relationships with our service providers and customers.

The principal factors that affect our profitability, cash flows and shareholders' return on investment include:

- rates and periods of charter hire;
- levels of vessel operating expenses;
- depreciation expenses;
- financing costs; and
- fluctuations in foreign exchange rates.

#### Our Fleet – Illustrative Comparison of Possible Excess of Carrying Value Over Estimated Charter-Free Market Value of Certain Vessels

In Critical Accounting Policies – Impairment of long-lived assets," we discuss our policy for impairing the carrying values of our vessels. Historically, the market values of vessels have experienced volatility, which from time to time may be substantial. As a result, the charter-free market value of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy.

Based on: (i) the carrying value of each of our vessels as of December 31, 2014 and 2013, and (ii) what we believe the charter-free market value of each of our vessels was as of December 31, 2014 and 2013, the aggregate carrying value of 27 and 18 of the vessels in our fleet as of December 31, 2014 and 2013, respectively, exceeded their aggregate charter-free market value by approximately \$501 million and \$410 million, respectively, as noted in the table below. This aggregate difference represents the approximate analysis of the amount by which we believe we would have to increase our loss or reduce our net income if we sold all of such vessels at December 31, 2014 and 2013, on charter free basis, on industry standard terms, in cash transactions, and to a willing buyer where we were not under any compulsion to sell, and where the buyer was not under any compulsion to buy. For purposes of this calculation, we have assumed that these 27 and 18 vessels would be sold at a price that reflects our estimate of their charter-free market values as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and as of the date of this annual report, we were not and are not holding any of our vessels for sale.

Our estimates of charter-free market value assume that our vessels were all in good and seaworthy condition without need for repair and if inspected would be certified in class without notations of any kind. Our estimates are based on information available from various industry sources, including:

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;
- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of charter-free market value are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future charter-free market value of our vessels or prices that we could achieve if we were to sell them. We also refer you to the risk factors entitled "The market values of our vessels have decreased, which could limit the amount of funds that we can borrow under our credit facilities", "If the market values of our vessels decrease, could cause us to breach covenants in our credit facilities and adversely affect our operating results" and the discussion herein under the heading Item 4.B. Business overview – Vessel Prices.

Vessel	Dwt	Year Built	Carrying Value (in millions of US dollars)			
			2014	2013		
1 Alcmene	93,193	2010	34.5	* 36.0	*	
2 Alcyon	75,247	2001	10.3	10.9		
3 Aliko	180,235	2005	74.5	* 79.1	*	
4 Amphitrite	98,697	2012	23.0	23.9		
5 Arethusa	73,593	2007	25.4	* 26.8	*	
6 Artemis	76,942	2006	19.1	* 20.1		
7 Atalandi	77,529	2014	30.6	*		
8 Baltimore	177,243	2005	26.0	27.3		
9 Boston	177,828	2007	80.1	* 84.2	*	
10 Calipso	73,691	2005	13.7	14.4		
11 Clio	73,691	2005	14.0	14.8		
12 Coronis	74,381	2006	27.9	* 29.4	*	
13 Crystalia	77,525	2014	30.3	*		
14 Danae	75,106	2001	12.0	* 12.8		
15 Dione	75,172	2001	11.8	* 12.6		
16 Erato	74,444	2004	25.0	* 26.5	*	
17 GP Zafirakis	179,492	2014	57.6	*		
18 Houston	177,729	2009	50.8	* 53.1	*	
19 Leto	81,297	2010	28.6	* 29.8	*	
20 Los Angeles	206,104	2012	53.7	* 55.8	*	
21 Maia	82,193	2009	19.0	19.8		
22 Melia	76,225	2005	18.1	* 19.1		
23 Melite	76,436	2004	26.8	* 28.5	*	
24 Myrsini	82,117	2010	21.8	22.7		
25 Myrto	82,131	2013	24.9	25.8		
26 Naias	73,546	2006	27.0	* 28.5	*	
27 New York	177,773	2010	51.8	* 54.0	*	
28 Nirefs	75,311	2001	10.3	11.0		
29 Norfolk	164,218	2002	89.4	* 95.9	*	
30 Oceanis	75,211	2001	10.5	11.2		
31 Philadelphia	206,040	2012	54.5	* 56.6	*	
32 Polymnia	98,704	2012	22.9	23.8		
33 Protefs	73,630	2004	13.4	* 14.1		
34 PS Palios	179,134	2013	50.1	* 52.0		
35 Salt Lake City	171,810	2005	115.6	* 122.5	*	
36 Semirio	174,261	2007	69.8	* 73.5	*	
37 Sideris GS	174,186	2006	63.0	* 66.4	*	
38 Thetis	73,583	2004	24.8	* 26.3	*	
39 Triton	75,336	2001	10.5	11.2		
Total	4,390,984		1,373.1	1,320.4		

\*Indicates dry bulk vessels for which we believe, as of December 31, 2014 and 2013, the charter-free market value was lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeded their aggregate charter-free market value by approximately \$501 million and \$410 million, respectively.





## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are 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 amounts 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 and conditions.

Critical accounting policies are those that reflect significant judgments of 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, because they generally involve a comparatively higher degree of judgment in their application. For a description of all our significant accounting policies, see Note 2 to our consolidated financial statements included in this annual report.

### Accounts Receivable, Trade

Accounts receivable, trade, at each balance sheet date, include receivables from charterers for hire, ballast bonus billings, if any, hold cleanings and extra voyage insurance, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts.

### Accounting for Revenues and Expenses

Revenues are generated from time charter agreements and are usually paid 15 days in advance. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time charter revenues are recorded over the term of the charter as service is provided when they become fixed and determinable. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Income representing ballast bonus payments by the charterer to the vessel owner is recognized in the period earned. Deferred revenue includes cash received prior to the balance sheet date for which all criteria for recognition as revenue have not been met. Deferred revenue may also include deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis, or the unamortized balance of the liability associated with the acquisition of second-hand vessels with time charters attached which were acquired at values below fair market value at the date the acquisition agreement is consummated.

Voyage expenses, primarily consisting of commissions, are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are due as the Company's revenues are earned.

All vessel operating expenses are expensed as incurred.

### Prepaid Charter Revenue

The Company records identified assets associated with the acquisition of a vessel at fair value, determined by reference to market data. The Company values any asset arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. When the present value of the contractual cash flows of the time charter assumed is greater than its current fair value, the difference, capped to the vessel's fair value on a charter free basis, is recorded as prepaid charter revenue. When the opposite situation occurs, any difference, capped to the vessel's fair value on a charter free basis, is recorded as deferred revenue. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed. We test such assets for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

### Vessel Depreciation

We record the value of our vessels at their cost less accumulated depreciation. We depreciate our dry bulk vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from the date of initial delivery from the shipyard which we believe is common in the dry bulk shipping industry. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. Depreciation is based on cost less the estimated salvage value. Each vessel's salvage value is equal to the product of its lightweight tonnage and estimated scrap rate. Furthermore, we estimate the salvage values of our vessels based on historical average prices, which we believe is common in the dry bulk shipping industry. In 2013, we identified that the estimated scrap rate used for the determination of annual depreciation was not in line with the current average historical rate and as such, the estimated scrap rate was revised from \$150 per lightweight ton to \$250 per lightweight ton. A decrease in the useful life of a vessel or in its salvage value would have the effect of increasing the annual depreciation charge. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

### Deferred Drydock Cost

Our vessels are required to be drydocked approximately every 30 to 36 months for major repairs and maintenance that cannot be performed while the vessels are operating. We defer the costs associated with drydockings as they occur and amortize these costs on a straight-line basis over the period through the date the next dry-docking is scheduled to become due. Unamortized drydocking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale. Costs deferred as part of the drydocking include actual costs incurred at the yard and parts used in the drydocking. We believe that these criteria are consistent with industry practice and that our policy of capitalization reflects the economics and market values of the vessels.

### Impairment of Long-lived Assets

Long-lived assets (vessels, land, and building) held and used by an entity are reviewed for impairment whenever events or changes in circumstances (such as market conditions, obsolesce or damage to the asset, potential sales and other business plans) indicate that the carrying amount of the assets may not be recoverable or that their useful lives require modification. When the estimate of undiscounted projected net operating cash flows, excluding interest charges, expected to be generated by the use of the asset over its remaining useful life and its eventual disposition is less than its carrying amount, we should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. We determine the fair value of our assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations.



With respect to the vessels, the current conditions in the dry bulk market with decreased charter rates and decreased vessel market values are conditions that the Company considers indicators of a potential impairment. We determine undiscounted projected net operating cash flows for each vessel and compare it to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilization, assuming (i) future revenues calculated for the fixed days, using the fixed charter rate of each vessel from existing time charters and for the unfixed days, the most recent 10 year average historical 1 year time charter rates available for each type of vessel over the remaining estimated life of each vessel, net of brokerage commissions; (ii) expected outflows for scheduled vessels' maintenance; (iii) vessel operating expenses increasing annually by an annual inflation rate of 3%; (iv) effective fleet utilization of 98% taking into account the period each vessel is expected to remain off hire for scheduled maintenance (dry docking and special surveys) and 1% off hire days (other than for dry docking and special surveys) each year. Historical ten-year blended average one-year time charter rates used in our impairment test exercise are in line with our overall chartering strategy, especially in periods/years of depressed charter rates; they reflect the full operating history of vessels of the same type and particulars with our operating fleet (Panamax/Post-Panamax/Kamsarmax and Capesize/Newcastlemax vessels) and they cover at least a full business cycle. The average annual inflation rate applied on vessels' maintenance and operating costs approximates current projections for global inflation rate for the remaining useful life of our vessels. Effective fleet utilization assumed is in line with the Company's historical performance and our expectations for future fleet utilization under our current fleet deployment strategy.

A comparison of the average estimated daily time charter equivalent rate used in our impairment analysis with the average "break even rate" for each major class of vessels is presented below:

	Average estimated daily time charter equivalent rate used	Average break even rate
Panamax/Kamsarmax/Post-Panamax	\$ 24,517	\$ 11,958
Capesize/Newcastlemax	\$ 44,875	\$ 19,866

Our impairment test exercise is sensitive to variances in the time charter rates and fleet effective utilization. Our current analysis, which also involved a sensitivity analysis by assigning possible alternative values to these two significant inputs, indicated a reduction of approximately 33% in the time charter rates or 27% of off hire days (other than for dry docking and special surveys) to result to an impairment of individual long lived assets. However, there can be no assurance as to how long charter rates and vessel values will remain at their currently low levels or whether they will improve by any significant degree. Charter rates may remain at depressed levels for some time which could adversely affect our revenue and profitability, and future assessments of vessel impairment.

For the purpose of presenting our investors with additional information to determine how the Company's future results of operations may be impacted in the event that daily time charter rates do not improve from their current levels in future periods, we set forth below an analysis that shows the 1-year, 3-year and 5-year average blended rates and the effect of the use of each of these rates would have on the Company's impairment analysis.

	Impairment charge (in USD million)	3-year (period)	Impairment charge (in USD million)	5-year (period)	Impairment charge (in USD million)
1-year (period)					

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Panamax/Kamsarmax/Post-Panamax	\$12,028	98.3	\$10,611	105.8	\$14,211	-
Capesize/Newcastlemax	\$21,777	298.5	\$17,074	365.8	\$20,225	334.3

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## Derivatives

We are exposed to interest rate fluctuations associated with our variable rate borrowings and our objective is to manage the impact of such fluctuations on our results of operations and cash flows of our borrowings. We currently have one collar agreement which is considered an economic, and not accounting, hedge, as it does not meet the hedge accounting criteria. The fair value of the collar agreement determined through Level 2 inputs of the fair value hierarchy is derived principally from or corroborated by observable market data. Inputs include interest rates, yield curves and other items that allow value to be determined.

## Results of Operations

Year ended December 31, 2014 compared to the year ended December 31, 2013

**Time Charter Revenues.** Time charter revenues increased by \$11.6 million, or 7%, to \$175.6 million in 2014, compared to \$164.0 million in 2013. The increase was due to a 15% increase of our ownership days resulting from the delivery of the Myrto, at the end of January 2013; the Maia, in February 2013; the Baltimore, in June 2013; the Artemis, in August 2013; the Myrsini, in October 2013; the PS Palios, in December 2013, the Crystalia, in February 2014; the Atalandi, in May 2014 and the GP Zafirakis in August 2014. In 2014 we had total operating days of 13,564 and fleet utilization of 99.4%, compared to 11,944 total operating days and a fleet utilization of 99.3% in 2013. The increase was partly off-set by decreased revenues due to increased drydock days during the year for which our vessels did not earn revenue as they were not available for charter and by decreased time charter rates which resulted to a 7% decrease of our average charter rates from \$12,959 in 2013 to \$12,081 in 2014.

**Voyage Expenses.** Voyage expenses increased by \$2.6 million, or 32%, to \$10.7 million in 2014 compared to \$8.1 million in 2013. This increase in voyage expenses is primarily attributable to the increase in commissions paid to unaffiliated ship brokers and in-house ship brokers associated with charterers. As commissions are a percentage of time charter revenues, they follow the same trend with time charter revenues. Also, voyage expenses increased due to a loss from bunkers which amounted to \$2.0 million in 2014, compared to a gain of \$0.1 million in 2013, which was the result of the different bunker prices at redelivery of our vessels that entered into new charters during the year.

**Vessel Operating Expenses.** Vessel operating expenses increased by \$9.7 million, or 13%, to \$86.9 million in 2014 compared to \$77.2 million in 2013. The increase in operating expenses is primarily attributable to the 15% increase in ownership days resulting from the delivery of the new vessels to our fleet in 2014. The increase was also due to increased repairs and maintenance, taxes and environmental expenses and was partly offset by decreases in crew costs, insurances and other operating expenses. Daily operating expenses were \$6,289 in 2014 compared to \$6,408 in 2013, representing a 2% decrease.

**Depreciation and Amortization of Deferred Charges.** Depreciation and amortization of deferred charges increased by \$5.8 million, or 9%, to \$70.5 million in 2014, compared to \$64.7 million 2013. This increase was due to the enlargement of our fleet. Additionally, the increase in depreciation and amortization was partly offset by decreased amortization of deferred drydocking costs, mainly due to the termination of the amortization period for several vessels during 2013 that did not exist in 2014.

**General and Administrative Expenses.** General and Administrative Expenses increased by \$2.5 million, or 11%, to \$26.2 million in 2014 compared to \$23.7 million in 2013. The increase is mainly attributable to increased salaries due to the increase of office personnel.

**Interest and Finance Costs.** Interest and finance costs increased by \$0.3 million, or 4%, to \$8.4 million in 2014 compared to \$8.1 million in 2013. The increase is primarily attributable to higher average interest rates on increased average long term debt outstanding during 2014 compared to 2013. Interest expense in 2014 amounted to \$7.8 million compared to \$7.6 million 2013.

**Interest and Other Income.** Interest and other income increased by \$1.8 million, or 100%, to \$3.6 million in 2014 compared to \$1.8 million in 2013. The increase is attributable to interest income and fees of \$3.2 million in 2014 compared to \$1.2 million in 2013, which derived from our loan agreement with Diana Containerships, dated May 20, 2013, pursuant to which \$50.0 million were drawn by Diana Containerships on August 20, 2013. This increase was partly offset by decreased interest income on our cash at banks during 2014 mainly due to decreased levels of cash compared to last year.

**Income / (loss) from Derivative Instruments.** Income from derivative was \$0.1 million in 2014 compared to loss of \$0.1 million in 2013. The change was due to the decrease of realized loss in 2014 amounting to \$0.3 million compared to \$0.7 million in 2013 due to its maturity in May 2014. The unrealized gain was \$0.4 million in 2014 compared to \$0.6 million in 2013.

**Income / (loss) from Investment in Diana Containerships Inc.** Income from our investment in Diana Containerships Inc. amounted to \$12.7 million in 2014 and was mainly due to the increase of our share ownership in Diana Containerships from 9.51% as at December 31, 2013 to 26.34% as at December 31, 2014, following our participation in a private offering in which we acquired additional shares for \$40.0 million. This compared to a loss of \$6.1 million in 2013, mainly due to impairment charges recorded by Diana Containerships during the previous year.

Year ended December 31, 2013 compared to the year ended December 31, 2012

**Time Charter Revenues.** Time charter revenues decreased by \$56.8 million, or 26%, to \$164.0 million in 2013, compared to \$220.8 million in 2012. The decrease was due to a 39% decrease of our average charter rates in 2013 compared to 2012. The decrease was partly off-set by a 19% increase of our ownership days resulting from the delivery of the Los Angeles in February 2012; the Philadelphia and Melia, both delivered in May 2012; the Amphitrite, delivered in August 2012; the Polymnia, delivered in November 2012; the Myrto, delivered in January 2013; the Maia, delivered in February 2013; the Baltimore, delivered in June 2013; the Artemis, delivered in August 2013; the Myrsini, delivered in October 2013; and the PS Palios, delivered in December 2013. In 2013 we had total operating days of 11,944 and fleet utilization of 99.3%, compared to 9,865 total operating days and a fleet utilization of 98.7% in 2012.

**Other Revenues.** Other revenues decreased by \$2.0 million, or 83%, to \$0.4 million in 2013, compared to \$2.4 million in 2012 and consist of the income derived from the management and administrative agreements between DSS and Diana Containerships. The decrease in 2013 was due to the termination of the agreements with Diana Containerships on March 1, 2013.

**Voyage Expenses.** Voyage expenses decreased by \$0.2 million, or 2%, to \$8.1 million in 2013 compared to \$8.3 million in 2012. This decrease in voyage expenses is primarily attributable to the decrease of commissions paid to unaffiliated ship brokers and in-house ship brokers associated with charterers. As commissions are a percentage of time charter revenues, they follow the same trend with time charter revenues. This decrease was partly offset by the decrease of the gain from bunkers between the two periods, which amounted to \$0.1 million in 2013, compared to \$2.1 million in 2012, which was the result of the different bunker prices at the delivery and redelivery of our vessels that entered into new charters during the year.

**Vessel Operating Expenses.** Vessel operating expenses increased by \$10.9 million, or 16%, to \$77.2 million in 2013 compared to \$66.3 million in 2012. The increase in operating expenses is primarily attributable to the 19% increase in ownership days resulting from the delivery of the new vessels to our fleet in 2013. The increase was also due to increased crew costs, insurances, taxes and other operating expenses and was partly offset by decreased stores, spares, repairs and maintenance costs. Daily operating expenses were \$6,408 in 2013 compared to \$6,551 in 2012, representing a 2% decrease.

**Depreciation and Amortization of Deferred Charges.** Depreciation and amortization of deferred charges increased by \$2.7 million, or 4%, to \$64.7 million in 2013, compared to \$62.0 million 2012. This increase was due to the enlargement of our fleet and was partly offset by a decrease in depreciation expense of \$2.9 million, or \$0.04 per share, due to the increase in the scrap value of the vessels. Additionally, the increase in depreciation and amortization was partly offset by decreased amortization of deferred drydocking costs, mainly due to the termination of the amortization period for several vessels during 2013 and the fact that only one vessel was dry-docked at the end 2013.

**General and Administrative Expenses.** General and Administrative Expenses decreased by \$1.2 million, or 5%, to \$23.7 million in 2013 compared to \$24.9 million in 2012. The decrease is mainly attributable to reduced bonuses, compensation cost on restricted stock awards to executive management and non-executive directors, and company promotion expenses.

**Interest and Finance Costs.** Interest and finance costs increased by \$0.5 million, or 7%, to \$8.1 million in 2013 compared to \$7.6 million in 2012. The increase is primarily attributable to higher average interest rates on increased average long term debt outstanding during 2013 compared to 2012. Interest expense in 2013 amounted to \$7.6 million compared to \$7.0 million 2012.

**Interest and Other Income.** Interest and other income increased by \$0.4 million, or 29%, to \$1.8 million in 2013 compared to \$1.4 million in 2012. The increase is attributable to interest income and fees of \$1.2 million, which derived from our loan agreement with Diana Containerships, dated May 20, 2013, pursuant to which \$50.0 million were drawn by Diana Containerships on August 20, 2013. This increase was partly offset by decreased interest income on our cash at banks during 2013 mainly due to decreased levels of cash compared to last year.

**Loss from Derivative Instruments.** Loss from derivative instruments decreased by \$0.4 million, or 80%, to \$0.1 million in 2013 compared to \$0.5 million in 2012. The decrease is due to the unrealized gain of \$0.6 million 2013 compared to gain of \$36,495 in 2012. Realized loss in 2013 amounted to \$0.7 million compared to \$0.6 million in 2012.

**Income / (loss) from Investment in Diana Containerships Inc.** Loss from our investment in Diana Containerships Inc. amounted to \$6.1 million in 2013 and was mainly due to impairment charges recorded by Diana Containerships during the year. This compared to a loss of \$1.8 million in 2012, mainly due to the dilution of our ownership percentage in Diana Containerships from 14.5% to 10.4%, following a follow on offering of Diana Containerships.

#### Inflation

Inflation does not have a material effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing costs.



B. Liquidity and Capital Resources

We have historically financed our capital requirements with cash flow from operations, equity contributions from shareholders and long-term bank debt. Our main uses of funds have been capital expenditures for the acquisition of new vessels, expenditures incurred in connection with ensuring that our vessels comply with international and regulatory standards and repayments of bank loans. We will require capital to fund ongoing operations, the construction of our new vessels, debt service and the payment of our preferred dividends. As at December 31, 2014 and 2013, working capital, which is current assets minus current liabilities, including the current portion of long-term debt, amounted to \$140.1 million and \$189.6 million, respectively.

We expect to fund the operations of our fleet, our working capital requirements, our payment of preferred dividends and the construction cost of vessels under construction with internally generated cash flow and with additional debt or equity.

Cash Flow

Cash and cash equivalents were \$218.9 million as at December 31, 2014 compared to \$240.6 million as at December 31, 2013. We consider highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in U.S. dollars. Cash and cash equivalents may also include compensating cash balances kept against the Company's loan facilities that are not deemed to be sufficiently material to require segregation on the balance sheet. As at December 31, 2014 and 2013, cash and cash equivalents also include \$19.5 million and \$18.0 million, respectively, of such compensating cash balances not deemed to be sufficiently material to require segregation on the balance sheet.

Net Cash Provided By Operating Activities

Net cash provided by operating activities decreased by \$22.5 million, or 33%, to \$44.9 million in 2014 compared to \$67.4 million in 2013. The decrease was primarily attributable to the decrease in charter rates during the year, the increase in drydock days during which our vessels could not earn revenue and increase in expenses due to the enlargement of the fleet.

Net cash provided by operating activities decreased by \$52.5 million, or 44%, to \$67.4 million in 2013 compared to \$119.9 million in 2012. The decrease was primarily attributable to the decrease in revenues due to the decrease in average rates, despite the enlargement of the fleet, and increase in expenses due to the enlargement of the fleet.

Net Cash Used In Investing Activities

Net cash used in investing activities was \$152.5 million for 2014, which consists of \$111.7 million paid for predelivery installments for our three vessels under construction and the *Crystalia* and *Atalandi*, which were delivered in 2014, the acquisition of GP Zafirakis during the year, and the advance for the acquisition of the *Santa Barbara*, delivered in January 2015; \$40.0 million for the acquisition of additional interest in Diana Containerships in a private offering; \$0.8 million of dividends received from Diana Containerships during the year; and \$1.6 million relating to the acquisition of property and equipment.

Net cash used in investing activities was \$245.2 million for 2013, which consists of \$198.6 million paid for predelivery installments for four vessels under construction, the acquisition of five vessels during the year, and the delivery installment for the acquisition of the Myrto, delivered in January 2013; \$50.0 million paid to Diana Containerships, pursuant to the respective loan agreement; \$4.0 million of dividends received from Diana Containerships during the year; and \$0.6 million relating to building improvements and purchases of furniture and equipment.

Net cash used in investing activities was \$169.9 million in 2012, which consists of \$171.2 million paid for the acquisition of six vessels during the year, the payment of a 10% advance for the acquisition of the Myrto and two predelivery installments for the construction of two vessels; \$2.8 million of dividends received from Diana Containerships during the year and \$1.6 million relating to property additions and purchases of furniture, equipment and software development costs.

#### Net Cash Used In / Provided By Financing Activities

Net cash provided by financing activities was \$85.9 million for 2014, which consists of \$101.5 million of proceeds drawn under new loan facilities; \$48.6 million of indebtedness that we repaid; and \$0.5 million of financing costs we paid relating to our new loan agreements; \$62.7 of proceeds from issuance of preferred stock, net of expenses; \$3.9 of dividends paid on the preferred stock; and \$25.3 payments for repurchase of common stock.

Net cash used in financing activities was \$28.2 million for 2013, which consists of \$18.0 million of proceeds drawn under our loan facility with Deutsche Bank AG for the vessels Maia and Myrto; \$45.8 million of indebtedness that we repaid; and \$0.4 million of financing costs we paid relating to our new loan agreements.

Net cash provided by financing activities was \$80.0 million in 2012, which consists of \$118.6 million of proceeds drawn under our loan facilities and \$32.0 million of indebtedness that we repaid; \$6.0 million that we paid to repurchase and retire our common stock pursuant to the relevant plan; and \$0.6 million that we paid in financing costs relating to our new loan agreements.

#### Loan Facilities

As at December 31, 2014, we had \$486.0 million of long term debt outstanding under our facilities, which as of the date of this annual report decreased to \$492.4, and consists of the balances of the below agreements.

#### Revolving credit facility

In February 2005, we entered into a \$230.0 million secured revolving credit facility with the Royal Bank of Scotland, which was amended on May 24, 2006, to increase the facility amount to \$300.0 million. The \$300.0 million revolving credit facility was available in full until May 24, 2012. Since that date the available amount is reducing in semi-annual amounts of \$15.0 million with a final reduction of \$165.0 million together with the last semi-annual reduction on May 24, 2016. The credit facility bears interest ranging from 0.75% to 0.85% per annum over LIBOR.

The credit facility is secured by a first priority or preferred ship mortgage on 18 vessels of our fleet, assignment of all freights, earnings, insurances and requisition compensation. The lenders may also require additional security in the event we breach certain covenants under the credit facility, including a shortfall in the hull cover ratio. The credit facility contains covenants including restrictions as to changes in management and ownership of the vessels, additional indebtedness, as well as minimum requirements regarding hull cover ratio, minimum liquidity per each vessel in the fleet mortgaged under or financed through the credit facility and other financial covenants. Furthermore, the Company is not permitted to pay any dividends that would result in a breach of the financial covenants of the

facility.

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Secured Term Loans:

In October 2009, our wholly owned subsidiary Gala Properties Inc., entered into a \$40.0 million loan agreement with Bremer Landesbank ("Bremer") to partly finance the acquisition cost of the Houston. The loan is repayable in 40 quarterly installments of \$0.9 million plus one balloon installment of \$4.0 million to be paid together with the last installment on November 19, 2019. The loan bears interest at Libor plus a margin of 2.15% per annum.

In October 2009, our wholly owned subsidiary Bikini Shipping Company Inc., ("Bikini") entered into \$40.0 million a loan agreement with Deutsche Bank AG ("Deutsche") to partly finance the acquisition cost of the New York. The loan was repaid in full on March 10, 2015 and was repayable in 19 quarterly installments of \$0.6 million and a 20th installment of \$28.6 million. The loan bore interest at Libor plus a margin of 2.40% per annum.

On June 18, 2013, two of our wholly-owned subsidiaries, Tuvalu Shipping Company Inc. and Jabat Shipping Company Inc., entered into a loan agreement with Deutsche for a loan facility of \$18.0 million to finance part of the acquisition cost of the Maia and the Myrto which were cross-collateralized with the New York. The loan was prepaid in full on March 20, 2015 and was repayable in 20 consecutive equal quarterly installments of approximately \$0.4 million and a balloon payment of \$10.5 million payable together with the final quarterly installment on June 20, 2018. The loan bore interest at LIBOR plus a margin of 3.0%.

In October 2010, our wholly owned subsidiaries, Lae Shipping Company Inc. ("Lae") and Namu Shipping Company Inc., ("Namu") entered into a loan agreement with Export-Import Bank of China and DnB NOR Bank ASA ("CEXIM and DnB") to finance part of the acquisition cost of the Los Angeles, and the Philadelphia, for an amount of up to \$82.6 million, of which \$72.1 million was drawn being 70% of the vessels' market value on delivery.

The Lae advance is repayable in 40 quarterly installments of approximately \$0.6 million and a balloon of \$ 12.3 million payable together with the last installment on February 15, 2022. The Namu advance is repayable in 40 quarterly installments of approximately \$0.6 million and a balloon of \$11.4 million payable together with the last installment on May 18, 2022. Each Bank has the right to demand repayment of the outstanding balance of any advance 72 months after the respective advance drawdown. Such demand shall be subject to written notification to be made no earlier than 54 months and not later than 60 months after the respective drawdown date for that advance. The loan bears interest at LIBOR plus a margin of 2.50% per annum.

On May 24, 2013, our wholly-owned subsidiaries, Erikub Shipping Company Inc. and Wotho Shipping Company Inc., entered into a loan agreement with CEXIM and DnB to finance part of the construction cost of Crystalia and Atalandi for an amount of up to \$15.0 million for each vessel, drawn on May 22, 2014. Each advance is repayable in 19 quarterly installments of \$250,000 and a balloon of \$10.3 million payable together with the last installment on February 22, 2019. The loan bears interest at LIBOR plus a margin of 3.0% per annum.

On September 13, 2011, our wholly owned subsidiary Bikar Shipping Company Inc. ("Bikar") entered into a loan agreement with Emporiki Bank of Greece S.A. ("Emporiki") for a loan of up to \$15.0 million to refinance part of the acquisition cost of the Arethusa. On December 13, 2012, Bikar, the Company, DSS and Credit Agricole Corporate and Investment Bank ("Credit Agricole"), entered into a supplemental loan agreement to transfer the outstanding loan balance, the ISDA master swap agreement and the existing security documents from Emporiki to Credit Agricole. The loan is repayable in 20 equal semiannual installments of \$0.5 million each and a balloon payment of \$5.0 million to be paid together with the last installment on September 15, 2021. The loan bears interest at LIBOR plus a margin of 2.5% per annum, or 1% for such loan amount that is equivalently secured by cash pledge in favor of the bank.

On February 7, 2012, our wholly owned subsidiary Jemo Shipping Company Inc., ("Jemo") entered into an agreement with Nordea Bank ("Nordea"), for a loan facility of \$16.1 million drawn down in February 2012, to partly finance the acquisition cost of the Leto. On June 21, 2012, the agreement between Jemo and Nordea Bank Finland Plc, was restated and amended by a supplemental agreement in order to include Mandaringina as a new borrower and increase the loan amount to up to \$26.5 million for the purpose of financing part of the acquisition cost of the Melia. On March 19, 2015, we prepaid in full all outstanding indebtedness under the loan facility. The Leto advance was repayable in 20 consecutive equal quarterly installments of \$252,000 and a balloon payment of \$11.1 million payable together with the final quarterly installment on February 7, 2017. The Melia advance of \$10.3 million, drawn in June 2012, was repayable in 20 consecutive equal quarterly installments of \$234,660 and a balloon of \$5.6 million payable together with the last installment on May 7, 2017. The loan bore interest at LIBOR plus a margin of 2.5%.

On December 20, 2012, our wholly owned subsidiaries Palau Shipping Company Inc. and Guam Shipping Company Inc., entered into a new loan agreement with Nordea for an amount of \$20.0 million, drawn down on December 21, 2012, to finance part of the acquisition cost of the Amphitrite and the Polymnia. On March 19, 2015, we prepaid in full all outstanding indebtedness under the loan facility which was repayable in 20 consecutive quarterly installments of \$312,500 and a balloon installment of \$13.8 million payable together with the last installment on December 21, 2017. The loan bore interest at LIBOR plus a margin of 2.9%.

On January 9, 2014, two of our wholly owned subsidiaries Taka Shipping Company Inc., and Fayo Shipping Company Inc., entered into a loan agreement with Commonwealth Bank of Australia, London Branch ("CBA"), for a loan facility of up to \$18.0 million to finance part of the acquisition cost of the Melite and Artemis. The loan bears interest at LIBOR plus a margin of 2.25%. The loan was drawn in two tranches, one of \$8.5 million assigned to Melite and one of \$9.5 million assigned to Artemis. Tranche A is repayable in 24 equal consecutive quarterly installments of \$195,833 each; and a balloon of \$3.8 million payable January 13, 2020. Tranche B is repayable in 32 equal consecutive quarterly installments of \$156,250 each and a balloon of \$4.5 million payable on January 13, 2022.

On December 18, 2014, two of our wholly owned subsidiaries Weno Shipping Company Inc., and Pulap Shipping Company Inc., entered into a loan agreement with BNP Paribas ("BNP"), for a loan facility of up to \$55.0 million to finance part of the acquisition cost of the GP Zafirakis and the PS Palios, of which \$53.5 million was drawn. The loan bears interest at LIBOR plus a margin of 2%, and is repayable in 14 equal semi-annual installments of approximately \$1.6 million and a balloon of \$31.5 million, payable on November 30, 2021.

On March 17, 2015, we entered into a loan facility with Nordea to refinance the existing agreements with the bank, described above, and to add additional vessels. On March 19, 2015, after repaying in full all outstanding indebtedness under the previous loan facilities with the bank, we drew down the amount of \$93.1 million. The loan is repayable in 24 consecutive three-monthly installments of approximately \$1.9 million being 1/50 of the loan amount and a balloon of \$48.4 million payable together with the last installment on March 19, 2021. The loan bears interest plus a margin of 2.1% of LIBOR.

Under the secured long term debt agreements mentioned above, we currently have 18 vessels of the Company's fleet mortgaged with first preferred or second preferred ship mortgage, as applicable. Additional securities required by the banks include first priority assignment of all earnings, insurances, first assignment of time charter contracts with duration of more than 12 months, pledge over the shares of the borrowers, manager's undertaking and subordination and requisition compensation and a corporate guarantee by DSI (the "Guarantor"), financial covenants, as well as operating account assignments. The lenders may also require additional security in the future in the event the borrowers breach certain covenants under the loan agreements and include restrictions as to changes in management and ownership of the vessels, additional indebtedness, as well as minimum requirements regarding hull cover ratio and minimum liquidity per vessel owned by the borrowers or the Guarantor maintained in the bank accounts of the borrowers. Furthermore, certain of the Secured Term Loans contain cross default provisions and additionally the

Company is not permitted to pay any dividends from the earnings of the vessel following the occurrence of an event of default.

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## Commitments

On February 27, 2015, we signed a commitment letter with Danish Ship Finance for a loan facility of \$30.0 million to partly finance the acquisition cost of the Santa Barbara, delivered in January 2015 which will be available until June 1, 2015.

On March 12, 2015, ABN AMRO Bank NV offered a term sheet for a loan facility of up to \$53.0 million to partly re-finance the acquisition cost of the New York, Maia, and Myrto, subject to signing the loan agreement by May 01, 2015.

Currently, all of our vessels, except for four, have been provided as collateral to secure our credit facilities.

As of December 31, 2014 and currently, we believe we are in compliance with all covenants relating to our loan facilities.

As of December 31, 2014, 2013 and 2012 and as of the date of this annual report, we did not and have not designated any financial instruments as accounting hedging instruments. In May 2009, we entered into a five-year zero cost collar agreement, novated in March 2012, with a floor at 1% and a cap at 7.8% of a notional amount of \$100.0 million to manage our exposure to interest rate changes related to our borrowings. The collar agreement which was terminated in May 2014 was considered as an economic hedge agreement as it did not meet the criteria of hedge accounting; therefore, the change in its fair value is recognized in earnings. As of December 31, 2014 and 2013 the fair value of the swap was nil and \$0.4 million, respectively. Also we incurred unrealized gain of \$0.4 million in 2014, \$0.6 million in 2013 and \$36,495 in 2012. Realized loss was \$0.3 million for 2014, \$0.7 million for 2013 and \$0.6 million for 2012.

## Capital Expenditures

We make capital expenditures from time to time in connection with our vessel acquisitions which we finance with cash from operations, debt under loan facilities that provide necessary funds at terms acceptable to us, or with funds from equity issuances. In January 2015, we took delivery of Santa Barbara, a newly acquired vessel for a purchase price of \$50.0 million. In March, 2015, we repaid \$82.7 million of outstanding indebtedness under our loan agreements with Deutsche Bank and Nordea. Currently, we have contractual obligations of \$100.0 million, relating to the construction of two Newcastlemax dry bulk vessels and one Kamsarmax dry bulk vessel, which we expect to take delivery of in 2016. We pay dividends on our preferred series B shares amounting to approximately \$5.8 million annually. We incur additional capital expenditures when our vessels undergo surveys. This process of recertification may require us to reposition these vessels from a discharging port to shipyard facilities, which will reduce our operating days during the period. The loss of earnings associated with the decrease in operating days, together with the capital needs for repairs and upgrades results in increased cash flow needs.

We expect to cover our capital expenditures and cash flow needs with cash from operations and additional indebtedness. Currently, we have a commitment letter for a secured loan with Danish Ship Finance for \$30.0 million to finance part of the acquisition cost of Santa Barbara delivered in January 2015, and we have been offered a term sheet by ABN AMRO Bank for \$53.0 million, or 66% of the market values of the vessels New York, Myrto and Maia. Also, on March 19, 2015, we drew down \$93.1 million under our new agreement with Nordea entered into in March 17, 2015.

## C. Research and development, patents and licenses

We incur from time to time expenditures relating to inspections for acquiring new vessels that meet our standards. Such expenditures are insignificant and they are expensed as they incur.

D. Trend information

Our results of operations depend primarily on the charter hire rates that we are able to realize, and the demand for dry bulk vessel services. The Baltic Dry Index, or the BDI, has long been viewed as the main benchmark to monitor the movements of the dry bulk vessel charter market and the performance of the entire dry bulk shipping market. The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and has remained volatile since then. In 2012, the BDI ranged from a high of 1,624 in January to a low of 647 in February. In 2013, the BDI ranged from a low of 698 in January to a high of 2,337 in December 2013. In 2014, the BDI ranged from a high of 2,113 in January to a low of 723 in July. The BDI recorded a 25-year record low of 509 in February 2015 and has since increased to 591 as of March 20, 2015.

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The decline and volatility in charter rates in the dry bulk market reflects in part the fact that the supply of dry bulk vessels in the market has been increasing, and the number of newbuilding dry bulk vessels on order is high. Demand for dry bulk vessel services is influenced by global financial conditions. The recovery in China and India positively influenced the charter rates; however, global financial conditions remain volatile and demand for dry bulk services may decrease in the future. The combination of increasing dry bulk capacity (both current and expected) and decreasing demand or demand which is not offset by the increase in dry bulk capacity is likely to result in reductions in charter hire rates and, as a consequence, adversely affect our operating results.

Additionally, we believe we have structured our capital expenditure requirements, debt commitments and liquidity resources in a way that will provide us with financial flexibility (see "Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources" for more information).

#### E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, in thousands of U.S. dollars, and their maturity dates as of December 31, 2014:

Contractual Obligations	Payments due by period				
	Total Amount	Less than 1 year	2-3 years	4-5 years	More than 5 years
	(in thousands of US dollars)				
Loan Agreements (1)	\$486,008	\$79,288	\$250,619	\$66,234	\$89,867
Estimated Interest Payments on Loan Agreements (1)	28,326	8,158	10,763	5,912	3,493
Construction contracts (2)	107,291	23,804	83,487	-	-
Acquisition of vessels (3)	40,000	40,000	-	-	-
Broker services agreement (4)	312	312	-	-	-
Preferred dividends (5)	24,999	5,769	11,538	7,692	-
Total	\$686,936	\$157,331	\$356,407	\$79,838	\$93,360

(1) As of December 31, 2014, we had an aggregate principal of \$486.0 million of indebtedness outstanding under our loan facilities. Estimated interest payments represent projected interest payments on our long term debt, which are based on the weighted average LIBOR rate in 2014 plus the margin of our loan agreements in 2014. As of the date of this report, we incurred additional indebtedness of \$93.1 million under our loan facility with Nordea Bank entered into in March 17, 2015 and repaid \$83.2 million of indebtedness outstanding as at December 31, 2014, to terminate our loan agreements with Nordea and Deutsche Bank.

(2) In February 2015, we paid \$7.3 million for the construction of one of our three vessels under construction, which we expect to take delivery of in 2016.

As at December 31, 2014, we had paid an advance of \$10.0 million, for the acquisition of Santa Barbara which we (3) had agreed to acquire in December 2014 for \$50.0 million and the balance of \$40.0 million was paid in January 2015 when the vessel was delivered.

On March 4, 2014, DSS entered into an agreement with Diana Enterprises, a related party company, for the (4) provision of brokerage services for a monthly fee of \$104,166 effective from January 1, 2014, which replaced the previous agreement dated March 15, 2013. The agreement will expire on March 31, 2015.

On February 24, 2014 we completed an offering of 2,600,000 shares of Series B Perpetual Preferred Stock, at the price of \$25.0 per share, and dividends are payable at a rate equal to 8.875% per annum. At any time on or after (5) February 14, 2019, the Series B Preferred Shares may be redeemed, in whole or in part, at a redemption price of \$25.00 per share, plus an amount equal to all accumulated and unpaid dividends thereon to the date of redemption, whether or not declared. The table above presents our obligations for dividend payments until February 14, 2019. The table above does not include the payment for the redemption, which is at our option.

G. Safe Harbor

See section "forward looking statements" at the beginning of this annual report.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors and executive officers. Effective March 4, 2015, our Board of Directors of the Company increased its size from seven to nine members and Mr. Kyriacos Riris and Mrs. Semiramis Paliou were appointed to fill the resulting vacancies. Our board of directors is elected annually on a staggered basis, and each director elected holds office for a three year term. Officers are appointed from time to time by our board of directors and hold office until a successor is appointed or their employment is terminated.

Name	Age	Position
Simeon Palios	73	Class I Director, Chief Executive Officer and Chairman
Anastasios Margaronis	59	Class I Director and President
Ioannis Zafirakis	43	Class I Director, Chief Operating Officer and Secretary
Andreas Michalopoulos	43	Chief Financial Officer and Treasurer
Maria Dede	42	Chief Accounting Officer
William (Bill) Lawes	71	Class II Director
Konstantinos Psaltis	76	Class II Director
Kyriacos Riris	65	Class II Director
Boris Nachamkin	81	Class III Director
Apostolos Kontoyannis	66	Class III Director
Semiramis Paliou	40	Class III Director

The term of our Class I directors expires in 2015, the term of our Class II directors expires in 2016 and the term of our Class III directors expires in 2017.

The business address of each officer and director is the address of our principal executive offices, which are located at Pendelis 16, 175 64 Palaio Faliro, Athens, Greece.

Biographical information with respect to each of our directors and executive officers is set forth below.

Simeon P. Palios has served as the Chief Executive Officer and Chairman of Diana Shipping Inc. since February 21, 2005 and as a Director since March 9, 1999 and has served as the Chief Executive Officer and Chairman of Diana Containerships Inc. since January 13, 2010. Mr. Palios also serves currently as the President of Diana Shipping Services S.A., our management company. Prior to November 12, 2004, Mr. Palios was the Managing Director of Diana Shipping Agencies S.A. Since 1972, when he formed Diana Shipping Agencies S.A., Mr. Palios has had the overall responsibility of the activities. Mr. Palios has experience in the shipping industry since 1969 and expertise in technical and operational issues. He has served as an ensign in the Greek Navy for the inspection of passenger boats on behalf of Ministry of Merchant Marine and is qualified as a naval architect and marine engineer. Mr. Palios is a member of various leading classification societies worldwide and he is a member of the board of directors of the United Kingdom Freight Demurrage and Defense Association Limited. He holds a bachelor's degree in Marine Engineering from Durham University.

Anastasios C. Margaronis has served as our President and as a Director since February 21, 2005 and has served as the Director and President of Diana Containerships Inc. since January 13, 2010. Mr. Margaronis also serves as an employee of Diana Shipping Services S.A. Prior to February 21, 2005, Mr. Margaronis was employed by Diana Shipping Agencies S.A. and performed on our behalf the services he now performs as President. He joined Diana Shipping Agencies S.A. in 1979 and has been responsible for overseeing our insurance matters, including hull and machinery, protection and indemnity and war risks cover. Mr. Margaronis has experience in the shipping industry, including in ship finance and insurance, since 1980. He is a member of the Greek National Committee of the American Bureau of Shipping and a member of the board of directors of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited. He holds a bachelor's degree in Economics from the University of Warwick and a master's of science degree in Maritime Law from the Wales Institute of Science and Technology.

Ioannis G. Zafirakis serves as our Director, Chief Operating Officer and Secretary. He also serves as Director, Chief Operating Officer and Secretary of Diana Containerships Inc. He is also the head of the Corporate Planning and Governance department of Diana Shipping Services S.A., where he also serves as Director and Treasurer. Since June 1997 and up to February 2005 Mr. Zafirakis was employed by Diana Shipping Agencies S.A. where he held a number of positions in its finance and accounting department. Mr Zafirakis is also a member of the Business Advisory Committee of the MSc in International Shipping and Finance at ICMA Centre, Henley Business School, University of Reading. He holds a bachelor's degree in Business Studies from City University Business School in London and a master's degree in International Transport from the University of Wales in Cardiff.

Andreas Michalopoulos has served as our Chief Financial Officer and Treasurer since March 8, 2006 and has served in these positions with Diana Containerships Inc. since January 13, 2010. Mr. Michalopoulos started his career in 1993 when he joined Merrill Lynch Private Banking in Paris. In 1995, he became an International Corporate Auditor with Nestle SA based in Vevey, Switzerland and moved in 1998 to the position of Trade Marketing and Merchandising Manager. From 2000 to 2002, he worked for McKinsey and Company in Paris, France as an Associate Generalist Consultant before joining a major Greek Pharmaceutical Group with U.S. R&D activity as a Vice President of International Business Development and Member of the Executive Committee in 2002 where he remained until 2005. From 2005 to 2006, he joined Diana Shipping Agencies S.A. as a Project Manager. Mr. Michalopoulos graduated from Paris IX Dauphine University with Honors in 1993 obtaining an MSc in Economics and a master's degree in Management Sciences specialized in Finance. In 1995, he also obtained a master's degree in Business Administration from Imperial College, University of London. Mr. Andreas Michalopoulos is married to the youngest daughter of Mr. Simeon Palios.



Maria Dede has served as our Chief Accounting Officer since September 1, 2005 during which time she has been responsible for all financial reporting requirements. Mrs. Dede has also served as an employee of Diana Shipping Services S.A since March 2005. In 2000, Mrs. Dede joined the Athens branch of Arthur Andersen, which merged with Ernst and Young (Hellas) in 2002, where she served as an external auditor of shipping companies until 2005. From 1996 to 2000, Mrs. Dede was employed by Venus Enterprises SA, a ship-management company, where she held a number of positions primarily in accounting and supplies. Mrs. Dede holds a bachelor's degree in Maritime Studies from the University of Piraeus and a master's degree in business administration from ALBA.

William (Bill) Lawes has served as a Director and the Chairman of our Audit Committee since March 2005. Mr. Lawes served as a Managing Director and a member of the Regional Senior Management Board of JPMorgan Chase (London) from 1987 until 2002. Prior to joining JPMorgan Chase, he was Global Head of Shipping Finance at Grindlays Bank. Since December 2007, he serves as an independent member of the Board of Directors and Chairman of the Audit Committee of Teekay Tankers Ltd. In January 2014, Mr Lawes also joined the board of Tanker Investments Ltd. Mr. Lawes is qualified as a member of the Institute of Chartered Accountants of Scotland.

Konstantinos Psaltis has served as a Director since March 2005. From 1981 to 2006, Mr. Psaltis has served as Managing Director of Ormos Compania Naviera S.A., a company that specializes in operating and managing multipurpose container vessels and as from 2006 till today as a President of the same company. Prior to joining Ormos Compania Naviera S.A., Mr. Psaltis simultaneously served as a technical manager in the textile manufacturing industry and as a shareholder of shipping companies managed by M.J. Lemos. From 1961 to 1964, he served as ensign in the Royal Hellenic Navy. Mr. Psaltis is a member of the Germanischer Lloyds Hellas Committee. He holds a degree in Mechanical Engineering from Technische Hochschule Reutlingen & Wuppertal and a bachelor's degree in Business Administration from Tübingen University in Germany.

Kyriacos Riris has served as a Director since March 2015. From 1998 Mr. Riris served in a series of positions in PricewaterhouseCoopers (PwC), Greece, including Senior Partner, Managing Partner of the Audit and the Advisory/Consulting Lines of Service. From 2009 to 2014, Mr. Riris served as Chairman of the Board of Directors of PricewaterhouseCoopers (PwC), Greece. Prior to its merger with PwC, Mr. Riris was employed at Grant Thornton, Greece, where in 1984 he became a Partner. From 1976 to 1982 Mr. Riris was employed at Arthur Young, Greece. Mr. Riris holds a degree from Birmingham Polytechnic (presently Birmingham City University) and completed his professional qualifications with the Association of Certified Chartered Accountants (ACCA) in the UK in 1975, becoming a Fellow of the Association of Certified Accountants in 1985.

Boris Nachamkin has served as a Director and as a member of our Compensation Committee since March 2005. Mr. Nachamkin was with Bankers Trust Company, New York, for 37 years, from 1956 to 1993 and was posted to London in 1968. Upon retirement in 1993, he acted as Managing Director and Global Head of Shipping at Bankers Trust. Mr. Nachamkin was also the UK Representative of Deutsche Bank Shipping from 1996 to 1998 and Senior Executive and Head of Shipping for Credit Agricole Indosuez, based in Paris, between 1998 and 2000. Previously, he was a Director of Mercur Tankers, a company which was listed on the Oslo Stock Exchange, and Ugland International, a shipping company. He also serves as Managing Director of Seatrust Shipping Services Ltd., a private consulting firm and as a U.K. Director of Marine Money, a U.S. - based ship finance publication.

Apostolos Kontoyannis has served as a Director and as the Chairman of our Compensation Committee and a member of our Audit Committee effective since March 2005. Mr. Kontoyannis has over 35 years of experience in shipping finance and currently serves as financial consultant to various shipping companies. He was employed by Chase Manhattan Bank N.A. in Frankfurt (Corporate Bank), London (Head of Shipping Finance South Western European Region) and Piraeus (Manager, Ship Finance Group) from 1975 to 1987. He is an independent member of the Board of Directors of Excel Maritime Holding Company LLC. Mr. Kontoyannis holds a bachelor's degree in Finance and Marketing and a master's degree in business administration in Finance from Boston University.



Semiramis Paliou has served as a Director since March 2015. Mrs. Paliou has almost 19 years of experience in shipping operations, technical management and crewing. Mrs. Paliou began her career at Lloyd's Register of Shipping from 1996 to 1998 and she was then employed by Diana Shipping Agencies S.A. From 2007 to 2010 she was employed as a Director and President of Alpha Sigma Shipping Corp. Since 2010 she is the head of the operations, technical and crew department of Diana Shipping Services S.A. Mrs. Paliou obtained her BSc in Mechanical Engineering from Imperial College, London and her MSc in Naval Architecture from University College, London. She is the daughter of Simeon Palios, our Chief Executive Officer and Chairman, and is a member of the Greek committee of Det Norske Veritas and a member of the Greek committee of Nippon Kaiji Kyokai.

## B. Compensation

Aggregate executive compensation (including amounts paid to Diana Enterprises pursuant to the Broker Services Agreements) for 2014, 2013 and 2012 was \$3.2 million, \$3.8 million and \$4.4 million, respectively. Since June 1, 2010, DSS has provided brokerage services to us pursuant to Broker Services Agreements between DSS and Diana Enterprises, a related party, as described in "Item 7B. Related Party Transactions." Under these agreements, fees for 2014, 2013 and 2012 amounted to \$1.2 million, \$2.5 million and \$2.4 million, respectively. We consider fees under these agreements to be part of our executive compensation due to the affiliation with Diana Enterprises. We expect such fees to remain at current levels in 2015.

Non-employee directors receive annual fees in the amount of \$52,000 plus reimbursement of their out-of-pocket expenses, since January 1, 2009. Until then their annual fees amounted to \$40,000. In addition, each non-executive serving as chairman or member of the committees receives annual fees of \$26,000 and \$13,000, respectively, plus reimbursement of his/her out-of-pocket expenses, since January 1, 2009 compared to \$20,000 and \$10,000, respectively, plus reimbursement of his/her out-of-pocket expenses until 2008. For 2014, 2013 and 2012 fees and expenses of our non-executive directors amounted to \$0.3 million, \$0.3 million and \$0.3 million, respectively.

Since 2008 and until the date of this annual report, our board of directors has awarded an aggregate amount of 6,415,241 shares of restricted common stock, of which 5,260,157 shares to senior management and 1,155,084 shares to non-employee directors. All restricted shares vest ratably over three years, except for 600,000 shares awarded in 2008 which vested ratably over a period of six years until 2014 and 1,314,000 shares awarded in 2014 which will vest ratably over a period of six years until 2022. The restricted shares are subject to forfeiture until they become vested. Unless they forfeit their shares, grantees have the right to vote, to receive and retain all dividends paid and to exercise all other rights, powers and privileges of a holder of shares.

In 2014, 2013 and 2012, compensation cost relating to the aggregate amount of restricted stock awards amounted to \$7.7 million, \$8.2 million and \$8.6 million, respectively.

We do not have a retirement plan for our officers or directors.

### Equity Incentive Plan

In February 2005, we adopted an equity incentive plan (the "2005 Plan") for 2,800,000 common shares, which was amended and restated on October 21, 2008 and terminated in 2012 as all shares reserved had been issued. On May 2, 2011, our board of directors approved the Diana Shipping Inc. 2011 Equity Incentive Plan (the "2011 Plan"), with substantially the same terms and provisions as the amended and restated 2005 Plan. Under the 2011 Plan, an aggregate of 5,000,000 common shares were reserved for issuance, of which 1,384,759 shares of common stock remain available for issuance as of the date of this report. In November 2014, we approved to adopt the Diana Shipping Inc. 2014 Equity Incentive Plan, for 5,000,000 additional common shares.

Under the above plans the Company's employees, officers and directors are entitled to receive options to acquire the Company's common stock and is administered by the Compensation Committee of the Company's Board Directors or such other committee of the Board as may be designated by the Board to administer the Plan. Under the terms of the 2011 Plan and the 2014 Plan, the Company's Board of Directors is able to grant a) incentive stock options, b) non-qualified stock options, c) stock appreciation rights, d) dividend equivalent rights, e) restricted stock, f) unrestricted stock, g) restricted stock units, and h) performance shares. No options, stock appreciation rights or restricted stock units can be exercisable prior to the first anniversary or subsequent to the tenth anniversary of the date on which such award was granted. Under the 2011 Plan and the 2014 Plan, the Administrator may waive or modify the application of forfeiture of awards of restricted stock and performance shares in connection with cessation of service with the Company.

#### C. Board Practices

We have established an Audit Committee, comprised of two board members, which is responsible for reviewing our accounting controls, recommending to the board of directors the engagement of our independent auditors, and pre-approving audit and audit-related services and fees. Each member is an independent director. As directed by its written charter, the Audit Committee is responsible for appointing, and overseeing the work of the independent auditors, including reviewing and approving their engagement letter and all fees paid to our auditors, reviewing the adequacy and effectiveness of the Company's accounting and internal control procedures and reading and discussing with management and the independent auditors the annual audited financial statements.

In addition, we have established a Compensation Committee comprised of two members, which is responsible for establishing executive officers' compensation and benefits. The members of the Audit Committee are Mr. William Lawes (Chairman and financial expert) and Mr. Apostolos Kontoyannis (member and financial expert) and the members of the Compensation Committee are Mr. Apostolos Kontoyannis (Chairman) and Mr. Boris Nachamkin (member).

We have established an Executive Committee comprised of the three executive directors, Mr. Simeon Palios, Mr. Anastasios Margaronis and Mr. Ioannis Zafirakis. The Executive Committee has, to the extent permitted by law, the powers of the Board of Directors in the management of the business and affairs of the Company.

We also maintain directors' and officers' insurance, pursuant to which we provide insurance coverage against certain liabilities to which our directors and officers may be subject, including liability incurred under U.S. securities law. Our executive directors have employment agreements, which, if terminated without cause, entitle them to continue receiving their basic salary through the date of the agreement's expiration.

#### D. Crewing and Shore Employees

We crew our vessels primarily with Greek officers and Filipino officers and seamen. We are responsible for identifying our Greek officers, which are hired by our vessel owning subsidiaries. Our Filipino officers and seamen are referred to us by Crossworld Marine Services Inc., an independent crewing agency. The crewing agency handles each seaman's training, travel and payroll. We ensure that all our seamen have the qualifications and licenses required to comply with international regulations and shipping conventions. Additionally, our seafaring employees perform most commissioning work and supervise work at shipyards and drydock facilities. We typically man our vessels with more crew members than are required by the country of the vessel's flag in order to allow for the performance of routine maintenance duties.



The following table presents the number of shoreside personnel employed by our fleet manager and the number of seafaring personnel employed by our vessel owning subsidiaries as at December 31, 2014, 2013 and 2012.

	Year Ended		
	December 31,		
	2014	2013	2012
Shoreside	94	84	82
Seafaring	973	848	713
Total	1,067	932	795

#### E. Share Ownership

With respect to the total amount of common shares and Series B Preferred Shares owned by all of our officers and directors, individually and as a group, see Item 7 "Major Shareholders and Related Party Transactions".

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

##### A. Major Shareholders

The following table sets forth current information regarding (i) the owners of more than five percent of our common stock that we are aware of and (ii) the total amount of common stock owned by all of our officers and directors, individually and as a group. All of the shareholders, including the shareholders listed in this table, are entitled to one vote for each share of common stock held.

Title of Class	Identity of Person or Group	Number of Shares Owned	Percent of Class
Common Stock, par value \$0.01	Simeon Palios (1)	16,157,371	19.6%
	Massachusetts Financial Services Company (2)	7,454,518	9.0%
	All officers and directors as a group (3)	19,543,094	23.7%

Currently, Mr. Simeon Palios beneficially owns 1,870,831 restricted common shares granted through the Company's Equity Incentive Plan and 14,286,540 shares indirectly through Corozal Compania Naviera S.A. (1) ("Corozal") and Ironwood Trading Corp. ("Ironwood") over which Mr. Simeon Palios exercises sole voting and dispositive power. As of December 31, 2012, 2013, and 2014, Mr. Simeon Palios owned directly and indirectly through Corozal and Ironwood, 18.4%, 18.4% and 19.3%, respectively, of our outstanding common stock.

Massachusetts Financial Services Company ("MFS") has filed a Schedule 13G/A on February 6, 2015 reporting (2) their ownership of 9.1% of our outstanding common stock as of December 31, 2014, decreased from 10.3% as of December 31, 2013.

Mr. Simeon Palios is our only director or officer that beneficially owns 5% or more of our outstanding common stock. Mr. Anastasios Margaronis, our President and a member of our board of directors, and Mr. Ioannis Zafirakis, our Chief Operating Officer and a member of our board of directors, are indirect shareholders through ownership of stock held in Corozal Compania Naviera S.A., which is the registered owner of some of our common stock. Mr. Margaronis and Mr. Zafirakis do not have dispositive or voting power with regard to shares held by Corozal Compania S.A. and, accordingly, are not considered to be beneficial owners of our common shares held through (3) Corozal Compania Naviera S.A. Mr. Anastasios Margaronis owns 1.6% of our outstanding common stock. Messrs. Lawes, Psaltis, Nachamkin and Kontoyannis, each a non-executive director of ours, and Messrs. Zafirakis and Michalopoulos, each executive officers of ours, each own less than 1% of our outstanding common stock. In addition, Mr. Zafirakis owns 40,000 Series B Preferred Shares, or 1.5% of the outstanding Series B Preferred Shares, Mr. Michalopoulos owns 28,000 Series B Preferred Shares, or 1.1% of the outstanding Series B Preferred Shares. All officers and directors as a group own 93,970 Series B Preferred Shares, or 3.6% of the outstanding Series B Preferred Shares.

As of March 23, 2015, we had 147 shareholders of record, 131 of which were located in the United States and held an aggregate of 63,114,211 of our common shares, representing 89.12% of our outstanding common shares. However, one of the U.S. shareholders of record is CEDE & CO., a nominee of The Depository Trust Company, which held 63,093,116 of our common shares as of March 23, 2015. Accordingly, we believe that the shares held by CEDE & CO. include common shares beneficially owned by both holders in the United States and non-U.S. beneficial owners. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

Holders of the Series B Preferred Shares generally have no voting rights except (1) in respect of amendments to the Articles of Incorporation which would adversely alter the preferences, powers or rights of the Series B Preferred Shares or (2) in the event that we propose to issue any parity stock if the cumulative dividends payable on outstanding Preferred Stock are in arrears or any senior stock. However, if and whenever dividends payable on the Series B Preferred Shares are in arrears for six or more quarterly periods, whether or not consecutive, holders of Series B Preferred Shares (voting together as a class with all other classes or series of parity stock upon which like voting rights have been conferred and are exercisable) will be entitled to elect one additional director to serve on our board of directors until such time as all accumulated and unpaid dividends on the Series B Preferred Shares have been paid in full.

#### B. Related Party Transactions

Diana Enterprises Inc.

In February 2012, DSS entered into an agreement with Diana Enterprises which replaced a previous one for the provision of brokerage services for an annual fee of \$2.4 million applied retroactively from January 1, 2012 and the fees were paid quarterly in advance. In March 2013, the agreement between DSS and Diana Enterprises was terminated and was replaced by a new agreement with effect from March 1, 2013 until March 31, 2014 and for a monthly fee of \$0.2 million payable quarterly in advance. On March 4, 2014, this agreement was terminated effective January 1, 2014 and the monthly fee payable to Diana Enterprises since that date was reduced to \$104,166, payable quarterly in advance and until March 31, 2015. On April 9, 2014, this agreement was also replaced by a new agreement between Diana Shipping Inc. and Diana Enterprises with all other terms being the same, which became effective July 1, 2014. During 2014, 2013 and 2012 brokerage fees amounted to \$1.3 million, \$2.5 million and \$2.4 million, respectively.

#### Altair Travel Agency S.A.

Altair Travel Agency S.A., or Altair, an affiliated entity that is controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios, provides us with travel related services. Travel related expenses in 2014, 2013 and 2012 amounted to \$2.8 million, \$2.6 million and \$3.0 million, respectively. We believe that the amounts that we pay to Altair Travel Agency S.A. for acquiring tickets and other travel related services are no greater than fees we would pay to an unrelated third party for comparable services in an arm's length transaction.

#### Diana Containerships, Administrative Services Agreement and Non-Competition Agreement

On April 6, 2010, Diana Containerships entered into an Administrative Services Agreement with DSS, whereby DSS provided to it accounting, administrative, financial reporting and other services necessary for the operation of its business. Diana Containerships paid DSS a monthly fee of \$10,000 for these administrative services. The initial term of the agreement was for a period of one year and automatically renewed for successive twelve month periods until its termination on March 1, 2013.

We and Diana Containerships had entered into a non-competition agreement whereby we agreed that, during the term of the Administrative Services Agreement and any vessel management agreements DSS entered into with Diana Containerships, and for six months thereafter, we would not acquire or charter any vessel, or otherwise operate in, the containership sector and Diana Containerships would not acquire or charter any vessel, or otherwise operate in, the dry bulk sector. On March 1, 2013, we entered into an amended and restated non-competition agreement with Diana Containerships, where we have agreed that, as long as any of our current or continuing executive officers also serves as an executive for Diana Containerships Inc., and for six months thereafter, we will not acquire or charter any vessel, or otherwise operate in, the containership sector and Diana Containerships will not acquire or charter any vessel, or otherwise operate in, the dry bulk sector.

Prior to the partial spin-off of Diana Containerships on January 18, 2011 and its consequent de-consolidation from our financial statements, such administrative services fees received by DSS were eliminated from our consolidated financial statements as intercompany transactions. After the de-consolidation of Diana Containerships and until March 1, 2013, such fees constituted part of our revenues and have been included in Other revenues. For 2013 and 2012, Other revenues amounted to \$0.4 million and \$2.4 million, respectively.

#### Diana Containerships, Vessel Management Agreements

DSS also provided commercial and technical management services for Diana Containerships' vessels under separate vessel management agreements with Diana Containerships' vessel owning subsidiaries. The vessel management agreements were terminated on March 1, 2013. Commercial management included, among other things, negotiating charters for vessels, monitoring the performance of vessels under charter, and managing Diana Containerships' relationships with charterers, obtaining insurance coverage for Diana Containerships' vessels, as well as supervision of the technical management of the vessels. Technical management included managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory and classification society compliance, supervising the maintenance and general efficiency of vessels, arranging the hire of qualified officers and crew, arranging and supervising drydocking and repairs, arranging for the purchase of supplies, spare parts and new equipment for vessels, appointing supervisors and technical consultants and providing technical support. Pursuant to each vessel management agreement, DSS received a commission of 1% of the gross hire and freight earned by each vessel and a technical management fee of \$15,000 per vessel per month for vessels in operation.

Prior to the partial spin-off of Diana Containerships on January 18, 2011 and its consequent de-consolidation from our financial statements, such management fees received by DSS were eliminated from our consolidated financial statements as intercompany transactions. After the de-consolidation of Diana Containerships and until March 1, 2013, such fees constituted part of our revenues and have been included in Other revenues. For 2013 and 2012, Other revenues amounted to \$0.4 million and \$2.4 million, respectively.

#### Diana Containerships, Loan Agreement

On May 20, 2013, we entered into a loan agreement with Eluk Shipping Company Inc., a subsidiary of Diana Containerships, to provide to it an unsecured loan of up to \$50.0 million to be used for general corporate purposes and working capital, which was drawn on August 20, 2013. The loan, which was approved by the Independent Committee of the Board of Directors and the Board of Directors, matures on the fourth anniversary of the draw down date, on August 20, 2017 and bears interest at LIBOR plus a margin of 5% per annum. Under the agreement, we also receive a back-end fee equal to 1.25% per annum on the outstanding amount, receivable on the repayment date of such amount. The unsecured loan is guaranteed by Diana Containerships, and Diana Containerships and its subsidiaries may not incur additional indebtedness during the term of the loan without our prior consent.

For 2014 and 2013, income from interest and fees amounted to \$3.2 and \$1.2, respectively, and is included in Interest and other income in the respective consolidated statements of operations. As at December 31, 2014 and the date of this report, the loan receivable from Diana Containerships amounted to \$50.0 million.

#### C. Interests of Experts and Counsel

Not Applicable.

#### Item 8. Financial information

##### A. Consolidated statements and other financial information

See Item 18.

#### Legal Proceedings

On August 8, 2013, DSS was found guilty on felony counts and on December 5, 2013 was sentenced by the United States District Court in Norfolk, Virginia to a fine of \$1.1 million and a period of probation of three years and six months, as a result of a conviction in which DSS was held vicariously liable for the actions of the chief engineer and second assistant engineer of the M/V Thetis, who were found guilty by the Court of violating several U.S. statutes and regulations in failing to properly handle waste oils, maintain required records and for obstruction of justice. In addition, the sentence includes a requirement for the duration of the probation period to maintain an enhanced system subject to independent audit for managing waste oils on each vessel managed by DSS. We do not expect that the implementation of the enhanced monitoring system will result in a material increase in costs during the probation period of three years and six months.

Except as described above, we have not been involved in any legal proceedings which may have, or have had, a significant effect on our business, 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 business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

#### Dividend Policy

Our board of directors reviews and amends our dividend policy from time to time in light of our plans for future growth and other factors. As of November 2008, our board of directors has suspended the payment of dividends on our common shares, with the exception of a stock dividend of 2,667,015 shares of Diana Containerships, or 80% of our interest at that date, distributed to all shareholders on a pro-rata basis as a result of the partial spin-off of Diana Containerships, effective January 19, 2011.

We believe that the suspension of dividend payments has positioned us better in a deteriorating market and enhances our flexibility by permitting cash flow that would have been devoted to dividends to be used for opportunities that may arise in the current marketplace, such as funding our operations, acquiring vessels or servicing our debt.

Marshall Islands law generally prohibits the payment of dividends other than from surplus or when a company is insolvent or if the payment of the dividend would render the company insolvent. Also, our credit facilities prohibit the payment of dividends should an event of default arise.

We believe that, under current law, any dividends that we have paid and may pay in the future from earnings and profits constitute "qualified dividend income" and as such are generally subject to a 15% United States federal income tax rate with respect to non-corporate United States shareholders. Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of a United States shareholder's tax basis in its common stock on a dollar-for-dollar basis and thereafter as capital gain. We note that legislation was previously introduced in the United States Congress, which, if enacted in its present form, would preclude dividends received after the date of enactment from qualifying as "qualified dividend income." Please see the section of this annual report entitled "Taxation" under Item 10.E for additional information relating to the tax treatment of our dividend payments.

Dividends on our Series B Preferred Shares accrue and are cumulative from the date the Series B Preferred Shares are originally issued and are payable on each January 15, April 15, July 15 and October 15, which we refer to as Dividend Payment Dates, when, as and if declared by our board of directors or any authorized committee thereof out of legally available funds for such purpose. The dividend rate for our Series B Preferred Shares is 8.875% per annum per \$25.00 of liquidation preference per share (equal to \$2.21875 per annum per share) and is not subject to adjustment. At any time on or after February 14, 2019, we may redeem, in whole or from time to time in part, the Series B Preferred Shares at a redemption price of \$25.00 per share plus an amount equal to all accumulated and unpaid dividends thereon to the date of redemption, whether or not declared.

Marshall Islands law provides that we may pay dividends on and redeem the Series B Preferred Shares only to the extent that assets are legally available for such purposes. Legally available assets generally are limited to our surplus, which essentially represents our retained earnings and the excess of consideration received by us for the sale of shares above the par value of the shares. In addition, under Marshall Islands law we may not pay dividends on or redeem Series B Preferred Shares if we are insolvent or would be rendered insolvent by the payment of such a dividend or the making of such redemption.



## B. Significant Changes

There have been no significant changes since the date of the annual consolidated financial statements included in this annual report, other than those described in note 17 "Subsequent events" of our annual consolidated financial statements.

### Item 9. The Offer and Listing

The trading market for shares of our common stock is the New York Stock Exchange, on which our shares trade under the symbol "DSX". The following table sets forth the required disclosure with respect to the high and low closing prices for shares of our common stock, as reported by the New York Stock Exchange:

Period	2015		2014		2013		2012		2011		2010	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Annual	\$7.24	\$6.31	\$13.55	\$6.31	\$13.64	\$7.47	\$9.87	\$6.31	\$12.64	\$6.93	\$16.27	\$11.19
1st quarter			\$13.55	\$11.61	\$10.71	\$7.47						
2nd quarter			12.26	10.68	10.79	9.12						
3rd quarter			11.13	8.94	12.83	9.65						
4th quarter			9.03	6.31	13.64	10.49						
September			\$10.61	\$8.94								
October			9.03	8.04								
November			8.51	7.48								
December			7.09	6.31								
January	\$6.80	\$6.31										
February	7.24	6.63										
March*	7.02	6.37										

\* For the period from March 1, 2015 until March 20, 2015.

Our Series B Preferred Stock has been trading on the New York Stock Exchange under the symbol "DSXPRB" since February 21, 2014. The following table shows the high and low closing sales prices for our Series B Preferred Stock:

Period	High	Low
2015	\$25.43	\$24.08
Period from January 1, 2015 to March 20, 2015	\$25.43	\$24.08
January 2015	\$25.43	\$24.35
February 2015	25.00	24.08
March 2015	25.38	24.85
2014	\$26.98	\$22.76
1st quarter 2014	\$25.35	\$24.57
2nd quarter 2014	26.98	25.37
3rd quarter 2014	26.89	25.89
4th quarter 2014	26.74	22.76
August 2014	\$26.39	\$26.03
September 2014	26.27	25.89
October 2014	26.74	24.69
November 2014	26.15	25.48
December 2014	25.45	22.76

Item 10. Additional Information

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

Our current amended and restated articles of incorporation have been filed as exhibit 1 to our Form 6-K filed with the Securities and Exchange Commission on May 29, 2008 with file number 001-32458, and our current amended and restated bylaws have been filed as exhibit 3.2 to our Form F-3 filed with the Securities and Exchange Commission on May 6, 2009 with file number 333-159016. The information contained in these exhibits is incorporated by reference herein.



Information regarding the rights, preferences and restrictions attaching to each class of our common shares is described in section "Description of Capital Stock" in our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on November 23, 2005 with file number 333-129726, provided that since the date of that Registration Statement, the number of our outstanding shares of common stock has increased to 81,859,821. For additional information about our Series B Preferred Shares, please see the section entitled "Description of Registrant's Securities to be Registered" of our registration statement on Form 8-A filed with the SEC on February 13, 2014 and incorporated by reference herein. We have also filed with the Securities and Exchange Commission our amended and restated stockholders rights agreement as exhibit 4.5 to our Form 8-A12B/A filed on October 7, 2008 and amended on October 10, 2008, with file number 001-32458.

C. Material Contracts

Attached as exhibits to this annual report are the contracts we consider to be both material and not entered into in the ordinary course of business. Other than these agreements, we have no material contracts, other than contracts entered into in the ordinary course of business, to which the Company or any member of the group is a party. A description of these is included in our description of our agreements generally: we refer you to Item 5.B for a discussion of our loan facilities, and Item 7.B for a discussion of our agreements with companies controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios and Diana Containerships.

D. Exchange Controls

Under Marshall Islands, Panamanian, Cypriot 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.

E. Taxation

The following is a discussion of the material Marshall Islands and U.S. federal income tax considerations of the ownership and disposition by a U.S. Holder and a Non-U.S. Holder, each as defined below, with respect to the common stock. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which, such as dealers in securities or commodities, financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, persons liable for the alternative minimum tax, persons who hold common stock as part of a straddle, hedge, conversion transaction or integrated investment, U.S. Holders whose functional currency is not the United States dollar and investors that own, actually or under applicable constructive ownership rules, 10% or more of the Company's common stock, may be subject to special rules. This discussion deals only with holders who hold the common stock as a capital asset. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of common stock.

Marshall Islands Tax Considerations

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

## United States Federal Income Taxation

The following discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed U.S. Treasury Department regulations, (the "Treasury Regulations"), administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report. This discussion assumes that we do not have an office or other fixed place of business in the United States. Unless the context otherwise requires, the reference to Company below shall be meant to refer to both the Company and its vessel owning and operating subsidiaries.

### Taxation of the Company's Shipping Income

#### In General

The Company anticipates that it will derive substantially all of its gross income from the use and operation of vessels in international commerce and that this income will principally consist of freights from the transportation of cargoes, hire or lease from time or voyage charters and the performance of services directly related thereto, which the Company refers to as "Shipping Income."

Shipping Income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be considered to be 50% derived from sources within the United States. Shipping Income attributable to transportation that both begins and ends in the United States will be considered to be 100% derived from sources within the United States. The Company is not permitted by law to engage in transportation that gives rise to 100% U.S. source Shipping Income. Shipping Income attributable to transportation exclusively between non-U.S. ports will be 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 U.S. federal income tax.

Based upon the Company's anticipated shipping operations, the Company's vessels will operate in various parts of the world, including to or from U.S. ports. Unless exempt from U.S. federal income taxation under Section 883 of the Code, the Company will be subject to U.S. federal income taxation, in the manner discussed below, to the extent its Shipping Income is considered derived from sources within the United States.

In the year ended December 31, 2014, approximately 7.0% of the Company's shipping income was attributable to the transportation of cargoes either to or from a U.S. port. Accordingly, 3.5% of the Company's shipping income would be treated as derived from U.S. sources for the year ended December 31, 2014. In the absence of exemption from U.S. federal income tax under Section 883 of the Code, the Company would have been subject to a 4% tax on its gross U.S. source Shipping Income, equal to approximately \$246,000 for the year ended December 31, 2014.

#### Application of Exemption under Section 883 of the Code

Under the relevant provisions of Section 883 of the Code and the final Treasury Regulations promulgated thereunder, a foreign corporation will be exempt from U.S. federal income taxation on its U.S. source Shipping Income if:

It is organized in a qualified foreign country which, as defined, is one that grants an equivalent exemption from tax (1) to corporations organized in the United States in respect of the Shipping Income for which exemption is being claimed under Section 883 of the Code, or the "Country of Organization Requirement"; and

(2) It can satisfy any one of the following two stock ownership requirements:

more than 50% of its stock, in terms of value, is beneficially owned by qualified shareholders which, as defined, includes individuals who are residents of a qualified foreign country, or the "50% Ownership Test"; or

its stock is "primarily and regularly" traded on an established securities market located in the United States or a qualified foreign country, or the "Publicly Traded Test".

The U.S. Treasury Department has recognized the Marshall Islands, Panama and Cyprus the countries of incorporation of each of the Company and its subsidiaries that earns Shipping Income, as a qualified foreign country. Accordingly, the Company and each of the subsidiaries satisfy the Country of Organization Requirement.

For the 2014 taxable year, the Company believes that it is unlikely that the 50% Ownership Test was satisfied. Therefore, the eligibility of the Company and each subsidiary to qualify for exemption under Section 883 of the Code is wholly dependent upon the Company's ability to satisfy the Publicly Traded Test.

Under the Treasury Regulations, stock of a foreign corporation is considered "primarily traded" on an established securities market in a country if the number of shares of each class of stock that is traded during the taxable year on all established securities markets in that country exceeds the number of shares in each such class that is traded during that year on established securities markets in any other single country. The Company's common stock, which is the sole class of issued and outstanding stock, was "primarily traded" on the New York Stock Exchange, or "NYSE", during the 2014 taxable year.

Under the Treasury Regulations, the Company's common stock will be considered to be "regularly traded" on the NYSE if: (1) more than 50% of its common stock, by voting power and total value, is listed on the NYSE, referred to as the "Listing Threshold", (2) its common stock is traded on the NYSE, other than in minimal quantities, on at least 60 days during the taxable year (or one-sixth of the days during a short taxable year), which is referred to as the "Trading Frequency Test"; and (3) the aggregate number of shares of its common stock traded on the NYSE during the taxable year is at least 10% of the average number of shares of its common stock outstanding during such taxable year (as appropriately adjusted in the case of a short taxable year), which is referred to as the "Trading Volume Test". The Trading Frequency Test and Trading Volume Test are deemed to be satisfied under the Treasury Regulations if the Company's common stock is regularly quoted by dealers making a market in the common stock.

The Company believes that its common stock has satisfied the Listing Threshold, as well as the Trading Frequency Test and Trading Volume Tests, during the 2014 taxable year.

Notwithstanding the foregoing, the Treasury Regulations provide, in pertinent part, that stock of a foreign corporation will not be considered to be "regularly traded" on an established securities market for any taxable year during which 50% or more of such stock is owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons, or "5% Shareholders", who each own 5% or more of the value of such stock, or the "5% Override Rule." For purposes of determining the persons who are 5% Shareholders, a foreign corporation may rely on Schedules 13D and 13G filings with the U.S. Securities and Exchange Commission.

Based on Schedules 13D and 13G filings, during the 2014 taxable year, less than 50% of the Company's common stock was owned by 5% Shareholders. Therefore, the Company believes that it is not subject to the 5% Override Rule and thus has satisfied the Publicly Traded Test for the 2014 taxable year. However, there is no assurance that the Company will continue to satisfy the Publicly Traded Test in future taxable years. For example, the Company could be subject to the 5% Override Rule if another 5% Shareholder in combination with the Company's existing 5% Shareholders were to own 50% or more of the Company's common stock. In such a case, the Company would be subject to the 5% Override Rule unless it could establish that, among the shares of the common stock owned by the 5% Shareholders, sufficient shares are owned by qualified shareholders, for purposes of Section 883 of the Code, to preclude non-qualified shareholders from owning 50% or more of the Company's common stock for more than half the number of days during the taxable year. The requirements of establishing this exception to the 5% Override Rule are onerous and there is no assurance the Company will be able to satisfy them.

Based on the foregoing, the Company believes that it satisfied the Publicly Traded Test and therefore believes that it was exempt from U.S. federal income tax under Section 883 of the Code, during the 2014 taxable year, and intends to take this position on its 2014 U.S. federal income tax returns.

#### Taxation in Absence of Exemption Under Section 883 of the Code

To the extent the benefits of Section 883 of the Code are unavailable with respect to any item of U.S. source Shipping Income, the Company and each of its subsidiaries would be subject to a 4% tax imposed on such income by Section 887 of the Code on a gross basis, without the benefit of deductions, which is referred to as the "4% Gross Basis Tax Regime". Since under the sourcing rules described above, no more than 50% of the Company's Shipping Income would be treated as being derived from U.S. sources, the maximum effective rate of U.S. federal income tax on the Company's Shipping Income would never exceed 2% under the 4% Gross Basis Tax Regime.

Based on its U.S. source Shipping Income for the 2014 taxable year and in the absence of exemption under Section 883 of the Code, the Company would be subject to approximately \$246,000 of U.S. federal income tax under the 4% Gross Basis Tax Regime.

The 4% Gross Basis Tax Regime would not apply to U.S. source Shipping Income to the extent considered to be "effectively connected" with the conduct of a U.S. trade or business. In the absence of exemption under Section 883 of the Code, such "effectively connected" U.S. source Shipping Income, net of applicable deductions, would be subject to U.S. federal income tax currently imposed at corporate rates of up to 35%. In addition, earnings "effectively connected" with the conduct of such U.S. trade or business, as determined after allowance for certain adjustments, and certain interest paid or deemed paid attributable to the conduct of the U.S. trade or business may be subject to U.S. federal branch profits tax imposed at a rate of 30%. The Company's U.S. source Shipping Income would be considered "effectively connected" with the conduct of a U.S. trade or business only if: (1) the Company has, or is considered to have, a fixed place or business in the United States involved in the earning of Shipping Income; and (2) substantially all of the Company's U.S. source Shipping Income is attributable to regularly scheduled transportation, such as the operation of a vessel that followed a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States, or, in the case of income from the chartering of a vessel, is attributable to a fixed place of business in the United States. We do not intend to have, or permit circumstances that would result in having a vessel operating to the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our U.S. source Shipping Income will be effectively connected with the conduct of a U.S. trade or business.

### Gain on Sale of Vessels

Regardless of whether we qualify for exemption under Section 883 of the Code, we will not be subject to U.S. 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 U.S. 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 by us will be considered to occur outside of the United States.

### United States Taxation of U.S. Holders

The following is a discussion of the material U.S. federal income tax considerations relevant to an investment decision by a U.S. Holder, as defined below, with respect to our common stock. This discussion does not purport to deal with the tax consequences of owning our common stock to all categories of investors, some of which may be subject to special rules. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of our common stock.

As used herein, the term "U.S. Holder" means a beneficial owner of our common stock that (i) is a U.S. citizen or resident, a U.S. corporation or other U.S. entity taxable as a corporation, an estate, the income of which is subject to U.S. 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 U.S. persons have the authority to control all substantial decisions of the trust and (ii) owns the common stock as a capital asset, generally, for investment purposes.

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 own tax advisor on this issue.

### Distributions

Subject to the discussion of passive foreign investment companies below, any distributions made by the Company with respect to its common stock to a U.S. 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 the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of the Company's earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because the Company is not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividends-received deduction with respect to any distributions they receive from the Company.

Dividends paid to a U.S. Holder which is an individual, trust, or estate, referred to herein as a "U.S. Non-Corporate Holder," will generally be treated as "qualified dividend income" that is taxable to Holders at preferential U.S. federal income tax rates, provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the NYSE on which the common stock is listed); (2) the Company is not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which the Company does not believe it is, has been or will be); (3) the U.S. Non-Corporate Holder has owned 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; and (4) the U.S. Non-Corporate Holder is not under an obligation (whether pursuant to a short sale or otherwise) to make payments with respect to positions in substantially similar or related property. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Non-Corporate Holder. Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Non-Corporate Holder. Special rules may apply to any "extraordinary dividend," generally, a dividend paid by us in an amount which is equal to or in excess of ten percent of a U.S. Holder's adjusted tax basis, or fair market value in certain circumstances, in a share of our common stock. If we pay an "extraordinary dividend" on our common stock that is treated as "qualified dividend income," then any loss derived by a U.S. 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.

#### Sale, Exchange or other Disposition of Common Stock

Subject to the discussion of the PFIC rules below, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of the Company's common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period in the common stock is greater than one year at the time of the sale, exchange or other disposition. Long-term capital gain of a U.S. Non-Corporate Holder is taxable at preferential U.S. Federal income tax rates. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

#### 3.8% Tax on Net Investment Income

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual, estate, or, in certain cases, a trust, will generally be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's net investment income for the taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000). A U.S. Holder's net investment income will generally include distributions made by the Company which constitute a dividend for U.S. federal income tax purposes and gain realized from the sale, exchange or other disposition of our common stock. This tax is in addition to any income taxes due on such investment income.

If you are a U.S. Holder that is an individual, estate or trust, you are encouraged to consult your tax advisors regarding the applicability of the 3.8% tax on net investment income to the ownership and disposition of our common stock.

## PFIC Status and Significant Tax Consequences

Special U.S. federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a passive foreign investment company, or a "PFIC", for U.S. federal income tax purposes. In general, the Company will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such Holder held the Company's common stock, either:

at least 75% of the Company's 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 the assets held by the corporation during such taxable year produce, or are held for the production of, such passive income.

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

Based on the Company's current operations and future projections, the Company does not believe that it is, nor does it expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on point, the Company's belief is based principally on the position that, for purposes of determining whether the Company is a PFIC, the gross income the Company derives or is deemed to derive from the time chartering and voyage chartering activities of its wholly-owned subsidiaries should constitute services income, rather than rental income. Correspondingly, the Company believes that such income does not constitute passive income, and the assets that the Company or its wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, do not constitute assets that produce or are held for the production of passive income for purposes of determining whether the Company is a PFIC. The Company believes there is substantial legal authority supporting its position consisting of case law and Internal Revenue Service, or the "IRS", pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. It should be noted that in the absence of any legal authority specifically relating to the statutory provisions governing PFICs, the IRS or a court could disagree with this position. In addition, although the Company intends to conduct its affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, there can be no assurance that the nature of its operations will not change in the future.

As discussed more fully below, if the Company were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different U.S. federal income taxation rules depending on whether the U.S. Holder makes an election to treat the Company as a "Qualified Electing Fund," which election is referred to as a "QEF Election." As discussed below, as an alternative to making a QEF Election, a U.S. Holder should be able to make a "mark-to-market" election with respect to the common stock, which election is referred to as a "Mark-to-Market Election". If the Company were to be treated as a PFIC, a U.S. Holder would be required to file with respect to taxable years ending on or after December 31, 2014 IRS Form 8621 to report certain information regarding the Company.

#### Taxation of U.S. Holders Making a Timely QEF Election

If a U.S. Holder makes a timely QEF Election, which U.S. Holder is referred to as an "Electing Holder", the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of the Company's ordinary earnings and net capital gain, if any, for the Company's taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received by the Electing Holder from the Company. The Electing Holder's adjusted tax basis in the common stock will be increased to reflect amounts included in the Electing Holder's income. Distributions received by an Electing Holder 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 the common stock.

#### Taxation of U.S. Holders Making a Mark-to-Market Election

Alternatively, if the Company were to be treated as a PFIC for any taxable year and, as anticipated, the common stock is treated as "marketable stock," a U.S. Holder would be allowed to make a Mark-to-Market Election with respect to the Company's common stock. If that election is made, the U.S. 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 U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. 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 U.S. 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 the 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 U.S. Holder.

#### Taxation of U.S. Holders Not Making a Timely QEF Election or Mark-to-Market Election

Finally, if the Company were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF Election or a Mark-to-Market Election for that year, whom is referred to as a "Non-Electing Holder", would be subject to special U.S. federal income tax rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on the common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three (3) 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 the 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 and any taxable years before the Company became 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 tax 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 the common stock. If a Non-Electing Holder who is an individual dies while owning the common stock, such Holder's successor generally would not receive a step-up in tax basis with respect to such stock.

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

A beneficial owner of our common stock that is not a U.S. Holder (other than a partnership) is referred to herein as a "Non-U.S. Holder."

#### Dividends on Common Stock

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

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

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

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

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

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

### Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to a holder will be subject to U.S. federal information reporting requirements. Such payments will also be subject to U.S. federal "backup withholding" if paid to a non-corporate U.S. holder who:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that he has failed to report all interest or dividends required to be shown on his U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on an applicable IRS Form W-8.

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

Backup withholding is not an additional tax. Rather, a taxpayer generally may obtain a refund of any amounts withheld under backup withholding rules that exceed the taxpayer's U.S. federal income tax liability by filing a refund claim with the IRS.

Pursuant to recently enacted legislation, U.S. Holders who are individuals (and to the extent specified in applicable Treasury Regulations, certain U.S. entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury Regulations). Specified foreign financial assets would include, among other assets, our common stock, unless the common stock is held through an account maintained with a U.S. financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event a U.S. Holder who is an individual (and to the extent specified in applicable Treasury regulations, a U.S. entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three (3) years after the date that the required information is filed.

F. Dividends and paying agents

Not Applicable.

G. Statement by experts

Not Applicable.

H. Documents on display

We file reports and other information with the SEC. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, or from the SEC's website <http://www.sec.gov>. 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.

I. Subsidiary information

Not Applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

We are exposed to market risks associated with changes in interest rates relating to our loan facilities, according to which we pay interest at LIBOR plus a margin; and as such increases in interest rates could affect our results of operations. An increase of 1% in interest rates during 2014 could have increased our interest cost (including capitalized interest) from \$8.2 million to \$12.8 million.

We will continue to have debt outstanding, which could impact our results of operations and financial condition. We expect to manage any exposure in interest rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

As of December 31, 2014, 2013 and 2012 and as of the date of this annual report, we did not and have not designated any financial instruments as accounting hedging instruments. In May 2009, we entered into a five-year zero cost collar agreement, novated in March 2012, with a floor at 1% and a cap at 7.8% of a notional amount of \$100.0 million to manage our exposure to interest rate changes related to our borrowings. The collar agreement which was terminated on May 27, 2014 was considered as an economic hedge agreement as it did not meet the criteria for hedge accounting; therefore, the change in its fair value was recognized in our results of operations. As of December 31, 2014 and 2013 the fair value of the swap was nil and \$0.4 million, respectively. Also we incurred unrealized gain of \$0.4 million in 2014, \$0.6 million in 2013 and \$36,495 in 2012. Realized loss was \$0.3 million for 2014, \$0.7 million for 2013 and \$0.6 million for 2012.

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## Currency and Exchange Rates

We generate all of our revenues in U.S. dollars but currently incur about half of our operating expenses (around 51% in 2014 and 48% in 2013) and a significant portion of our general and administrative expenses (around 53% in 2014 and 40% in 2013) in currencies other than the U.S. dollar, primarily the Euro. For accounting purposes, including throughout this annual report, expenses incurred in Euros are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. Because a significant portion of our expenses are incurred in currencies other than the U.S. dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. dollar and the Euro, which could affect our results of operations in future periods. Currently, we do not consider the risk from exchange rate fluctuations to be material for our results of operations, as during 2014 and 2013, these non US dollar expenses represented 32% and 28%, respectively of our revenues and therefore, we are not engaged in extensive derivative instruments to hedge a considerable part of those expenses.

While we historically have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may determine to employ such instruments from time to time in the future in order to minimize this risk. Our use of financial derivatives would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

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

Not Applicable.

## PART II

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

None.

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

None.

### Item 15. Controls and Procedures

#### a) Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

#### b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

Management has conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2014 is effective.

The registered public accounting firm that audited the financial statements included in this annual report containing the disclosure required by this Item has issued an attestation report on management's assessment of our internal control over financial reporting.

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c) Attestation Report of Independent Registered Public Accounting Firm

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

d) Changes in Internal Control over Financial Reporting

None.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that both the members of our Audit Committee, Mr. William Lawes and Mr. Apostolos Kontoyannis, qualify as "Audit Committee financial experts" and they are both considered to be "independent" according to the SEC rules.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to officers and employees. Our code of ethics is posted in our website: <http://www.dianashippinginc.com>, under "Corporate Governance" and was filed as Exhibit 11.1 to the 2004 annual report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005 with number 001-32458. Copies of our Code of Ethics are available in print, free of charge, upon request to Diana Shipping Inc., Pendelis 16, 175 64 Palaio Faliro, Athens, Greece. We intend to satisfy any disclosure requirements regarding any amendment to, or waiver from, a provision of this Code of Ethics by posting such information on our website.

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## Item 16C. Principal Accountant Fees and Services

Our principal Accountants, Ernst and Young (Hellas), Certified Auditors Accountants S.A., have billed us for audit services.

Audit fees in 2014 and 2013 amounted to € 465,000 and € 373,000, or approximately \$649,781 and \$494,289, respectively, and relate to audit services provided in connection with timely SAS 100 reviews, the audit of our consolidated financial statements, the audit of internal control over financial reporting, as well as audit services for Company's filings with the SEC.

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

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

Our Audit Committee consists of two independent members of our Board of Directors. Otherwise, our Audit Committee conforms to each other requirement applicable to audit committees as required by the applicable listing standards of the New York Stock Exchange.

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

Issuer purchases of equity securities for the year ended December 31, 2014

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan or Programs
January, 2014	-	-	-	-
February, 2014	-	-	-	-
March, 2014	-	-	-	-
April, 2014	-	-	-	-
May, 2014	-	-	-	\$ 100,000,000
June, 2014	-	-	-	\$ 100,000,000
July, 2014	-	-	-	\$ 100,000,000
August, 2014	606,782	\$ 9.63	606,782	\$ 94,159,374
September, 2014	431,863	\$ 9.68	431,863	\$ 89,979,233
October, 2014	1,760,488	\$ 8.54	1,760,488	\$ 74,952,833
November, 2014	-	-	-	\$ 74,952,833
December, 2014	46,416	\$ 6.50	46,416	\$ 74,650,986
Total	2,845,549	\$ 8.91	2,845,549	\$ 74,650,986





On May 23, 2014, we announced that the Board of Directors authorized a share repurchase plan for up to US\$100 million of the Company's common shares. The plan does not have an expiration date and as of the date of this report, we had made additional purchases of 413,804 for \$2.7 million and an average price of \$6.46 per share.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Statement of Significant Differences between Diana Shipping Inc.'s Corporate Governance Practices and the New York Stock Exchange, Inc. (the "NYSE") Corporate Governance Standards

Overview

Pursuant to an exception for foreign private issuers, Diana Shipping Inc., a Marshall Islands company (the "Company") is not required to comply with the corporate governance practices followed by U.S. companies under the NYSE listing standards. However, pursuant to Section 303.A.11 of the NYSE Listed Company Manual, we are required to state any significant differences between our corporate governance practices and the practices required by the NYSE. We believe that our established practices in the area of corporate governance are in line with the spirit of the NYSE standards and provide adequate protection to our shareholders. In fact, we have voluntarily adopted NYSE required practices, such as (a) having a majority of independent directors, (b) establishing audit and compensation committees and (c) adopting a Code of Ethics. The significant differences between our corporate governance practices and the NYSE standards are set forth below.

Executive Sessions

The NYSE requires that non-management directors meet regularly in executive sessions without management. The NYSE also requires that all independent directors meet in an executive session at least once a year. As permitted under Marshall Islands law and our bylaws, our non-management directors do not regularly hold executive sessions without management and we do not expect them to do so in the future.

Nominating / Corporate Governance Committee

The NYSE requires that a listed company have a nominating/corporate governance committee of independent directors and a committee charter specifying the purpose, duties and evaluation procedures of the committee. As permitted under Marshall Islands law and our bylaws, we do not currently have a nominating or corporate governance committee.

Audit Committee

The NYSE requires, among other things, that a company have an audit committee with a minimum of three members. Our Audit Committee consists of two independent members of our Board of Directors. Our Audit Committee conforms to every other requirement applicable to audit committees set forth in the listing standards of the NYSE.

#### Shareholder Approval of Equity Compensation Plans

The NYSE requires listed companies to obtain prior shareholder approval to adopt or materially revise any equity compensation plan. As permitted under Marshall Islands law and our amended and restated bylaws, we do not need prior shareholder approval to adopt or revise equity compensation plans, including our equity incentive plan.

#### Corporate Governance Guidelines

The NYSE requires companies to adopt and disclose corporate governance guidelines. The guidelines must address, among other things: director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing education, management succession and an annual performance evaluation. We are not required to adopt such guidelines under Marshall Islands law and we have not adopted such guidelines.

#### Item 16H. Mine Safety Disclosure

Not applicable.

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PART III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

The following financial statements beginning on page F-1 are filed as a part of this annual report.

Item 19. Exhibits

Note:

Exhibit Number	Description
1.1	Amended and Restated Articles of Incorporation of Diana Shipping Inc. (originally known as Diana Shipping Investment Corp.) (1)
1.2	Amended and Restated By-laws of the Company (2)
1.3	Statement of Designation of the 8.875% Series B Cumulative Redeemable Perpetual Preferred Shares (13)
2.1	Form of Share Certificate (10)
4.1	Second Amended and Restated Stockholders Rights Agreement dated October 7, 2008 (4)
4.2	Amended and Restated 2005 Stock Incentive Plan (6)
4.3	2011 Stock Incentive Plan (11)
4.4	Form of Technical Manager Purchase Option Agreement (5)
4.5	Form of Management Agreement (3)
4.6	Loan Agreement with Royal Bank of Scotland dated February 18, 2005 (5)
4.7	Amending and Restating Loan Agreement with Royal Bank of Scotland dated May 24, 2006 (8)
4.8	Supplemental Agreement with the Royal Bank of Scotland dated January 30, 2007 (7)
4.9	Sales Agency Financing Agreement dated April 23, 2008 (9)
4.10	Loan Agreement with Deutsche Bank dated October 8, 2009 (10)
4.11	Loan Agreement with Bremer Landesbank dated October 22, 2009 (10)
4.12	Loan Agreement with the Export-Import Bank of China and DnB Nor Bank ASA dated October 2, 2010 (10)
4.13	Loan Agreement with Emporiki Bank of Greece S.A. dated September 13, 2011 (11)
4.14	Loan Agreement with Nordea Bank Finland Plc dated February 7, 2012 (11)
4.15	Supplemental Loan Agreement with Nordea Bank Finland Plc dated June 21, 2012 (12)
4.16	Loan Agreement with Nordea Bank Finland Plc dated December 20, 2012 (12)
4.17	Loan Agreement, dated June 18, 2013, by and among Tuvalu Shipping Company Inc., Jabat Shipping Company Inc., and Deutsche Bank AG dated June 18, 2013 (14)

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- 4.18 Loan Agreement, dated May 24, 2013, by and among Erikub Shipping Company Inc., Wotho Shipping Company Inc., DNB Bank ASA, and Export-Import Bank of China (14)
- 4.19 Loan Agreement, dated January 9, 2014, by and among Taka Shipping Company Inc., Fayo Shipping Company Inc., and Commonwealth Bank of Australia (14)
- 4.20 Loan Agreement, dated May 20, 2013, by and between Eluk Shipping Company Inc. and Diana Shipping Inc. (14)
- 4.21 Loan Agreement, dated December 18, 2014, by and among Weno Shipping Company Inc., Pulap Shipping Company Inc., the Banks and Financial Insitutions listed therein and BNP Paribas
- 4.22 Loan Agreement, dated March 17, 2015, by and among Knox Shipping Company Inc., Bokak Shipping Company Inc., Jemo Shipping Company Inc., Guam Shipping Company Inc., Palau Shipping Company Inc., Makur Shipping Company Inc., Mandaringina Inc., Vesta Commercial, S.A., the Banks and Financial Institutions listed therein, Nordea Bank Finland Plc and Nordea Bank AB, London Branch
- 4.23 Administrative Services Agreement, dated October 1, 2013, by and between Diana Shipping Inc. and Diana Shipping Services S.A. (14)
- 4.24 Brokerage Services Agreement, dated March 15, 2013, by and between Diana Shipping Services S.A. and Diana Enterprises Inc. (14)
- 4.25 Brokerage Services Agreement, dated March 4, 2014, by and between Diana Shipping Services S.A. and Diana Enterprises Inc. (14)
- 4.26 Brokerage Services Agreement, dated April 9, 2014, by and between Diana Shipping Inc. and Diana Enterprises Inc.
- 4.27 Amended and Restated Non-Competition Agreement, dated as of March 1, 2013, by and between Diana Shipping Inc. and Diana Containerships Inc. (14)
- 8.1 Subsidiaries of the Company
- 11.1 Code of Ethics (10)
- 12.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
- 13.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 15.1 Consent of Independent Registered Public Accounting Firm
- The following materials from the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2013 and 2014; (ii) Consolidated Statements of Operations for the years ended December 31, 2012, 2013 and 2014; (iii) Consolidated Statements of Comprehensive Income/(Loss) for the years ended December 31, 2012, 2013 and 2014; (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012, 2013 and 2014; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2013 and 2014; and (v) the Notes to Consolidated Financial Statements
- (1) Filed as Exhibit 1 to the Company's Form 6-K filed on May 29, 2008.
- (2) Filed as Exhibit 3.1 to the Company's Form 6-K filed on February 13, 2014.
- (3) Filed as an Exhibit to the Company's Amended Registration Statement (File No. 123052) on March 15, 2005.
- (4) Filed as Exhibit 4.5 to the Company's Form 8-A12B/A filed on October 7, 2008 and amended on October 10, 2008 (File No. 001-32458).
- (5) Filed as an Exhibit to the Company's Registration Statement (File No. 123052) on March 1, 2005.
- (6) Filed as Exhibit 1 to the Company's Form 6-K filed on October 27, 2008.
- (7)

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Filed as Exhibit VI to the Company's Form 6-K filed on March 19, 2007.

(8) Filed as Exhibit 4.10 to the Company's 2007 Annual Report on Form 20-F (File No. 001-32458) on March 14, 2008.

(9) Filed as Exhibit 2 to the Company's Form 6-K filed on April 24, 2008.

(10) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on March 30, 2010.

(11) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on April 20, 2012.

(12) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on March 22, 2013.

(13) Filed as an Exhibit 3.3 to the Company's Form 8-A filed on February 13, 2014.

(14) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on March 27, 2014.

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SIGNATURES

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

DIANA SHIPPING INC.

/s/ Andreas Michalopoulos

Andreas Michalopoulos

Chief Financial Officer

Dated: March 24, 2015

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DIANA SHIPPING INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Diana Shipping Inc.

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Diana Shipping Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 24, 2015 expressed an unqualified opinion thereon.

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

Athens, Greece  
March 24, 2015  
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Diana Shipping Inc.

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

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

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

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

In our opinion, Diana Shipping Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Diana Shipping Inc. as of December 31, 2014 and 2013 and the related consolidated statements of operations, comprehensive income/ (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014 of Diana Shipping Inc. and our report dated March 24, 2015 expressed an unqualified opinion thereon.

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

Athens, Greece  
March 24, 2015  
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DIANA SHIPPING INC.  
CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

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

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 2(e))	\$218,901	\$240,633
Accounts receivable, trade (Note 2(f))	6,383	701
Due from related parties (Notes 2(g) and 4(b))	57	86
Inventories (Note 2(h))	7,313	5,959
Prepaid expenses and other assets	5,580	4,489
Total current assets	238,234	251,868
<b>FIXED ASSETS:</b>		
Advances for vessels under construction and acquisitions and other vessel costs (Note 5)	29,500	38,862
Vessels (Note 6)	1,807,654	1,686,590
Accumulated depreciation (Note 6)	(434,521 )	(366,215 )
Vessels' net book value (Note 6)	1,373,133	1,320,375
Property and equipment, net (Note 7)	23,887	22,826
Total fixed assets	1,426,520	1,382,063
<b>OTHER NON-CURRENT ASSETS:</b>		
Due from related parties, non-current (Notes 2(g) and 4(b))	50,866	50,233
Investment in Diana Containerships Inc. (Note 3)	67,546	15,640
Other non-current assets	-	793
Deferred charges, net	3,956	1,384
Total assets	\$1,787,122	\$1,701,981
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt, net of deferred financing costs, current (Note 9)	\$78,734	\$46,077
Accounts payable, trade and other	9,702	7,409
Due to related parties (Note 4)	281	221
Accrued liabilities	6,012	4,805
Deferred revenue	3,279	3,278
Fair value of derivative instruments (Note 16)	-	378
Other current liabilities	84	129
Total current liabilities	98,092	62,297
Long-term debt, net of current portion and deferred financing costs, non-current (Note 9)	405,522	385,480
Other non-current liabilities	1,282	812
Commitments and contingencies (Note 10)	-	-
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock (Note 11(a))	26	-
Common stock, \$0.01 par value; 200,000,000 shares authorized and 81,859,821 and 82,841,370 issued and outstanding at 2014 and 2013, respectively (Note 11(b))	819	828
Additional paid-in capital	971,280	926,204

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Accumulated other comprehensive income / (loss)	(747	)	164
Retained earnings	310,848		326,196
Total stockholders' equity	1,282,226		1,253,392

Total liabilities and stockholders' equity \$1,787,122 \$1,701,981

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

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## DIANA SHIPPING INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

	2014	2013	2012
<b>REVENUES:</b>			
Time charter revenues	\$ 175,576	\$ 164,005	\$ 220,785
Other revenues (Note 4(b))	-	447	2,447
<b>EXPENSES:</b>			
Voyage expenses (Note 12)	10,665	8,119	8,274
Vessel operating expenses (Note 12)	86,923	77,211	66,293
Depreciation and amortization of deferred charges (Notes 2(m) and 2(n))	70,503	64,741	62,010
General and administrative expenses	26,217	23,724	24,913
Foreign currency gain	(528)	(690)	(1,374)
Operating income / (loss)	\$(18,204)	\$(8,653)	\$63,116
<b>OTHER INCOME / (EXPENSES):</b>			
Interest and finance costs (Note 13)	(8,427)	(8,140)	(7,618)
Interest and other income (Note 4(b))	3,627	1,800	1,432
Income / (loss) from derivative instruments (Note 16)	68	(118)	(518)
Income / (loss) from investment in Diana Containerships Inc. (Note 3)	12,668	(6,094)	(1,773)
Total other income / (expenses), net	\$7,936	\$(12,552)	\$(8,477)
Net income / (loss)	\$(10,268)	\$(21,205)	\$54,639
Dividends on series B preferred shares (Notes 11(a) and 14)	(5,080)	-	-
Net income / (loss) attributed to common stockholders	\$(15,348)	\$(21,205)	\$54,639
Earnings / (loss) per common share, basic and diluted (Note 14)	\$(0.19)	\$(0.26)	\$0.67
Weighted average number of common shares, basic and diluted (Note 14)	81,292,290	81,328,390	81,083,485

## DIANA SHIPPING INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

/ (LOSS)

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

(Expressed in thousands of U.S. Dollars)

	2014	2013	2012
Net income / (loss)	\$(10,268)	\$(21,205)	\$54,639
Other comprehensive income / (loss) (Actuarial gain / (loss))	(911)	(30)	306
Comprehensive income / (loss)	\$(11,179)	\$(21,235)	\$54,945

The accompanying notes are an integral part of these consolidated financial statements.  
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## DIANA SHIPPING INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

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

	Preferred Stock	Common Stock	Additional	Other			Total	
	# of	Par	Par	Paid-in	Comprehensive	Retained	Equity	
	Shares	Value	# of Shares	Value	Capital	Income /		
						(Loss)	Earnings	
BALANCE, December 31, 2011			82,419,417	\$ 824	\$ 915,404	\$ (112 )	\$ 292,762	\$ 1,208,878
Net income			-	\$ -	\$ -	\$ -	\$ 54,639	\$ 54,639
Issuance of restricted stock and compensation cost			667,614	7	8,638	-	-	8,645
Stock repurchased and retired			(853,607 )	(9 )	(6,035 )	-	-	(6,044 )
Other comprehensive income			-	-	-	306	-	306
BALANCE, December 31, 2012			82,233,424	\$ 822	\$ 918,007	\$ 194	\$ 347,401	\$ 1,266,424
Net loss			-	\$ -	\$ -	\$ -	\$(21,205 )	\$(21,205 )
Issuance of restricted stock and compensation cost			607,946	6	8,197	-	-	8,203
Other comprehensive loss			-	-	-	(30 )	-	(30 )
BALANCE, December 31, 2013			82,841,370	\$ 828	\$ 926,204	\$ 164	\$ 326,196	\$ 1,253,392
Net loss	-	\$ -	-	\$ -	\$ -	\$ -	\$(10,268 )	\$(10,268 )
Issuance of series B preferred stock (Note 11(a))	2,600,000	26	-	-	62,672	-	-	62,698
Issuance of restricted stock and compensation cost (Note 11(c))			1,864,000	19	7,725	-	-	7,744
Dividends on series B preferred stock (Note 11(a))	-	-	-	-	-	-	(5,080 )	(5,080 )
Stock repurchased and retired (Note 11(d))	-	-	(2,845,549 )	(28 )	(25,321 )	-	-	(25,349 )
Other comprehensive loss	-	-	-	-	-	(911 )	-	(911 )
BALANCE, December 31, 2014	2,600,000	\$ 26	81,859,821	\$ 819	\$ 971,280	\$ (747 )	\$ 310,848	\$ 1,282,226

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





DIANA SHIPPING INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2014, 2013 and 2012  
(Expressed in thousands of U.S. Dollars)

	2014	2013	2012
Cash Flows from Operating Activities:			
Net income / (loss)	\$(10,268 )	\$(21,205 )	\$54,639
Adjustments to reconcile net income / (loss) to net cash provided by operating activities:			
Depreciation and amortization of deferred charges	70,503	64,741	62,010
Amortization of financing costs (Note 13)	519	473	379
Amortization of free lubricants benefit	(129 )	(98 )	(180 )
Compensation cost on restricted stock (Note 11(c))	7,744	8,203	8,645
Actuarial gain / (loss)	(911 )	(30 )	306
Change in fair value of derivative instruments	(378 )	(616 )	(36 )
(Income) / loss from investment in Diana Containerships Inc., net of dividends (Note 3)	(12,668 )	5,094	2,273
(Increase) / Decrease in:			
Receivables	(5,682 )	5,889	(1,022 )
Due from related parties	(604 )	294	(350 )
Inventories	(1,354 )	(684 )	(467 )
Prepaid expenses and other assets	(1,091 )	345	(2,514 )
Prepaid charter revenue (Notes 2(k) and 8)	-	5,353	3,056
Other non-current assets	793	(793 )	-
Increase / (Decrease) in:			
Accounts payable	2,293	416	(134 )
Due to related parties	60	(43 )	38
Accrued liabilities, net of accrued preferred dividends	(11 )	(479 )	533
Deferred revenue	1	451	(5,309 )
Other liabilities	554	135	99
Drydock costs	(4,461 )	(46 )	(2,080 )
Net Cash provided by Operating Activities	\$44,910	\$67,400	\$119,886
Cash Flows from Investing Activities:			
Payments for vessel acquisitions, improvements and construction (Notes 5 and 6)	(111,702)	(198,581)	(171,195)
Acquisition of additional interest in Diana Containerships Inc. (Note 3)	(40,000 )	-	-
Cash dividends from investment in Diana Containerships Inc. (Note 3)	763	4,000	2,835
Loan to Diana Containerships Inc. (Note 4(b))	-	(50,000 )	-
Payments for plant, property and equipment (Note 7)	(1,574 )	(575 )	(1,553 )
Net Cash used in Investing Activities	\$(152,513)	\$(245,156)	\$(169,913)
Cash Flows from Financing Activities:			
Proceeds from long-term debt (Note 9)	101,500	18,000	118,550
Proceeds from issuance of preferred stock, net of expenses (Note 11(a))	62,698	-	-
Cash dividends on preferred stock	(3,862 )	-	-
Payments for repurchase of common stock (Note 11(d))	(25,349 )	-	(6,044 )
Financing costs	(527 )	(452 )	(557 )
Loan payments (Note 9)	(48,589 )	(45,783 )	(31,972 )

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Net Cash provided by / (used in) Financing Activities	\$85,871	\$(28,235 )	\$79,977
Net increase / (decrease) in cash and cash equivalents	(21,732 )	(205,991)	29,950
Cash and cash equivalents at beginning of the year	240,633	446,624	416,674
Cash and cash equivalents at end of the year	\$218,901	\$240,633	\$446,624

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

Interest, net of amounts capitalized	\$8,180	\$7,169	\$6,709
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The accompanying notes are an integral part of these consolidated financial statements.

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## DIANA SHIPPING INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

## 1. Basis of Presentation and General Information

The accompanying consolidated financial statements include the accounts of Diana Shipping Inc. ("Diana" or "DSI") and its wholly-owned and beneficially-owned subsidiaries (collectively, the "Company"). Diana was formed on March 8, 1999 as Diana Shipping Investment Corp. under the laws of the Republic of Liberia. In February 2005, the Company's articles of incorporation were amended. Under the amended articles of incorporation, the Company was renamed Diana Shipping Inc. and was re-domiciled from the Republic of Liberia to the Republic of the Marshall Islands.

The Company is engaged in the ocean transportation of dry bulk cargoes worldwide mainly through the ownership of dry bulk carrier vessels. The Company also operates its own fleet through Diana Shipping Services S.A., a wholly owned subsidiary. As at December 31, 2014, the following are subsidiaries with operations that are included in the consolidation:

a/a Company	Vessel	Flag	Dwt	Date Built	Date Acquired	Place of Incorporation
PANAMAX VESSELS						
1 Panama Compania Armadora SA	Oceanis	Bahamas	75,211	May 2001	May 2001	Panama
2 Husky Trading SA	Triton	Bahamas	75,336	Mar 2001	Mar 2001	Panama
3 Changame Compania Armadora SA	Thetis	Bahamas	73,583	Aug 2004	Nov 2005	Panama
4 Buenos Aires Compania Armadora SA	Alcyon	Bahamas	75,247	Feb 2001	Feb 2001	Panama
5 Skyvan Shipping Company SA	Nirefs	Bahamas	75,311	Jan 2001	Jan 2001	Panama
6 Cypres Enterprises Corp.	Protefs	Bahamas	73,630	Aug 2004	Aug 2004	Panama
7 Urbina Bay Trading SA	Erato	Bahamas	74,444	Aug 2004	Nov 2005	Panama
8 Chorrera Compania Armadora SA	Dione	Greek	75,172	Jan 2001	May 2003	Panama
9 Darien Compania Armadora SA	Calipso	Bahamas	73,691	Feb 2005	Feb 2005	Panama
10 Texford Maritime SA	Clio	Bahamas	73,691	May 2005	May 2005	Panama
11 Eaton Marine SA	Danae	Greek	75,106	Jan 2001	Jul 2003	Panama
12 Vesta Commercial SA	Coronis	Marshall Islands	74,381	Jan 2006	Jan 2006	Panama
13 Ailuk Shipping Company Inc.	Naias	Marshall Islands	73,546	Jun 2006	Aug 2006	Marshall Islands
14 Taka Shipping Company Inc.	Melite	Marshall Islands	76,436	Oct 2004	Jan 2010	Marshall Islands
15 Bikar Shipping Company Inc.	Arethusia	Greek	73,593	Jan 2007	Jul 2011	Marshall Islands
16 Mandaringina Inc.	Melia	Marshall Islands	76,225	Feb 2005	May 2012	Marshall Islands

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17	Jemo Shipping Company Inc.	Leto	Marshall Islands	81,297	Feb 2010	Jan 2012	Marshall Islands
18	Fayo Shipping Company Inc.	Artemis	Marshall Islands	76,942	Sep 2006	Aug 2013	Marshall Islands
19	Erikub Shipping Company Inc. (Note 6)	Crystalia	Greek	77,525	Feb 2014	Feb 2014	Marshall Islands
20	Wotho Shipping Company Inc. (Note 6)	Atalandi	Greek	77,529	May 2014	May 2014	Marshall Islands
KAMSARMAX VESSELS							
21	Tuvalu Shipping Company Inc.	Myrto	Marshall Islands	82,131	Jan 2013	Jan 2013	Marshall Islands
22	Jabat Shipping Company Inc.	Maia	Marshall Islands	82,193	Aug 2009	Feb 2013	Marshall Islands
23	Makur Shipping Company Inc.	Myrsini	Marshall Islands	82,117	Mar 2010	Oct 2013	Marshall Islands
POST-PANAMAX VESSELS							
24	Majuro Shipping Company Inc.	Alcmene	Marshall Islands	93,193	Jan 2010	Nov 2010	Marshall Islands
25	Guam Shipping Company Inc	Amphitrite	Marshall Islands	98,697	Aug 2012	Aug 2012	Marshall Islands
26	Palau Shipping Company Inc.	Polymnia	Marshall Islands	98,704	Nov 2012	Nov 2012	Marshall Islands

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## DIANA SHIPPING INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

## CAPESIZE VESSELS

27	Jaluit Shipping Company Inc.	Sideris GS	Marshall Islands	174,186	Nov 2006	Nov 2006	Marshall Islands
28	Bikini Shipping Company Inc.	New York	Marshall Islands	177,773	Mar 2010	Mar 2010	Marshall Islands
29	Gala Properties Inc.	Houston	Marshall Islands	177,729	Oct 2009	Oct 2009	Marshall Islands
30	Kili Shipping Company Inc.	Semirio	Marshall Islands	174,261	Jun 2007	Jun 2007	Marshall Islands
31	Knox Shipping Company Inc.	Aliki	Marshall Islands	180,235	Mar 2005	Apr 2007	Marshall Islands
32	Lib Shipping Company Inc.	Boston	Marshall Islands	177,828	Nov 2007	Nov 2007	Marshall Islands
33	Marfort Navigation Company Ltd.	Salt Lake City	Cyprus	171,810	Sep 2005	Dec 2007	Cyprus
34	Silver Chandra Shipping Company Ltd.	Norfolk	Cyprus	164,218	Aug 2002	Feb 2008	Cyprus
35	Bokak Shipping Company Inc.	Baltimore	Marshall Islands	177,243	Mar 2005	Jun 2013	Marshall Islands
36	Pulap Shipping Company Inc.	PS Palios	Marshall Islands	179,134	Jan 2013	Dec 2013	Marshall Islands
37	Weno Shipping Company Inc. (Note 6)	GP Zafirakis	Marshall Islands	179,492	Aug 2014	Aug 2014	Marshall Islands
38	Lelu Shipping Company Inc. (Notes 5, 10 and 17)	Santa Barbara	Marshall Islands	179,426	Jan 2015	Jan 2015	Marshall Islands

## NEWCASTLEMAX VESSELS

39	Lae Shipping Company Inc.	Los Angeles	Marshall Islands	206,104	Feb 2012	Feb 2012	Marshall Islands
40	Namu Shipping Company Inc.	Philadelphia	Marshall Islands	206,040	May 2012	May 2012	Marshall Islands

## UNDER CONSTRUCTION

41	Aster Shipping Company Inc. (Notes 5, 10 and 17)	H2548	-	208,500	-	Expected in 2016	Marshall Islands
42	Aerik Shipping Company Inc. (Notes 5 and 10)	H2549	-	208,500	-	Expected in 2016	Marshall Islands
43	Houk Shipping Company Inc. (Notes 5 and 10)	DY6006	-	82,000	-	Expected in 2016	Marshall Islands

## OTHER SUBSIDIARIES

44	Diana Shipping Services SA	Management company					Panama
45	Bulk Carriers (USA) LLC	Company's representative in the US					Delaware - USA

Diana Shipping Services S.A. (the "Manager" or "DSS") provides the Company and its vessels with management services since November 12, 2004, pursuant to management agreements and since October 1, 2013 administrative services with regards to services related to the holding company's operations and its subsidiaries. Such costs are eliminated in consolidation. Since April 2010 and until February 28, 2013, DSS provided to Diana Containerships Inc. (or "Diana Containerships") and its vessels, administrative services and since June 2010 and until February 28, 2013, technical and commercial services (Note 4(b)).

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## DIANA SHIPPING INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

During 2014, 2013, and 2012 charterers that individually accounted for 10% or more of the Company's time charter revenues were as follows:

Charterer	2014	2013	2012
A	18 %	17 %	18 %
B	15 %	19 %	10 %
C	12 %		
D	10 %		
E		11 %	
F		11 %	
G			12 %

## 2. Significant Accounting Policies

(a) Principles of Consolidation: The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, and include the accounts of Diana Shipping Inc. and its wholly-owned subsidiaries referred to in Note 1 above. All intercompany balances and transactions have been eliminated upon consolidation.

(b) Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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.

(c) Other Comprehensive Income / (loss): The Company separately presents certain transactions, which are recorded directly as components of stockholders' equity. Other Comprehensive Income / (Loss) is presented in a separate statement.

(d) Foreign Currency Translation: The functional currency of the Company is the U.S. Dollar because the Company's vessels operate in international shipping markets, and therefore primarily transact business in U.S. Dollars. The Company's accounting records 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 into U.S. Dollars at the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of operations.

(e) Cash and Cash Equivalents: The Company considers highly liquid investments such as time deposits, certificates of deposit and their equivalents with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents may also include compensating cash balances kept against the Company's loan facilities that are not deemed to be sufficiently material to require segregation on the balance sheet. Such balances at December 31, 2014 and 2013 amounted to \$19,500 and \$18,000 in the aggregate and consisted of minimum cash deposits required to be maintained at all times under the Company's loan facilities (Note 9).





DIANA SHIPPING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

Accounts Receivable, Trade: The amount shown as accounts receivable, trade, at each balance sheet date, includes receivables from charterers for hire, ballast bonus billings, if any, hold cleanings and extra voyage insurance, net of (f) any provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No provision for doubtful accounts was established as of December 31, 2014 and 2013.

Loan Receivable from Related Parties: The amounts shown as Due from related parties, current and non-current, in the consolidated balance sheet as at December 31, 2014 and 2013, (Note 4(b)) represent amounts receivable from Diana Containerships Inc. with respect to a loan agreement with a wholly owned subsidiary of Diana Containerships Inc., net of any provision for credit losses. Interest income and fees, deriving from the agreement are recorded in the accounts as incurred. Costs incurred for the loan documentation were expensed as incurred. At each balance sheet date, amounts due under the aforementioned loan agreement are assessed for purposes of (g) determining the appropriate provision for credit losses. In order to estimate the allowance for credit losses, the Company assesses at each period end the ability of Diana Containerships to meet its obligations under the loan agreement by taking into consideration existing economic conditions, the current financial condition of Diana Containerships Inc. and historical losses, if any, and any other risks/factors that may affect its future financial condition and its ability to meet its obligations. No provision for credit losses was established as of December 31, 2014 and 2013, since there was no indication that Diana Containerships Inc. will not be able to meet its obligations under the loan agreement.

Inventories: Inventories consist of lubricants and victualling which are stated at the lower of cost or market. Cost is determined by the first in, first out method. Inventories may also consist of bunkers when on the balance sheet date (h) a vessel remains idle. Bunkers are also stated at the lower of cost or market and cost is determined by the first in, first out method.

Vessel Cost: Vessels are stated at cost which consists of the contract price and any material expenses incurred upon acquisition or during construction. 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; (i) otherwise these amounts are charged to expense as incurred. Interest cost incurred during the assets' construction periods that theoretically could have been avoided if expenditure for the assets had not been made is also capitalized. The capitalization rate, applied on accumulated expenditures for the vessel, is based on interest rates applicable to outstanding borrowings of the period.

Property and equipment: The Company owns the land and building where its offices are located. Land is presented in its fair value on the date of acquisition and it is not subject to depreciation. The building has an estimated useful life of 55 years with no residual value. Depreciation is calculated on a straight-line basis. Equipment consists of (j) office furniture and equipment, computer software and hardware and vehicles which consist of motor scooters and a car. The useful life of the car is 10 years, of the office furniture, equipment and the scooters is 5 years; and of the computer software and hardware is 3 years. Depreciation is calculated on a straight-line basis.

DIANA SHIPPING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

(k) Prepaid Charter Revenue: When the Company acquires a vessel with a time charter attached and the present value of the contractual cash flows of the time charter assumed is greater than its current fair value with reference to market data, the difference, capped to the vessel's fair value on a charter free basis, is recorded as prepaid charter revenue. Prepaid charter revenue is amortized to revenue over the period of the time charter assumed and is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Impairment of Long-Lived Assets: Long-lived assets (vessels, land, and building) and certain identifiable intangibles held and used by an entity are reviewed for impairment whenever events or changes in circumstances (such as market conditions, obsolescence or damage to the asset, potential sales and other business plans) indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted projected net (l) operating cash flows, excluding interest charges, expected to be generated by the use of the asset over its remaining useful life and its eventual disposition is less than its carrying amount, the Company should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. The Company determines the fair value of its assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations.

With respect to the vessels, the Company determines undiscounted projected net operating cash flows for each vessel by considering the historical and estimated vessels' performance and utilization, assuming (i) future revenues calculated for the fixed days, using the fixed charter rate of each vessel from existing time charters and for the unfixed days, the most recent 10 year average historical 1 year time charter rates available for each type of vessel over the remaining estimated life of each vessel, net of brokerage commissions. Historical ten-year blended average one-year time charter rates are in line with the Company's overall chartering strategy, they reflect the full operating history of vessels of the same type and particulars with the Company's operating fleet and they cover at least a full business cycle; (ii) expected outflows for scheduled vessels' maintenance; (iii) vessel operating expenses increasing annually by an annual inflation rate of 3%, which approximates current projections for global inflation rate; (iv) effective fleet utilization of 98% taking into account the period each vessel is expected to remain off hire for scheduled maintenance (dry docking and special surveys) and 1% off hire days (other than for dry docking and special surveys) each year, assumptions in line with the Company's historical performance and its expectations for future fleet utilization under its current fleet deployment strategy.

The Company concluded based on this exercise that step two of the impairment analysis was not required and has not identified any facts or circumstances that would require the write down of vessel values as at December 31, 2014 or in the near future and no impairment loss has been identified or recorded for 2014, 2013 and 2012.

With respect to the land and building, the Company determines undiscounted projected net operating cash flows by considering an estimated monthly rent the Company would have to pay in order to lease a similar property, during the useful life of the building. As at December 31, 2014, 2013 and 2012, no impairment loss was identified or recorded and the Company has not identified any other facts or circumstances that would require the write down of the value of its land or building in the near future.

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DIANA SHIPPING INC.

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Vessel Depreciation: Depreciation is computed using the straight-line method over the estimated useful life of the vessels, after considering the estimated salvage (scrap) value. Each vessel's salvage value is equal to the product of its lightweight tonnage and estimated scrap rate. Management estimates the useful life of the Company's vessels (m) to be 25 years from the date of initial delivery from the shipyard. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its remaining useful life is adjusted at the date such regulations are adopted.

Accounting for Dry-Docking Costs: The Company follows the deferral method of accounting for dry-docking costs (n) whereby actual costs incurred are deferred and are amortized on a straight-line basis over the period through the date the next dry-docking is scheduled to become due. Unamortized dry-docking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale.

Financing Costs: Fees paid to lenders for obtaining new loans or refinancing existing ones are deferred and recorded as a contra to debt. Other fees paid for obtaining loan facilities not used at the balance sheet date are capitalized as deferred financing costs. Fees relating to drawn loan facilities are amortized to interest and finance costs over the life of the related debt using the effective interest method and fees incurred for loan facilities not used at the balance sheet date are amortized using the straight line method according to their availability terms. (o) Unamortized fees relating to loans repaid or refinanced as debt extinguishment are expensed as interest and finance costs in the period the repayment or extinguishment is made. Loan commitment fees are charged to expense in the period incurred, unless they relate to loans obtained to finance vessels under construction, in which case they are capitalized to the vessels' cost. An amount of \$455, representing the current portion of deferred financing costs as at December 31, 2013 was reclassified to the Current portion of long-term debt of the respective year, for comparability purposes with the December 31, 2014 consolidated balance sheet.

Concentration of Credit Risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash, trade accounts receivable and the loan receivable from a related party. The Company places its temporary cash investments, consisting mostly of deposits, with various qualified financial institutions and performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company limits its credit risk with (p) accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable and does not have any agreements to mitigate credit risk. The Company limits its credit risk with the loan receivable by performing ongoing credit evaluations of Diana Containerships' financial condition. The loan agreement is guaranteed by Diana Containerships but does not have any collateral and the Company has not entered into any agreement to mitigate credit risk.

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DIANA SHIPPING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Accounting for Revenues and Expenses: Revenues are generated from time charter agreements and are usually paid fifteen days in advance. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time charter revenues are recorded over the term of the charter as service is provided. Income representing ballast bonus payments by the charterer to the vessel owner is recognized in the period earned. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Deferred revenue includes cash received prior to the balance sheet date for which all criteria to recognize as revenue have not been met. Deferred revenue may also include deferred revenue resulting from charter agreements providing for varying annual rates, which are (q) accounted for on a straight line basis, or the unamortized balance of the liability associated with the acquisition of second-hand vessels with time charters attached which were acquired at values below fair market value at the date the acquisition agreement is consummated. Voyage expenses, primarily consisting of commissions, port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are due as the Company's revenues are earned.

Repairs and Maintenance: All repair and maintenance expenses including underwater inspection expenses are (r) expensed in the year incurred. Such costs are included in vessel operating expenses in the accompanying consolidated statements of operations.

Earnings / (loss) per Common Share: Basic earnings / (loss) per common share are computed by dividing net income / (loss) available to common stockholders by the weighted average number of common shares outstanding (s) during the year. Diluted earnings per common share, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised.

Segmental Reporting: The Company has determined that it operates under one reportable segment, relating to its operations of the dry-bulk vessels. The Company reports financial information and evaluates the operations of the segment by charter revenues and not by the length of ship employment for its customers, i.e. spot or time charters. The Company does not use discrete financial information to evaluate the operating results for each such type of (t) charter. Although revenue can be identified for these types of charters, management cannot and does not identify expenses, profitability or other financial information for these charters. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet. 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 geographic information is impracticable.

Variable Interest Entities: The Company evaluates financial instruments, service contracts, and other arrangements to determine if any variable interests relating to an entity exist, as the primary beneficiary would be required to (u) include assets, liabilities, and the results of operations of the variable interest entity in its financial statements. As of December 31, 2014 and 2013, no such interests were identified.

DIANA SHIPPING INC.

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(v) Fair Value Measurements: The Company classifies and discloses its assets and liabilities carried at the fair value in one of the following categories:

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.

Share Based Payments: The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met. The Company initially measures the cost of employee services received in exchange for an award or liability instrument based on its current fair value; the fair value of that (w) award or liability instrument is re-measured subsequently at each reporting date through the settlement date.

Changes in fair value during the requisite service period are recognized as compensation cost over that period with the exception of awards granted in the form of restricted shares which are measured at their grant date fair value and are not subsequently re-measured. The grant-date fair value of employee share options and similar instruments are estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Derivatives: The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. In this (x) respect, in May 2009, the Company entered into a five-year zero cost collar agreement, novated in March 2012, and terminated in May 2014, to manage its exposure to interest rate changes related to its borrowings. The collar agreement was considered as an economic hedge agreement as it did not meet the criteria of hedge accounting; therefore, the changes in its fair value were recognized in earnings (Note 16).

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



DIANA SHIPPING INC.

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Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15 – Presentation of Financial Statements - Going Concern. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires an entity's management to evaluate at each reporting period based on the relevant conditions and events that are known at the date of financial statements are issued, whether there are conditions or events, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to disclose the necessary information. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

3. Investment in Diana Containerships Inc.

As at December 31, 2013, the Company owned 9.51% of the share capital of Diana Containerships Inc. ("Diana Containerships") and its investment has been accounted for under the equity method on the basis of the significant influence that was exercised over Diana Containerships through its shareholding, its common executive Board, until March 1, 2013 through Diana Shipping Services and since May 2013 through a loan agreement (Note 4(b)). On July 29, 2014, the Company purchased through a Securities Purchase Agreement 15,936,255 additional shares for \$40,000, increasing its ownership in the share capital of Diana Containerships as at December 31, 2014 to 26.34%.

As at December 31, 2014 and 2013, the investment in Diana Containerships amounted to \$67,546 and \$15,640, respectively, and is separately reflected in Investment in Diana Containerships Inc. in the accompanying consolidated balance sheets. As at December 31, 2014, the market value of the investment was \$36,227 based on Diana Containerships' closing price on Nasdaq of \$1.88.

For 2014, 2013, and 2012, the investment in Diana Containerships resulted in a gain of \$12,668, and loss of \$6,094 and \$1,773, respectively, which are separately presented in Income/(loss) from investment in Diana Containerships Inc. in the accompanying consolidated statements of operations. Also during 2014, 2013, and 2012, the Company received dividends from Diana Containerships amounting to \$763, \$4,000, and \$2,835, respectively.

4. Transactions with Related Parties

Altair Travel Agency S.A. ("Altair"): The Company uses the services of an affiliated travel agent, Altair, which is controlled by the Company's CEO and Chairman. Travel expenses for 2014, 2013, and 2012, amounted to \$2,765, \$2,640, and \$2,957, respectively, and are included in Vessels, Advances for vessels under construction and (a) acquisitions and other vessel costs, Vessel operating expenses and General and administrative expenses in the accompanying consolidated financial statements. At December 31, 2014 and 2013, an amount of \$281 and \$196, respectively, was payable to Altair and is included in Due to related parties in the accompanying consolidated balance sheets.

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Diana Containerships Inc. ("Diana Containerships"): Until February 28, 2013, DSS received from Diana Containerships management fees of \$15 per month for each vessel in operation and \$20 per month for each laid-up vessel, 1% commissions on the gross hire and freight earned by each vessel and \$10 per month for administrative fees pursuant to management and administrative services agreements between Diana Containerships, its vessel (b)owning companies and DSS, which were terminated on March 1, 2013. For 2014, 2013, and 2012, revenues derived from the agreements with Diana Containerships amounted to \$0, \$447, and \$2,447, respectively, and they are separately presented as Other revenues in the accompanying consolidated statements of operations. As at December 31, 2014 and 2013, there was no amount due to or from Diana Containerships and its vessels, relating to these management agreements.

On May 20, 2013, the Company's Independent Committee of the Board of Directors and the Board of Directors approved to provide to Eluk Shipping Company Inc., a subsidiary of Diana Containerships, an unsecured loan of up to \$50,000 to be used for general corporate purposes and working capital, which was drawn on August 20, 2013. The loan matures on the fourth anniversary of the draw down date, or on August 20, 2017, bears interest at LIBOR plus a margin of 5% per annum. The loan also bears a back-end fee equal to 1.25% per annum on the outstanding amount, receivable on the repayment date of such amount. The unsecured loan is guaranteed by Diana Containerships, and Diana Containerships and its subsidiaries may not incur additional indebtedness during the term of the loan without the prior consent of the Company.

As at December 31, 2014, there was an amount of \$57 of interest and \$50,866 of loan and fees due from Diana Containerships, separately presented in Due from related parties, current and non-current, respectively, in the related accompanying consolidated balance sheet. As at December 31, 2013, similarly, there was an amount of \$86 of interest and \$50,233 of loan and fees due from Diana Containerships.

For 2014 and for the period from August 20, 2013 (drawdown date) to December 31, 2013, income from interest and fees amounted to \$3,246, and \$1,196, respectively, and is included in Interest and other income in the accompanying consolidated statements of operations.

Diana Enterprises Inc. ("Diana Enterprises"): Diana Enterprises is a company controlled by the Company's CEO and Chairman. On March 4, 2014 DSS entered into an agreement with Diana Enterprises to provide brokerage services to DSI for a monthly fee of \$104, payable quarterly in advance, effective from January 1, 2014 and until March 31, 2015, which however was terminated on June 30, 2014, as on April 9, 2014, an agreement between Diana Shipping Inc and Diana Enterprises, was signed to replace the previous one, with all other terms being the same, and which became effective on July 1, 2014. Previously, an agreement dated March 15, 2013 was in effect, (c) with a monthly fee of \$208, payable quarterly in advance from March 1, 2013 (effective date) until its termination on January 1, 2014. Prior to that, there was an agreement in effect since February 22, 2012, having an annual fee of \$2,834. For 2014, 2013, and 2012, brokerage fees amounted to \$1,250, \$2,481, and \$2,384 respectively, and are included in General and administrative expenses in the accompanying consolidated statements of operations. At December 31, 2014 and 2013, there was an amount of \$0 and \$25, respectively, due to Diana Enterprises included in Due to related parties, in the accompanying balance sheets. Until March 1, 2013, DSS had an agreement with Diana Enterprises to provide brokerage services to Diana Containerships, which was terminated when DSS ceased from being the management company of the Diana Containerships' group.





## DIANA SHIPPING INC.

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## 5. Advances for Vessels under Construction and Acquisitions and Other Vessel Costs

In May 2013, Aster and Aerik, each entered into a shipbuilding contract with unrelated third parties for the construction of a Newcastlemax dry bulk carrier for the aggregate price of \$97,400. The vessels are expected to be delivered in 2016.

In January 2014, Houk entered into a shipbuilding contract with unrelated third parties for the construction of a Kamsarmax dry bulk carrier for a contract price of \$28,825. The vessel is expected to be delivered in 2016.

In December 2014, Lelu entered into a memorandum of agreement with an unrelated third party to acquire a Capesize dry bulk carrier for the purchase price of \$50,000. As at December 31, 2014, the Company had paid an amount of \$10,066, including the advance to the seller and additional acquisition costs. The vessel was delivered in January 2015 (Note 17).

As at December 31, 2014, the remaining contractual obligations for all of the above contracts amounted to \$147,291 (Note 10).

The amounts in the accompanying consolidated balance sheets include payments to sellers of vessels or, in the case of vessels under construction, to the shipyards and other costs capitalized in accordance with the accounting policy as discussed in Note 2(i). The movement of the account during 2014 and 2013 was as follows:

	2014	2013
Beginning balance	\$38,862	\$11,502
- Advances for vessels under construction and other vessel costs	43,160	30,053
- Advances for vessel acquisitions and other vessel costs	10,066	23,983
- Transferred to vessel cost (Note 6)	(62,588)	(26,676)
Ending balance	\$29,500	\$38,862

## 6. Vessels

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

	Vessel Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2012	\$1,515,370	\$ (304,232 )	\$1,211,138
- Transfer from advances for vessels under construction and acquisition and other vessel costs (Note 5)	26,676	-	26,676
- Acquisition, improvements and other vessel costs	144,544	-	144,544
- Depreciation for the year	-	(61,983 )	(61,983 )
Balance, December 31, 2013	\$1,686,590	\$ (366,215 )	\$1,320,375

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- Transfer from advances for vessels under construction and acquisition and other vessel costs (Note 5)	62,588	-	62,588
- Acquisitions, improvements and other vessel costs	58,476	-	58,476
- Depreciation for the year	-	(68,306 )	(68,306 )
Balance, December 31, 2014	\$1,807,654	\$ (434,521 )	\$1,373,133

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## DIANA SHIPPING INC.

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In January 2013, the vessel Myrto was delivered to the Company from an unrelated third party for the purchase price of \$26,500 according to a memorandum of agreement that Tuvalu had entered in 2012.

During 2013, the Company, through subsidiaries entered into memoranda of agreement to purchase from unaffiliated third parties five vessels, one Panamax, two Kamsarmaxes and two Capesize vessels for an aggregate price of \$141,423.

During 2014, the Company took delivery of "Crystalia" and "Atalandi", which until then were under construction and additionally acquired the Capesize dry bulk carrier "GP Zafirakis" for \$58,000, which was delivered in August 2014.

## 7. Property and equipment, net

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

	Property and Equipment	Accumulated Depreciation	Net Book Value
Balance, December 31, 2012	\$ 24,105	\$ (1,331 )	\$ 22,774
- Additions in equipment and building improvements	575	-	575
- Depreciation for the year	-	(523 )	(523 )
Balance, December 31, 2013	\$ 24,680	\$ (1,854 )	\$ 22,826
- Write off of fully depreciated assets	(100 )	100	-
- Additions in property and equipment	1,574	-	1,574
- Depreciation for the year	-	(513 )	(513 )
Balance, December 31, 2014	\$ 26,154	\$ (2,267 )	\$ 23,887

In December 2014, DSS acquired jointly with two other related entities, from unrelated individuals, a plot of land for an aggregate purchase price of €2.0 million or \$2,489 (based on the exchange rate of \$ to Euro as of the date of acquisition). DSS paid 1/3 of the purchase price amounting to \$886, including additional purchase costs incurred. The plot is under the common ownership of the joint purchasers.

## 8. Prepaid charter revenue

In May 2009, on the acquisition of the vessel "Houston", Gala paid an amount in excess of the predelivery installments for the construction of the vessel, which was recognized in assets as Prepaid charter revenue. This amount had been amortized in revenues since the delivery of the vessel to the time charterers. On November 26, 2013, the charterers terminated the charter earlier than the termination date determined under the terms of the charter party and redelivered the vessel to the owners, who started arbitration proceedings against the charterers seeking to mitigate their losses as a result of the early termination. As a result of this earlier termination of the charter party, the unamortized balance of prepaid charter revenue was fully amortized against Time charter revenues during 2013.

The amortization of prepaid charter revenue for 2013 (from January 1, until termination) and 2012 amounted to \$5,353, and \$3,056, respectively, and is included in Time charter revenues in the accompanying consolidated statements of operations.

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## DIANA SHIPPING INC.

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## 9. Long-term debt, current and non-current

The amount of long-term debt shown in the accompanying consolidated balance sheets is analyzed as follows:

	2014	2013
Revolving credit facility	\$210,000	\$240,000
Secured term loans	276,008	193,096
Total debt outstanding	\$486,008	\$433,096
Less related deferred financing costs	(1,752 )	(1,539 )
Total debt, net of deferred financing costs	\$484,256	\$431,557
Less: Current portion of long term debt, net of deferred financing costs current	(78,734 )	(46,077 )
Long-term debt, net of current portion and deferred financing costs, non-current	\$405,522	\$385,480

Revolving credit facility: On February 18, 2005, the Company entered into a secured revolving credit facility with the Royal Bank of Scotland for \$230,000 which was increased to \$300,000 on May 24, 2006 with an amended agreement. The amended facility was available in full until May 24, 2012. Since that date, the available amount is reducing in semi-annual amounts of \$15,000 with a final reduction of \$165,000 together with the last semi-annual reduction on May 24, 2016. The credit facility bears interest at LIBOR plus a margin ranging from 0.75% to 0.85%. The weighted average interest rate of the facility as at December 31, 2014 and 2013 was 0.95% and 1.08%, respectively.

The credit facility is secured by a first priority or preferred ship mortgage on 18 vessels of the Company's fleet, assignment of all freights, earnings, insurances and requisition compensation. The lenders may also require additional security in the event the Company breaches certain covenants under the credit facility, including a shortfall in the hull cover ratio.

The credit facility contains covenants including restrictions as to changes in management and ownership of the vessels, additional indebtedness, minimum liquidity for each vessel mortgaged under or financed through the credit facility and other financial covenants. As at December 31, 2014 and 2013, the minimum liquidity requirement amounted to \$7,600 and \$7,600, respectively. Furthermore, the Company is not permitted to pay any dividends that would result in a breach of the financial covenants of the facility.

Secured Term Loans: The Company, through its subsidiaries, has entered into various long term loan agreements with bank institutions to partly finance or, as the case may be, refinance part of the acquisition cost of certain of its fleet vessels. The loan agreements are repayable in quarterly or semi-annual installments plus one balloon installment per loan agreement to be paid together with the last installment and bear interest at LIBOR plus margin ranging from 1% to 3%. The weighted average interest rate of the Secured Term Loans as at December 31, 2014 and 2013 was 2.68% and 2.67%, respectively.

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Their maturities start from March 10, 2015 the earliest to May 18, 2022 the latest.

On June 18, 2013, Tuvalu and Jabat, entered into a loan agreement with Deutsche for a loan facility of \$18,000 to finance part of the acquisition cost of the vessels "Maia" and "Myrto", drawn on June 20, 2013. The loan is repayable in 20 consecutive equal quarterly installments of \$375 and a balloon payment of \$10,500 payable together with the final quarterly installment on June 20, 2018. The loan bears interest at LIBOR plus a margin of 3.0%.

On May 24, 2013, Erikub and Wotho entered into a loan agreement with Export-Import Bank of China and DnB to finance part of the construction cost of the "Crystalia" and the "Atalandi", for an amount of up to \$15,000 for each vessel, drawn on May 22, 2014. Each advance is repayable in 19 quarterly installments of \$250 and a balloon of \$10,250 payable together with the last installment on February 22, 2019. The loan bears interest at LIBOR plus a margin of 3.0% per annum.

On January 9, 2014, Taka and Fayo entered into a loan agreement with Commonwealth Bank of Australia, London Branch, for a loan facility of up to \$18,000, drawn on January 13, 2014, to finance part of the acquisition cost of the "Melite" and "Artemis". The loan bears interest at LIBOR plus a margin of 2.25%. The loan was drawn in Tranche A of \$8,500 and Tranche B of \$9,500. Tranche A is repayable in 24 equal consecutive quarterly installments of about \$196 each and a balloon of \$3,800 payable together with the last installment on January 13, 2020. Tranche B is repayable in 32 equal consecutive quarterly installments of about \$156 each and a balloon of \$4,500 payable on together with the last installment on January 13, 2022.

On December 18, 2014, Pulap and Weno entered into a loan agreement with BNP Paribas, for a loan facility of up to \$55,000, of which \$53,500 was drawn on December 19, 2014. The loan bears interest at LIBOR plus a margin of 2% and is repayable in 14 equal semi-annual installments of approximately \$1,574 and a balloon of \$31,464 payable on November 30, 2021.

Under the secured long term debt agreements mentioned above, 17 vessels of the Company's fleet are mortgaged with first preferred or second preferred ship mortgage, where applicable. Additional securities required by the banks include first priority assignment of all earnings, insurances, first assignment of time charter contracts with duration of more than 12 months, pledge over the shares of the borrowers, manager's undertaking and subordination and requisition compensation and a corporate guarantee by DSI (the "Guarantor"), financial covenants, as well as operating account assignments. The lenders may also require additional security in the future in the event the borrowers breach certain covenants under the loan agreements and include restrictions as to changes in management and ownership of the vessels, additional indebtedness, as well as minimum requirements regarding hull cover ratio and minimum liquidity per vessel owned by the borrowers or the Guarantor maintained in the bank accounts of the borrowers. Furthermore, certain of the Secured Term Loans contain cross default provisions and additionally the Company is not permitted to pay any dividends from the earnings of the vessel following the occurrence of an event of default.

As at December 31, 2014, part of the Company's fleet (except of vessels Coronis, Aliko, Baltimore, Myrsini), having an aggregate carrying value of \$1,222,877 has been provided as collateral to secure the debt facilities.

As at December 31, 2014 and 2013, the maximum amount required by the banks as compensating cash balance amounted to \$19,500 and \$18,000, respectively.

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## DIANA SHIPPING INC.

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The maturities of the Company's debt facilities described above, as at December 31, 2014, and throughout their term, are as follows, and do not include the right of lenders of a secured term loan to demand repayment of the balance of the loan outstanding within the first semester of 2018, subject however to written notification by the lender(s) to the borrower(s) no earlier than within calendar year 2016 and not later than within calendar year 2017:

Period	Principal Repayment
January 1, 2015 to December 31, 2015	\$ 79,288
January 1, 2016 to December 31, 2016	200,689
January 1, 2017 to December 31, 2017	49,930
January 1, 2018 to December 31, 2018	27,242
January 1, 2019 to December 31, 2019	38,992
January 1, 2020 and thereafter	89,867
Total	\$ 486,008

## 10. Commitments and Contingencies

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, a) insurance and other claims with suppliers relating to the operations of the Company's vessels. The Company accrues for the cost of environmental and other liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure.

The Company's vessels are covered for pollution in the amount of \$1 billion per vessel per incident, by the P&I Association in which the Company's vessels are entered. The Company's vessels are subject to calls payable to their P&I Association and may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. The Company is not aware of any supplemental calls in respect of any policy year that should be recorded in its consolidated financial statements.

The Company has shipbuilding contracts for the construction of two Newcastlemax dry bulk carriers and one b) Kamsarmax dry bulk carrier and a contract to acquire a Capesize dry bulk carrier (Note 5). As at December 31, 2014, the total obligations under these contracts amounted to \$147,291, which subsequently were reduced (Note 17).

c) As at December 31, 2014, the minimum contractual gross charter revenues expected to be generated from fixed and non-cancelable time charter contracts existing as at December 31, 2014 and until their expiration were as follows:

Period	Amount
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Year 1 \$100,652

Year 2 11,854

Total \$112,506

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DIANA SHIPPING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

## 11. Capital Stock and Changes in Capital Accounts

Preferred stock: As at December 31, 2014 and 2013, the Company's authorized preferred stock consists of 25,000,000 shares (all in registered form) of preferred stock, par value \$0.01 per share, of which as at December 31, 2014, 1,000,000 were designated as Series A Participating Preferred Shares; and 5,000,000 were designated as Series B Preferred Shares.

On February 24, 2014, the Company completed a public offering of 2,600,000 shares of Series B Cumulative Redeemable Perpetual Preferred Shares, par value \$0.01 per share, at \$25.00 per share and with liquidation preference at \$25.0 per share. The net proceeds from the offering (after the underwriting discount and other offering expenses payable by the Company) were \$62,698.

Holders of series B preferred shares have no voting rights other than the ability, subject to certain exceptions, to elect one director if dividends for six quarterly dividend periods (whether or not consecutive) are in arrears and certain other limited protective voting rights. Also, holders of series B preferred shares, rank prior to the holders of common shares with respect to dividends, distributions and payments upon liquidation. As at December 31, 2014 and 2013, the Company had 2,600,000 and none, respectively, of Series B Preferred Shares issued and outstanding and none issued and outstanding of Series A Preferred Shares.

Dividends on the Series B preferred shares are cumulative from the date of original issue and are payable on the 15th day of January, April, July and October of each year at the dividend rate of 8.875% per annum, or \$2.21875 per annum per share. As at December 31, 2014, dividends on Series B preferred shares, both accrued and paid amounted to \$5,080. At any time on or after February 14, 2019, the Company may redeem, in whole or in part, the series B preferred shares at a redemption price of \$25.00 per share plus an amount equal to all accumulated and unpaid dividends thereon to the date of redemption, whether or not declared.

Common Stock: The Company's authorized capital stock consists of 200,000,000 shares (all in registered form) of common stock, par value \$0.01 per share. The holders of the common shares are entitled to one vote on all matters submitted to a vote of stockholders and to receive all dividends, if any.

Incentive plan: In February 2005, the Company adopted an equity incentive plan (the "Plan") for 2,800,000 common shares, which was amended and restated on October 21, 2008 and terminated in 2012 as all shares reserved had been issued. In May 2011, the Company's board of directors approved to adopt the Diana Shipping Inc. 2011 Equity Incentive Plan, with substantially the same terms and provisions as the Company's Amended and Restated 2005 Equity Incentive Plan. Under the 2011 Equity Incentive Plan, an aggregate of 5,000,000 common shares were reserved for issuance, of which as at December 31, 2014 2,484,759 remained reserved for issuance. In November 2014, the Company's board of directors approved to adopt the Diana Shipping Inc. 2014 Equity Incentive Plan, for 5,000,000 additional shares.

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DIANA SHIPPING INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

The plan entitles the Company's employees, officers and directors to receive options to acquire the Company's common stock and is administered by the Compensation Committee of the Company's Board Directors or such other committee of the Board as may be designated by the Board to administer the Plan. Under the terms of the plan, the Company's Board of Directors is able to grant a) incentive stock options, b) non-qualified stock options, c) stock appreciation rights, d) dividend equivalent rights, e) restricted stock, f) unrestricted stock, g) restricted stock units, and h) performance shares. No options, stock appreciation rights or restricted stock units can be exercisable prior to the first anniversary or subsequent to the tenth anniversary of the date on which such award was granted.

The Company follows the provisions in ASC 718 "Compensation – Stock Compensation", for purposes of accounting for such share-based payments. All share-based compensation provided to employees is recognized in accordance with the relevant guidance, and is included in General and administrative expenses in the accompanying consolidated statements of operations.

Restricted stock during the years ended December 31, 2014, 2013 and 2012 is analysed as follows:

	Number of Shares	Weighted Average Grant Date Price
Outstanding at December 31, 2011	1,384,062	\$ 14.07
Granted	667,614	9.13
Vested	(600,051 )	13.83
Outstanding at December 31, 2012	1,451,625	\$ 11.90
Granted	607,946	9.06
Vested	(701,198 )	12.64
Outstanding at December 31, 2013	1,358,373	10.25
Granted	1,864,000	9.38
Vested	(730,539 )	11.25
Outstanding at December 31, 2014	2,491,834	\$ 9.30

The fair value of the restricted shares has been determined with reference to the closing price of the Company's stock on the date the agreements were signed. The aggregate compensation cost is being recognized ratably in the consolidated statement of operations over the respective vesting periods. For 2014, 2013, and 2012, an amount of \$7,744, \$8,203, and \$8,645, respectively, was recognized in General and administrative expenses presented in the accompanying consolidated statements of operations.

At December 31, 2014 and 2013, the total unrecognized cost relating to restricted share awards was \$17,698 and \$7,966, respectively. At December 31, 2014, the weighted-average period over which the total compensation cost related to non-vested awards not yet recognized is expected to be recognized is 2.15 years.

Share Repurchase Agreement: On May 22, 2014, the Company's Board of Directors authorized a share repurchase plan for up to \$100,000 worth of shares of the Company's common stock, under which, as at December 31, 2014, (d) the Company had repurchased and retired 2,845,549 shares at an aggregate cost of approximately \$25,349 (Note 17).



## DIANA SHIPPING INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

## 12. Voyage and Vessel Operating Expenses

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

	2014	2013	2012
Voyage Expenses			
Bunkers	\$2,026	\$(62)	\$(2,149)
Commissions charged by third parties	8,245	7,939	10,273
Miscellaneous	394	242	150
Total	\$10,665	\$8,119	\$8,274
Vessel Operating Expenses			
Crew wages and related costs	\$50,442	\$45,451	\$37,351
Insurance	6,723	6,438	4,747
Spares and consumable stores	17,106	14,825	14,996
Repairs and maintenance	8,379	5,548	6,609
Tonnage taxes (Note 15)	2,109	1,040	361
Environmental costs	1,314	2	-
Other operating expenses	850	3,907	2,229
Total	\$86,923	\$77,211	\$66,293

## 13. Interest and Finance Costs

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

	2014	2013	2012
Interest expense	\$7,815	\$7,600	\$7,021
Amortization of financing costs	519	473	379
Commitment fees and other costs	93	67	218
Total	\$8,427	\$8,140	\$7,618

Total interest incurred on long-term debt for 2014, 2013 and 2012 amounted to \$8,221, \$8,068, and \$7,342, respectively. Of the above amounts, \$406 in 2014, \$468 in 2013 and \$321 in 2012, were capitalized and included in Vessels and in Advances for vessels under construction and acquisitions and other vessel costs.

## 14. Earnings / (loss) per Share

All common shares issued (including the restricted shares issued under the Company's Incentive Plan) are the Company's common stock and have equal rights to vote and participate in dividends upon their vesting. The calculation of basic earnings/(loss) per share does not treat the non-vested shares (not considered participating securities) as outstanding until the time/service-based vesting restriction has lapsed. For the purpose of calculating diluted earnings per share the weighted average number of diluted shares outstanding includes the incremental shares assumed issued determined in accordance with the treasury stock method. For 2014 and 2013, and on the basis that the Company incurred losses, the effect of incremental shares would be anti-dilutive and therefore basic and diluted loss per share was the same.



## DIANA SHIPPING INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

For 2012, there were no incremental shares assumed issued under the treasury stock method weighted for the periods the non-vested shares were outstanding.

Profit or loss attributable to common equity holders is adjusted by the amount of dividends paid and accrued on Series B Preferred Stock which for 2014 amounted to \$5,080.

	2014	2013	2012
Net income / (loss)	\$(10,268 )	\$(21,205 )	\$54,639
Less dividends on series B preferred shares	\$(5,080 )	\$-	\$-
Net income / (loss) attributed to common stockholders	(15,348 )	(21,205 )	54,639
Weighted average number of common shares, basic and diluted	81,292,290	81,328,390	81,083,485
Earnings / (loss) per share, basic and diluted	\$(0.19 )	\$(0.26 )	\$0.67

## 15. 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 are included in vessel operating expenses in the accompanying consolidated statements of operations (Note 12).

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 both of the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exemption to corporations organized in the United States and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (50% Ownership Test) or (ii) the Company's stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States (Publicly Traded Test).

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of U.S. Dollars – except share, per share data, unless otherwise stated)

The Company and each of its subsidiaries expects to qualify for this statutory tax exemption for the 2014, 2013 and 2012 taxable years, and the Company takes this position for United States federal income tax return reporting purposes. However, there are factual circumstances beyond the Company's control that could cause it to lose the benefit of this tax exemption in future years and thereby become subject to United States federal income tax on its United States source income such as if, for a particular taxable year, other shareholders with a five percent or greater interest in the Company's stock were, in combination with the Company's existing 5% shareholders, to own 50% or more of the Company's outstanding shares of its stock on more than half the days during the taxable year.

The Company estimates that since no more than the 50% of its shipping income would be treated as being United States source income, the effective tax rate is expected to be 2% and accordingly it anticipates that the impact on its results of operations will not be material. The Company believes that it satisfies the Publicly-Traded Test and all of its United States source shipping income is exempt from U.S. federal income tax. Based on its U.S. source Shipping Income for 2014, 2013 and 2012, the Company would be subject to U.S. federal income tax of approximately \$246, \$238 and \$289, respectively, in the absence of an exemption under Section 883.

#### 16. Financial Instruments

The carrying values of temporary cash investments, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these financial instruments. The fair values of long-term bank loans approximate the recorded values, due to their variable interest rates. The fair value of long-term loan receivable from Diana Containerships also approximates its recorded value, due to its variable interest rate.

The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. In May 2009 the Company entered into a five-year zero cost collar agreement (novated in March 2012), with a floor at 1% and a cap at 7.8% of a notional amount of \$100,000 to manage its exposure to interest rate changes related to its borrowings. The collar agreement, which matured on May 27, 2014, was used as an economic hedge agreement and did not meet the criteria for hedge accounting; therefore, the changes in its fair value were recognized in earnings.

As at December 31, 2014 and 2013, the fair value of the swap was \$0 and \$378, respectively, both separately presented in the accompanying consolidated balance sheets. For 2014, 2013, and 2012, the Company incurred from the swap gain of \$68 and loss of \$118, and \$518, respectively, and is separately presented as Income / (loss) from derivative instruments in the accompanying consolidated statements of operations. The fair value of the collar agreement determined through Level 2 inputs of the fair value hierarchy as defined in ASC 820-10-35-47 Fair Value Measurements and Disclosure, Subsequent Re-measurement of FASB Accounting Standard Codification (ASC), is derived principally from or corroborated by observable market data. Inputs include interest rates, yield curves and other items that allow value to be determined.

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DIANA SHIPPING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 17. Subsequent Events

Delivery of vessel and payment of construction installment: On January 12, 2015, the Company took delivery of Santa Barbara, a vessel that Lelu had agreed to acquire. In addition, on February 2, 2015, the Company paid an (a) installment for the construction of hull H2548 owned by Aster (Note 5). As a result of the two events, the Company's purchase obligations for the acquisition and or construction of vessels (Note 10), subsequently to December 31, 2014 reduced to \$99,986.

(b) Series B Preferred Stock Dividends: On January 15, 2015, the Company paid a dividend on its series B preferred stock, amounting to \$0.5546875 per share, or \$1,442, to its stockholders of record as of January 14, 2015.

Repurchase and Retirement of Common Stock: Under the repurchase program (Note 11), the Company, (c) subsequently to December 31, 2014, repurchased and retired an additional number of 413,804 shares for an aggregate cost of \$2,673.

New Loan Agreements: On March 17, 2015, the Company, through eight separate wholly owned subsidiaries, entered into a loan agreement with Nordea Bank for a secured term loan facility of up to \$110,000, to refinance the (d) existing indebtedness with the bank and for general corporate and working capital purposes. On March 19, 2015, we drew down \$93,080 and we repaid the then existing indebtedness with the bank amounting to \$38,345.

Termination of Loan Agreements: On March 10 and on March 20, 2015, the Company repaid in full the then (e) outstanding indebtedness with Deutsche Bank for the vessels i) "New York" and ii) "Myrto" and "Maia", respectively, and the related agreements were terminated.

Loan Commitment: On February 27, 2015, the Company entered into a commitment letter with Danish Ship Finance for a loan facility of \$30,000 to finance the acquisition cost of the vessel "Santa Barbara". On March 12, (f) 2015, the Company was offered a term sheet from ABN AMRO Bank NV for a loan facility of up to \$53,000 to re-finance the acquisition cost of the vessels "New York", "Myrto" and "Maia", subject to signing the loan agreement by May 01, 2015.

Annual Incentive Bonus: On March 3, 2015 the Company's Board of Directors approved a cash bonus of about \$1,714 to all employees and executive management of the Company, which had been accrued as at December 31, (g) 2014, and 1,100,000 shares of restricted common stock awards to executive management and non-executive directors, pursuant to the Company's 2011 equity incentive plan. The fair value of the restricted shares based on the closing price on the date of the Board of Directors' approval was \$7,601 and will be recognized in income ratably over the restricted shares vesting period which will be 3 years.