

MC SHIPPING INC
Form 10-Q
May 12, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Quarter ended March 31, 2006

**Commission File Number:
1-10231**

MC SHIPPING INC.

(Exact name of the registrant as specified in its charter)

LIBERIA

State or other jurisdiction of incorporation or
organization

98-0101881

(IRS Employer Identification N°)

Richmond House, 12 Par-la-ville Road, Hamilton HM CX, Bermuda

(Address of principal executive offices)

441-295-7933

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

ý yes no

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer ý

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act)
yes no

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Shares outstanding at
May 10, 2006

Common stock, par value	9,508,141
\$.01	

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MC SHIPPING INC. AND SUBSIDIARIES**I N D E X**

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Index**PART I: FINANCIAL INFORMATION****ITEM 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****MC SHIPPING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS****ASSETS**

	MARCH 31, 2006 (UNAUDITED)	DECEMBER 31, 2005
CURRENT ASSETS		
Cash	\$ 3,473,121	\$ 12,292,015
Restricted cash	4,366,624	1,759,237
Hire receivables	111,528	13,583
Recoverable from insurers	73,347	68,807
Inventories	535,722	406,643
Receivables from affiliates	-	202,208
Prepaid expenses and other current assets	2,964,721	1,950,940
TOTAL CURRENT ASSETS	11,525,063	16,693,433
VESSELS, AT COST	166,408,599	155,406,193
Less accumulated depreciation	(35,514,011)	(33,414,622)
	130,894,588	121,991,571
OTHER ASSETS		
Investments in Associated Companies	6,597,887	6,485,906
Furniture & Equipment (net of accumulated depreciation of \$14,327 at March 31, 2006 and \$13,596 at December 31, 2005)	2,843	3,139
Dry-docking costs (net of accumulated amortization of \$2,011,438 at March 31, 2006 and \$1,772,673 at December 31, 2005)	3,206,540	3,139,184
Debt issuance costs (net of accumulated amortization of \$85,867 at March 31, 2006 and \$68,511 at December 31, 2005)	411,934	429,290
TOTAL ASSETS	\$ 152,638,855	\$ 148,742,523

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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MC SHIPPING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	MARCH 31, 2006 (UNAUDITED)	DECEMBER 31, 2005
CURRENT LIABILITIES		
Accounts payable	992,955	747,692
Payable to affiliates	284,156	-
Hire received in advance	1,315,625	801,043
Accrued expenses	2,469,041	2,466,845
Accrued interest	1,918,103	1,061,128
Dividend payable	594,278	557,104
Current portion of long term debt	12,116,000	12,116,000
TOTAL CURRENT LIABILITIES	19,690,158	17,749,812
LONG TERM DEBT		
Secured Loans	76,076,000	77,326,000
DEFERRED GAIN ON SALE OF VESSELS	12,025,379	13,199,901
TOTAL LIABILITIES	107,791,537	108,275,713
COMMITMENT AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value - 20,000,000 shares authorized 8,972,714 shares issued and outstanding at March 31, 2006 (8,913,658 at December 31, 2005)	89,727	89,137
Additional paid-in capital	49,362,414	49,411,285
Accumulated deficit	(6,312,173)	(10,024,072)
Accumulated other comprehensive income	1,707,350	990,460
	44,847,318	40,466,810
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 152,638,855	\$ 148,742,523

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MC SHIPPING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the Quarters ended March 31, 2006 and March 31, 2005
(UNAUDITED)

	MARCH 31, 2006	MARCH 31, 2005
CHARTERHIRE AND OTHER INCOME	\$ 10,107,255	\$ 6,238,486
COSTS AND EXPENSES		
Commission on charterhire	(133,121)	(153,856)
Vessel operating expenses	(3,899,134)	(2,723,867)
Amortization of dry-docking costs	(238,765)	(220,668)
Depreciation	(2,099,766)	(1,178,276)
General and administrative expenses	(513,987)	(536,402)
INCOME FROM VESSEL OPERATIONS	3,222,482	1,425,417
Recognized deferred gain on sale of vessels	1,174,522	926,567
Equity in income / (losses) of associated companies	291, 982	(84,451)
OPERATING INCOME	4,688,986	2,267,533
OTHER INCOME/(EXPENSES)		
Interest Expense	(1,150,649)	(354,349)
Interest Income	173,562	133,571
NET INCOME	\$ 3,711,899	\$ 2,046,755
EARNINGS PER SHARE		
Basic earnings per share	\$ 0.40	\$ 0.22
Diluted earnings per share	\$ 0.39	\$ 0.22
Weighted average number of shares outstanding	9,372,582	9,226,270
Diluted weighted average number of shares outstanding	9,554,547	9,363,115

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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MC SHIPPING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Quarters ended March 31, 2006 and March 31, 2005
(UNAUDITED)

	MARCH 31, 2006	MARCH 31, 2005
OPERATING ACTIVITIES:		
NET INCOME	\$ 3,711,899	\$ 2,046,755
Adjustments to reconcile net income to net cash provided from operating activities		
Depreciation	2,099,766	1,178,276
Recognized deferred gain on sale of vessels	(1,174,522)	(926,567)
Amortization of dry-docking costs	238,765	220,668
Amortization of issuance costs	17,356	10,979
Equity in (income) / losses of associated companies	(291,982)	84,451
Shares based compensation to directors	20,000	2,332
Changes in Operating Assets and Liabilities:		
Hire receivables	(97,945)	(3,535)
Recoverable from insurers	(4,540)	(5,355)
Inventories	(129,079)	796,599
Receivables from /payable to affiliates	486,364	(849,267)
Prepaid expenses and other current assets	(296,891)	(198,181)
Dry-docking costs capitalised	(306,121)	(25,842)
Accounts payable	245,263	40,551
Hire received in advance	514,582	-
Accrued expenses	2,196	(1,005,229)
Accrued interest	856,975	(98,867)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	\$ 5,892,086	\$ 1,267,768
INVESTING ACTIVITIES:		
Purchase of furniture and office equipment	(80)	(4,852)
Proceeds from disposals of vessels	-	29,802,138
Dividends from / (investments in) associated companies	180,000	(4,802,500)
Purchases of vessels	(11,000,000)	(8,297,725)
Vessels pre-operating expenses	(2,406)	-
(Increase) / decrease in restricted cash	(2,607,387)	5,000,000
NET CASH (USED BY) / PROVIDED FROM INVESTING ACTIVITIES	\$ (13,429,873)	\$ 21,697,061
FINANCING ACTIVITIES:		
Repayments of long-term debt	(1,250,000)	(16,250,000)
Proceeds from issuance of common stock	525,997	6,072
Payment of debt issuance costs	-	(10,811)
Dividend paid	(557,104)	-
NET CASH USED BY FINANCING ACTIVITIES	\$ (1,281,107)	\$ (16,254,739)

(DECREASE) / INCREASE IN CASH	(8,818,894)	6,710,090
CASH AT BEGINNING OF PERIOD	12,292,015	11,629,896
CASH AT END OF PERIOD	\$ 3,473,121	\$ 18,339,986
Interest paid during the period	\$ 276,318	\$ 442,237

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART
OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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MC SHIPPING INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2006
(UNAUDITED)

NOTE 1. **BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of MC Shipping Inc. and subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of Management, adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These consolidated financial statements should be read in conjunction with the Company's 2005 Annual Report on Form 10-K. The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. **ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

ORGANIZATION: MC Shipping Inc. is incorporated in the Republic of Liberia and, through its subsidiaries, owns and operates second-hand vessels that as of March 31, 2006 formed a fleet of thirteen wholly owned vessels, comprised of eleven LPG carriers and two coastal bulk carriers. In addition, the Company has a 25.8% percent interest in an entity that owns and operates four containerships and a 50% interest in another entity that owns and operates an LPG carrier.

COMPREHENSIVE INCOME: Comprehensive income consists of foreign currency translation adjustment and unrealised gains or losses on cash flow hedges.

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