

FreeSeas Inc.
Form F-3
August 03, 2007

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As filed with the Securities and Exchange Commission on August 3, 2007

File No. 333-_____

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM F-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
FREESEAS INC.
(Exact name of registrant as specified in its charter)**

**Republic of the
Marshall Islands**

4412

Not Applicable

(State or other jurisdiction of
incorporation or organization)

Primary Standard Industrial
Classification Code Number

(I.R.S. Employer
Identification No.)

**89 Akti Miaouli & 4 Mavrokordatou Street, 185 38, Piraeus, Greece
011-30-210-452-8770**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Broad and Cassel
Attention: A. Jeffrey Robinson, P.A.
2 S. Biscayne Boulevard, 21st Floor
Miami, Florida 33131
Telephone: (305) 373-9400
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Copies to:
**A. Jeffrey Robinson, P.A.
Broad and Cassel
2 S. Biscayne Boulevard, Suite 2100
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Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this Registration Statement.

If only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price (1)	Amount of registration fee
Common Stock, par value US \$.001 per share	477,304 shares(2)(3)	\$ 8.30	\$ 3,961,623.20	\$ 121.62(3)
Class Z Warrants	15,000 warrants(4)(3)	\$ 2.65	\$ 39,750.00	\$ 1.22(3)
Total			\$ 4,001,373.20	\$ 122.84(3)

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457 under the Securities Act.

(2) Shares currently outstanding that are being registered on behalf of certain selling shareholders of the Registrant.

(3) Does not include the following securities for which the Company paid a fee with its Registration Statement on Form F-1 (File No. 333-124825) and for which this Registration Statement serves as a Post-Effective Amendment No. 1: (i) 3,657,500 shares of the Company's common stock issuable upon exercise of currently outstanding Class W and Class Z warrants at \$5.00 per share; (ii) the underwriter's unit purchase option sold to the underwriter in the initial public offering of the Registrant's predecessor and the 12,500 Series A units and 65,000 Series B units underlying the unit purchase option, the 155,000 shares of common stock underlying the Series A units and Series B units, 255,000 Class W and Class Z warrants underlying the Series A units and Series B units, and 255,000 shares of common stock underlying those warrants; (iii) 378,259 shares of the Company's common stock owned by certain shareholders; and (iv) 250,000 shares of the Company's common stock issuable upon exercise of currently outstanding Class W and Class Z warrants owned by certain shareholders.

(4) Warrants currently outstanding that are being registered on behalf of a shareholder of the Registrant.

Pursuant to Rule 429, this Registration Statement serves as Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form F-1 (File No. 333-124825) relating to (i) 3,657,500 shares of the Registrant's common stock issuable upon exercise of the Registrant's currently outstanding Class W and Class Z warrants; (ii) the underwriter's unit purchase option sold to the underwriter in the initial public offering of the Registrant's predecessor and the 12,500 Series A units and 65,000 Series B units underlying the unit purchase option, the 155,000 shares of common stock underlying the Series A units and Series B units, 255,000 Class W and Class Z warrants underlying the Series A units and Series B units, and 255,000 shares of common stock underlying those warrants; (iii) 378,529 shares of the Registrant's common stock owned by certain shareholders; and (iv) 250,000 shares of the Registrant's common stock issuable upon exercise of currently outstanding Class W and Class Z warrants owned by certain shareholders.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

**SUBJECT TO COMPLETION DATED AUGUST 3, 2007
4,923,334 SHARES OF COMMON STOCK
FREESEAS INC.**

This Prospectus relates to

3,672,500 shares of common stock issuable upon exercise of FreeSeas Class W warrants and Class Z warrants, including 151,250 shares of FreeSeas common stock issuable upon exercise of Class W and Class Z warrants owned by certain selling shareholders;

840,834 shares of FreeSeas common stock currently owned by certain shareholders of FreeSeas and 15,000 Class Z warrants currently owned by the lead underwriter in our initial public offering; and

155,000 shares of FreeSeas common stock and 255,000 Class W and Class Z warrants (including 255,000 shares of FreeSeas common stock issuable upon exercise of such warrants) included in units that may be purchased by the lead underwriter in the initial public offering of FreeSeas predecessor.

We will receive proceeds only from the exercise of the warrants. The exercise price of all of these warrants is \$5.00 per share. We will not receive any of the proceeds from the sale by the selling shareholders of their common stock. We will bear all of the expenses of registering this offering.

The selling shareholders may offer their common stock from time to time in transactions in the over-the-counter market, in negotiated transactions, or a combination of these methods of sale. The sales prices may be at market prices prevailing at the time of sale or at negotiated prices. The selling shareholders may sell their securities to or through broker-dealers, and these broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling shareholders and/or the purchasers of the common stock.

FreeSeas common stock, Class W warrants and Class Z warrants are currently traded on the NASDAQ Capital Market under the symbols FREE, FREEW and FREEZ, respectively. On August 1, 2007, the last reported sale price of the common stock was \$8.41 and the last reported sale prices of the Class W warrants and the Class Z warrants were \$2.85 and \$2.86, respectively.

You should carefully consider the Risks of Investing in Our Securities section beginning on page 5 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2007

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We have not authorized anyone to give any information or to make any representations other than those contained in this prospectus. Do not rely upon any information or representations made outside of this prospectus. This prospectus is not an offer to sell, and it is not soliciting an offer to buy (1) any securities other than shares of our common stock or (2) shares of our common stock in any circumstances in which our offer or solicitation is unlawful. The information contained in this prospectus may change after the date of this prospectus. Do not assume after the date of this prospectus that the information contained in this prospectus is still correct.

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ENFORCEABILITY OF CIVIL LIABILITIES

We are a Marshall Islands company and our executive offices are located outside of the United States of America in Piraeus, Greece. All except one of our directors, all of our officers and some of the experts named herein reside outside the United States of America. In addition, a substantial portion of our assets and the assets of our directors, officers and experts are located outside of the United States of America. As a result, you may have difficulty serving legal process within the United States of America upon us or any of these persons. You may also have difficulty enforcing, both in and outside the United States of America, judgments you may obtain in United States of America courts against us or these persons in any action, including actions based upon the civil liability provisions of United States of America federal or state securities laws. Furthermore, there is substantial doubt that the courts of the Republic of the Marshall Islands or Greece would enter judgments in original actions brought in those courts predicated on United States of America federal or state securities laws.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These forward-looking statements include information about possible or assumed future results of our operations or our performance. Words such as expects, intends, plans, believes, anticipates, estimates, and variations of such words and similar expressions are intended to identify the forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. These statements involve known and unknown risks and are based upon a number of assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding:

our future operating or financial results;

future, pending or recent acquisitions, business strategy, areas of possible expansion, and expected capital spending or operating expenses;

drybulk shipping industry trends, including charter rates and factors affecting vessel supply and demand;

our financial condition and liquidity, including our ability to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities;

availability of crew, number of off-hire days, drydocking requirements and insurance costs;

our expectations about the availability of vessels to purchase or the useful lives of our vessels;

our ability to leverage to our advantage our manager's relationships and reputations in the drybulk shipping industry;

changes in seaborne and other transportation patterns;

changes in governmental rules and regulations or actions taken by regulatory authorities;

potential liability from future litigation;

global and regional political conditions;

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acts of terrorism and other hostilities; and

other factors discussed in the section titled Risks of Investing in Our Securities.

We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, or the documents to which we refer you in this prospectus, to reflect any change in our expectations with respect to such statements or any change in events, conditions or circumstances on which any statement is based.

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PROSPECTUS SUMMARY

This section summarizes some of the information and consolidated financial statements that appear later in this prospectus. As an investor or prospective investor, you should review carefully the risk factors and the more detailed information and financial statements that appear later in this prospectus. In this prospectus, references to

FreeSeas, Company, we, our, ours and us refer to FreeSeas Inc. and its subsidiaries, unless otherwise stated or the context requires. All references to \$ and dollars in this prospectus refer to U.S. dollars

We use the term deadweight tons, or dwt, in describing the capacity of our drybulk carriers. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. Drybulk carriers are categorized as Handysize, Handymax, Panamax and Capesize. The carrying capacity of a Handysize drybulk carrier ranges from 10,000 to 39,999 dwt and that of a Handymax drybulk carrier ranges from 40,000 to 59,999 dwt. By comparison, the carrying capacity of a Panamax drybulk carrier ranges from 60,000 to 79,999 dwt and the carrying capacity of a Capesize drybulk carrier is 80,000 dwt and above.

Our Company

We are an international drybulk shipping company incorporated on April 23, 2004 under the laws of the Republic of the Marshall Islands with headquarters in Piraeus, Greece. We are currently focusing on the Handysize and Handymax sectors, which we believe will enable us to transport a wider variety of cargoes and pursue a greater number of chartering opportunities than if we owned larger vessels. We may, however, acquire larger drybulk vessels if market conditions warrant.

Our existing fleet consists of three Handysize vessels that carry a variety of drybulk commodities, including coal, grains, and iron ore which are referred to as major bulks, as well as bauxite, phosphate, fertilizers, steel products, sugar and rice, or minor bulks.

We contract the management of our fleet to Free Bulkers, S.A., a company owned by Ion G. Varouxakis, our chief executive officer. Free Bulkers will provide technical management of our fleet, accounting services and office space and has subcontracted the charter and post-charter management of our fleet to Safbulk Pty Ltd., or Safbulk, a company controlled by the Restis family. We believe that Safbulk has achieved a strong reputation in the international shipping industry for efficiency and reliability that should create new employment opportunities for us with a variety of well known charterers. While Safbulk is responsible for finding and arranging charters for our vessels, the final decision to charter our vessels remains with us.

Table of Contents**Our Fleet**

The following table details our fleet:

Vessel Name	Dwt	Year Built	Vessel Type	Employment	Purchase Price	Delivery Date
Free Envoy	26,318	1984	Handysize	1-year time charter through April 2008 at \$17,000 per day	\$9.5 million	September 2004
Free Destiny	25,240	1982	Handysize	Spot currently at \$16,500 per day	\$7.6 million	August 2004
Free Hero	24,318	1995	Handysize	Balance of time charter through December 2008/February 2009 at \$14,500 per day	\$25.25 million	July 2007

We have agreed to purchase a 47,777-dwt Handymax vessel built in 2002, the M/V *Free Jupiter*, for \$47.0 million. We currently expect to take delivery of the M/V *Free Jupiter* in August or September 2007. Upon delivery, the M/V *Free Jupiter* will be chartered on a three-year time charter through September 2010, at a rate of \$32,000 per day for the first year of the charter, \$28,000 per day for the second year, and \$24,000 per day for the third year.

Our Corporate History

We were incorporated on April 23, 2004 by Ion G. Varouxakis, our chairman, chief executive officer and president, and two other co-founding shareholders under the name Adventure Holdings S.A. pursuant to the laws of the Republic of the Marshall Islands to serve as the parent holding company of our ship-owning entities. On April 27, 2005, we changed our name to FreeSeas Inc.

On December 15, 2005, we completed a merger with Trinity Partners Acquisition Company Inc., a blank check company formed to serve as a vehicle to complete a business combination with an operating business. At the time of the merger we owned three drybulk carriers, the M/V *Free Destiny*, the M/V *Free Envoy* and the M/V *Free Fighter*. Under the terms of the merger, we were the surviving corporation. Each outstanding share of Trinity's common stock and Class B common stock was converted into the right to receive an equal number of shares of our common stock, and each Trinity Class W warrant and Class Z warrant was converted into the right to receive an equal number of our Class W warrants and Class Z warrants.

Our common stock, Class W warrants and Class Z warrants began trading on the NASDAQ Capital Market on December 16, 2005 under the trading symbols FREE, FREEW and FREEZ, respectively. As a result of the merger, Trinity's former securities, including the Trinity Class A Units and the Class B Units, ceased trading on the OTC Bulletin Board.

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In January 2007, Mr. Varouxakis, through a Marshall Islands corporation wholly owned by him, purchased all of the shares of common stock owned by the two other co-founding shareholders. He simultaneously sold shares of common stock owned by him to FS Holdings Limited, an entity controlled by the Restis family, and to certain other entities. As a result of these transactions, Mr. Varouxakis now beneficially owns (including shares underlying options and warrants beneficially owned by him) approximately 34.5% of our outstanding common stock and FS Holdings Limited beneficially owns (including shares underlying warrants) approximately 40.2% of our outstanding common stock. Immediately following these transactions, our board of directors appointed Mr. Varouxakis chairman of the board and president, the two other co-founding shareholders and two other directors resigned from the board, and two new directors were appointed to fill the vacancies.

Our executive offices are located at 89 Akti Miaouli & 4 Mavrokordatou Street, 185 38, Piraeus, Greece and our telephone number is 011-30-210-452-8770.

Recent Developments

On April 27, 2007, we sold the M/V *Free Fighter* for \$11,075,000 and repaid \$2,330,000 on Advance A and \$2,470,000 on Advance B of the loans with First Business Bank using proceeds from the sale of that vessel to make these payments.

On May 1, 2007, we entered into memoranda of agreement pursuant to which we agreed to purchase four secondhand drybulk carriers, the M/V *Free Hero*, M/V *Free Jupiter*, M/V *Free Iris* and M/V *Free Gentleman*, from non-affiliated parties for a total purchase price of \$114.0 million. In accordance with the memoranda of agreement, we provided deposits totaling \$11.4 million to the respective sellers of the above four vessels. We obtained the funds for the deposits from a \$5.5 million draw on the \$14.0 million unsecured shareholder loan described below and \$5.9 million from our cash on hand, primarily resulting from the sale of the M/V *Free Fighter* in April 2007. We anticipated financing the remaining \$102.6 million of the purchase prices of the above vessels, due upon their respective deliveries, by utilizing the following: (i) up to \$68.0 million in a senior secured loan from HSH Nordbank AG; (ii) up to \$21.5 million in a junior loan from BTMU Capital Corporation, an affiliate of the Bank of Tokyo Mitsubishi; (iii) the remaining \$8.5 million of the \$14.0 million unsecured shareholder loan (which was drawn down on June 22, 2007 as discussed further below); (iv) cash on hand from operations and (v) an overdraft credit facility of \$4 million available from Hollandsche Bank Unie N.V.

We took delivery of the M/V *Free Hero* on July 3, 2007 and we paid the \$22.7 million remaining balance, net of the deposit paid, of the \$25.25 million purchase price using \$20.4 million from the above described senior and junior financing sources and \$2.3 million from cash on hand. The vessel is currently subject to a \$14,500 per day time charter expiring in December 2008, with a charterer's option for extension until February 2009. We expect to take delivery of the M/V *Free Jupiter* in August or September 2007. The purchase price for the M/V *Free Jupiter* is \$47.0 million and we expect to utilize the above-described financing sources to pay the remaining \$42.3 million balance of the purchase price due upon delivery.

Due to a dispute between third parties unrelated to us and the sellers of the M/V *Free Gentleman* and M/V *Free Iris*, which would have resulted in the vessels not being delivered as per the terms of their respective memoranda of agreement, we decided, in agreement with the sellers, to terminate those agreements on July 27, 2007, with immediate return of the full deposits for such vessels totaling \$4.25 million. We intend to seek to replace the two undelivered vessels with alternative tonnage of similar profile and return characteristics in an effort to expand our fleet in the Handysize/Handymax segment. We intend to utilize our available cash and the remainder of our existing credit facilities as described above for any future near term acquisitions.

The following table details the vessels acquired and to be acquired.

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Name	Class	DWT	Built	Flag	Purchase Price	Delivery Date	Employment
Free Jupiter	Handymax	47,777	2002	Marshall Islands	\$47.00 million(1)	Aug/Sept 2007	3-year time charter through September 2010 at \$32,000 per day for first year, \$28,000 per day for second year, and \$24,000 per day for third year
Free Hero	Handysize	24,318	1995	Marshall Islands	\$25.25 million(1)	Delivered July 3, 2007	Currently fixed to 2-year time charter through Dec 08/Feb 09

(1) The purchase price for each of the M/V *Free Hero* and the M/V *Free Jupiter* were specifically negotiated for each vessel based on its particular attributes (i.e., based on factors including the vessel's age, builder, configuration and condition).

The M/V *Free Destiny* and M/V *Free Envoy* have a combined carrying capacity of 51,000 dwt, a combined book value of \$10.3 million, and an average age of 24 years. As a result of the acquisition of the M/V *Free Hero* and the M/V *Free Jupiter*, which we expect to be delivered in August or September 2007, we will increase the aggregate dwt of our fleet to approximately 123,000 dwt, increase the aggregate book value of our fleet to \$82.6 million, and reduce the average age of our fleet to 16 years.

The \$14.0 million loan from one of our principal shareholders was signed on May 7, 2007 and accrues interest on the outstanding principal balance at the annual rate of 12.0%, payable upon maturity of the loan. The loan is due at the earlier of (i) May 7, 2009, (ii) the date of a Capital Event, which is defined as any event in which we raise gross proceeds of not less than \$40 million in an offering of our common stock or other equity securities or securities convertible into or exchangeable for our equity securities, or (iii) the date of acceleration of the amounts due under the note. Additionally, we agreed to issue to that shareholder, for every \$1.0 million drawn under the loan, 50,000 warrants to purchase shares of our common stock at an exercise price of \$5.00 per share. On May 8, 2007, we drew down \$5.5 million from the shareholder loan in connection with the deposits to be posted under the memoranda of agreement for the acquisition of the vessels. On June 22, 2007, we drew down the remaining \$8.5 million from the shareholder loan in anticipation of taking delivery of the M/V *Free Gentleman*, which delivery, however, was never completed as discussed above. We have issued the shareholder 700,000 warrants to purchase shares of our common stock at an exercise price of \$5.00 per share in connection with such draw downs.

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RISKS OF INVESTING IN OUR SECURITIES

Our business faces certain risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business. If any of the events or circumstances described as risks below or elsewhere in this prospectus actually occurs, our business, results of operations or financial condition could be materially and adversely affected.

Industry-Specific Risk Factors

The cyclical nature of the international shipping industry may lead to volatile changes in charter rates and vessel values, which may reduce our revenues and net income.

We are an independent shipping company that operates in the international drybulk shipping market. Our profitability is dependent upon the charter rates we are able to charge. The supply of and demand for shipping capacity strongly influences charter rates. The demand for shipping capacity is determined primarily by the demand for the type of commodities carried, the distance that those commodities must be moved by sea, and the demand for vessels of a particular size. The demand for commodities is affected by, among other things, world and regional economic and political conditions (including developments in international trade, fluctuations in industrial and agricultural production and armed conflicts), environmental concerns, weather patterns, port congestion, and changes in seaborne and other transportation costs. The size of the existing fleet per size category (i.e., Handysize/Handymax, Panamax or Capesize) in any particular dry bulk market, the number of new vessel deliveries, the scrapping of older vessels and the number of vessels out of active service (i.e., laid-up, dry-docked, awaiting repairs or otherwise not available for hire), determines the supply of shipping capacity, which is measured by the amount of suitable tonnage available to carry cargo.

In addition to the prevailing and anticipated charter rates, factors that affect the supply and demand for shipping capacity include the rate of newbuilding, scrapping and laying-up, 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 fleet in the market, and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These factors are outside of our control, and we cannot predict the nature, timing and degree of changes in industry conditions. Some of these factors may have a negative impact on our revenues and net income.

The market value of our vessels can fluctuate significantly. The market value of our vessels may increase or decrease depending on the following factors:

economic and market conditions affecting the shipping industry in general;

supply of drybulk vessels, including secondhand vessels;

demand for drybulk vessels;

types and sizes of vessels;

other modes of transportation;

cost of newbuildings;

new regulatory requirements from governments or self-regulated organizations; and

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prevailing level of charter rates.

Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings. In addition, any determination that a vessel's remaining useful life and earnings requires an impairment of its value on our financial statements could result in a charge against our earnings and a reduction in our shareholders' equity. If for any reason we sell our vessels at a time when prices have fallen, the sale may be less than that vessel's carrying amount on our financial statements, and we would incur a loss and a reduction in earnings.

Charter rates, which in the international drybulk shipping industry approached historic highs in the second quarter of 2007, may decline as a result of increased capacity and slowing worldwide economic growth, thereby reducing our future profitability.

After reaching a peak in mid-2005, charter rates and vessel values decreased during the remainder of 2005 and the first half of 2006. Since July 2006, charter rates and the value of second-hand vessels have risen sharply, approaching historical record high levels in July 2007. We cannot give any assurance as to how long these rate levels may be maintained and, if they begin to decline, to what levels they might fall. We anticipate that the future demand for our drybulk carriers and drybulk charter rates will be dependent upon continued economic growth particularly in China and India and elsewhere in the world generally, seasonal and regional changes in demand, and changes to the capacity of the world fleet. Adverse industry, economic, political, social or other developments could also decrease the amount and/or profitability of our business and materially reduce our revenues and net income.

The nature, timing and degree of changes in industry conditions are unpredictable and outside of our control. Some of the factors that influence demand for vessel capacity include:

supply and demand for drybulk commodities;

global and regional economic conditions;

the distance drybulk commodities are to be moved by sea; and

changes in seaborne and other transportation patterns.

Some of the factors that influence the supply of vessel capacity include:

the number of newbuilding deliveries;

the scrapping rate of older vessels;

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

the number of vessels that are laid-up; and

changes in global drybulk commodity production.

An oversupply of drybulk carrier capacity may lead to reductions in charter rates and our profitability.

The market supply of drybulk carriers, primarily Capesize and Panamax vessels, has been increasing, and the number of such drybulk carriers on order are near historic highs. Newbuildings were delivered in significant numbers starting at the beginning of 2006 and are expected to continue to be delivered in significant numbers through 2007. As of June 2007, newbuilding orders had been placed for

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an aggregate of more than 34% of the current global drybulk fleet, with deliveries expected during the next 36 to 48 months. An oversupply of drybulk carrier capacity may result in a reduction of our charter rates. If such a reduction occurs, when our vessels' current charters expire or terminate, we may only be able to recharter our vessels at reduced or unprofitable rates or we may not be able to charter these vessels at all.

An economic slowdown in the Asia Pacific region or elsewhere could materially reduce the amount and/or profitability of our business.

A significant number of the port calls made by our vessels involve the loading or discharging of raw materials and semi-finished products in ports in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, but particularly in China or India, may have an adverse effect on our business, financial position and results of operations, as well as our future prospects. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product. We cannot assure you that such growth will be sustained or that the Chinese economy will not experience contraction in the future. Moreover, any slowdown in the economies of the United States, the European Union or certain other Asian countries may adversely affect economic growth in China and elsewhere. Our revenues and net income, as well as our future prospects, would likely be materially reduced by an economic downturn in any of these countries.

Changes in the economic and political environment in China and policies adopted by the government to regulate its economy may have a material adverse effect on our business, financial condition and results of operations.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a market economy and enterprise reform. Although limited price reforms were undertaken, with the result that prices for certain commodities are principally determined by market forces, many of the reforms are experimental and may be subject to change or abolition. We cannot assure you that the Chinese government will continue to pursue a policy of economic reform. The level of imports to and exports from China could be adversely affected by changes to these economic reforms, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could, adversely affect our business, operating results and financial condition.

Charter rates are subject to seasonal fluctuations, which may adversely affect our financial condition.

Our fleet consists of Handysize and, upon the delivery of the M/V *Free Jupiter*, Handymax drybulk carriers that operate in markets that have historically exhibited seasonal variations in demand and, as a result, in charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The energy markets primarily affect the demand for coal, with increases during hot summer periods when air conditioning and refrigeration require more electricity and towards the end of the calendar year in anticipation of the forthcoming winter period. The demand for iron ore tends to decline in the summer months because many of the major steel users, such as automobile makers, reduce their level of production significantly during the summer holidays. Grain shipments are driven by the harvest within a climate zone. Because three of the five largest grain producers (the United States, Canada and the European Union) are located in the northern hemisphere and the other two (Argentina and Australia) are located in the southern hemisphere, harvests occur throughout the year and grains require drybulk shipping accordingly. As a result of these factors, the drybulk shipping industry is typically

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stronger in the fall and winter months. Therefore, we expect our revenues from our drybulk carriers to be typically weaker during the fiscal quarters ended June 30 and September 30 and, conversely, we expect our revenues from our drybulk carriers to be typically stronger in fiscal quarters ended December 31 and March 31. Seasonality in the drybulk industry could materially affect our operating results.

The operation of drybulk carriers has certain unique operational risks.

The operation of certain vessel types, such as drybulk carriers, has certain unique risks. With a drybulk carrier, the cargo itself and its interaction with the ship can be a risk factor. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk 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 drybulk carriers may lead to the flooding of the vessels holds. If a drybulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessels bulkheads leading to the loss of a vessel. If we are unable to adequately maintain our vessels we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition, results of operations and ability to pay dividends. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

We are subject to regulation and liability under environmental laws that could require significant expenditures and reduce our cash flows and net income.

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions and 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 also required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations. Because such conventions, laws, regulations and permit requirements are often revised, we cannot predict the ultimate cost of complying with such conventions, laws, regulations or permit requirements, 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 and thereby reduce our revenue or increase our cost of doing business, thereby materially decreasing our net income.

The operation of our vessels is affected by the requirements set forth in the International Safety Management, or ISM, Code. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive Safety Management System. The system includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and dealing with emergencies. The failure of a shipowner 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/or may result in a denial of access to, or detention in, certain ports. Currently, Lloyd's Register of Shipping has awarded ISM and International Ship and Port Facilities Security, or ISPS, certification to all of our vessels and to Free Bulk, our ship management company. There can be no assurance, however, that such certification will be maintained indefinitely.

The European Union is considering legislation that will affect the operation of vessels and the liability of owners for oil pollution. It is difficult to predict what legislation, if any, may be promulgated by the European Union or any other country or authority.

We currently maintain, for each of our vessels, protection and indemnity insurance, which includes pollution liability coverage, in the amount of one billion dollars per incident. If the damages from a catastrophic incident exceeded our insurance coverage, the payment of these damages may materially decrease our net income.

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The International Maritime Organization, or IMO, or other regulatory bodies may adopt further regulations in the future that could adversely affect the useful lives of our vessels as well as our ability to generate income from them. These requirements can also affect the resale value of our vessels.

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and clean-up of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States of America or any of its territories and possessions or whose vessels operate in waters of the United States of America, which includes the territorial sea of the United States of America and its 200 nautical mile exclusive economic zone.

Under OPA, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the 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, including bunkers (fuel).

If any of our vessels fail to maintain their class certification and/or fail any annual survey, intermediate survey, dry docking or special survey, that vessel would be unable to carry cargo, thereby reducing our revenues and profitability and violating certain loan covenants of our third-party indebtedness.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention, or SOLAS. Our vessels are currently classed with Lloyd's Register of Shipping and Korean Register of Shipping.

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

If any vessel does not maintain its class and/or fails any annual survey, intermediate survey, dry docking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable, thereby reducing our revenues and profitability. That could also cause us to be in violation of certain covenants in our loan agreements. In addition, the cost of maintaining our vessels' classifications may be substantial at times and could result in reduced revenues.

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arresting or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted.

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

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

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. A government could also requisition our vessels for hire, which occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could reduce our revenues and net income.

World events outside our control such as terrorism and international and regional hostilities may negatively affect our ability to operate, thereby reducing our revenues and net income or our ability to obtain additional financing, thereby restricting the implementation of our business strategy.

Terrorist attacks such as those in New York on September 11, 2001, the bombings in Spain on March 11, 2004 and in London on July 7, 2005, and the continuing response of the United States and other countries to these attacks, as well as the threat of future terrorist attacks in the United States or elsewhere continue to cause uncertainty in the world financial markets and may adversely affect our business and operating results by increasing security costs and creating delays because of heightened security measures. 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.

Terrorist attacks and international and regional hostilities may also negatively impact our vessels or our customers directly. The continuing conflict in Iraq and Afghanistan may lead to additional acts of terrorism and armed conflict around the world, which may contribute to economic instability and could result in increased volatility of the financial markets in the United States of America and globally, an economic recession in the United States of America or the world and a corresponding reduction in our business and future prospects. Any of these occurrences could prevent us from obtaining additional financing on terms acceptable to us or at all and have a material adverse impact on our operating results, revenues and costs which would impair our implementation of our business strategy.

Risks involved with operating ocean-going vessels could affect our business and reputation, which may reduce our revenues.

The operation of an ocean going vessel has inherent risks. These risks include the possibility of:
crew strikes and/or boycotts;

marine disaster;

piracy;

environmental accidents;

cargo and property losses or damage; and

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

The involvement of any of our vessels in an environmental disaster may harm our reputation as a safe and reliable vessel operator. Any of these circumstances or events could increase our costs or lower our revenues.

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Rising fuel prices may adversely affect our profits.

The cost of 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. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geo-political developments, supply and demand for oil, actions by members of OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations.

Company-Specific Risk Factors

We have a limited operating history and have cumulative deficits.

Our company was formed in April 2004, and we did not own or operate any vessels prior to June 2004. We therefore have a limited operating history and limited historical financial data on which to evaluate our operations or our ability to implement and achieve our business strategy. As of December 31, 2006 and March 31, 2007, we had cumulative deficits of \$2,702,000 and \$1,789,000, respectively, which reflects the impact of cumulative losses during 2006 and prior years. Although we achieved net income of \$913,000 for the first quarter of 2007, there can be no assurances that we will achieve net income for the remainder of the year or that our net income will be sufficient to offset our cumulative deficit.

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

We intend to continue to grow our fleet. Our growth will depend on:

locating and acquiring suitable vessels;

identifying and consummating acquisitions or joint ventures;

integrating any acquired vessel successfully with our existing operations;

enhancing our customer base;

managing our expansion; and

obtaining the required financing.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations and difficulty experienced in (1) obtaining additional qualified personnel, (2) managing relationships with customers and suppliers and (3) integrating newly acquired operations into existing infrastructures. 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 the execution of those growth plans.

Our charterers may terminate or default on their charters, which could adversely affect our results of operations and cash flow.

Our charters may terminate earlier than the dates indicated in this prospectus. The terms of our charters vary as to which events or occurrences will cause a charter to terminate or give the charterer the option to terminate the charter, but these generally include a total or constructive total loss of the related vessel, the requisition for hire of the related vessel, or the failure of the related vessel to meet specified performance criteria. In addition, the ability of each of our charterers to perform its obligations under a

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charter will depend on a number of factors that are beyond our control. These factors may include general economic conditions, the condition of the drybulk shipping industry, the charter rates received for specific types of vessels, and various operating expenses. The costs and delays associated with the default by a charterer of a vessel may be considerable and may adversely affect our business, results of operations, cash flows and financial condition.

We cannot predict whether our charterers will, upon the expiration of their charters, recharter our vessels on favorable terms or at all. If our charterers decide not to re-charter our vessels, we may not be able to recharter them on terms similar to the terms of our current charters or at all. If we receive lower charter rates under replacement charters or are unable to recharter all of our vessels, our business, operating results and financial condition may be adversely affected.

Our earnings may be adversely affected if we do not successfully employ our vessels.

We intend to employ our vessels in fixed-rate period charters and spot charters. While current charter rates are high relative to historical rates, the charter market is volatile, and at times in the past charter rates for vessels have declined below operating costs of vessels. If our vessels become available for employment in the spot market or under new period charters during periods when charter rates have fallen, we may have to employ our vessels at depressed charter rates that would lead to reduced or volatile earnings. We cannot assure you that future charter rates will be at a level that will enable us to operate our vessels profitably or to repay our debt.

We will not be able to take advantage of favorable opportunities in the current spot market with respect to vessels employed on medium- to long-term time charters.

Following the delivery of the M/V *Free Jupiter*, three of the four vessels in our fleet will be employed under medium- to long-term time charters, with expiration dates ranging from April 2008 to September 2010. Although medium- and long-term time charters provide relatively steady streams of revenue, vessels committed to medium- and long-term charters may not be available for spot voyages during periods of increasing charter hire rates, when spot voyages might be more profitable.

We previously relied on spot charters and may spot-charter certain of our vessels in the future. The rates on spot charters are very competitive and volatile, which can result in decreased revenues if spot charter rates decline.

Our vessels have previously been spot chartered, which made our historical revenues subject to greater fluctuation. In the future, we may continue to spot charter certain of our vessels. The spot charter market is highly competitive and rates within this market are subject to volatile fluctuations, while longer-term period time charters provide income at pre-determined rates over more extended periods of time. If we decide to continue to spot charter certain of our vessels, there can be no assurance that we will be successful in keeping those vessels fully employed in these short-term markets or that future spot rates will be sufficient to enable those vessels to be operated profitably.

If vessels that we acquire for our fleet are not delivered on time or delivered with significant defects, our business, results of operations and financial condition could be adversely affected.

We took delivery of the M/V *Free Hero* on July 3, 2007 and we expect to take delivery of the M/V *Free Jupiter* in August or September 2007. We had entered into memoranda of agreement to purchase two additional vessels, but these were cancelled by agreement with the sellers. See Prospectus Summary Recent Developments. We intend to seek to replace these two undelivered vessels with alternative tonnage of similar profile and return characteristics. A prolonged delay in the delivery to us of the M/V *Free Jupiter* or of any replacement vessels we may identify, or the failure of the contract counterparty to deliver a vessel at all, could cause us to breach our obligations under a related time charter and could adversely affect our business, results of operations, financial condition and the ability to pay dividends. The delivery of any of these vessels with substantial defects could have similar consequences.

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We depend entirely on Free Bulkers and Safbulk Pty Ltd. to manage and charter our fleet.

Our executive management team consists of only two individuals, our chief executive officer and our chief financial officer. We currently contract the management of our fleet, including crewing, maintenance and repair, as well as our financial reporting and internal controls, to Free Bulkers, an affiliated company. Free Bulkers has entered into a sub management agreement with Safbulk, a company controlled by the Restis family, for the commercial management of our fleet, including negotiating and obtaining charters, relations with charter brokers and performance of post-charter activities. We are dependent upon Free Bulkers for technical management of our fleet and upon Safbulk for our ability to attract charterers and charter brokers. The loss of either of their services or their failure to perform their obligations could reduce our revenues and net income and adversely affect our operations and business. Although we may have rights against Free Bulkers, if Free Bulkers defaults on its obligations to us, you may have no recourse against Free Bulkers. In addition, if Safbulk defaults on its obligations to Free Bulkers, we may have no recourse against Safbulk. Further, we expect that we will need approval from our lenders if we intend to replace Free Bulkers as our fleet manager.

Because our seafaring employees are covered by collective bargaining agreements, failure of industry groups to renew those agreements may disrupt our operations and adversely affect our earnings.

All of the seafarers employed on the vessels in our fleet are covered by collective bargaining agreements that set basic standards. We cannot assure you that these agreements will prevent labor interruptions. Any labor interruptions could disrupt our operations and harm our financial performance.

If Free Bulkers is unable to perform under its vessel management agreements with us, our results of operations may be adversely affected.

As we expand our fleet, we will rely on Free Bulkers to recruit suitable additional seafarers and to meet other demands imposed on Free Bulkers. We cannot assure you that Free Bulkers will be able to meet these demands as we expand our fleet. If Free Bulkers' crewing agents encounter business or financial difficulties, they may not be able to adequately staff our vessels. If Free Bulkers is unable to provide the commercial and technical management service for our vessels, our business, results of operations, cash flows and financial position and our ability to pay dividends may be materially adversely affected.

We, and one of our executive officers, have affiliations with Free Bulkers that could create conflicts of interest detrimental to us.

Our chairman, chief executive officer and president, Ion G. Varouxakis, is also the controlling shareholder and officer of Free Bulkers, which is our ship management company. These dual responsibilities of our officer and the relationships between the two companies could create conflicts of interest between Free Bulkers and us. Each of our operating subsidiaries has a nonexclusive management agreement with Free Bulkers. Free Bulkers has subcontracted the charter and post charter management of our fleet to Safbulk Pty Ltd. which is controlled by FS Holdings Limited, one of our principal shareholders. Although Free Bulkers currently serves as manager for vessels owned by us, neither Free Bulkers nor Safbulk is restricted from entering into management agreements with other competing shipping companies, and Safbulk provides management services to other international shipping companies, including the Restis group, which owns and operates vessels in the drybulk sector. Free Bulkers or Safbulk could also allocate charter and/or vessel purchase and sale opportunities to others. There can be no assurance that Free Bulkers or Safbulk would resolve any conflicts of interest in a manner beneficial to us.

Table of Contents***Operational or financial problems experienced by Free Bulkers, our affiliate, may adversely impact us.***

The ability of Free Bulkers to continue providing services for us will depend in part on Free Bulkers' own financial strength. Circumstances beyond our control could impair Free Bulkers' financial strength and, as a result, Free Bulkers' ability to fulfill its obligations to us which could have a material adverse effect on us.

If Free Bulkers is unable to recruit suitable seafarers for our fleet or as we expand our fleet, our results of operations may be adversely affected.

We will rely on Free Bulkers to recruit suitable senior officers and crews as we expand our fleet. In addition, as we expand our fleet, we will have to rely on Free Bulkers to recruit suitable additional seafarers. We cannot assure you that Free Bulkers will be able to continue to hire suitable employees as we expand our fleet. If Free Bulkers' crewing agents encounter business or financial difficulties, they may not be able to adequately staff our vessels. We expect that all or part of the seafarers who will be employed on the ships in our fleet will be covered by industry-wide collective bargaining agreements that set basic standards. We cannot assure you that these agreements will prevent labor interruptions. If Free Bulkers is unable to recruit suitable seafarers as we expand our fleet, our business, results of operations, cash flows and financial condition and our ability to pay dividends may be materially adversely affected.

In the highly competitive international drybulk shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources.

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 have. Competition for the transportation of drybulk cargoes can be intense and depends on price, location, size, age, condition and the acceptability of the vessel and its managers to the charterers. Due in part to the highly fragmented market, competitors with greater resources could operate larger fleets through consolidations or acquisitions that may be able to offer better prices and fleets.

A decline in the market value of our vessels could lead to a default under our loan agreements and the loss of our vessels.

We have incurred secured debt under loan agreements for all of our vessels. If the market value of our fleet declines, we may not be in compliance with certain provisions of our existing loan agreements and we may not be able to refinance our debt or obtain additional financing. If we are unable to pledge additional collateral, our lenders could accelerate our debt and foreclose on our fleet.

Servicing debt may limit funds available for other purposes and inability to service debt may lead to acceleration of debt and foreclosure on our fleet.

To finance our original fleet of vessels, one of which was sold in April 2007, we have incurred secured debt under loan agreements with Hollandsche Bank-Unie N.V. that are guaranteed by us and unsecured, non-interest-bearing shareholder loans. As of March 31, 2007, we had total debt consisting of loans from shareholders of \$2.3 million and a ratio of bank debt to total capital of approximately 60.4%. The long-term debt requires quarterly payments of principal and interest and the shareholder loans require quarterly payments of principal.

On May 1, 2007, we entered into memoranda of agreement pursuant to which we agreed to purchase two secondhand drybulk carriers, the M/V *Free Hero* and the M/V *Free Jupiter*, from non-affiliated parties for a total of approximately \$72.25 million. We took delivery of the M/V *Free Hero* on July 3, 2007 and we expect to take delivery of the M/V *Free Jupiter* in August or September 2007. We intend to seek to replace the two undelivered vessels with alternative tonnage of similar profile and return characteristics in an effort to expand our fleet in the Handysize/Handymax segment. To finance the acquisition of these vessels, we have: obtained loan commitments from HSH Nordbank AG and BTMU Capital Corporation for an aggregate of \$89.5 million in the form of a secured senior loan and a junior secured loan, as well as a \$14.0 million unsecured loan from FS Holdings, one of our principal shareholders. We have also entered into a credit agreement with Hollandsche Bank Unie N.V. increasing the amount available on an existing facility from \$5.0 million to \$9.0 million.

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These borrowings will materially increase our long-term debt, our shareholder debt, and our ratio of debt to total capital.

We may be required to dedicate a significant portion of our cash flow from operations to pay the principal and interest on our debt. These requirements will increase as we draw additional funds available for the acquisition of new vessels. These payments will limit funds otherwise available for working capital, capital expenditures and other purposes. We will need to incur additional indebtedness as we further expand our fleet, which would increase our ratio of debt to equity. The need to service our debt may limit funds available for other purposes, including distributing cash to our shareholders, and our inability to service debt could lead to acceleration of our debt and foreclosure on our fleet.

Continued increase in interest rates would reduce funds available to purchase vessels and service debt.

The rise in interest rates since 2005 has caused our interest cost to increase and has had a material adverse effect on our net income. Any further interest rate increases could further reduce our revenues and net income. We have purchased, and may purchase in the future, vessels with loans that provide for periodic interest payments based on indices that fluctuate with changes in market interest rates. If interest rates in

Shares issued for services

during January 2005

at \$.30 per share

50,000

5

14,995

-

15,000

Shares issued for settlement

of portion of note payable-

related party

-

-

763,639

-

763,639

Shares issued for services

during April 2005

at .15 per share

145,000

15

21,736

-

21,750

Shares issued for loan fee

during April 2005

at .15 per share

50,000

5

7,495

-

7,500

Shares returned for

Nonperformance of

services during April 2005

at .1.20 per share

(30,000)

(3)

(35,997)

-

(36,000)

Shares issued for cash

during April 2005

at .15 per share

73,068

7

10,953

-

10,960

Shares issued for services

during June 2005

at \$.40 per share

6,000

-

2,399

-

2,400

Shares issued for cash

during July 2005 at

\$.25 per share

2,000

-

500

-

500

Shares issued for cash

during July 2005 at

\$.20 per share

2,500

-

500

-

500

Net loss for the year

 -

-

 -

(122,844)

(122,844)

Balance at October 31, 2005

16,065,193

\$

 1,532

\$

4,813,867

\$

(5,032,504)

\$

(217,105)

INNOVATIVE DESIGNS, INC.
(A Development Stage Company)

STATEMENTS OF STOCKHOLDERS (DEFICIT)

For the Three Months Ended April 30, 2006, and

Period from Inception to April 30, 2006

(Unaudited)

(Deficit)

Accumulated

Common Stock

Additional

During the

Shares

Amount

Paid in Capital

Development Stage

Total

Shares issued for services

during January 2006 at

400,000

\$

40

\$

167,960

\$

-

\$

168,000

\$.42 per share

Shares issued for cash

during January 2006 at

\$.42 per share

61,000

6

25,614

-

25,620

Shares issued for

cash in March 2006

at \$.68 per share

80,000

11

54,489

-

54,500

Shares issued for services

during April 2006 for

services at \$60 per share

10,000

1

5,999

-

6,000

Shares issued for cash

during April 2006

at \$.23 per share

70,000

4

15,996

-

16,000

Reverse shares issued for

extinguishment of note

payable - related party

-

-

(763,639)

-

(763,639)

Net profit during the year

 -

 -

 -

 660,124

 660,124

Balance at April 30, 2006

\$

16,686,193

\$

 1,594

\$

4,320,286

\$

(4,372,380)

\$

(50,500)

INNOVATIVE DESIGNS, INC.
(A Development Stage Company)

STATEMENTS OF CASHFLOW

Six Months Ended April 30, 2006 and 2005, Period from Inception to April 30, 2006

(Unaudited)

Inception to

Six Months Ended April 30,

April 30,

2006

2005

2006

CASH FLOWS FROM OPERATING ACTIVITIES

Net gain (loss)

\$

660,124

\$

(181,590)

\$

(4,372,380)

Adjustments to reconcile net (loss) to cash

provided by operating activities:

Common stock issued to founders

-

-

1,205

Common stock returned for

noncompliance services

-

(39,600)

(1,639,600)

Common stock issued for services

174,000

119,750

5,480,695

Depreciation and amortization

6,926

4,163

38,888

Extinguishment of related party debt

(568,144)

-

(568,144)

Interest (reversal) added to related party note

(395,495)

-

-

Interest added to note payable

-

4,000

22,000

Loss from extraordinary item

-

-

173,830

Changes in operating assets and liabilities:

Accounts receivable

50,263

10,405

(220,475)

Inventory

(126,977)

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8,033

(566,755)

Due to related party

-

-

-

Prepaid commission

(8,500)

-

(8,500)

Accounts payable

(6,627)

4,000

49,085

Accounts payable - related party

-

-

28,219

Deposits

-

-

(47,000)

Accrued expenses

7,120

(6,708)

11,036

Accrued interest on notes payable

(8,321)

-

-

Net cash (used in) operating activities

(215,631)

(77,547)

(1,617,896)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment

-

-

(59,584)

Insurance proceeds from casualty loss

-

-

38,202

Insurance proceeds used to pay off vehicle loans

-

-

(38,202)

Net cash (used in) investing activities

-

-

(59,584)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on note payable

(38,952)

-

(53,181)

Payment on related party note

-

-

(65,000)

Shareholder advances

27,000

-

385,375

Proceeds from note payable

150,400

-

511,423

Proceeds from note payable from related party

-

50,000

772,350

Proceeds from loan payable from related party

-

38,000

129,000

Common stock shares issued for cash

96,120

10,960

-

Proceeds from short term debt

-

-

58,884

Net cash provided by financing activities

\$

234,568

\$

98,960

\$

1,738,851

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

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INNOVATIVE DESIGNS, INC.

(A Development Stage Company)

STATEMENTS OF CASHFLOW

Six Months Ended April 30, 2006 and 2005, Period from Inception to April 30, 2006

(Unaudited)

INNOVATIVE DESIGNS, INC.

(A Development Stage Company)

STATEMENTS OF CASHFLOW

Six Months Ended April 30, 2006 and 2005, Period from Inception to April 30, 2006

(Unaudited)

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Inception to

Six Months Ended April 30,

April 30,

2006

2005

2006

Net increase (decrease) in cash

\$

18,937

\$

21,413

\$

61,371

Cash - beginning

42,434

27,384

-

Cash - ending

\$

61,371

\$

48,797

\$

61,371

Supplemental cash flow information:

Cash paid for interest

\$

-

\$

4,000

\$

7,043

Non-cash investing and financing activities:

License agreement

\$

-

\$

-

\$

618,145

Property and equipment acquired

with note payable

\$

-

\$

-

\$

45,000

Conversion of notes payable -

related party to equity

\$

-

\$

763,639

\$

763,639

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NOTES TO FINANCIAL STATEMENTS

1.

BASIS OF PRESENTATION

The accompanying unaudited financial statements in the Form 10QSB are presented in accordance with the requirement of the form and do not include all of the disclosures required by accounting principles generally accepted in the United States of America. For additional information, reference is made to the Innovative Designs, Inc. s annual report on Form 10KSB for the year ended October 31, 2005. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

2.

EARNINGS PER SHARE

Innovative Designs, Inc. (the Company) calculates net income (loss) per share as required by Statement of Financial Accounting Standard No. 128, Earnings per Share. Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares and dilutive common stock equivalents outstanding. During the periods presented common stock equivalents were not considered as their effect would be anti-dilutive.

3.

COMMON STOCK

During the six month period ended April 30, 2006, the Company issued 410,000 shares of its common stock in exchange of services for an average price of approximately \$0.42 per share or \$174,000. The Company sold 211,000 shares of its common stock for an average price of approximately \$0.46 per share. The individual stock transactions are as follows:

On November 3, 2005, the Company issued 400,000 shares of our stock to Jose Wejebe for related future promotional services. The shares issued to Jose Wejebe were valued at a price of \$0.42 per share, or an aggregate price of \$168,000. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates

stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On November 9, 2005, the Company sold 61,000 shares of stock to Alfred Czeriewski for a price of \$0.42 per share or \$25,620. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On March 30, 2006 we sold 40,000 shares of our stock to Gary Nolt, for a price of \$0.68 per share or \$27,250. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On March 30, 2006 we sold 40,000 shares of our stock to Cassel Dale, for a price of \$0.68 per share or \$27,250. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 7, 2006, the Company issued 10,000 shares of our stock to Tom Nelson for related future promotional services. The shares issued to Tom Nelson were valued at a price of \$0.60 per share, or an aggregate price of \$6,000. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 30, 2006 we sold 40,000 shares of our stock to Cassel Dale, for a price of \$0.23 per share or \$9,200. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 30, 2006 we sold 15,000 shares of our stock to Soto Kolocouris, for a price of \$0.23 per share or \$3,400. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

On April 30, 2006 we sold 15,000 shares of our stock to Dominic Kolocouris, for a price of \$0.23 per share or \$3,400. We relied upon Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

4.

GOING CONCERN

The Company's financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

The Company has experienced a significant loss from operations as a result of its investment necessary to achieve its operating plan, which is long-range in nature. For the six month period ended April 30, 2006 and 2005, the Company incurred a net profit (loss) of \$660,124 and (\$181,590), respectively. Since the Company's inception, they have incurred a net loss from operations of (\$4,372,380). The Company has working capital of \$363,445 and \$7,794 and a stockholders' deficit of (\$50,500) and (\$279,250) at April 30, 2006 and 2005, respectively. During 2005, the Company was successful in obtaining a purchase order from a major retail sporting good chain in the amount of approximately \$226,030. On April 28, 2006, the Company was successful in obtaining a \$170,000 purchase order from a major retail sporting goods chain. The Company continues its marketing efforts with its existing product lines as well as new product lines.

The Company's ability to continue as a going concern is contingent upon its ability to attain profitable operations and secure financing. Further, the Company's ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered by entrance into established markets and the competitive environment in which the Company operates.

The Company is pursuing equity financing for its operations. Failure to secure such financing or to raise additional capital or borrow additional funds may result in the Company depleting its available funds and not being able to pay its obligations.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

5.

BORROWINGS

On January 23, 2006, the U.S. Small Business Administration modified its Note Payable with the Company changing certain terms and conditions. The loan modification increased the note amount from \$280,100 to \$430,500 and increased the monthly payment from \$1,186 to \$1,820. All other terms and conditions remained the same.

INNOVATIVE DESIGNS, INC.

(A Development Stage Company)

ADDITIONAL DISCLOSURE

1.

EXCLUSIVE LICENSING AND MANUFACTURING AGREEMENT

On November 25, 2002, Innovative purchased a product license for \$1,250,000 from RMF Global, a company solely owned by the Chief Executive Officer of the Company, Joseph Ricelli. The license was for 10 years and gave the Company the exclusive right to manufacture and market products using Eliotex, a fabric used in recreational products. The Company paid \$50,000 upon signing in November 2002, with the remaining amount payable at \$400,000 per year for the next three years. The license was originally recorded as an asset and was to be amortized. Subsequently, because the license was purchased from RMF Global, which is owned by Joseph Ricelli, it was recorded at Joseph Ricelli's cost, which was \$0. The \$618,744 the Company paid in excess of Joseph Ricelli's cost was recorded as a reduction of paid in capital.

Due to cash flow problems experienced by the Company, on January 31, 2005, RMF Global agreed to accept 1,909,098 shares of the Company's \$.0001 par value common stock in settlement of \$763,639 of the Company's obligation. As of October 31, 2005, the Company owed RMF Global \$200,000 for the product license described above.

On April 26, 2006, the Company entered into an Exclusive License and Manufacturing Agreement (the Agreement) with the Ketut Group, with an effective date of April 1, 2006, whereby the Company acquired an exclusive license to develop, use, sell, manufacture and market products related to or utilizing INSULTEX™, Korean Patent Number, (0426429) or any Insultex Technology. The License was awarded by the Korean inventor, an individual who is part of the Ketut Group, and the manufacturer of INSULTEX™. The Company received an exclusive forty (40) year worldwide license with an initial term of ten (10) years and an option to renew the License for up to three (3) successive ten (10) year terms. Additionally, the Company was granted the exclusive rights to any current or future inventions, improvements, discoveries, patent applications and letters of patent which the Ketut Group controls or may control related to INSULTEX™. Furthermore, the Company has the right to grant sub-licenses to other manufacturers for the use of INSULTEX™ or any Insultex Technology. Simultaneously with the Company entering into this exclusive license and manufacturing agreement, effective April 1, 2006, the licensing agreement with RMF Global was deemed null and void. Consequently, the note payable and related licensing agreement asset were removed from the books and records of the Company resulting in the Company recognizing a gain from the extinguishment of debt in the amount of \$568,144 and the reversal of interest expense in the amount of \$395,495. Effective April 1, 2006, the Company has no outstanding obligations owed to RMF Global.

2.

SUBSEQUENT EVENTS

On June 2, 2006, Innovative Designs, Inc.'s litigation counsel filed an Emergency Motion for Stay of Money Judgment Pending Appeal and for Waiver of Supersedeas Bond, along with a brief in support of its Motion before the United States District Court for the Western District of Pennsylvania. The Motion was filed for the purpose of protecting the company's operations, customer base, lenders, creditors, suppliers and investors from any potential damage caused by execution procedures during the pendency of the company's appeal before the United States Court of Appeals for the Third Circuit. On June 7, 2006, pursuant to an Order of Court, the adverse parties filed their Response to the Motion. The company is awaiting notification from the Court as to the disposition or further proceedings with respect to the Motion.

SIGNATURES

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

INNOVATIVE DESIGNS, INC.

/s/ Joseph Riccelli

By:

Joseph Riccelli

Chief Executive Officer

/s/ Anthony Fonzi

By:

Anthony Fonzi

Chief Financial Officer, Principal

Accounting Officer, and Director

Date:

06/14/06

Exhibit 32.1

CERTIFICATIONS

I, Joseph Riccelli, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Innovative Designs, Inc.;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Innovative Designs, Inc. as of, and for, the periods presented in this report;

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Innovative Designs, Inc. and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Innovative Designs, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c)

Evaluated the effectiveness of Innovative Designs, Inc.'s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d)

Disclosed in this report any change in Innovative Designs, Inc. s internal control over financial reporting that occurred during the small business issuer s most recent fiscal quarter (the small business issuer s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer s internal control over financial reporting; and

5.

The registrant s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Innovative Designs, Inc. s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Innovative Designs, Inc. s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in Innovative Designs, Inc. s internal control over financial reporting.

/s/ Joseph Riccelli

Date:

06/14/06

By:

Joseph Riccelli, Chief Executive Officer

Exhibit 32.1

CERTIFICATIONS

I, Anthony Fonzi, certify that:

1.

I have reviewed this report on Form 10-QSB of Innovative Designs, Inc.;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Innovative Designs, Inc. as of, and for, the periods presented in this report;

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Innovative Designs, Inc. and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Innovative Designs, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c)

Evaluated the effectiveness of Innovative Designs, Inc.'s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d)

Disclosed in this report any change in Innovative Designs, Inc.'s internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Innovative Designs, Inc.'s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Innovative Designs, Inc.'s ability to record, process,

summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in Innovative Designs, Inc. s internal control over financial reporting.

/s/ Anthony Fonzi

Date:

06/14/06

By:

Anthony Fonzi, Chief Financial Officer,
Principal Accounting Officer, and Director

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-QSB Quarterly Report of Innovative Designs, Inc. (the Company) for the period ended April 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

o

the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

o

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph Riccelli

Date:

06/14/06

By:

Joseph Riccelli

Chief Executive Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-QSB Quarterly Report of Innovative Designs, Inc. (the Company) for the period ended April 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

o

the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

o

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony Fonzi

Date:

06/14/06

By:

Anthony Fonzi

Chief Financial Officer, Principal

Accounting Officer, and Director