Corporate Participants

Spryos Capralos
Star Bulk – President and Chief Executive Officer

Simos Spyrou
Star Bulk – Chief Financial Officer

Conference Call Participants

Natasha Boyden
Global Hunter

Presentation

Operator
Thank you for standing by, ladies and gentlemen, and welcome to the Star Bulk conference call on the third quarter 2012 financial results. We have with us Mr. Spyros Capralos, President and Chief Executive Officer, and Mr. Simos Spyrou, Chief Financial Officer of the company.
At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. (Operator Instructions) I must advise you that this conference is being recorded today, Friday, November 30, 2012. We now pass the floor to one of your speakers today, Mr. Spyros Capralos. Please go ahead, sir.

Spyros Capralos
Thank you, Operator. I'm Spyros Capralos, President and Chief Executive Officer of Star Bulk Carriers and I would like to welcome you all to the Star Bulk Carriers third quarter and nine months 2012 financial results conference call. Along with me today to discuss our financial results is our CFO, Mr. Simos Spyrou.

Before we begin, I kindly ask you to take a moment to read the Safe Harbor statement on slide number 2 of our presentation. While you read it, I will take the opportunity to talk about some important highlights of this quarter's results.

First of all, I would like to underline that the $303.2 million of impairment loss you will see on our third quarter earnings results press release is a non-cash item. Our standard procedure whenever the current fair market value of an asset, in our case a vessel, is materially lower than its book value, it needs to be tested for impairments according to US GAAP.

Due to depressed market expectations for future REITs and the low probability of a recurrence of the extreme highs of 2007 and 2008, the testing methodology we used determined that the book values of the total fleet of our Supramax vessels plus our oldest Cape size vessel were not recoverable as of September 30, 2012 and, thus, a non-cash impairment loss of $303 million was recognized.

We believe that our current book values following the impairment provide a better estimation of the current market values of our assets and, thus, our financial statements are more accurate and consistent with current market conditions.

Our view is that the enhanced accuracy of our balance sheet is to the benefit of our shareholders as it reflects in a more appropriate and transparent manner Star Bulk's asset and equity value. While this is a non-cash item, in reality, it is fully indicative of the deterioration of asset values over the last several quarters, in particular, within 2012. In our view, it has already been priced in by the market, something that is evident by the fact that so far and before the impairment our common stock was trading at a huge discount or book value per share while our current market cap is still lower than our current book value following the impairment loss we incurred.
This impairment loss will not affect our loan covenants as all financial covenants in the loan facilities are market adjusted and use the current market valuations rather than the book values of the vessels.

Indeed, as a result of the weak freight environment and the prevailing low asset values as of September 30, 2012, we are not in compliance with some of our covenants in our loan agreements.
We had proactively started discussing actively with our lenders before that date in order to address these issues promptly in a mutually beneficial way and our discussions are currently in an advanced stage.

While a mutually agreeable solution is being sought, our board of directors had decided to suspend the payment of dividend on the company's common stock. From our side, we believe that the preservation of the cash intended for the dividend payout will provide additional flexibility to the company during its discussions with the lenders.

Let us now turn to Slide number 3 of the presentation for a preview of our third quarter 2012 financial highlights in comparison to last year's.

In the three months ended September 30, 2012, gross revenues amounted to $18.4 million representing a 30% reduction versus the same period of 2011. Our revenues were mainly affected by the low freight rate environment and the off hire of the (Star Polaris).
For the third quarter, just the off hire of the (Star Polaris) has resulted in about $1.5 million of reduced revenues. We will try to recuperate the loss of hire from the claim to the shipyard, which constructed the vessel.

General and administrative expenses were reduced by 33% to $2 million in the third quarter of 2012 versus $3 million in the third quarter of 2011. Overall, during the third quarter of 2012, the company had a net loss of $308.7 million mainly due to the non-cash impairment loss of $303.2 million compared to a net loss of $3 million in the third quarter of 2011.

Excluding non-cash items, our net loss for the third quarter amounted to $3.8 million compared to an adjusted net loss of $1.5 million in the third quarter of 2011.

Adjusted EBITDA for the third quarter 2012 was $7.6 million compared to $11.9 million last year. Our time charter equivalent during this quarter was $15,200 per day compared to $18,817 last year representing mainly the loss of hire of the (Star Polaris) and the low freight rate environment. Our average daily operating expenses were $4878 per vessel, 14% lower than the same period last year despite the fact that our average vessel size increased due to the higher number of Capes in our fleet. The adjusted net loss of $3.8 million represents $0.70 loss per share basic and diluted.

Please turn to Slide number 4 of the presentation for a preview to our nine months 2012 financial highlights.

In the nine months September 30, gross revenues amount to $68.2 million representing a 13% reduction versus the same period of last year. General and administrative expenses amounted to $7.3 million.

Excluding non-cash items, our net loss for the nine months amounted to $600,000 while our adjusted EBITDA stood at $34 million compared to a net income of $2.1 million and an adjusted EBITDA of $14.2 million last year.

Our time charter equivalent during this period was $15,560 per day while our average daily operating expenses amounted to $5239 per vessel. The adjusted net loss of $600,000 represents $0.11 loss per share basic and diluted.

Please turn now to Slide 5 to discuss our balance sheet profile. First of all, I would like to point out that in a period when cash reserves are extremely valuable; we have zero Capex commitments related to new building as well as no exposure to interest rate swaps so we continue to take advantage of the prevailing low interest rate environment.

As of today, our total debt stands at $227.1 million and our current cash position stands at $32.2 million. Our net debt stand at around 5.6 times 2012 EBITDA. For this calculation, we have annualized our nine months 2012 EBITDA, adjusted for non-recurring and non-cash items.
Our remaining principle repayment obligations for 2012 stand just below $1 million. As you can see in the graph, our debt amortization profile for 2013, 2014, and 2015 stand at $32 million, $33 million, and $28 million respectively.

Please turn to Slide 6 for an overview of our fleet employment and our charter counter parties. Currently, we have secured 37% of our operating days in 2013 and 19% of 2014 with most of the open days in the Supramax category.

Specifically, our time charter coverage in the Cape size segment is 75% for 2013 and 43% for 2014. [Unclear] special (the) Capes as this segment has been the most volatile and the most negatively affected so far.

Our total contracted revenue amount to approximately $140 million. While it's worth noting that we no longer have legacy charters from the highs of 2008, that would be extremely difficult for our charters to service.

Lastly, I would like to highlight the high quality crate profile of our charters with blue chip companies like Rio Tinto, Gargill, and LouisDreyfus among our counterparties.

Please turn now to Slide 7 to briefly discuss recent highlights. Last month, the company affected a 15 to one reverse stock split approved by shareholders in September's annual general meeting.

As a result of the reverse split, the company has regained full compliance with NASDAQ's minimum bid rule.

As mentioned earlier, due to the adverse current market conditions, we are not in compliance with some of our covenants in our loan agreements and we are in discussions with our lenders to clear these issues.

So far the discussions have made satisfactory progress and we believe that we'll soon reach an agreement with all of our lenders.

On the operations side, the (Star Polaris) has completed her main engine repairs and has reentered her charter of $16,500 per day to our first class charter. In the meantime, we are pursuing our claim against the shipyard.

Lastly, Star Bulk has undertaken the operation and technical management of two more third party vessels: one Supramax and one Cape size bulk carrier earning a daily management fee of $750 per vessel.

At this point, I would like to note that these two vessels are expected to add a total of $5005 of revenues in form of management fees on an annualized basis. We will therefore have a total of three third party vessels managed, which will secure us a total of $800,000 revenues per year. You can see that our strategy of having wholly owned in-house management company has started to pay off not only in terms of increased efficiency flexibility and transparency but also in the form of additional revenues.

Please turn to Slide 8. Quarter after quarter we continue to improve our operational performance. Our cost cutting efforts in operating and G&A expenses have played an important role in our financial and operating performance in these challenging marketing environments.

On the top right graph, you can see that while the weighted average size of our vessels increased slightly during the nine months of 2012, our average daily operating expenses declined.
On the bottom right graph, you can see that while the average number of employees increased by 36% from 39% during the nine months of 2011 to 53% in the nine months of 2012, our G&A expenses, excluding the one-off severance payment in stock based compensation, slightly decreased.

While we have been prudently containing our expenses, our ship management quality standards have been maintained at high levels.

The lower left hand side graph shows Star Bulk's average deficiencies for [unclear] control inspection versus the industry average. As you can see, we have consistently outperformed the industry and we try to improve our quality standards every year.

Moving forward, we remain focused on further optimizing operating costs and implementing our quality objectives.

Now I will ask Mr. Simos Spyrou, our CFO, to discuss the financials and give you an update on the market developments. Please go ahead, Simos.

Simos Spyrou
Thank you, Spyros. Let us now move to Slide 10 for an overview of our balance sheet as of September 30, 2012.

Our total cash balance stood at $39.4 million. Other current assets were at $13.4 million and our fixed assets following the impairment amounted to $295.5 million. Fair value of the above market acquired time charter stood at $15.9 million and other non-current assets at $1.4 million.

Summing up the above, total assets amounted to $365.6 million. Total debt stood at $234.1 million. Other liabilities were $13.4 million and stockholder's equity was $118.1 million.

If we can now turn to Slide 11 to discuss our third quarter 2012 income statement, I would like to point out that our results include non-cash items, which are depicted in the middle column while the adjusted figures exclude them.

For the third quarter of 2012, non-cash adjusted revenues amounted to $20 million compared to $27 million in the same period last year. In particular, non-cash items include $1.6 million related to the amortization of above market acquired time charters.
Voyage expenses amounted to $3.4 million for the third quarter 2012 from $5.9 million in the third quarter of 2011.

Adjusted revenues, net of voyage expenses, amounted to $16.6 million this quarter compared to $21.1 million the same period last year, a reduction of 21%. I believe that this number is the best measure of our actual revenue as it nets out the effect of the voyage charters on the revenue and the voyage expenses lines.

This 21% reduction was mainly due to the off hire related to the (Star Polaris) and the lower freight rate environment combined with our higher spot market exposure.

Vessel operating expenses stood at $6.3 million versus $6.5 million last year despite our fleet growth. It is worth nothing that on a per vessel basis, operating expenses were reduced by 14% year-on-year from $5,682 daily in the third quarter 2011 to $4,878 daily in the third quarter 2012. Dry docking expenses amounted to approximately $2 million versus $250,000 last year; however, these numbers are not comparable because dry docking expenses are not regularly recurring or amortized.

Specifically, the $2 million expense in the third quarter 2012 refers to part of the dry docking expenses of one of our Cape size vessels, mainly (Star Mega), and one of our Supramax vessels, mainly (Star Cosmo).

G&A expenses adjusted for non-cash stock based compensation totalled $1.9 million during the third quarter 2012 compared to $24 million during the third quarter last year, excluding last year's non recurring severance payment, G&A expenses were 11% lower year-on-year. I would like to underline that this decrease was accompanied by 14% increase in the number of employees third quarter this year versus the same quarter last year. G&A expenses per managed vessel per day were reduced by 21%. Now for the elephant in the room.

As Spyros explained earlier in the conference call, we have recognized a non-cash impairment loss of $303 million which directly reduced the book values of all our Supramax vessels and our oldest Cape size.

This does not have any affect whatsoever in the company's operations. What this number indicates is how much asset values have dropped in the last few years. I'm sure that this is not news to anyone following the dry bulk shipping industry. I also believe that the market has been constantly pricing in the effect of the asset value changes on our surprise, as our current surprise is only a fraction of the loss we incurred.

In my view, the impairment loss has a cleansing effect as our current balance sheet is much more consistent with current market conditions and provides a much more accurate presentation of our company's current asset and equity value.

Other operational loss and other operational gain represent claims that the company had initiated in 2009 and our non-recurring items.

Please turn now to Slide 12 to discuss our nine months 2012 income statement. Again, non-cash items are depicted in the middle column and the adjusted figures exclude them.
I will briefly go through this slide as the most important elements were explained in the previous slide. For the nine months of 2012, non-cash adjusted revenues amounted to $73 million while subtracting the voyage expenses.

Net adjusted revenues stood at $55.5 million compared to $62.1 million in the same period last year.
Vessel operating expenses were higher, however, on a per vessel basis they were 4% lower from $5478 daily in the nine months of 2011 to $5239 daily in nine months 2012.

G&A expenses adjusted for non-cash stock based compensation total $5.9 million during the nine months 2012 compare to $8.8 million during the third quarter of 2011. Excluding last year's non-recurring severance payment, G&A expenses were 2% lower year-on-year.

I would like to underline that this decrease was accompanied by 36% increase in the number of our employees, as Spyros indicated earlier. The gain on time charter agreement termination and the loss on sale of vessel refer to the Star (Sigma) and the sale of Star (Epsilom) respectively earlier this year.

I would like now to give you a brief update on the dry bulk markets. Please turn to Slide 14. There is no doubt that the dry bulk market is currently in tight spot with low freight rates often below running expenses, low asset values and all the consequential difficulties for all shipping companies.

We are undoubtedly in one of the worst possible positions in terms of supply-demand balance. After four years of consecutive record high deliveries, the dry bulk fleet has outstripped demand, forcing rates to plummet.

Just to put this growth into perspective, the dry bulk fleet has grown from $418 million dead weight tons in the beginning of 2009 to $674 million dead weight tons in the beginning of this month. This represents a massive net growth of over 60%.

Also, keep in mind that these numbers have taken into account more than $65 million of scrapping during this period.

In my view, this kind of supply growth would be enough to bring any market down. While deliveries have dropped to more sustainable levels these last couple of months, it remains to be seen how this will develop going forward.

An encouraging element in the supply side is the reduction of the average speed of the fleet, or slow steaming, which effectively reduces the available fleet carrying capacity.
Higher fuel prices and lower time charter rates make it more economical for ships to same fuel and not time and, therefore, to operate at a lower, more eco friendly speed.
According to (Furnace), the average speed of the dry bulk fleet stood at 11.1 knots in 2012 compared to 14 knots in 2009. On the other side, there is demand.

Dry bulk demand is very much dependent on the global economic growth. The higher lending costs, the unavailability of funds due to the banks deleveraging, the disappointment in growth in the developed economies, the government's inability to address structural issues promptly and efficiently.

Finally, the general certainty that [unclear] sentiment around the world have managed to bring global growth down to lower levels.

As you can see, on the right graph, China, India and Eurozone countries have witnessed a significant slowdown in terms of their GDP growth. Even though we believe the dry dock demand growth will by far outperform GDP growth going forward, the global slowdown definitely prevents (stone mile) demand from unleashing its potential.

Overall, we believe that the global economy will recover in the coming quarters as more and more governments around the world take measures and implement policies to support their economies.
Please turn now to Slide number 15 for an update on the supply side. Dry bulk vessel deliveries have continued at record high pace and have kept the (BDI) under pressure for the past several months.

We expect deliveries in the remaining months of 2012 to continue at a high pace but to slow down significantly going forward. As you can see in the top right hand graph, deliveries in the period 2008 to 2011 had an average slippage rate of around 30%.

Based on annualized figures of vessel deliveries up to October 2012, deliveries are expected to reach about 106 million dead weight tons. This implies that slippage in 2012 could be at somewhat lower levels compared to recent years, closer to 25%.

On the bottom right hand graph, we provide the order book for the remainder 2012, 2013, 2014 and 2015. As you can see, while the dry bulk industry still has to go through a process of absorbing a very large number of new vessels that have come into the market this year, the current order book for 2013 onwards stands at significantly lower levels.

What is important and in currency is the fact that bulk carrier demolition has stayed at record high levels the last couple of years. Last year's all time record of 22.3 million dead weight tons has by far been surpassed by this year's scrapping activity of 28.4 million dead weight tons and we still have two more months of data until the end of the year.

The annualized figure is around 34 million dead weight, more than 50% higher than last year's all time high.

A continued strength in scrapping activity should slow down the fleet's net growth rate which effectively could provide some relief to supply pressures.

Please turn now to Slide 16 for a demand update. As you can see on the right graph, global steel demand growth has been stagnating for the greatest part of 2012. We believe that this is mainly due to the global slowdown and, therefore, we don't expect this to be a permanent nature.
As we have explained many times in the previous presentation, Chinese domestic iron ore is a very low quality compared to international commercial mining standards. Therefore, we believe that the substitution of the expensive Chinese iron ore production with imported ore can provide a significant support to iron ore trade even with zero steel production growth.

Already, as you can see on the left graph, Chinese domestic iron ore production has dropped significantly in recent months mainly due to the drop in iron ore prices which push expensive material out of the market.

We believe that this gap should benefit iron ore imports. Another positive sign is that the iron ore stockpiles in Chinese ports have dropped to a two-year low. We expect this also to support iron ore imports as steel mills and traders restock.

Overall, we remain optimistic on the long-term outlook of the dry bulk industry and we believe that the dry bulk demand prospects look positive despite the adverse economic environment.

I would like now to pass the floor back to Mr. Capralos for his closing remarks.

Spryos Capralos

Thank you, Simos. In conclusion, as you can see on Slide 18, we believe that Star Bulk is positioned to weather the storm through the current challenging environment. On top of our high quality modern fleet, Star Bulk also has a diverse group of high quality charters.

Our in-house management has provided tangible results as it has led to a meaningful increase in our efficiency and transparency, a consistent decrease in our operating costs and, lastly, in an increase in our revenues going forward due to the management of third party vessels.

We have an experienced and dedicated management team and moderately leveraged balance sheet and a healthy liquidity profile compared to the industry. We currently have no capital expenditures related to new buildings and we have $32.2 million of cash in the banks.

From a commercially operational perspective, our Cape size fleet is mostly covered for the next two years and at above market charter levels while our operating expenses are being continuously optimized.

Finally, I would like to thank our shareholders for their support and loyalty and reassure them that we'll do everything in our power to ensure the company's long-term viability and navigate safely through the challenging low freight rate environment.

Without taking any more of your time, I will now pass the floor over to the operator. In case you have any questions, both Simos and I will be happy to answer them.

Questions and Answers

Natasha Boyden – *Global Hunter*

There are a couple of things on the dividend side. If I recall correctly, last quarter on the earnings call you were asked about potentially cutting the dividend and you seemed sternly adamant that cutting the dividend was not going to happen because that's what your shareholders were looking for. I’m just curious -- obviously realizing that we're in a very weak freight environment and that cash is kind -- what your thinking was behind the cancellation of the dividend.

Spryos Capralos

Its things are changing. The environment has deteriorated further. And as we said in our presentation, we have been actively and proactively discussing with the banks to find and to get waivers for some of the covenants that we are missing on our loans and, therefore, we do not like while we have discussions with the banks to continue paying dividends while the cash flow of our operations did not permit us to pay that dividend

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Natasha Boyden – *Global Hunter*

So given what you said about you discussions with the banks and obviously keeping cash on the balance sheet, your NAV, your stock trades at a very steep discount NAV, which you correctly pointed out. Are you at all considering share buybacks after the bank amendments are secured in order to provide a chance to equity holders or will you just play it safe and keep cash on the balance sheet?

Spryos Capralos

As we said, at this point we are trying to preserve cash; therefore, we are not using the mechanism that we have in place. But we are not going to use it at least in the short term to buy back shares.

Natasha Boyden – *Global Hunter*

Moving on to an entirely different topic here, you've obviously done a great job in lowering your [unclear] and it continues to come down. How much more savings can you realize here or is this about as low as it can go?

Spryos Capralos

We think that we're doing a good job. There is always possibility to improve further our efficiencies, especially now that we are getting additional vessels under management and we grow further the fleet. That will give us possibilities to achieve further synergies in economies of scale and that will permit us to bring down further losses – the costs.

Natasha Boyden – *Global Hunter*

So the last question, can you just tell us what specific covenants that you are in violation of and were they triggered by the impairment loss?

Spyrou Capralos

Yes, but I will have Simos to explain more on this.

Simos Spyrou

Mainly the covenants that are not met are security covers and the leverage ratios. They are not affected by the impairment loss and all of these covenants are market adjusted, as you know. So basically it's – the effect is due to the drop of the asset values from the second quarter to the third quarter this year.

[No further questions]

Spryos Capralos

Thank you all for taking the time to join us today for our earnings conference call. Our 2012 fourth quarter results are scheduled for February next year. Thank you very much and have a good weekend. Bye-bye.
