

INTERNATIONAL SHIPPING ENTERPRISES, INC.  
Form S-4/A  
May 27, 2005  
Table of Contents

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 27, 2005

REGISTRATION NO. 333-124170

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**PRE-EFFECTIVE AMENDMENT NO. 1**

**TO**

**FORM S-4**

**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**INTERNATIONAL SHIPPING ENTERPRISES, INC.**

(Exact name of registrant as specified in its charter)

<b>DELAWARE</b> (State or other jurisdiction of incorporation or organization)	<b>6770</b> (Primary Standard Industrial Classification Code Number)	<b>57-1212493</b> (I.R.S. Employer Identification No.)
<b>1225 FRANKLIN AVENUE, SUITE 325, GARDEN CITY, NEW YORK 11530</b>		<b>(516) 240-8025</b>

(Address, including zip code, and telephone number,

including area code of registrant's principal executive offices)

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**Angeliki Frangou**

**Chief Executive Officer**

**International Shipping Enterprises, Inc.**

**1225 Franklin Avenue, Suite 325 Garden City, New York 11530**

**(516) 240-8025**

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(Name, address, including zip code, and telephone number,

including area code of agent for service)

**WITH COPIES TO:**

**Kenneth R. Koch, Esq.**

**Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.**

**666 Third Avenue**

**New York, New York 10017**

**(212) 935-3000**

**APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:** As soon as practicable after this Registration Statement becomes effective and upon consummation of the transactions described in the enclosed prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, 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(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. "

**CALCULATION OF REGISTRATION FEE**

<b>TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED</b>	<b>MAXIMUM AMOUNT TO BE REGISTERED<sup>(1)</sup></b>	<b>PROPOSED MAXIMUM OFFERING PRICE PER SHARE<sup>(2)</sup></b>	<b>PROPOSED AGGREGATE OFFERING PRICE<sup>(2)</sup></b>	<b>AMOUNT OF REGISTRATION FEE</b>
Common Stock, par value \$0.0001 per share	39,900,000 shares	\$ 5.83	\$ 232,617,000	\$ 27,380 <sup>(3)</sup>

(1) This Registration Statement covers the maximum number of shares of common stock, par value \$0.0001, that will be issued by Navios Maritime Holdings Inc., the company that will be the registrant's wholly-owned subsidiary immediately after the acquisition of Navios Maritime Holdings Inc., which will then be a wholly-owned subsidiary, and immediately prior to the reincorporation, all as described herein. At the time of the reincorporation, these shares will be issued by Navios Maritime Holdings Inc. in connection with the merger of the registrant into the wholly-owned subsidiary in order to effectuate the reincorporation of the registrant.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f)(1) and (3) and Rule 457(c) of the Securities Act, based on the market value of the registrant's common stock to be issued in the reincorporation merger, as established by the average of the high and low sale prices of the registrant's common stock on April 15, 2005 on the Over-the-Counter Bulletin Board, which was \$5.83, and the maximum number of shares of common stock of what will be the registrant's wholly-owned subsidiary to be issued.

(3) Previously paid.

**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, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.**

**Table of Contents**

**INTERNATIONAL SHIPPING ENTERPRISES, INC.**

**1225 Franklin Avenue**

**Suite 325**

**Garden City, New York 11530**

To the Stockholders of International Shipping Enterprises, Inc. ( ISE ):

You are cordially invited to attend a special meeting of the stockholders of International Shipping Enterprises, Inc., or ISE, relating to the proposed acquisition of Navios Maritime Holdings Inc. by ISE and the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands, which will be held at 10:00 a.m., eastern time, on [            ], 2005, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 666 Third Avenue, New York, New York 10017.

At this important meeting, you will be asked to consider and vote upon the following proposals:

to approve the acquisition of Navios Maritime Holdings Inc., or Navios, a Marshall Islands corporation, pursuant to the Stock Purchase Agreement, dated as of February 28, 2005, by and among ISE, Navios, the shareholders agent and the shareholders of Navios, and the transactions contemplated by the stock purchase agreement, whereby ISE will purchase all of the outstanding securities held by the shareholders of Navios;

to approve the reincorporation of ISE pursuant to which ISE will change its domicile from the State of Delaware to the Republic of the Marshall Islands by means of a merger with Navios immediately following the acquisition; and

to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The affirmative vote of a majority of the shares of ISE's common stock issued in ISE's initial public offering that are present in person or by proxy and entitled to vote at the meeting is required to approve the acquisition proposal. The affirmative vote of a majority of the outstanding shares of ISE's common stock is required to approve the reincorporation proposal. In addition, each ISE stockholder that holds shares of common stock issued in ISE's initial public offering or purchased following such offering in the open market has the right to vote against the acquisition proposal and, at the same time, demand that ISE convert such stockholder's shares into cash equal to a pro rata portion, or \$5.51 per share plus interest, of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering is deposited. If the acquisition is not completed, then your shares will not be converted to cash at this time, even if you so elected. However, if the holders of 6,555,000 or more shares of common stock issued in ISE's initial public offering, an amount equal to 20% or more of the total number of shares issued in the initial public offering, vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then ISE will not be able to consummate the acquisition. ISE's initial stockholders, including all of its directors and officers, who purchased shares of common stock prior to ISE's initial public offering and presently own an aggregate of approximately 26% of the outstanding shares of ISE common stock, have agreed to vote such shares acquired prior to the public offering (approximately 18% of the outstanding common stock) in accordance with the vote of the majority in interest of all other ISE stockholders on the acquisition proposal. The initial stockholders of ISE, including all of its directors and officers, are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately 8% of the outstanding common stock, in favor of both the acquisition and reincorporation proposals.

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ISE may consummate the acquisition proposal if the reincorporation proposal is not approved. However, the reincorporation proposal will not be implemented if the acquisition proposal is not approved.

ISE's shares of common stock, warrants and units are listed on the Over-the-Counter Bulletin Board under the symbols ISHP, ISHPW and ISHPU, respectively. The securities of Navios are not listed or quoted on any national securities exchange, the Nasdaq Stock Market, or the Over-the-Counter Bulletin Board. If the acquisition

**Table of Contents**

and reincorporation proposals are approved, the operations and assets of Navios will become those of ISE and ISE's name will be changed to Navios Maritime Holdings Inc. upon consummation of the acquisition and reincorporation.

After careful consideration of the terms and conditions of the proposed acquisition of Navios and the reincorporation of ISE, the board of directors of ISE has determined that such acquisition and reincorporation and the transactions contemplated thereby are fair to and in the best interests of ISE and its stockholders. The board of directors of ISE unanimously recommends that you vote or give instruction to vote **FOR** the proposal to acquire Navios pursuant to the stock purchase agreement by and among ISE, Navios, the shareholders' agent and the shareholders of Navios, and **FOR** the adoption of the proposal to reincorporate ISE from the State of Delaware to the Republic of the Marshall Islands.

Enclosed is a notice of special meeting and proxy statement/prospectus containing detailed information concerning the reincorporation and the acquisition. Whether or not you plan to attend the special meeting, we urge you to read this material carefully. I look forward to seeing you at the meeting.

Sincerely,

Angeliki Frangou

Chairman of the Board,

President and Chief Executive Officer

**YOUR VOTE IS IMPORTANT. WHETHER YOU PLAN TO ATTEND THE SPECIAL MEETING OR NOT, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE IN THE ENVELOPE PROVIDED.**

Neither the Securities and Exchange Commission nor any state securities commission has determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

See **Risk Factors** beginning on page 10 for a discussion of various factors that you should consider in connection with the acquisition of Navios since, upon the acquisition of Navios and subsequent reincorporation of ISE, the operations and assets of ISE will be those of Navios.

This proxy statement/prospectus is dated [                      ], 2005 and is first being mailed to ISE stockholders on or about [                      ], 2005.

**Table of Contents**

**International Shipping Enterprises, Inc.**

**1225 Franklin Avenue**

**Suite 325**

**Garden City, New York 11530**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON [                      ], 2005**

TO THE STOCKHOLDERS OF INTERNATIONAL SHIPPING ENTERPRISES, INC.:

NOTICE IS HEREBY GIVEN that, a special meeting of stockholders, including any adjournments or postponements thereof, of International Shipping Enterprises, Inc., a Delaware corporation, will be held at 10:00 a.m. eastern time, on [                      ], 2005, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 666 Third Avenue, New York, New York 10017, for the following purposes:

to consider and vote upon a proposal to acquire Navios Maritime Holdings Inc., or Navios, pursuant to the Stock Purchase Agreement, dated as of February 28, 2005, by and among ISE, Navios, the shareholders agent and the shareholders of Navios;

to consider and vote upon a proposal to reincorporate International Shipping Enterprises, Inc., or ISE, from the State of Delaware to the Republic of the Marshall Islands by means of a merger with Navios immediately following the acquisition; and

to consider and vote upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

The board of directors has fixed the close of business on [                      ], 2005 as the date for which ISE stockholders are entitled to receive notice of, and to vote at, the ISE special meeting and any adjournments or postponements thereof. Only the holders of record of ISE common stock on that date are entitled to have their votes counted at the ISE special meeting and any adjournments or postponements thereof.

ISE will not transact any other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement by ISE's board of directors.

Your vote is important. Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. If you are a stockholder of record of ISE common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares.

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ISE may consummate the acquisition proposal if the reincorporation proposal is not approved, but then ISE, as Navios, will not be able to continue enjoying the various regulatory, financial and tax benefits that would otherwise be available to ISE as a Marshall Islands corporation. However, the reincorporation proposal will not be implemented if the acquisition proposal is not approved. The board of directors of ISE unanimously recommends that you vote **FOR** the acquisition proposal and **FOR** the adoption of the reincorporation proposal.

By Order of the Board of Directors,

Angeliki Frangou

Chairman of the Board,

President and Chief Executive Officer

[            ], 2005

**Table of Contents**

International Shipping Enterprises, Inc.

Navios Maritime Holdings Inc.

PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS OF  
INTERNATIONAL SHIPPING ENTERPRISES, INC.

PROSPECTUS FOR UP TO 39,900,000 COMMON SHARES  
OF INTERNATIONAL SHIPPING ENTERPRISES, INC.

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The board of directors of International Shipping Enterprises, Inc. ( "ISE" ) has unanimously approved the acquisition of Navios Maritime Holdings Inc. ( "Navios" ) pursuant to a stock purchase agreement whereby ISE will purchase all of the outstanding securities held by the shareholders of Navios. Furthermore, it has unanimously approved the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands, through a merger with Navios such that the merged corporation will be incorporated under, and subject to, the laws of the Republic of the Marshall Islands.

If the acquisition is completed, you will continue to hold the ISE securities that you currently own, and will not receive any of the cash paid in connection with the acquisition. ISE is simply acquiring all of the outstanding securities of Navios. The shareholders of Navios will receive all of the cash being paid by ISE in the acquisition. However, in connection with the reincorporation, you will receive an equal number of shares of common stock of Navios Maritime Holdings Inc., which will be the name of ISE following the acquisition and reincorporation, in exchange for your ISE common stock. Navios Maritime Holdings Inc. will also assume the outstanding ISE warrants, the terms and conditions of which will not change, except that, upon exercise, warrant holders will receive shares of common stock of Navios Maritime Holdings Inc., the newly acquired and reincorporated company.

ISE was organized to serve as a vehicle for the acquisition of one or more vessels or of an operating business in the dry bulk sector of the shipping industry. Navios is an integrated international dry bulk shipping owner and operator specializing in the worldwide carriage, trading, storing and other related logistics of international dry bulk cargo transportation. Navios also owns the largest bulk transfer and storage facility in Uruguay. We believe that Navios occupies a unique competitive position in the international dry bulk shipping industry and provides a solid platform for ISE's plans for expansion and consolidation within this industry. As a result, we believe that the acquisition of Navios will provide you with an opportunity to acquire, and participate in, a company with significant growth potential. We also believe that, for a variety of regulatory, financial and tax reasons, the Marshall Islands is an attractive country of incorporation for international shipping companies. As a Marshall Islands corporation, Navios has had the benefit of these advantages, and we believe the reincorporation will permit us to take advantage of such benefits.

ISE's common stock, warrants and units are currently listed on the Over-the-Counter Bulletin Board under the symbols ISHP, ISHPW and ISHPU, respectively. The securities of Navios are not listed or quoted on any national securities exchange, the Nasdaq Stock Market, or the Over-the-Counter Bulletin Board. Upon consummation of the acquisition and reincorporation, the operations and assets of Navios will become those of ISE and ISE's name will be changed to Navios Maritime Holdings Inc. Our common stock will continue to be traded on the Over-the-Counter Bulletin Board.



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We believe that generally, for U.S. federal income tax purposes, the purchase of the shares of the stock of Navios by ISE, followed by the merger of ISE into Navios, should be treated as the direct purchase of the Navios shares by the shareholders of ISE, and that the separate existence of Navios should be ignored for federal income tax purposes. Accordingly, we do not believe that the merger of ISE into Navios will result in the recognition of gain or loss to ISE or its shareholders. **WE URGE YOU TO CONSULT YOUR OWN TAX ADVISORS REGARDING YOUR PARTICULAR TAX CONSEQUENCES.**

**Table of Contents**

This proxy statement/prospectus provides you with detailed information about the acquisition and reincorporation and the special meeting of shareholders. We encourage you to carefully read this entire document and the documents incorporated by reference. YOU SHOULD ALSO CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 10.

The acquisition of Navios cannot be completed unless at least a majority of the shares of ISE's common stock issued in ISE's initial public offering, present in person or by proxy and entitled to vote at the special meeting as of [ ], 2005, approve the acquisition. The reorganization cannot be completed unless at least a majority of outstanding shares of ISE's common stock, present in person or by proxy and entitled to vote at the special meeting as of [ ], 2005, approve the reorganization.

Your board of directors unanimously approved and declared advisable the acquisition and the reincorporation and unanimously recommends that you vote or instruct your vote to be cast FOR the approval of the acquisition proposal and FOR the approval of the reincorporation proposal.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PROXY STATEMENT/PROSPECTUS IS DATED [ ], 2005, AND IS FIRST BEING MAILED TO ISE SHAREHOLDERS ON OR ABOUT [ ], 2005.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>QUESTIONS AND ANSWERS ABOUT THE PROPOSALS</u>	v
<u>SUMMARY</u>	1
<u>SELECTED HISTORICAL FINANCIAL INFORMATION</u>	7
<u>Navios Historical Financial Information</u>	7
<u>ISE Historical Financial Information</u>	8
<u>PER SHARE MARKET PRICE INFORMATION</u>	10
<u>RISK FACTORS</u>	10
<u>Risks Associated with the Shipping Industry</u>	10
<u>Risks Associated with the Acquisition</u>	14
<u>Risks Associated with Taxation</u>	20
<u>FORWARD-LOOKING STATEMENTS</u>	22
<u>THE ISE SPECIAL MEETING</u>	23
<u>The ISE Special Meeting</u>	23
<u>Date, Time and Place</u>	23
<u>Purpose of the Special Meeting</u>	23
<u>Record Date: Who is Entitled to Vote</u>	23
<u>Voting Your Shares</u>	24
<u>Who Can Answer Your Questions About Voting Your Shares</u>	24
<u>No Additional Matters May Be Presented at the Special Meeting</u>	24
<u>Revoking Your Proxy</u>	24
<u>Vote Required</u>	24
<u>Abstentions and Broker Non-Votes</u>	25
<u>Conversion Rights</u>	25
<u>Solicitation Costs</u>	25
<u>Stock Ownership</u>	26
<u>THE ACQUISITION PROPOSAL</u>	27
<u>General Description of the Acquisition</u>	27
<u>Background of the Acquisition</u>	27
<u>Interest of ISE Directors and Officers in the Acquisition</u>	29
<u>Acquisition Financing</u>	30
<u>ISE's Reasons for the Acquisition and Recommendation of the ISE Board</u>	30
<u>Navios's Successful Record of Growth and Expansion and High Potential for Future Growth</u>	30
<u>The Experience of Navios's Management</u>	30
<u>The Terms of the Stock Purchase Agreement</u>	31
<u>Fairness Opinion</u>	31
<u>Navios Financial Performance Review</u>	34
<u>Valuation Overview</u>	34
<u>Selected Comparable Company Analysis</u>	34
<u>Discounted Cash Flow Analysis</u>	35
<u>Adjusted Net Asset Value Analysis</u>	35
<u>Owned Vessels</u>	35
<u>Chartered-in Fleet</u>	36
<u>Vessel Purchase Options</u>	36
<u>Short-Term Chartering COAs and Risk Management</u>	36
<u>Uruguay Port</u>	36
<u>Discounted Cash Flow Analysis</u>	36
<u>Comparable Company Analysis</u>	36
<u>Appraisal or Dissenters Rights</u>	37

**Table of Contents**

	<u>Page</u>
<u>United States Federal Income Tax Consequences of the Acquisition</u>	37
<u>Regulatory Matters</u>	37
<u>Consequences if Acquisition Proposal is Not Approved</u>	37
<u>Required Vote</u>	38
<u>Recommendation</u>	38
<b><u>THE STOCK PURCHASE AGREEMENT</u></b>	39
<u>Structure of the Acquisition</u>	39
<u>Purchase Price-Payment</u>	39
<u>Deposit; Adjustment Deposit</u>	39
<u>EBITDA-Purchase Price Adjustment</u>	39
<u>Closing of the Acquisition</u>	40
<u>Representations and Warranties</u>	40
<u>Materiality and Material Adverse Effect</u>	41
<u>Interim Covenants Relating to Navios</u>	41
<u>No Solicitation by Navios</u>	42
<u>No Solicitation by ISE</u>	42
<u>ISE Stockholders Meeting</u>	42
<u>Access to Information</u>	43
<u>Indemnification</u>	43
<u>Fees and Expenses</u>	43
<u>Public Announcements</u>	43
<u>Pre-Closing Confirmation</u>	43
<u>Conditions to the Completion of the Acquisition</u>	44
<u>Termination</u>	44
<u>Effect of Termination</u>	44
<u>Assignment</u>	45
<u>Amendment</u>	45
<u>Further Assurances</u>	45
<u>Shareholders Agent</u>	45
<b><u>EMPLOYMENT AGREEMENTS</u></b>	45
<u>Scope of Employment</u>	46
<u>Compensation</u>	46
<u>Fringe Benefits, Reimbursement of Expenses</u>	46
<u>Termination Benefits</u>	46
<b><u>THE REINCORPORATION PROPOSAL</u></b>	48
<u>General</u>	48
<u>Appraisal Rights</u>	48
<u>Merger Agreement</u>	50
<u>Comparison of Stockholder Rights</u>	51
<u>Federal Income Tax Consequences</u>	53
<u>Marshall Islands Tax Considerations</u>	53
<u>United States Federal Income Tax Considerations of the Acquisition and Reincorporation</u>	53
<u>United States Federal Income Taxation of US Holders</u>	55
<u>United States Federal Income Taxation of Non-US Holders</u>	56
<u>Backup Withholding and Information Reporting</u>	57
<u>Enforceability of Civil Liabilities</u>	58
<u>Consequences if Reincorporation Proposal is Not Approved</u>	58
<u>Required Vote</u>	58
<u>Recommendation</u>	57

**Table of Contents**

	<u>Page</u>
<u>INFORMATION ABOUT NAVIOS</u>	59
<u>Introduction</u>	59
<u>The International Dry Bulk Shipping Industry</u>	59
<u>Navios Maritime Holdings Inc.</u>	67
<u>Business Strategy</u>	70
<u>Competitive Advantages</u>	71
<u>Shipping Operations</u>	71
<u>Port and Terminal Operations</u>	75
<u>Customers</u>	79
<u>Competition</u>	79
<u>Governmental and Other Regulations</u>	80
<u>Risk of Loss and Liability Insurance</u>	81
<u>Risk Management</u>	82
<u>Legal Proceedings</u>	82
<u>Crewing and Shore Employees</u>	83
<u>Facilities</u>	83
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	83
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF NAVIOS</u>	86
<u>Overview</u>	86
<u>Factors Affecting Navios's Results of Operations</u>	87
<u>Results of Operations</u>	89
<u>Income Statement Breakdown by Segment</u>	90
<u>For the three months ended March 31, 2005 compared to the three months ended March 31, 2004</u>	90
<u>For the year ended December 31, 2004 compared to the year ended December 31, 2003</u>	96
<u>For the year ended December 31, 2003 compared to the year ended December 31, 2002</u>	98
<u>Concentration of Credit Risk</u>	103
<u>Effects of Inflation</u>	104
<u>Off-Balance Sheet Arrangements</u>	104
<u>Recently Issued Accounting Standards</u>	104
<u>Critical Accounting Policies</u>	105
<u>Related Party Transactions</u>	106
<u>INFORMATION ABOUT ISE</u>	107
<u>Business of ISE</u>	107
<u>General</u>	107
<u>Effecting a Business Combination</u>	107
<u>Competition</u>	109
<u>Facilities</u>	110
<u>Employees</u>	110
<u>Periodic Reporting and Audited Financial Statements</u>	110
<u>Legal Proceedings</u>	110
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of ISE</u>	110
<u>UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS</u>	112
<u>DIRECTORS AND MANAGEMENT OF ISE FOLLOWING THE ACQUISITION OF NAVIOS AND REINCORPORATION</u>	121
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	125
<u>BENEFICIAL OWNERSHIP OF SECURITIES</u>	126
<u>PRICE RANGE OF SECURITIES AND DIVIDENDS</u>	127
<u>ISE</u>	127
<u>Navios</u>	128

**Table of Contents**

	<b><u>Page</u></b>
<b><u>DESCRIPTION OF SECURITIES</u></b>	128
<u>General</u>	128
<u>Units</u>	128
<u>Common stock</u>	129
<u>Preferred stock</u>	129
<u>Warrants</u>	130
<u>Transfer Agent and Warrant Agent</u>	130
<b><u>STOCKHOLDER PROPOSALS</u></b>	130
<b><u>EXPERTS</u></b>	131
<b><u>LEGAL MATTERS</u></b>	131
<b><u>WHERE YOU CAN FIND MORE INFORMATION</u></b>	131
<b><u>INDEX TO FINANCIAL STATEMENTS</u></b>	F-1
<b>ANNEXES</b>	
<u>Annex A Stock Purchase Agreement</u>	A-1
<u>Annex B Third Amended and Restated Articles of Incorporation and Bylaws</u>	B-1
<u>Annex C Plan and Agreement of Merger</u>	C-1
<u>Annex D Fairness Opinion of Capitalink</u>	D-1
<u>Annex E Form of Employment Agreement</u>	E-1

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE PROPOSALS**

**What is being voted on?**

There are two proposals on which you are being asked to vote. The first proposal is to approve the acquisition of Navios pursuant to a stock purchase agreement whereby ISE will purchase all of the outstanding securities held by the shareholders of Navios. We refer to this proposal as the acquisition proposal. The second proposal, assuming that the acquisition proposal is approved, is to approve the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands through a merger with Navios such that the merged corporation will be incorporated under, and subject to the laws of the Republic of the Marshall Islands. We refer to this proposal as the reincorporation proposal.

**Why is ISE proposing the acquisition?**

ISE was organized to serve as a vehicle for the acquisition of one or more vessels or an operating business in the dry bulk sector of the shipping industry. Navios is an integrated international dry bulk shipping owner and operator specializing in the worldwide carriage, trading, storing and other related logistics of international dry bulk cargo transportation. Navios also owns the largest bulk transfer and storage facility in Uruguay. ISE believes that Navios occupies a unique competitive position in the international dry bulk shipping industry and provides a solid platform for ISE's plans for expansion and consolidation within this industry. As a result, ISE believes that the acquisition of Navios will provide ISE stockholders with an opportunity to acquire, and participate in, a company with significant growth potential. See page 30.

**Why is ISE proposing the reincorporation?**

For a variety of regulatory, financial and tax reasons, the Marshall Islands is an attractive country of incorporation for international shipping companies. As a Marshall Islands corporation, Navios has had the benefit of these advantages, and the reincorporation will permit ISE to take advantage of such benefits.

**What vote is required in order to approve the acquisition proposal?**

The approval of the acquisition of Navios will require the affirmative vote of a majority of the shares of ISE's common stock issued in ISE's initial public offering that are present in person or by proxy and entitled to vote at the meeting. In addition, each ISE stockholder who holds shares of common stock issued in ISE's initial public offering or purchased following such offering in the open market has the right to vote against the acquisition proposal and, at the same time, demand that ISE convert such stockholder's shares into cash equal to a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering is deposited. These shares will be converted into cash only if the acquisition is completed. Based on the amount of cash held in the trust account as of March 31, 2005, without taking into account any interest accrued, you will be entitled to convert each share of common stock that you hold into approximately \$5.51, or \$0.49 less than the per-unit offering price of \$6.00 for which you purchased units in the initial public offering. However, if the holders of 6,555,000 or more shares of common stock issued in ISE's initial public offering, an amount equal to 20% or more of the total number of shares issued in the initial public offering, vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then ISE will not be able to consummate the acquisition. In addition, ISE's initial stockholders, including all of its directors and officers, who purchased shares of common stock prior to ISE's initial public offering and presently own an aggregate of approximately 26% of the outstanding shares of ISE common stock, have agreed to vote such shares acquired prior to the public offering (approximately 18% of the outstanding common stock)

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in accordance with the vote of the majority in interest of all other ISE stockholders on the acquisition proposal. The initial stockholders of ISE, including all of its directors and officers, are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately 8% of the outstanding common stock, in favor of the acquisition proposal. No vote of the warrant holders is necessary to adopt the acquisition proposal,

v



## **Table of Contents**

and ISE is not asking the warrant holders to vote on the acquisition proposal. The acquisition proposal may take place if the reincorporation proposal is not approved, but then ISE, as Navios, will not be able to continue enjoying the various regulatory financial and tax benefits that would otherwise be available to ISE as a Marshall Islands corporation.

### **What vote is required in order to approve the reincorporation proposal?**

The approval of the reincorporation from the State of Delaware to the Republic of the Marshall Islands will require the affirmative vote of a majority of the outstanding shares of ISE's common stock. An ISE stockholder who votes in favor of the reincorporation proposal is also voting to approve a plan and agreement of merger between ISE and what will then be, assuming approval of the acquisition, a wholly-owned Marshall Islands subsidiary, or Navios, pursuant to which ISE will file the plan and agreement of merger and articles of merger with the Republic of the Marshall Islands and a certificate of merger with the Secretary of State of the State of Delaware to effectuate the reincorporation. Upon consummation of such transactions, the operations and assets of Navios will become those of ISE, ISE will be a Marshall Islands corporation and ISE's name will then be Navios Maritime Holdings Inc. No vote of the warrant holders is necessary to adopt the reincorporation proposal, and ISE is not asking the warrant holders to vote on the reincorporation proposal. The reincorporation proposal will not be implemented if the acquisition proposal is not approved.

### **When do you expect the reincorporation to be completed?**

It is currently anticipated that the reincorporation will be completed immediately following the acquisition of Navios.

### **What will the name of the company be after the acquisition and reincorporation?**

Following the completion of the acquisition and reincorporation, the merged company's name will be Navios Maritime Holdings Inc.

### **What will I receive in the acquisition or in the reincorporation?**

Holders of ISE securities will continue to hold the ISE securities they currently own, and will not receive any of the cash paid in connection with the acquisition. ISE is simply acquiring all of the outstanding securities of Navios. The shareholders of Navios will receive all of the cash being paid by ISE in the acquisition. However, in connection with the reincorporation, ISE stockholders will receive an equal number of shares of common stock of Navios Maritime Holdings, Inc. which will be the name of ISE following the acquisition and reincorporation, in exchange for their ISE common stock. Navios Maritime Holdings Inc. will also assume the outstanding ISE warrants, the terms and conditions of which will not change, except that, upon exercise, warrant holders will receive shares of common stock of Navios Maritime Holdings Inc., the newly acquired and reincorporated company.

### **How is ISE paying for the acquisition?**

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ISE will use the proceeds from its recently completed initial public offering, as well as funds that will be available to ISE pursuant to a new senior secured credit facility with the institutional lender, HSH Nordbank AG, in order to finance the acquisition of Navios. In addition, Angeliki Frangou, ISE's Chairman, President and Chief Executive Officer, has agreed to loan ISE the funds necessary to cover, until the closing, its transaction expenses in excess of the funds held outside the trust, which loans shall be repaid, without interest, at the closing of the acquisition with the funds made available to ISE or upon demand thereafter.

### **Do I have conversion rights in connection with the acquisition?**

If you hold shares of common stock issued in ISE's initial public offering, then you have the right to vote against the acquisition proposal and demand that ISE convert your shares of common stock into a pro rata portion

## **Table of Contents**

of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering are held. These rights to vote against the acquisition and demand conversion of the shares into a pro rata portion of the trust account, are sometimes referred to herein as conversion rights.

### **If I have conversion rights, how do I exercise them?**

If you wish to exercise your conversion rights, you must vote against the acquisition and, at the same time, demand that ISE convert your shares into cash. If, notwithstanding your vote, the acquisition is completed, then you will be entitled to receive a pro rata share of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering are held, including any interest earned thereon through the date of the special meeting. Based on the amount of cash held in the trust account as of March 31, 2005, without taking into account any interest accrued, you will be entitled to convert each share of common stock that you hold into approximately \$5.51, or \$0.49 less than the per-unit offering price of \$6.00 for which you purchased units in the initial public offering. If you exercise your conversion rights, then you will be exchanging your shares of ISE common stock for cash and will no longer own these shares of common stock. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to ISE. If you convert your shares of common stock, you will still have the right to exercise the warrants received as part of the units. If the acquisition is not completed, then your shares will not be converted to cash at this time, even if you so elected. See page 25.

### **Do I have dissenter or appraisal rights in connection with the reincorporation?**

The ISE stockholders have appraisal rights under Delaware corporate law only in connection with the reincorporation proposal.

### **What happens to the funds deposited in the trust account after completion of the acquisition?**

Upon completion of the acquisition, any funds remaining in the trust fund after payment of amounts, if any, to stockholders requesting and exercising their conversion rights and amounts, will be used to fund the acquisition.

### **Who will manage ISE upon completion of the acquisition of Navios and subsequent reincorporation?**

Upon completion of the acquisition and reincorporation, ISE will be managed by the following persons: Angeliki Frangou will be Chairman of the Board and Chief Executive Officer; Robert G. Shaw will be President; and Bruce C. Hoag will be Chief Financial Officer. The current board of directors of ISE will continue as the board of directors after the acquisition and reincorporation. The board of directors will consist of Angeliki Frangou (Chairman), Vasiliki Papaefthymiou, Spyridon Magoulas, Julian David Brynteson and John Stratakis.

### **What happens if the acquisition is not consummated?**

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If the acquisition is not consummated, ISE will continue to search for either a fleet of dry bulk carriers or another operating company to acquire in the dry bulk sector of the shipping industry. However, ISE will be liquidated if it does not consummate a business combination by December 16, 2005 or, if a letter of intent, agreement in principle or definitive agreement is executed, but not consummated, by December 16, 2005, then by June 16, 2006. In any liquidation, the net proceeds of ISE's initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to the holders of ISE's common stock. In addition, if ISE does not acquire Navios pursuant to the terms of the stock purchase agreement, the right to acquire Navios may be assigned to an affiliate, which could include Angeliki Frangou and members of her family.

### **When do you expect the acquisition to be completed?**

It is currently anticipated that the acquisition will be completed promptly following the ISE special meeting of stockholders on [ ], 2005 and immediately prior to the reincorporation of ISE.

## **Table of Contents**

### **If I am not going to attend the ISE special meeting of stockholders in person, should I return my proxy card instead?**

Yes. After carefully reading and considering the information contained in this proxy statement/prospectus, please complete and sign your proxy card. Then return the enclosed proxy card in the return envelope provided herewith as soon as possible, so that your shares may be represented at the ISE special meeting.

### **What will happen if I abstain from voting or fail to vote?**

An abstention or failure to vote (i) (a) will have no effect on the acquisition proposal and (b) will not have the effect of converting your shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering are held, unless an affirmative election to convert such shares of common stock is made on the proxy card, and (ii) will have the same effect as a vote against the reincorporation proposal.

### **What do I do if I want to change my vote?**

If you wish to change your vote, please send a later-dated, signed proxy card to Avisheh Avini at ISE prior to the date of the special meeting or attend the special meeting and vote in person. You also may revoke your proxy by sending a notice of revocation to Avisheh Avini at the address of ISE's corporate headquarters.

### **If my shares are held in street name by my broker, will my broker vote my shares for me?**

No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares in accordance with directions provided by your broker.

### **Do I need to turn in my old certificates?**

No. If you hold your securities in ISE in certificate form, as opposed to holding them through your broker, you do not need to exchange them for certificates issued by Navios Maritime Holdings Inc., the company that will be existing after the acquisition and reincorporation. Your current certificates will represent your rights in Navios Maritime Holdings Inc., the newly acquired and reincorporated company. You may exchange them by contacting the transfer agent, Continental Stock Transfer & Trust Company, Reorganization Department, and following their requirements for reissuance. If you elect conversion or appraisal, you will need to deliver your old certificates to ISE.

### **Who can help answer my questions?**

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If you have questions about the acquisition or reincorporation, you may write or call International Shipping Enterprises, Inc., 1225 Franklin Ave., Suite 325, Garden City, New York 11530, (516) 240-8025, Attention: Avisheh Avini.

## **Table of Contents**

### **SUMMARY**

This summary discusses the material items of the acquisition proposal and the reincorporation proposal, which are described in greater detail elsewhere in this proxy statement/prospectus. You should carefully read this entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers you. See *Where You Can Find More Information*.

#### **Acquisition of Navios**

*Navios Maritime Holdings Inc.*

Navios is one of the leaders in seaborne shipping, specializing in the worldwide carriage, trading, storing, and other related logistics of international dry bulk cargo transportation. For over 50 years, Navios has worked with raw materials producers, agricultural traders and exporters, industrial end-users, shipowners, and charterers and, more recently, acquired an in-house technical ship management expertise. Navios's core fleet, the average age of which is approximately 3.5 years, consists of a total of 28 vessels, aggregating approximately 1.8 million deadweight tons or dwt. Navios owns six modern Ultra-Handymax (50,000-55,000 dwt) vessels and operates 22 Panamax (70,000-83,000 dwt) and Ultra-Handymax vessels under long-term time charters, 15 of which are currently in operation, with the remaining seven scheduled for delivery at various times over the next two years. Navios has options, many of which are in the money, to acquire 13 of the 22 time chartered vessels. The owned vessels have a substantial net asset value, and the vessels controlled under the in-charters are at rates well below the current market. Operationally, Navios has, at various times over the last two years, deployed over 50 vessels at any one time, including its core fleet.

Navios also owns and operates the largest bulk transfer and storage facility in Uruguay. While a relatively small portion of Navios's overall enterprise, ISE believes that this terminal is a stable business with strong growth and integration prospects.

As used above and throughout this proxy statement/prospectus, Navios's core fleet means: (1) the six ultra-handymax vessels that Navios owns, and (2) the panamax and ultra handymax vessels that Navios, as a charterer, employs commercially under long-term charters, which are charters of more than 12 months in duration. Navios also time charters vessels. Time chartered vessels are vessels that are placed at the charterer's disposal for a set period of time during which the charterer uses the vessels in return for the payment of a daily specified hire. Under time charters, operating costs such as crew, maintenance and insurance are typically paid by the owner of the vessel and fuel and port costs are paid by the time charterer. Navios has options to purchase some of the chartered vessels and the option is referred to as in the money, when the price to exercise an option and purchase a vessel is below the current market values for the vessel.

The principal executive office of Navios Maritime Holdings Inc. is located at 20 Marshall St., South Norwalk, Connecticut 06854, (203) 345-1300. The principal executive office of International Shipping Enterprises, Inc. is located at 1225 Franklin Ave., Suite 325, Garden City, New York 11530, (516) 240-8025.

#### **The Acquisition**

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The stock purchase agreement provides for the acquisition by ISE of all of the outstanding shares of capital stock of Navios. The stock purchase agreement was executed on February 28, 2005. Following completion of the acquisition (and prior to the reincorporation), Navios will be our wholly-owned subsidiary and the business and assets of Navios will be our only operations. In the acquisition, all of the outstanding securities of Navios will be purchased by ISE for a cash payment of \$607.5 million, subject to adjustments provided for in the stock purchase agreement. The acquisition will be financed through a combination of the approximately \$180.0 million raised in ISE's initial public offering and currently held in the trust fund, with the balance to be funded by the new \$520.0 million secured credit facility that will be made available to ISE by HSH Nordbank AG.



## **Table of Contents**

ISE, Navios, the shareholders agent and the shareholders of Navios plan to complete the acquisition promptly after the ISE special meeting, provided that:

ISE's stockholders have approved the stock purchase agreement;

holders of less than 20% of the shares of common stock issued in ISE's initial public offering vote against the acquisition proposal and demand conversion of their shares into cash; and

the other conditions specified in the stock purchase agreement have been satisfied or waived.

If ISE stockholder approval has not been obtained at that time or any other conditions have not been satisfied or waived, the acquisition will be completed promptly after the stockholder approval is obtained or the remaining conditions are satisfied or waived. If for whatever reason ISE does not acquire Navios, pursuant to the stock purchase agreement, the right to acquire Navios may be assigned to an affiliate, which could include Angeliki Frangou and members of her family.

The stock purchase agreement is included as Annex A to this proxy statement/prospectus. We encourage you to read the stock purchase agreement in its entirety. See Stock Purchase Agreement.

## **Reincorporation to the Republic of the Marshall Islands**

Effective as of April 8, 2005, the board of directors approved the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands by means of a merger with Navios which, upon completion of the acquisition of Navios, will be a Marshall Islands wholly-owned subsidiary of ISE. Many of Navios's competitors are, and Navios itself is, incorporated in the Marshall Islands. Accordingly, Navios and others operating in the industry with whom Navios competes or deals have developed a level of comfort in dealing with Marshall Islands corporations. In addition, given the international nature of Navios's business, it makes sense from an international regulatory and an international tax planning basis to continue to be incorporated in the jurisdiction in which all of Navios's regulatory and tax planning have been historically based.

Navios's amended and restated articles of incorporation and bylaws that will be filed by ISE with the Republic of the Marshall Islands in connection with the reincorporation of ISE in to the Marshall Islands will be in substantially the form attached hereto as Annex B to this proxy statement/prospectus. The amended and restated articles of incorporation and bylaws that will be filed will be the governing corporate documents of the merged company of which you will be a stockholder. In addition, the plan and agreement of merger pursuant to which ISE will change its domicile and reincorporate from the State of Delaware to the Republic of the Marshall Islands will be in substantially the form attached hereto as Annex C to this proxy statement/prospectus. We encourage you to read the amended and restated articles of incorporation, bylaws and the plan and agreement of merger in their entirety. See Reincorporation to the Republic of the Marshall Islands.

## **Special Meeting of ISE's Stockholders**

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*Date, time and place.* The special meeting of the stockholders of ISE will be held at 10:00 a.m., eastern time, on [ ] 2005, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 666 Third Avenue, New York, New York 10017 to vote on the proposal to approve the acquisition and reincorporation proposals.

### **Approval of Navios s Stockholders**

All of the shareholders of Navios have approved the acquisition by virtue of their execution of the stock purchase agreement. No further approval of Navios s shareholders is required.

## **Table of Contents**

### **Voting Power; Record Date**

You will be entitled to vote or direct votes to be cast at the special meeting if you owned shares of ISE common stock as of the close of business on [                    ], 2005, which is the record date for the special meeting. You will have one vote for each share of ISE common stock you owned at the close of business on the record date. ISE warrants do not have voting rights.

### **Vote Required to Approve the Acquisition Proposal**

The approval of the acquisition of Navios pursuant to the stock purchase agreement will require the affirmative vote of a majority of the shares of ISE's common stock issued in its initial public offering that are present in person or by proxy and entitled to vote at the meeting. However, ISE will not be able to complete the acquisition if the holders of 6,555,000 or more shares of common stock issued in ISE's initial public offering, an amount equal to 20% or more of such shares, vote against the acquisition and demand that ISE convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering are held.

At the close of business on May 26, 2005, there were 39,900,000 shares of ISE common stock outstanding, of which 32,775,000 were issued in ISE's initial public offering.

### **Vote Required to Approve the Reincorporation Proposal**

The approval of the reincorporation proposal will require the affirmative vote of a majority of the outstanding shares of ISE's common stock.

### **Conversion Rights**

Pursuant to ISE's amended and restated certificate of incorporation, a holder of shares of ISE's common stock issued in the initial public offering may, if the stockholder votes against the acquisition, demand that ISE convert such shares into cash. This demand must be made on the proxy card at the same time that the stockholder votes against the acquisition proposal. If properly demanded, ISE will convert each share of common stock as to which such demand has been made into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering are held, plus all interest earned thereon. If you exercise your conversion rights, then you will be exchanging your shares of ISE common stock for cash and will no longer own these shares. Based on the amount of cash held in the trust account as of March 31, 2005, without taking into account any interest accrued, you will be entitled to convert each share of common stock that you hold into approximately \$5.51, or \$0.49 less than the per-unit offering price of \$6.00 for which you purchased units in the initial public offering. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to ISE. If the acquisition is not completed, then these shares will not be converted into cash.

The acquisition will not be completed if the holders of 6,555,000 or more shares of common stock issued in ISE's initial public offering, an amount equal to 20% or more of such shares, exercise their conversion rights.

**Appraisal or Dissenters Rights**

No appraisal rights are available under the Delaware General Corporation Law for the stockholders of ISE in connection with the acquisition proposal. Appraisal rights are available under the Delaware General Corporation Law for the stockholders of ISE in connection with the reincorporation proposal. The procedure to exercise appraisal rights is described in detail elsewhere in this proxy statement/prospectus. In addition, because the shareholders of Navios have unanimously approved the acquisition through their execution of the stock purchase agreement, they are not entitled to any dissenters rights, if any, under the laws of the Marshall Islands.

## **Table of Contents**

### **Tax Consequences**

The material US federal income tax consequences of the acquisition of Navios are discussed in conjunction with the tax consequences associated with the reincorporation. Please see the section entitled "United States Federal Income Tax Considerations of the Acquisition and Reincorporation" starting on page 53.

### **Proxies**

Proxies may be solicited by mail, telephone or in person.

If you grant a proxy, you may still vote your shares in person if you revoke your proxy before the special meeting.

### **Stock Ownership**

Of the 39,900,000 outstanding shares of ISE common stock, ISE's initial stockholders, including all its officers and directors, who purchased shares of common stock prior to ISE's initial public offering and who own an aggregate of approximately 26% of the outstanding shares of ISE common stock, have agreed to vote such shares acquired prior to the public offering (approximately 18% of the outstanding common stock) in accordance with the vote of the majority in interest of all other ISE stockholders on the acquisition proposal and as they see fit on the reincorporation proposal. They are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately 8% of the outstanding common stock, in favor of each of the acquisition and reincorporation proposals. None of the directors, officers or affiliates of Navios own any of ISE's securities.

Furthermore, based solely upon information contained in public filings, as of the record date, the following stockholders beneficially own greater than five percent of ISE's issued and outstanding common stock as such amounts and percentages are reflected in the public filing of such stockholder:

Angeliki Frangou, ISE's Chairman, President, and Chief Executive Officer, beneficially owns 10,039,022 shares of ISE common stock, representing approximately 25.16% of the ISE common stock outstanding on the record date;

North Sound Capital LLC beneficially owns 2,700,000 shares of ISE common stock, representing approximately 7.58% of the ISE common stock outstanding on the record date;

FMR Corp. beneficially owns 3,000,000 shares of ISE common stock, representing approximately 7.52% of the ISE common stock outstanding on the record date; and

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DKR Partners LP beneficially owns 2,298,000 shares of ISE common stock, representing approximately 5.76% of the ISE common stock outstanding on the record date.

Angeliki Frangou has filed a Schedule 13D amendment indicating that she intends, subject to market conditions, to purchase up to \$20 million of common stock. Any such purchases would change the percentage owned by the initial stockholders and Ms. Frangou referred to above.

### **ISE's Board of Directors Recommendation**

After careful consideration, ISE's board of directors has determined unanimously that the acquisition proposal and the reincorporation proposal are fair to, and in the best interests of, ISE and its stockholders. In reaching its decision with respect to the acquisition, the board considered the opinion of Capitalink, L.C., that, as of the date of its opinion, and based on conditions that existed as of that date, upon and subject to the

## **Table of Contents**

considerations described in its opinion and based upon such other matters as Capitalink, L.C. considered relevant, the consideration to be provided by ISE in connection with the Navios acquisition is fair to ISE's current stockholders from a financial point of view. See Fairness Opinion. Accordingly, ISE's board has unanimously approved and declared advisable the acquisition and the reincorporation and unanimously recommends that you vote or instruct your vote to be cast FOR the approval of the acquisition proposal and FOR the approval of the reincorporation proposal.

### **Interests of ISE Directors and Officers in the Acquisition**

When you consider the recommendation of ISE's board of directors that you vote in favor of adoption of the acquisition proposal, you should keep in mind that certain of ISE's directors and officers have interests in the acquisition that are different from, or in addition to, your interest as a stockholder. These interests include, among other things, that if the acquisition is not approved and ISE fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation, requiring ISE to liquidate, the shares of common stock held by ISE's executives and directors may be worthless because ISE's executives and directors are not entitled to receive any of the net proceeds of ISE's initial public offering that may be distributed upon liquidation of ISE. In addition, it is anticipated that the current board of directors of ISE will remain on the board thereafter and that Angeliki Frangou will remain the CEO and Chairman of the board following the acquisition. Also, Ms. Frangou has agreed to loan ISE funds, without interest, to cover its transaction expenses, including bank commitment fees and deposits, in connection with the acquisition of Navios in excess of the funds held outside the trust, which loans, if the acquisition is not completed, may not be repaid.

### **Interests of Directors and Officers of Navios in the Acquisition**

You should understand that some of the current directors and officers of Navios have interests in the acquisition that are different from, or in addition to, your interest as a stockholder. In particular, Robert G. Shaw, Navios's Executive Vice President and General Counsel, is expected to become ISE's President, and Bruce C. Hoag, Navios's current Chief Financial Officer, is expected to become ISE's Chief Financial Officer. Further, each of Ted C. Petrone, Michael E. McClure, Shunji Sasada, Pablo Soler and Gabriel Soler who are referred to below as employees, are expected to enter into employment agreements with ISE in connection with the acquisition. A summary of the employment agreements can be found under Employment Agreements on page 45. In addition, as Messrs. Shaw and Hoag are also shareholders of Navios, as well as shareholders' agents on behalf of the Navios shareholders, it is possible that potential conflicts of interest may arise with respect to their obligations as shareholders' agent and their interests as shareholders of Navios.

### **Conditions to the Completion of the Acquisition**

The obligations of ISE and the shareholders of Navios to complete the acquisition are subject to the satisfaction or waiver of specified conditions before completion of the acquisition, including the following:

*Conditions to ISE's and Navios's obligations:*

receipt of ISE stockholder approval;

the absence of any order or injunction preventing consummation of the acquisition; and

the absence of any suit or proceeding by any governmental entity or any other person challenging the acquisition.

*Conditions to ISE's obligations:*

The obligation of ISE to complete the acquisition is further subject to the following conditions:

the representations and warranties made by the shareholders of Navios that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in



**Table of Contents**

all material respects, as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and ISE must have received a certificate from Navios's shareholders to that effect;

Navios must have performed in all material respects all obligations required to be performed by it under the terms of the stock purchase agreement; and

there must not have occurred since the date of the stock purchase agreement any material adverse effect on Navios.

*Conditions to the obligations of the shareholders of Navios:*

The obligations of the shareholders of Navios to effect the acquisition are further subject to the following conditions:

ISE's representations and warranties that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in all material respects, as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and Navios must have received an officer's certificate from ISE to that effect; and

ISE must have performed in all material respects all obligations required to be performed by them under the stock purchase agreement.

**Termination, Amendment and Waiver**

The stock purchase agreement may be terminated at any time prior to the completion of the acquisition, whether before or after receipt of the ISE stockholder approval, by mutual written consent of ISE and the shareholders of Navios.

In addition, either ISE or the shareholders of Navios may terminate the stock purchase agreement if:

the acquisition is not consummated on or before May 20, 2005, which date was subsequently extended, pursuant to an amendment to the stock purchase agreement, to July 15, 2005; or

by either party if the other party has breached any of its covenants or representations and warranties in any material respect.

If permitted under applicable law, either ISE or the shareholders of Navios may waive conditions for their own respective benefit and consummate the acquisition even though one or more of these conditions have not been met. We cannot assure you that all of the conditions will be satisfied or waived or that the acquisition will occur.

**Regulatory Matters**

The acquisition and the transactions contemplated by the stock purchase agreement are not subject to any federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or HSR Act, except for filings necessary to effectuate the transactions contemplated by the reincorporation proposal with the Registrar of the Republic of the Marshall Islands and the Secretary of State of the State of Delaware.

**Table of Contents****SELECTED HISTORICAL FINANCIAL INFORMATION**

ISE is providing the following financial information to assist you in your analysis of the financial aspects of the acquisition. The Navios historical information is derived from the unaudited consolidated financial statements of Navios as of and for each of the periods ended March 31, 2005 and 2004 and the audited consolidated financial statements of Navios as of December 31, 2004 and 2003 and for each of the years ended December 31, 2004 included elsewhere in this proxy statement/prospectus. Navios historical information as of December 31, 2002, and as of and for the years ended December 31, 2000 and 2001 are derived from the unaudited financial statements which are not included in this proxy statement/prospectus. Navios was formed on November 19, 2002 and did not have operations prior to December 11, 2002. On December 11, 2002, Navios Company completed a business combination with Anemos Maritime Holdings Inc. (Anemos) and Anemos was considered the accounting acquirer in the business combination. The financial statements for the three year period January 1, 2000 to December 31, 2002 include the accounts of Anemos and its wholly-owned subsidiaries for the full year, and Navios Company for December 11, 2002 through December 31, 2002. The ISE historical information is derived from the unaudited financial statements of ISE as of March 31, 2005 and the audited financial statements of ISE as of December 31, 2004, and for the period from September 17, 2004 (inception) to December 31, 2004. The information is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes contained elsewhere herein. The historical results included below and elsewhere in this proxy statement/prospectus are not indicative of the future performance of either Navios or ISE.

The unaudited pro forma condensed balance sheet at March 31, 2005 and the statement of operations for the periods ended March 31, 2005 and December 31, 2004 have been prepared using two different levels of approval of the Transaction by the ISE stockholders, as follows:

Assuming Maximum Approval: This presentation assumes that 100% of ISE stockholders approve the Transaction; and

Assuming Minimum Approval: This presentation assumes that only 80.1% of ISE stockholders approve the Transaction.

**NAVIOS HISTORICAL FINANCIAL INFORMATION**

(In thousands, except per share)

	Three months ended		Year ended December 31,				
	March 31,						
	2005	2004	2004	2003	2002	2001	2000
	(unaudited)	(unaudited)				(unaudited)	(unaudited)
<b>Statement of Operations Data</b>							
Revenue	\$ 61,365	\$ 66,162	\$ 279,184	\$ 179,734	\$ 26,759	\$ 21,454	\$ 9,271
Gains and losses from forward freight agreements	(4,567)	33,583	57,746	51,115	494		
Time charter voyage and port terminal expense	(37,469)	(49,322)	(180,026)	(136,551)	(6,139)	(1,774)	(1,101)
Direct vessel expense	(2,110)	(2,171)	(8,224)	(10,447)	(8,192)	(7,439)	(4,263)
General and administrative expense	(3,644)	(3,141)	(12,722)	(11,628)	(2,263)	(1,234)	(733)
Depreciation and amortization expense	(1,489)	(1,459)	(5,925)	(8,857)	(6,003)	(5,274)	(1,797)
Gain (loss) on sale of assets			61	(2,367)	(127)	(430)	(1,153)
Interest income	302	73	789	134	41	195	107
Interest expense	(475)	(814)	(3,450)	(5,278)	(3,950)	(6,104)	(2,191)
Other income	971	17	374	1,102	72	248	137
Other expense	(222)	(1,333)	(1,438)	(553)	(6,070)	(2,770)	

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Income (loss) before minority interest	12,662	41,595	126,369	56,404	(5,378)	(3,128)	(1,723)
Minority interest				(1,306)	(324)		
Share of profit of equity method investee equity in net earnings of affiliate companies	302	181	763	403	68	96	128
Net income (loss)	\$ 12,964	\$ 41,776	\$ 127,132	\$ 55,501	\$ (5,634)	(3,032)	(1,595)

**Balance Sheet Data (at period end)**

Current assets, including cash	\$ 192,563		\$ 187,944	\$ 179,403	\$ 31,020	\$ 4,721	\$ 7,544
Total assets	337,270		333,292	361,533	215,800	161,610	97,206
Current liabilities, including current portion of long-term debt	95,627		103,527	136,902	38,460	12,204	8,875
Total long-term debt, including current portion	50,256		50,506	98,188	129,615	115,972	63,453
Mandatorily redeemable preferred stock, including current portion				15,189	9,435		
Shareholders equity	187,755		174,791	96,292	41,641	38,272	29,720

**Table of Contents**

	Three months ended		Year ended December 31,				
	March 31,						
	2005	2004	2004	2003	2002	2001	2000
	(unaudited)	(unaudited)	(In thousands, except per share)			(unaudited)	(unaudited)
<b>Other Financial Data</b>							
Net cash provided by operating activities	\$ 18,177	\$ 22,800	\$ 137,218	\$ 21,452	\$ 2,219	\$ 7,826	\$ 2,224
Net cash provided by (used in) investing activities	(1,656)	(1,205)	(4,967)	26,594	(3,682)	(72,616)	(70,136)
Net cash provided by (used in) financing activities	(250)	(1,661)	(111,943)	(29,416)	5,474	61,976	73,764
Book value per common share historical and pro forma <sup>(1)</sup>	214.68	141.11	199.86	98.41	41.64	55.29	42.94
Cash dividends, declared per common share historical and pro forma <sup>(1)</sup>			45.74				
Income (loss) per common share from continuing operations historical and pro forma <sup>(1)</sup>	14.82	42.70	145.36	56.72	(5.63)	(4.38)	(2.30)
Cash paid for common stock dividend declared			40,000				
EBITDA <sup>(2)</sup>	\$ 14,626	\$ 43,976	\$ 135,718	\$ 69,502	\$ 4,278	\$ 10,383	\$ 2,286

(1) Per share data has been prepared on a historical basis for the years and periods from January 1, 2003 onwards, while for the three years of 2000 to 2002 it is based on equivalent pro forma basis considering the number of shares allocated to the shareholders of Anemos in the business combination that occurred on December 11, 2002.

(2) EBITDA represents net earnings before interest (income and expense), taxes, depreciation and amortization. EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined by U.S. GAAP, and our calculation of EBITDA may not be comparable to that reported by other companies. EBITDA is included in this prospectus because it is a basis upon which we assess our liquidity position and because we believe that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness. The following table reconciles net cash from operating activities, as reflected in the consolidated statements of cash flows, to EBITDA:

Net Cash from Operating Activities	\$ 18,177	\$ 22,800	\$ 137,218	\$ 21,452	\$ 2,219	\$ 7,826	\$ 2,224
Net increase (decrease) in operating assets	10,339	(148)	(7,195)	20,406	1,915	(9)	422
Net (increase) decrease in operating liabilities	1,770	4,082	3,104	(18,112)	289	(1,805)	(803)
Net Interest cost	173	741	2,661	5,144	3,909	8,541	2,084
Amortization of deferred financing costs	(13)	(41)	(773)	(565)	(145)	(117)	(20)
Amortization of deferred drydock costs	(62)	(63)	(249)	(309)	(327)	(591)	(483)
Impairment loss						(400)	
Provision for losses on accounts receivable	912	(35)	573	(1,021)	(101)		
Gain/loss on sale of property, equipment and investments			61	(2,367)	(127)	(430)	(1,138)
Unrealized gain/loss on derivatives, FEC's, interest rate swaps and fuel swaps	(16,490)	16,877	254	45,855	(3,098)	(2,632)	
Undistributed earnings in affiliates	(180)	(237)	64	325	68		
Minority Interest				(1,306)	(324)		
<b>EBITDA</b>	<b>\$ 14,626</b>	<b>\$ 43,976</b>	<b>\$ 135,718</b>	<b>\$ 69,502</b>	<b>\$ 4,278</b>	<b>\$ 10,383</b>	<b>\$ 2,286</b>

**ISE HISTORICAL FINANCIAL INFORMATION**

	Three months ended	Period from September 17,
	March 31, 2005	2004 (inception) to
		December 31, 2004

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	(unaudited)	
<b>Income statement data</b>		
Loss from operations	\$ (190,771)	\$ (77,185)
Interest income	741,135	92,715
	<hr/>	<hr/>
Income before provision for income taxes	550,364	15,530
Provision for income taxes	257,000	6,700
	<hr/>	<hr/>
Net income	\$ 293,364	\$ 8,830
	<hr/>	<hr/>
Weighted average number of common shares outstanding	39,900,000	12,743,571
	<hr/>	<hr/>
Net income per share basic and diluted	\$ 0.01	\$ 0.00
	<hr/>	<hr/>
	<b>March 31, 2005</b>	<b>December 31, 2004</b>
	<hr/>	<hr/>
<b>Balance sheet data</b>		
Cash	\$ 224,714	\$ 2,032,478
Investments held in trust	181,610,571	180,691,163
Total assets	187,633,270	182,824,824
Total liabilities	4,679,445	169,703
Common stock subject to possible conversion	36,097,142	36,097,142
Total stockholders equity	146,856,683	146,557,979
Total liabilities and stockholders equity	\$ 187,633,270	\$ 182,824,824

**Table of Contents****UNAUDITED PRO FORMA FINANCIAL INFORMATION**

	Three months ended	
	March 31, 2005,	
	Maximum Approval	Minimum Approval
	(In thousands)	
<b>INCOME STATEMENT DATA</b>		
Revenue	\$ 61,365	\$ 61,365
Gains and losses from forward freight agreements	(4,567)	(4,567)
Expenses		
Time charter and voyage expense	(37,469)	(37,469)
Direct vessel expense	(2,110)	(2,110)
General and administrative expense	(3,672)	(3,672)
Depreciation and amortization expense	(7,437)	(7,437)
Gain (loss) on sale of assets		
Other income (expenses)		
Interest income	1,227	1,043
Interest expense	(5,192)	(5,192)
Other income	971	971
Other expense	(222)	(222)
Income before minority interest	2,703	2,519
Minority interest		
Share of profit of equity method investee	302	302
Net income	\$ 2,748	\$ 2,564
<b>BALANCE SHEET DATA (at period end)</b>		
Current assets, including cash	\$ 221,230	\$ 184,926
Total assets	806,892	770,588
Current liabilities, including current portion of long-term debt	179,933	179,933
Total long-term debt, including current portion	520,000	520,000
Shareholders' equity	183,160	146,856
<b>OTHER FINANCIAL DATA</b>		
Net cash provided by operating activities		
Net cash provided by (used in) investing activities		
Net cash provided by (used in) financing activities		
EBITDA <sup>(1)</sup>	14,150	14,150

- (1) EBITDA represents net earnings before interest (income and expense), taxes, depreciation and amortization. EBITDA does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined by U.S. GAAP, and calculation of EBITDA may not be comparable to that reported by other companies. EBITDA is included in this prospectus because it is a basis upon which Navios assesses its liquidity position and because ISE believes that it presents useful information to investors regarding a company's ability to service and/or incur indebtedness.

	March 31, 2005	Proforma
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	<u>ISE</u>	<u>Navios</u>	<u>_____</u>
	<u>_____</u>	<u>_____</u>	<u>_____</u>
Book value per share (1)	\$ 4.40	\$ 214.68	4.40
Cash dividends declared			
Income (loss) per share Basic (2)	.01	\$ 14.82	.08
Income (loss) per share Diluted (2)	.01	\$ 14.82	.06

(1) Book value for the historical and pro forma are both calculated based on the minimum approval, to record refund of funds (\$36,304) to dissenting shareholders.

(2) Income per share is for three month period ending March 31, 2005



**Table of Contents****PER SHARE MARKET PRICE INFORMATION**

The shares of ISE common stock, warrants and units are currently quoted on the Over-the-Counter Bulletin Board under the symbols ISHP, ISHPW and ISHPU, respectively. The closing prices per share of common stock, warrant and unit of ISE on February 28, 2005, the last trading day before the announcement of the execution of the stock purchase agreement, were \$5.97, \$1.49 and \$9.00, respectively. Each unit of ISE consists of one share of ISE common stock and two redeemable common stock purchase warrants. ISE warrants became separable from ISE common stock on January 5, 2005. Each warrant entitles the holder to purchase from ISE one share of common stock at an exercise price of \$5.00 commencing on the later of the completion of the Navios acquisition (or if the Navios transaction is not consummated, the first acquisition which is consummated) or December 10, 2005. The ISE warrants will expire at 5:00 p.m., New York City time, on December 10, 2008, or earlier upon redemption. Prior to December 16, 2004, there was no established public trading market for ISE's common stock.

There is no established public trading market for the shares of common stock of Navios.

The following table sets forth, for the calendar quarter indicated, the quarterly high and low bid information of ISE's common stock, warrants and units as reported on the OTC Bulletin Board. The quotations listed below reflect interdealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions.

<u>Quarter Ended</u>	<u>Common Stock</u>		<u>Warrants</u>		<u>Units</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
December 31, 2004	\$	\$			\$ 6.90	\$ 6.00
March 31, 2005	\$7.04	\$ 5.25	\$ 1.96	\$ 0.86	\$ 10.75	\$ 6.50
June 30, 2005 (through May 26, 2005)	\$ 6.15	\$ 5.57	\$ 1.74	\$ 0.79	\$ 9.60	\$ 7.32

**RISK FACTORS**

*You should carefully consider the following risk factors, together with all of the other information included in this proxy statement/prospectus, before you decide whether to vote or instruct your vote to be cast to adopt the acquisition proposal. As ISE's operations will be those of Navios upon completion of the acquisition, a number of the following risk factors relate to the business and operations of Navios and ISE as the successor to such business.*

**Risks Associated with the Shipping Industry**

*The cyclical nature of the international dry bulk shipping industry may lead to volatile changes in charter rates and vessel values, which may affect Navios's earnings*

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The shipping business, including the dry cargo market, has been cyclical in varying degrees, experiencing fluctuations in charter rates, profitability and, consequently, vessel values. For example, at various times during 2004, charter rates for the international dry bulk shipping industry reached historic highs. ISE anticipates that the future demand for Navios' s dry bulk carriers and dry bulk charter rates will be dependent upon continued economic growth in China and the rest of the world, seasonal and regional changes in demand, and changes to the capacity of the world fleet. The capacity of the world fleet seems likely to increase, and there can be no assurance that economic growth will continue. Adverse economic, political, social or other developments could have a material adverse effect on Navios' s business and results of operations leading to decreased earnings as a result of decreasing demand and less growth in the shipping industry. Fluctuations, and the demand for vessels, in general, have been influenced by, among other factors:

global and regional economic conditions;

developments in international trade;

**Table of Contents**

changes in seaborne and other transportation patterns, such as port congestion and canal closures;

weather and crop yields;

armed conflicts and terrorist activities;

political developments; and

embargoes and strikes.

Furthermore, factors that influence vessel values include:

the number of newbuilding deliveries;

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

changes in global dry bulk commodity supply;

types and sizes of vessels;

the development of and increase in use of other modes of transportation;

cost of vessel newbuildings;

governmental or other regulations; and

prevailing level of charter rates.

Additionally, a significant contraction in demand for imported commodities, such as iron ore or coal, as a result of economic downturns or changes in government policies in certain regional markets, could have a material adverse impact on dry cargo freight rates and vessel values. For instance, an economic downturn in China, which has experienced substantial growth during the past few years, could negatively affect the shipping industry. These and other factors may cause a decrease in the demand for the services provided by Navios.

*An economic slowdown in the Asia Pacific region could have a material adverse effect on Navios' s business, financial position, and results of operations*

Currently, China, Japan and other Pacific Asian economies are the main driving force behind the increase in seaborne dry bulk trades and the demand for dry bulk carriers. As a result, a negative change in economic conditions in any Asian Pacific country, but particularly in China or Japan, may have an adverse effect on Navios' s business, financial position, earnings and profitability, as well as Navios' s future prospects. In particular, in recent years, China has been one of the world' s fastest growing economies in terms of gross domestic product. ISE cannot assure that such growth will be sustained or that the Chinese economy will not experience a decline from current levels in the future. Moreover, any slowdown in the economies of the United States, the European Union or certain Asian countries may adversely affect economic growth in China and elsewhere. As a result of less demand and less growth, Navios' s results of operations, as well as its future prospects, will likely be adversely affected by an economic downturn in any of these countries.

***The market values of Navios' s vessels, which are at historically high levels, may decrease, which could cause ISE to breach covenants in its credit facility and adversely affect its operating results as a result of potential foreclosures***

If the market values of Navios' s owned vessels, which are at historically high levels, decrease, ISE may breach some of the covenants contained in the financing agreements relating to its indebtedness at the time, including covenants in its new credit facility. If ISE does breach such covenants and ISE is unable to remedy the relevant breach, its lenders could accelerate its debt and foreclose on its owned vessels causing ISE to experience a decrease in earnings. In addition, if the book value of a vessel is impaired due to unfavorable market conditions, or a vessel is sold at a price below its book value, ISE would incur a loss that could adversely affect its operating results.

## **Table of Contents**

### ***Navios may employ vessels on the spot market, which may increase its exposure to volatility in the shipping market***

Navios periodically employs its vessels on a spot basis. The spot charter market is highly competitive and rates within this market are highly volatile, while longer-term time charters provide income at pre-determined rates over more extended periods of time. There can be no assurance that Navios will be successful in keeping its vessels fully employed in these short-term markets, or that future spot rates will be sufficient to enable such vessels to be operated profitably. A significant decrease in charter rates will affect the value of Navios' s fleet and will adversely affect its profitability and cash flows, with the result that its ability to pay debt service and dividends could be impaired.

### ***The aging of Navios' s owned vessels may result in increased operating costs in the future, which could adversely affect ISE' s earnings***

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. As of March 31, 2005, the six vessels in Navios' s owned fleet had an average age of approximately 3.5 years. As Navios' s owned fleet ages, it can be expected to incur increased maintenance and repair costs. Older vessels are also typically less fuel efficient than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations, or the addition of new equipment, to Navios' s vessels, and may restrict the type of activities in which its vessels may engage. ISE cannot assure you that, as Navios' s owned vessels age, market conditions will justify those expenditures or enable it to operate such vessels profitably during the remainder of their useful lives. Operating any such vessels at a loss will negatively impact ISE' s earnings.

### ***Maritime claimants could arrest Navios' s vessels, which could interrupt its 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 against such vessel. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of Navios' s vessels could interrupt its cash flow and require it to pay large sums of funds to have the arrest lifted. Navios is not currently aware of the existence of any such maritime lien on its vessels.

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

### ***A failure to pass inspection by classification societies could adversely impact ISE' s revenues***

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 United Nations Safety of Life at Sea Convention. Navios' s owned fleet is currently enrolled with Lloyd' s Register of Shipping and the American Bureau of Shipping.

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A vessel must undergo Annual Surveys, Intermediate Surveys, 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. Navios's vessels are on Special Survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be drydocked every two to three years for inspection of the underwater parts of such vessel.

If any vessel fails any Annual Survey, Intermediate Survey, or Special Survey, the vessel may be unable to trade between ports and, therefore, would be unemployable, potentially causing a negative impact on ISE's revenues.

## **Table of Contents**

### ***Navios is subject to regulation and liability under environmental laws that could require significant expenditures and affect Navios' cash flows and net income***

The shipping business and vessel operation are materially affected by government regulation in the form of international conventions, national, state, and local laws, and regulations in force in the jurisdictions in which vessels operate, as well as in the country or countries of their registration. Because such conventions, laws, and regulations are often revised, ISE cannot predict the ultimate cost of complying with such conventions, laws, and regulations, or the impact thereof on the resale price or useful life of Navios' vessels. Additional conventions, laws, and regulations may be adopted which could limit ISE's ability to do business or increase the cost of its doing business, which may materially adversely affect its operations, as well as the shipping industry generally. Navios is required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, and certificates with respect to its operations.

The operation of vessels is also 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 that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe vessel operation and describing procedures for 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 may result in a denial of access to, or detention in, certain ports. Currently, each of the vessels in Navios' owned fleet is ISM Code-certified. However, there can be no assurance that such certification will be maintained indefinitely.

Although the United States is not a party thereto, many countries have ratified and follow the liability scheme adopted by the International Maritime Organization, or IMO, and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended, or the CLC, and the Convention for the Establishment of an International Fund for Oil Pollution of 1971, as amended. Under these conventions, a vessel's registered owner is strictly liable for pollution damage caused on the territorial waters of a contracting state by discharge of persistent oil, subject to certain defenses. Many of the countries that have ratified the CLC have increased the liability limits through a 1992 Protocol to the CLC. The liability limits in the countries that have ratified this Protocol are currently approximately \$4 million, plus approximately \$566 per gross registered ton above 5,000 gross tons, with an approximate maximum of \$80.5 million per vessel and an exact amount tied to a unit of account which varies according to a basket of currencies. The right to limit liability is forfeited under the CLC where the spill is caused by the owner's actual fault or privity and, under the 1992 Protocol, where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

Navios currently maintains, for each of its owned vessels, pollution liability coverage insurance in the amount of \$1.0 billion per incident. If the damages from a catastrophic incident exceed this insurance coverage, it would severely hurt its cash flow and profitability.

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

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).

The European Union has introduced and 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



## **Table of Contents**

by the European Union or any other country or authority. Any such legislation could require significant expenditures to continue to operate vessels and such expenses could negatively impact cash flows and net income.

*Navios is subject to vessel security regulations, the implementation of which could negatively affect its operations and, thus, its revenues*

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the US Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created ISPS Code. Among the various requirements are:

on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;

on-board installation of ship security alert systems;

the development of vessel security plans; and

compliance with flag state security certification requirements.

The US Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-US vessels from MTSA vessel security measures, provided such vessels have on board, by July 1, 2004, a valid International Ship Security Certificate (ISSC) that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. ISE will implement the various security measures addressed by the MTSA, SOLAS and the ISPS Code and take measures to ensure that its vessels attain compliance with all applicable security requirements within the prescribed time periods. Although ISE does not believe these additional requirements will have a material financial impact on Navios's operations, ISE cannot assure you that there will be no interruption in operations and any such interruption could cause a decrease in revenues.

*Governments could requisition Navios's vessels during a period of war or emergency, resulting in loss of earnings*

A government could requisition title or seize Navios's vessels during a war or national emergency. Requisition of title occurs when a government takes a vessel and becomes the owner. A government could also requisition Navios's vessels for hire, which would result in the government's taking control of a vessel and effectively becoming the charterer at a dictated charter rate. Requisition of one or more of Navios's vessels may have a negative effect on Navios's revenues.

## **Risks Associated with the Acquisition**

*If 20% or more of the holders of ISE's public securities decide to vote against the proposed acquisition, ISE may be forced to liquidate, stockholders may receive less than \$6.00 per share and the warrants may expire worthless*

Under the terms of ISE's corporate charter, if 20% or more of shares issued in ISE's initial public offering decide to vote against the proposed acquisition and opt to convert their shares to cash, ISE may be ultimately forced to liquidate. While ISE will continue to search to acquire a fleet of dry bulk vessels or an operating company in the dry bulk sector of the shipping industry, if it does not consummate a business combination by December 16, 2005, or, if a letter of intent, agreement in principle or definitive agreement is executed, but not

**Table of Contents**

consummated, by December 16, 2005, then by June 16, 2006, it will be forced to liquidate. In any liquidation, the net proceeds of ISE's initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to the holders of ISE's common stock. If ISE is forced to liquidate its assets, the per-share liquidation will be \$5.51, plus interest accrued thereon until the date of any liquidation. Furthermore, there will be no distribution with respect to ISE's outstanding warrants and, accordingly, the warrants will expire worthless.

***If the acquisition's benefits do not meet the expectations of financial or industry analysts, the market price of ISE's common stock may decline***

The market price of ISE's common stock may decline as a result of the acquisition if:

ISE does not achieve the perceived benefits of the acquisition as rapidly as, or to the extent anticipated by, financial or industry analysts; or

the effect of the acquisition on ISE's financial results is not consistent with the expectations of financial or industry analysts.

Accordingly, investors may experience a loss as a result of a decreasing stock price and Navios may not be able to raise future capital, if necessary, in the equity markets.

***Failure to complete the acquisition could negatively impact the market price of ISE's common stock, earnings and operating results***

If the acquisition is not completed for any reason, ISE may be subject to a number of material risks, including:

the market price of ISE's common stock may decline to the extent that the current market price of its common stock reflects a market assumption that the acquisition will be consummated;

costs related to the acquisition, such as legal and accounting fees and the costs of the fairness opinion, must be paid even if the acquisition is not completed; and

charges against earnings for transaction-related expenses which could be higher than expected.

Accordingly, the decreasing market price and added costs and charges of the failed acquisition may make it more difficult for ISE to seek and complete another acquisition candidate, and investors may experience a loss on their investment.

***The operation of ocean-going vessels entails certain inherent risks that may affect Navios's business and reputation which, in turn, may adversely affect its revenues and stock price***

The operation of ocean-going vessels entails certain inherent risks that may adversely affect Navios' s business and reputation, including:

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.

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

## **Table of Contents**

### ***Certain of ISE's directors, officers, and principal stockholders are affiliated with entities engaged in business activities similar to those proposed to be conducted by ISE which may compete directly with ISE causing a negative impact on ISE's operations***

Some of ISE's directors, officers and principal stockholders have an affiliation with entities that have similar business activities to those that ISE will have upon completion of the acquisition. These other affiliations and business activities may give rise to certain conflicts of interest in the course of such individuals' affiliation with ISE. Although ISE does not intend to prevent its directors, officers and principal stockholders from having such affiliations, ISE will use its best efforts to cause such individuals to comply with all applicable laws and regulations in addressing such conflicts of interest. After the acquisition, the officers and employee directors of ISE will devote their full time and attention to the ongoing operations of ISE and the non-employee directors of ISE will devote such time as is necessary and required to satisfy their duties as a director of a public company.

### ***Navios is subject to trading risks that could adversely impact its financial condition and results of operations***

Due to dry bulk shipping market volatility, success in this industry requires constant adjustment of the balance between chartering out vessels for long periods of time or trading them on a spot basis. For example, a long-term contract to charter a vessel might lock Navios into a profitable or unprofitable situation depending on the direction of freight rates over the term of the contract. Navios seeks to manage and mitigate that risk through trading and hedging activities in freight, tonnage and forward freight agreements, or FFAs. However, there is no assurance that Navios will be able at all times to successfully protect itself from volatility in the shipping market and any associated decrease in earnings and revenues.

### ***Navios is subject to certain credit risks that could impact its financial condition and results of operations***

Navios charters out its vessels to other parties, who pay Navios a daily rate of hire. Navios also enters into Contracts of Affreightment (COAs) pursuant to which Navios agrees to carry cargoes, typically for industrial customers, who export or import dry bulk cargoes. Additionally, Navios enters into FFAs. Navios also enters into spot market voyage contracts, where Navios is paid a rate per ton to carry a specified cargo from point A to point B. All of these contracts subject Navios to counterparty credit risk. As a result, after the acquisition, ISE will be subject to credit risks at various levels, including with charterers, cargo interests, or terminal customers and such risks could result in decreased earnings and revenues.

### ***Navios is subject to certain operating risks that could impact its financial condition and results of operations***

Navios's exposure to operating risks of vessel breakdown and accidents mainly arises in the context of its six owned vessels. The rest of its core fleet is chartered-in under time charters and, as a result, most operating risks relating to these time chartered vessels reside with their head owners. If Navios pays hire on a chartered-in vessel at a lower rate than the rate of hire it receives from a sub-charterer to whom Navios has chartered out the vessel, a breakdown or loss of the vessel due to an operating risk suffered by the head owner will, in all likelihood, result in Navios's loss of the positive spread between the two rates of hire. Although ISE will have in force a time charterer's interest policy to cover it against the loss of such spread through the sinking or other similar loss of a chartered-in vessel, ISE cannot assure you that it will be covered under all circumstances. In addition, Navios is party to long-term contracts with two commodity houses, ADM and Louis Dreyfus, that will cover a substantial portion of its silo capacity in the Uruguayan terminal for the next several years, and the loss of or a material change to such contracts could have an adverse effect on Navios's financial condition and results of operations impacting its earnings and revenues.

*Although Navios has longstanding relationships with certain Japanese shipowners who provide it access to very competitive contracts, ISE cannot assure you that Navios will always be able to maintain such relationships or that such contracts will continue to be available in the future*

Navios has long-standing relationships with certain Japanese shipowners that give it access to time charters that are currently at very competitive rates and which, in some cases, include options to purchase the vessels at

## **Table of Contents**

attractive prices relative to the current market. Although ISE has no indication that Navios may not have such access in the future, ISE cannot assure you that it will have such relationships indefinitely. In addition, there is no assurance that Japanese shipowners will generally make contracts available on the same or substantially similar terms in the future.

### ***ISE may require additional financing for exercise of vessel purchase options which could dilute existing stockholders***

In the near future and subsequent to the completion of the acquisition of Navios, ISE will be required to make substantial cash outlays to exercise options to acquire vessels and it may need additional financing to cover all or a portion of the purchase prices. ISE currently intends to cover the cost of exercising such options with a combination of cash generated from operations and debt, but there can be no assurance that ISE will generate sufficient cash or that debt financing will be available. Moreover, the covenants in ISE's contemplated senior secured credit facility may make it more difficult to obtain such financing by imposing restrictions on what ISE can offer as collateral. Additional financings, if any, through the issuance of securities would dilute existing stockholders.

### ***ISE intends to continue to grow the Navios fleet which could increase expenses and losses***

ISE expects to grow the Navios fleet, either through sales and purchases or the increase of the number of chartered vessels. The addition of these vessels to the Navios fleet will impose significant additional responsibilities on its management and staff, and may require ISE to increase the number of its personnel. ISE will also have to increase its customer base to provide continued employment for the new vessels. ISE's growth will depend on:

locating and acquiring suitable vessels;

identifying and consummating acquisitions or joint ventures;

integrating any acquired business successfully with Navios's existing operations;

enhancing its customer base;

managing its expansion; and

obtaining required financing.

Growing any business by acquisition, including the contemplated Navios acquisition, presents numerous risks such as undisclosed liabilities and obligations, difficulty experienced in obtaining additional qualified personnel, and managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. ISE cannot give any assurance that it will be successful in executing its growth plans or that it will not incur significant expenses and losses in connection therewith.

*As ISE expands the Navios business, ISE will need to improve its operations and financial systems, staff, and crew; if it cannot improve these systems or recruit suitable employees, it may incur additional cost and expenses and adversely impact earnings*

ISE's initial operating and financial systems may not be adequate as it implements its plan to expand, and its attempts to improve these systems may be ineffective. If ISE is unable to operate its financial and operations systems effectively or to recruit suitable employees as it expands its operations, may incur additional cost and expenses, causing a decrease in revenues and profitability.

*Purchasing and operating previously owned, or secondhand, vessels may result in increased operating costs and vessels off-hire, which could adversely affect ISE's earnings*

ISE may decide to purchase and operate previously owned, or secondhand vessels, either through Navios's existing purchase options or in the open market. ISE's inspection of secondhand vessels prior to purchase does



## **Table of Contents**

not provide it with the same knowledge about their condition and cost of any required (or anticipated) repairs that it would have had if these vessels had been built for and operated exclusively by Navios. Generally, shipowners do not receive the benefit of warranties on secondhand vessels. These additional operating costs could adversely impact ISE's earnings.

### ***Vessels may suffer damage and Navios may face unexpected drydocking costs, which could affect its cash flow and financial condition***

If Navios's owned vessels suffer damage, they may need to be repaired at Navios's cost at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. Navios may have to pay drydocking costs that insurance does not cover. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease its earnings.

### ***The shipping industry has inherent operational risks that may not be adequately covered by ISE's insurance***

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

### ***Servicing debt could limit funds available for other purposes, such as the payment of dividends***

Following the acquisition, ISE will use cash to pay the principal and interest on its debt. These payments limit funds otherwise available for working capital, capital expenditures and other purposes. Following this acquisition, ISE may need to take on additional debt as it expands the Navios fleet, which could increase its ratio of debt to equity. The need to service its debt may limit funds available for other purposes, including distributing cash to its stockholders, and its inability to service debt could lead to acceleration of its debt and foreclosure on the Navios owned vessels.

### ***ISE's loan agreement will contain restrictive covenants that may limit its liquidity and corporate activities***

ISE's loan agreements may impose on ISE certain operating and financial restrictions. These restrictions may limit ISE's ability to:

incur additional indebtedness;

create liens on its assets;

make investments;

engage in mergers or acquisitions;

pay dividends;

make capital expenditures;

change the management of its vessels or terminate or materially amend the management agreements Navios has relating to each vessel; and

sell any of Navios' s vessels.

## **Table of Contents**

Therefore, ISE may need to seek permission from its lender in order to engage in some corporate actions. ISE's lender's interests may be different from those of ISE, and ISE cannot guarantee that it will be able to obtain its lender's permission when needed. This may prevent ISE from taking actions that are in its best interest.

### ***ISE's loan agreement may prohibit or impose certain conditions on the payment of dividends***

ISE has agreed to enter into a new senior secured credit facility with the institutional lender, HSH Nordbank AG, to finance the Navios acquisition and will refinance all or part of Navios's existing debt simultaneously with the closing of the Navios acquisition. The terms of the new credit facility will contain a number of financial covenants and general covenants that will require ISE, among other things, to maintain a certain solvency ratio and minimum equity amounts. ISE may not be permitted to pay dividends under the new credit facility in excess of certain amounts or if it is in default of any of these loan covenants.

### ***Because Navios generates all of its revenues in US dollars but incurs a portion of its expenses in other currencies, exchange rate fluctuations could adversely affect its results of operations***

Navios generates all of its revenues in US dollars but, in the year ended 2004, incurred approximately 5.1% of its expenses in currencies other than US dollars. This difference could lead to fluctuations in net income due to changes in the value of the US dollar relative to the other currencies, in particular the Euro. Expenses incurred in foreign currencies against which the US dollar falls in value can increase, decreasing Navios's revenues. For example, in the 12 months ended 2004, the value of the US dollar declined by approximately 8% as compared to the Euro. Navios, as part of its overall risk management policy attempts to hedge these risks in exchange rate fluctuations. Navios may not always be successful in such hedging activities and, as a result, its operating results could suffer as a result of increased expenses.

### ***Navios's operations outside the United States expose it to global risks that may interfere with the operation of its vessels causing a decrease in earnings***

Navios is an international company and primarily conducts its operations outside the United States. Changing economic, political and governmental conditions in the countries where Navios is engaged in business or where its vessels are registered will affect ISE after the acquisition. In the past, political conflicts, particularly in the Persian Gulf, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. For example, in October 2002, the vessel Limburg was attacked by terrorists in Yemen. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Following the terrorist attack in New York City on September 11, 2001, and the military response of the United States, the likelihood of future acts of terrorism may increase, and Navios's vessels may face higher risks of being attacked in the Middle East region and interruption of operations causing a decrease in revenues and earnings. In addition, future hostilities or other political instability in regions where Navios's vessels trade could affect its trade patterns and adversely affect its operations causing a decrease in revenues and earnings.

### ***After the special meeting, assuming stockholder approval, ISE, as Navios, will be incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law***

After the special meeting, assuming stockholder approval of the reincorporation proposal has been obtained, Navios's corporate affairs will be governed by the amended and restated articles of incorporation and by-laws, attached hereto, and by the Marshall Islands Business Corporations

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Act, or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar

## **Table of Contents**

legislative provisions, our public stockholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in the State of Delaware.

*After the reincorporation, assuming stockholder approval, ISE, as Navios, and certain of its officers and directors, may be difficult to serve with process as ISE will be incorporated in the Republic of the Marshall Islands and such persons may reside outside of the US*

Upon reincorporation, ISE, as Navios, will be a corporation organized under the laws of the Republic of the Marshall Islands. Several of our directors and officers and certain experts named in the registration statement are residents of Greece or other non-US jurisdictions. Substantial portions of the assets of these persons and of ISE are located in the Republic of the Marshall Islands, Greece or other non-US jurisdictions. Thus, it may not be possible for investors to effect service of process upon ISE, as Navios, or its non-US directors, officers or experts named in the registration statement or to enforce any judgment obtained against these persons in US courts. Also, it may not be possible to enforce US securities laws or judgments obtained in US courts against these persons in a non-US jurisdiction.

### **Risks Associated with Taxation**

*ISE stockholders may be taxed on the purchase by ISE of Navios and the subsequent downstream merger*

ISE believes that, for federal income tax purposes, the purchase of the stock of Navios by ISE, followed by the merger of ISE into Navios, should be treated as the direct purchase of the Navios shares by the shareholders of ISE, and that the separate existence of Navios be ignored for federal income tax purposes. Accordingly, ISE does not believe that the merger of ISE into Navios will result in the recognition of gain or loss to ISE or its shareholders. ISE bases its conclusion on Income Tax Regulations setting forth standards to determine whether a corporation or its shareholders should be treated as the purchaser of stock of another corporation, and on more general authority relating to the treatment of transitory corporations used in transactions.

ISE believes that each shareholder of ISE should have the same basis in its shares of Navios that it had in its shares of ISE. ISE also believes that the holding period of a shareholder in its ISE shares will not include the holding period that such shareholder had in its shares of ISE prior to the acquisition of Navios and the reincorporation of ISE.

There is no authority, however, that directly controls the tax treatment of the purchase of the shares of Navios and the merger of ISE into Navios. The Internal Revenue Service, or IRS, or a court could disagree with ISE's position, and claim that the merger results in gain or loss to the shareholders of ISE, or that shareholders have a different basis or holding period in their shares.

*ISE may be taxed as a United States corporation*

ISE will be incorporated under the laws of the Marshall Islands. Accordingly, it will be taxed as a foreign corporation by the United States, unless ISE's reincorporation as a Marshall Islands corporation results in ISE continuing to be taxed as a United States corporation under newly enacted provisions of the Internal Revenue Code of 1986, as amended, or the Code. ISE believes that it is more likely than not that the income

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tax principles and Income Tax Regulations referred to above would be interpreted to mean that the new provisions of the Code will not apply, and that ISE will be taxed by the United States as a foreign corporation. The IRS or a court, however, could disagree with ISE's position. If ISE were taxed as a domestic corporation, it could be subject to substantially greater United States income tax than contemplated below.

In general, a foreign corporation is subject to United States tax on income that is treated as derived from sources within the United States, or US Source income, or that is effectively connected or effectively connected income with a trade or business in the United States. Based on its current plans, however, ISE expects that its

## **Table of Contents**

income from sources within the United States will be income derived from the international operation of ships, or international shipping income, that qualifies for exemption from United States federal income taxation under Section 883 of the Code, and that it will have no effectively connected income. Accordingly, ISE does not expect to be subject to federal income tax on any of its income.

If ISE is taxed as a foreign corporation and the benefits of Code Section 883 are unavailable, ISE's United States source shipping income that is not effectively connected income would be subject to a four percent (4%) tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. ISE believes that no more than fifty percent (50%) of ISE's shipping income would be treated as United States source shipping income because, under ISE's current business plan, its shipping income will be attributable to transportation that does not both begin and end in the United States. Thus, the maximum effective rate of United States federal income tax on ISE's shipping income would never exceed two percent (2%) under the four percent (4%) gross basis tax regime.

To the extent the benefits of Code Section 883 exemption are unavailable and ISE's international shipping income is considered to be effectively connected with the conduct of a United States trade or business, as described below, such income, net of applicable deductions, would be subject to the United States federal corporate income tax. United States corporate income tax would also apply to any other effectively connected income of ISE, and to ISE's worldwide income if it were taxed as a domestic corporation. (See, *Risks Associated with Taxation* ISE stockholders may be taxed on the purchase by ISE of Navios and the subsequent downstream merger ). This could result in the imposition of a tax of up to 35% on ISE's income, except to the extent that ISE were able to take advantage of more favorable rates that may be imposed on shipping income of domestic corporations or foreign corporations. In addition, as a foreign corporation, ISE could potentially be subject to the thirty percent (30%) branch profits on effectively connected income, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of its United States trade or business. Since ISE does not intend to have any vessel sailing to or from the United States on a regularly scheduled basis, ISE believes that none of its international shipping income will be effectively connected income.

### ***ISE could be treated as a passive foreign investment company and may suffer significant tax consequences***

Special United States federal income tax rules apply to a US holder that holds stock in a foreign corporation classified as a passive foreign investment company for United States federal income tax purposes. A foreign corporation will be a foreign passive investment company if 75% or more of its gross income for a taxable year is treated as passive income, or if the average percentage of assets held by such corporation during a taxable year which produce or are held to produce passive income is at least 50%. A US holder of stock in a passive foreign investment company can be subject to current taxation on undistributed income of such company or to other adverse results if it does not elect to be subject to such current taxation.

ISE believes that it will not be a passive foreign investment company because it believes that its shipping income will be active services income and most of its assets will be held for the production of active services income. Since there is no legal authority directly on point, however, the IRS or a court could disagree with ISE's position and treat its shipping income and/or shipping assets as passive income or as producing or held to produce passive income. In addition, although ISE intends to conduct its affairs in a manner that would avoid ISE being classified as a passive foreign investment company with respect to any taxable year, it cannot ensure that the nature of its operations will not change in the future.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

ISE believes that some of the information in this proxy statement/prospectus constitutes forward-looking statements within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as may, expect, anticipate, contemplate, believe, estimate, intends, and continue or similar words. You should read statements that contain these words carefully because they:

discuss future expectations;

contain projections of future results of operations or financial condition; or

state other forward-looking information.

ISE believes it is important to communicate its expectations to its stockholders. However, there may be events in the future that ISE is not able to accurately predict or over which ISE has no control. The risk factors and cautionary language discussed in this proxy statement/prospectus provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by ISE in its forward-looking statements, including among other things:

the number and percentage of ISE stockholders voting against the acquisition proposal;

changing interpretations of generally accepted accounting principles;

outcomes of government reviews, inquiries, investigations and related litigation;

continued compliance with government regulations;

legislation or regulatory environments, requirements or changes adversely affecting the businesses in which Navios is engaged;

statements about shipping industry trends, including charter hire rates and factors affecting supply and demand;

general economic conditions; and

geopolitical events and regulatory changes.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement/prospectus.



All forward-looking statements included herein attributable to ISE or any person acting on either party's behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, ISE undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of this proxy statement/prospectus or to reflect the occurrence of unanticipated events.

Before you grant your proxy or instruct how your vote should be cast or vote on the approval of the acquisition you should be aware that the occurrence of the events described in the "Risk Factors" section and elsewhere in this proxy statement/prospectus could have a material adverse effect on ISE upon completion of the acquisition.

**Table of Contents**

**THE ISE SPECIAL MEETING**

*ISE Special Meeting*

ISE is furnishing this proxy statement/prospectus to you as part of the solicitation of proxies by the ISE board of directors for use at the special meeting in connection with the proposed acquisition and proposed reincorporation. This proxy statement/prospectus provides you with the information you need to know to be able to vote or instruct your vote to be cast at the special meeting.

*Date, Time and Place*

The special meeting will be held at 10:00 a.m., eastern time, on [ ], 2005, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 666 Third Avenue, New York, New York 10017, to vote on the acquisition proposal and the reincorporation proposal.

*Purpose of the Special Meeting*

At the special meeting, the holders of ISE common stock are being asked to:

approve the acquisition of Navios pursuant to a stock purchase agreement by and among ISE, Navios, the shareholders agent and the shareholders of Navios; and

approve the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands by means of a merger with Navios, which will, at the time of the merger, be ISE's wholly-owned Marshall Islands subsidiary.

The ISE board of directors:

has unanimously determined that the acquisition proposal and the reincorporation proposal are fair to and in the best interests of ISE and its stockholders;

has considered the opinion of Capitalink, L.C. that, as of the date of its opinion, and based on conditions that existed as of that date, upon and subject to the considerations described in its opinion and based upon such other matters as Capitalink, L.C. considered relevant, the consideration to be paid by ISE in connection with the Navios acquisition is fair to our current stockholders from a financial point of view and the fair market value of Navios is at least 80% of the net assets of ISE;

has unanimously approved and declared advisable the acquisition proposal and the reincorporation proposal;

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unanimously recommends that the holders of ISE common stock vote FOR the proposal to approve the acquisition of Navios; and

unanimously recommends that the holders of ISE common stock vote FOR the proposal to approve the reincorporation of ISE.

### *Record Date; Who is Entitled to Vote*

The record date for the special meeting is [ , 2005]. Record holders of ISE common stock at the close of business on the record date are entitled to vote or have their votes cast at the special meeting. On the record date, there were 39,900,000 outstanding shares of ISE common stock.

Each share of ISE common stock is entitled to one vote per share at the special meeting.

Any shares of ISE common stock purchased prior to the initial public offering will be voted in accordance with the majority of the votes cast at the special meeting, but only with respect to the acquisition proposal. The holders of such common stock are free to vote their shares acquired in such public offering or afterwards as they see fit and are free to vote all of their common stock, however obtained, on the reincorporation proposal as they see fit.

## **Table of Contents**

ISE s issued and outstanding warrants do not have voting rights and record holders of ISE warrants will not be entitled to vote at the special meeting.

### *Voting Your Shares*

Each share of ISE common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of ISE common stock that you own.

There are two ways to vote your shares of ISE common stock at the special meeting:

You can vote by signing and returning the enclosed proxy card. If you vote by proxy card, your proxy, whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card, but do not give instructions on how to vote your shares, your shares will be voted, as recommended by the ISE board, FOR the approval of the acquisition proposal and FOR the reincorporation proposal.

You can attend the special meeting and vote in person. ISE will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way ISE can be sure that the broker, bank or nominee has not already voted your shares.

**IF YOU DO NOT VOTE YOUR SHARES OF ISE COMMON STOCK IN ANY OF THE WAYS DESCRIBED ABOVE, IT WILL HAVE (i) NO EFFECT ON THE ACQUISITION PROPOSAL, BUT WILL ALSO NOT HAVE THE EFFECT OF A DEMAND OF CONVERSION OF YOUR SHARES INTO A PRO RATA SHARE OF THE TRUST ACCOUNT IN WHICH A SUBSTANTIAL PORTION OF THE PROCEEDS OF ISE S INITIAL PUBLIC OFFERING ARE HELD AND (ii) THE SAME EFFECT AS A VOTE AGAINST THE APPROVAL OF THE REINCORPORATION PROPOSAL.**

### **Who Can Answer Your Questions About Voting Your Shares**

If you have any questions about how to vote or direct a vote in respect of your ISE common stock, you may call Avisheh Avini at (516) 240-8025.

### **No Additional Matters May Be Presented at the Special Meeting**

This special meeting has been called only to consider the approval of the acquisition proposal and the reincorporation proposal. Under ISE s bylaws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the special meeting, if they are not included in the notice of the meeting.

**Revoking Your Proxy**

If you give a proxy, you may revoke it at any time before it is exercised by doing any one of the following:

You may send another proxy card with a later date;

You may notify Avisheh Avini, addressed to ISE, in writing before the special meeting that you have revoked your proxy; and

You may attend the special meeting, revoke your proxy, and vote in person.

**Vote Required**

The approval of the acquisition of Navios and the transactions contemplated by the stock purchase agreement will require the affirmative vote of a majority of the shares of ISE's common stock issued in its initial public offering that are present in person or by proxy and entitled to vote at the meeting.

## **Table of Contents**

The approval of the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands will require the affirmative vote of a majority of the outstanding shares of ISE's common stock.

If you abstain from voting or do not vote, either in person or by proxy or by voting instruction, it will (i) have the same effect as a vote against the approval of the reincorporation proposal; (ii) have no effect on the approval of the acquisition proposal; and (iii) not act as a demand of conversion of your shares into a pro rata portion of the trust account in which the proceeds of ISE's initial public offering are held.

## **Abstentions and Broker Non-Votes**

If your broker holds your shares in its name and you do not give the broker voting instructions, under the rules of the NASD, your broker may not vote your shares on the proposal to approve the acquisition of Navios pursuant to the stock purchase agreement. If you do not give your broker voting instructions and the broker does not vote your shares, this is referred to as a broker non-vote. Abstentions and broker non-votes are counted for purposes of determining the presence of a quorum, and will have (i) no effect on the acquisition proposal and (ii) the same effect as a vote against the reincorporation proposal.

## **Conversion Rights**

Any stockholder of ISE holding shares of common stock issued in ISE's initial public offering who votes against the acquisition proposal may, at the same time, demand that ISE convert his shares into a pro rata portion of the trust account. If so demanded, ISE will convert these shares into a pro rata portion of funds held in a trust account, which consist of the \$180,576,000 of net proceeds from the initial public offering deposited into the trust account, plus interest earned thereon, if the acquisition is consummated. If the holders of 20%, or 6,555,000, or more shares of common stock issued in ISE's initial public offering vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering are held, ISE will not be able to consummate the acquisition. Based on the amount of cash held in the trust account as of March 31, 2005, without taking into account any interest accrued, you will be entitled to convert each share of common stock that you hold into approximately \$5.51, or \$0.49 less than the per-unit offering price of \$6.00 for which you purchased units in the initial public offering. If the acquisition is not consummated, ISE will continue to search for a business combination. However, ISE will be liquidated if it does not consummate a business combination by December 16, 2005 or, if a letter of intent, agreement in principle or definitive agreement is executed, but not consummated, by December 16, 2005, then by June 16, 2006. In any liquidation, the net proceeds of ISE's initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to the holders of ISE's common stock who purchased their shares in ISE's initial public offering or thereafter.

If you exercise your conversion rights, then you will be exchanging your shares of ISE common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to ISE. The closing price of ISE's common stock on May 26, 2005, the most recent trading day practicable before the printing of this proxy statement/prospectus, was \$5.70 and the amount of cash held in the trust account is \$180,576,000, plus interest accrued thereon. If an ISE stockholder would have elected to exercise his conversion rights on such date, then he would have been entitled to receive \$5.51 plus interest accrued thereon, per share. Prior to exercising conversion rights, ISE stockholders should verify the market price of ISE's common stock as they may receive higher proceeds from the sale of their common stock in the public market than from exercising their conversion rights. As of May 26, 2005, the market price of \$5.70 per share was substantially higher than the amount which would be received upon conversion.

## **Solicitation Costs**

ISE is soliciting proxies on behalf of the ISE board of directors. This solicitation is being made by mail but also may be made by telephone or in person. ISE and its respective directors and officers may also solicit proxies in person, by telephone or by other electronic means. These persons will not be paid for doing this.

## **Table of Contents**

ISE has not hired a firm to assist in the proxy solicitation process but may do so if it deems this assistance necessary. ISE will pay all fees and expenses related to the retention of any proxy solicitation firm.

ISE will ask banks, brokers and other institutions, nominees and fiduciaries to forward its proxy statement/prospectus materials to their principals and to obtain their authority to execute proxies and voting instructions. ISE will reimburse them for their reasonable expenses.

## **Stock Ownership**

ISE's initial stockholders, including all its officers and directors, who purchased shares of common stock prior to ISE's initial public offering and as of the record date and own an aggregate of approximately 26% of the outstanding shares of ISE common stock, have agreed to vote such shares acquired prior to the public offering (approximately 18% of the outstanding common stock) in accordance with the vote of the majority in interest of all other ISE stockholders on the acquisition proposal. ISE's initial stockholders are entitled to cast their votes as they see fit with respect to the reincorporation proposal, and they have indicated that they will vote such shares in favor of the reincorporation proposal. They are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately 8% of the outstanding common stock, in favor of the proposal.

Furthermore, based solely upon information contained in public filings, as of the record date, the following stockholders beneficially own greater than five percent of ISE's issued and outstanding common stock as such amounts and percentages are reflected in the public filing of such stockholder:

Angeliki Frangou, ISE's Chairman, President and Chief Executive Officer beneficially owns 10,039,022 shares of ISE common stock, representing approximately 25.16% of the ISE common stock outstanding on the record date;

North Sound Capital LLC beneficially owns 2,700,000 shares of ISE common stock, representing approximately 7.58% of the ISE common stock outstanding on the record date;

FMR Corp. beneficially owns 3,000,000 shares of ISE common stock, representing approximately 7.52% of the ISE common stock outstanding on the record date; and

DKR Partners LP beneficially owns 2,298,000 shares of ISE common stock, representing approximately 5.76% of the ISE common stock outstanding on the record date.

Angeliki Frangou has filed a Schedule 13D amendment indicating that she intends, subject to market conditions, to purchase up to \$20 million of common stock. Any such purchases would change the percentage owned by the initial stockholders and Ms. Frangou referred to above.



**Table of Contents**

**THE ACQUISITION PROPOSAL**

The discussion in this proxy statement/prospectus of the acquisition and the principal terms of the stock purchase agreement dated as of February 28, 2005, by and among ISE, the shareholders of Navios, Navios and Robert G. Shaw and Bruce C. Hoag (together, the shareholders agent) is subject to, and is qualified in its entirety by reference to, the stock purchase agreement. A copy of the stock purchase agreement is attached as Annex A to this proxy statement/prospectus and is incorporated in this proxy statement/prospectus by reference.

**General Description of the Acquisition**

Pursuant to the stock purchase agreement, ISE will acquire 100% of the issued and outstanding shares of the capital stock of Navios.

**Background of the Acquisition**

The terms of the stock purchase agreement are the result of arm's-length negotiations between representatives of ISE and Navios. The following is a brief discussion of the background of these negotiations, the acquisition and related transactions.

In the summer of 2004, Navios's management and Board of Directors had preliminary discussions regarding the overall growth strategy for Navios. The outcome of the discussions was to explore strategic alternatives including finding a strategic or financial partner to further enhance Navios's operations in its physical and freight derivative trading operations, consider expansion into potentially new sectors for growth, and provide liquidity to Navios's shareholders. In August 2004, Navios management contacted three investment banks, including Lazard, to present preliminary thoughts on alternatives and a valuation for Navios. Lazard presented its preliminary evaluation of Navios in late August to the management and Board of Directors. After careful evaluation of the proposals received from each investment bank contacted, Navios chose Lazard to help consider strategic alternatives, including a possible sale of Navios. On September 8, 2004, Navios executed an engagement letter with Lazard in connection with such appointment.

During the months of September and October 2004, Lazard worked with Navios's management team to produce a confidential information memorandum that would be distributed under a confidentiality agreement to selected strategic and financial partners. Lazard and Navios agreed on contacting several shipping companies and financial institutions that best fit the strategic goals of Navios.

Over the months of November and December 2004, Lazard contacted a total of 17 strategic shipping and commodity buyers and 29 financial institutions or private investment groups.

In December 2004, ISE, which was formed on September 17, 2004 to serve as a vehicle to accomplish a business combination by purchasing a vessel or fleet of vessels or an operating business in the dry bulk sector of the shipping industry having a fair market value of at least 80% of the assets of ISE held in trust, completed its initial public offering in which it raised net proceeds of approximately \$182,621,000. Approximately \$180,576,000 of these net proceeds were placed in a trust account immediately following the initial public offering which, in accordance with ISE's amended and restated certificate of incorporation, will be released either upon the consummation of a business combination or upon the

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liquidation of ISE. Subsequent to its initial public offering, ISE's officers and directors commenced an active search for a business combination candidate. If the Navios acquisition is not consummated, ISE will continue to search for a business combination candidate. However, ISE will be liquidated if it does not consummate a business combination or acquisition by December 16, 2005 or, if a letter of intent, agreement in principle or definitive agreement is executed, but not consummated, by December 16, 2005, then by June 16, 2006. As of the date of this proxy statement/prospectus, approximately \$180,576,000, plus interest accrued thereon, was held in deposit in the trust account.

## Table of Contents

On December 15, 2004, ISE signed a confidentiality agreement with Navios and was subsequently provided with a confidential information memorandum. Lazard distributed the confidential memorandum to 21 parties in the first round of the auction process.

On December 22, 2004, in accordance with the procedures established by Lazard and Navios, based on preliminary due diligence ISE submitted a preliminary indication of interest to acquire 100% of Navios' s equity for \$585 million. Lazard also received several other indications of interest to acquire Navios. Lazard and Navios invited six competing parties to the second round of the auction process to conduct further due diligence and meet Navios' s management team. ISE was included as one of the second round participants.

On January 4, 2005, ISE was notified by Lazard that it had been selected as a second round candidate and was granted access to the data room to conduct further due diligence. On January 10, 2005, ISE attended a management presentation at Navios' s headquarters in South Norwalk, Connecticut.

On January 12, 13, 17 and 18, 2005, ISE and its financial advisors, Sunrise Securities, HSH Nordbank, HSH Gudme and Investment & Finance Ltd, visited the Navios data room and asked additional questions of Navios' s management.

On February 4, 2005, after performing extensive additional financial, legal and accounting due diligence, ISE submitted a revised bid including a marked copy of a stock purchase agreement, accompanied by a proposal letter setting forth the terms of ISE' s offer, including contemplated purchaser price of \$601 million. Navios also received two other proposals outlining similar terms and conditions.

Over the next several days, representatives of ISE and Navios had a series of discussions concerning the terms of the proposal resulting in an increased offer of \$610 million. This process, along with the bidding process, was highly competitive. There were also a number of questions concerning the potential difficulties and the effect on the time table resulting from Navios' s decision to accept a bid from a public company rather than one of the private bidders. Drafts of an exclusive negotiating agreement were exchanged on February 7th and 8th. On February 8, Navios held a Board of Directors meeting in South Norwalk Connecticut to discuss the proposals received and next steps in the auction process. Lazard and Navios' s legal counsel, Andersen Kill & Olick, attended the Board meeting during which the merits and risk of each proposal were discussed. Lazard was subsequently instructed to hold discussions with each of the second round bidders, including ISE, to clarify and confirm the proposals received. After a series of discussions and negotiations with each of the second round bidders, Navios' s Board approved entering into an exclusivity agreement with ISE to finalize due diligence and negotiate a definitive purchase agreement. The decision was made based on the extensive due diligence conducted by ISE and its bankers, the strength of the commitment of its lender, the non-financial terms indicated in the mark-up of the stock purchase agreement and the proposed \$610 million cash purchase price for 100% of the equity of Navios. On February 9, 2005, the parties and their counsel met, at which time ISE submitted and finalized a revised proposal, including an increased offering price of \$610 million. This price was ultimately reduced to \$607.5 on the basis of continued negotiations. ISE also negotiated and finalized the terms of the exclusivity agreement, a confidentiality agreement and a press release. Navios and ISE signed the exclusivity agreement and the signatures of the Navios stockholders were obtained over the course of the evening. On February 10, 2005, a press release was issued by ISE announcing that ISE had entered into an exclusive negotiating agreement with Navios and its shareholders relating to the possible acquisition of Navios.

After the execution of the exclusive negotiating agreement, both ISE and Navios instructed their respective counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. and Anderson Kill & Olick, P.C., respectively, to begin negotiating the stock purchase agreement and related agreements for a possible acquisition.

From February 10, 2005 to February 28, 2005, various meetings and telephone and in person conferences were held among all parties regarding due diligence, the business of Navios, the terms of the stock purchase agreement and the other related agreements for the proposed acquisition.



## **Table of Contents**

On February 28, 2005, ISE and Navios entered into the stock purchase agreement and related agreements and, on March 1, 2005, publicly announced their agreement through a joint press release.

On May 27, 2005, the stock purchase agreement was amended to extended the date by which the transaction is required to close to July 15, 2005.

### **Interest of ISE Directors and Officers in the Acquisition**

In considering the recommendation of the board of directors of ISE to vote for the proposal to adopt the acquisition, you should be aware that certain members of the ISE board have agreements or arrangements that provide them with interests in the acquisition that differ from, or are in addition to, those of ISE stockholders generally. In particular:

if the acquisition is not approved and ISE fails to consummate an alternative transaction within the time allotted pursuant to its amended and restated certificate of incorporation, requiring ISE to liquidate, the shares of common stock held by ISE's executives and directors may be worthless because ISE's executives and directors are not entitled to receive any of the net proceeds of ISE's initial public offering that may be distributed upon liquidation of ISE. ISE's executives and directors own a total of 10,458,140 shares of ISE common stock that have a market value of \$60,657,212 based on ISE's share price of \$5.80 as of April 15, 2005. ISE's executive officers and directors are contractually prohibited from selling their shares prior to December 10, 2007, during which time the value of the shares may increase or decrease. Thus, it is impossible to determine what the financial impact of the acquisition will be on ISE's officers and directors;

if ISE does not acquire Navios, the right to acquire Navios may be assigned to an affiliate, pursuant to the stock purchase agreement, which affiliate could include Angeliki Frangou and members of her family; and

Ms. Frangou has agreed to loan ISE funds, without interest, to cover its transaction expenses, including bank commitment fees and deposits, in connection with the acquisition of Navios in excess of the funds held outside the trust, which loans, if the acquisition is not completed, may not be repaid.

The ISE board of directors was aware of these agreements and arrangements during its deliberations on the merits of the acquisition and in determining to recommend to the stockholders of ISE that they vote for the approval of the acquisition proposal.

## **Table of Contents**

### **Acquisition Financing**

ISE has entered into a commitment agreement dated February 4, 2005, with HSH Nordbank AG which contemplates that prior to the consummation of the acquisition of Navios, ISE will enter into a senior secured credit facility with HSH Nordbank AG. Pursuant to the terms of the senior secured credit facility, ISE will be able to borrow up to \$520.0 million to be used for the acquisition of Navios and for general corporate and working capital purposes after the acquisition. The interest rate under the facility is variable and will either be LIBOR or the applicable swap rate, depending upon certain factors as more fully set forth in the credit facility. Amounts drawn under the facility will be secured by the assets of ISE which, upon acquisition of the outstanding securities of Navios by ISE, will be the assets now owned by Navios. Of the \$520.0 million, (i) \$140.0 million matures eight (8) years from the closing of the acquisition of Navios and is to be repaid in quarterly amounts over such term, and (ii) \$380.0 million matures six (6) years from the closing of the acquisition of Navios and is to be repaid in quarterly amounts over such term. Outstanding amounts under the facility may be prepaid without penalty in multiples of \$1.0 million upon 10 days written notice. The facility will also contain various covenants restricting the way in which the reincorporated company will be able to operate its business. The facility will require mandatory prepayment of amounts outstanding under certain circumstances, such as the sale or loss of a substantial amount of the assets of Navios. Ms. Frangou has loaned ISE, on an interest-free basis, approximately \$1.2 million on account of bank fees.

### **ISE's Reasons for the Acquisition and Recommendation of the ISE Board**

The ISE board of directors has concluded that the acquisition of Navios is in the best interests of ISE's stockholders.

In approving the stock purchase agreement with Navios, the board of directors of ISE relied on information (including financial information) relating to Navios, the regulatory environment and the industry fundamentals. In addition, the board considered Capitalink, L.C.'s opinion that, based on conditions and considerations described in its opinion, the Navios acquisition is fair to ISE's current stockholders from a financial point of view.

The ISE board of directors considered a wide variety of factors in connection with its evaluation of the acquisition. In light of the complexity of those factors, the ISE board did not consider it practicable to, nor did it attempt to, quantify or otherwise assign relative weights to the specific factors it considered in reaching its decision. In addition, individual members of the ISE board may have given different weight to different factors.

The analysis of the ISE board of directors in reaching this conclusion is described in more detail below. In considering the acquisition, the ISE board gave considerable weight to the following positive factors:

### **Navios's Successful Record of Growth and Expansion and High Potential for Future Growth**

An important criteria to ISE's board of directors in identifying an acquisition target was that the company have established business operations, that it was generating current revenues and that it had the strong potential to experience rapid additional growth. ISE's board of directors believes that Navios, as a recognized brand name in the dry bulk shipping that has been developed over a period of fifty years has in place a strong business infrastructure and provides a solid platform for ISE's plans of consolidation within the dry bulk shipping industry.

**The Experience of Navios's Management**

Another important criteria to ISE's board of directors in identifying an acquisition target was that the company must have a seasoned management team with specialized knowledge of the markets within which it operates and the ability to adapt a company's business model in a rapidly changing environment. Navios's management team has shown a strong ability to adjust its business plan to changing market factors and to develop additional business opportunities.

## **Table of Contents**

### **The Terms of the Stock Purchase Agreement**

The terms of the stock purchase agreement, including the closing conditions, restrictions on ISE's and Navios's ability to respond to competing proposals, and termination provisions, are customary and reasonable. It was important to ISE's board of directors that the stock purchase agreement include customary terms and conditions as it believed that such terms and conditions would allow for a more efficient closing process and lower transaction expenses.

ISE's board of directors believes that each of the above factors strongly supported its determination and recommendation to approve the acquisition. The ISE board of directors did, however, consider the following potentially negative factors, among others, in its deliberations concerning the acquisition:

The risk that its public stockholders would vote against the acquisition and exercise their conversion rights: ISE's board of directors considered the risk that the current public stockholders of ISE would vote against the acquisition and demand to redeem their shares for cash upon consummation of the acquisition, thereby depleting the amount of cash available to the combined company following the acquisition. ISE's board of directors deemed this risk to be no worse with regard to Navios than it would be for other target companies, and believes that ISE will still be able to implement its business plan even if the maximum number of public stockholders exercised their conversion rights and the combined company received only 80% of the funds deposited in the trust account.

Certain officers and directors of ISE may have different interests in the acquisition than the ISE stockholders: ISE's board of directors considered the fact that certain officers and directors of ISE may have interests in the acquisition that are different from, or are in addition to, the interests of ISE stockholders generally, including the matters described under "Interests of ISE Directors and Officers in the Acquisition" above. However, this fact would exist with respect to an acquisition of any target company.

After deliberation, the ISE board of directors determined that these potentially negative factors were outweighed by the potential benefits of the acquisition above, including the opportunity for ISE stockholders to share in Navios's future possible growth and anticipated profitability.

### **Fairness Opinion**

Capitalink, L.C. acted as financial advisor to ISE in connection with the Navios acquisition. Capitalink delivered its written opinion to ISE's board of directors on February 26, 2005, which stated that, as of such date, and based upon and subject to the assumptions made, matters considered, and limitations on its review as set forth in the opinion, (i) the consideration to be paid in the acquisition is fair, from a financial point of view, to ISE's stockholders, and (ii) the fair market value of Navios is at least equal to 80% of ISE's net assets. The full text of the written opinion of Capitalink is attached as Annex D and is incorporated by reference into this proxy statement/prospectus.

You are urged to read the Capitalink opinion carefully and in its entirety for a description of the assumptions made, matters considered, procedures followed and limitations on the review undertaken by Capitalink in rendering its opinion.

The Capitalink opinion is not intended to be and does not constitute a recommendation to you as to how you should vote with respect to the acquisition. Capitalink was not requested to opine as to, and its opinion does not address, ISE's underlying business decision to proceed with or effect the transaction.



In arriving at its opinion, Capitalink took into account an assessment of general economic, market and financial conditions, as well as its experience in connection with similar transactions and securities valuations generally. In so doing, among other things, Capitalink:

reviewed the draft stock purchase agreement, among ISE, Navios, each of Navios's shareholders, and a designated agent on behalf of such shareholders;

**Table of Contents**

reviewed publicly available financial information and other data with respect to ISE, including the Annual Report on Form 10-K for the year ended December 31, 2004, the Current Report on Form 8-K filed on February 11, 2005, and the Registration Statement on Form S-1 filed on October 13, 2004, as amended;

reviewed financial and other information with respect to Navios provided by Navios and Lazard to ISE, including the audited financial statements for the years ended December 31, 2002 and 2003 (including, with respect to 2002, the pro forma financial statements taking into account the business combination with Anemos Maritime Holdings), the draft audited financial statements for the year ended December 31, 2004, and other financial information and projections prepared by ISE's management and advisors;

considered the historical financial results and present financial condition of ISE and Navios based on available financial statements prepared in accordance with International Financial Reporting Standards;

reviewed and analyzed certain financial characteristics of companies that were deemed to have characteristics comparable to Navios;

reviewed and analyzed the free cash flows of Navios and prepared a discounted cash flow analysis; and

reviewed and analyzed each of the divisions of Navios, and valued them separately on a stand-alone basis.

Capitalink also performed such other analyses and examinations as it deemed appropriate and held discussions with the senior management of ISE and Navios in relation to certain financial and operating information furnished to Capitalink by ISE, including financial analyses with respect to Navios's business and operations.

In arriving at its opinion, Capitalink relied upon and assumed the accuracy and completeness of all of the financial and other information that was used without assuming any responsibility for any independent verification of any such information. Capitalink also relied upon the assurances of ISE's management that it is not aware of any facts or circumstances that would make any such information inaccurate or misleading. With the exception of Valuation Certificates for each of Navios's owned vessels and a Technical Assessment of the Uruguay Port, Capitalink did not make a physical inspection of the properties and facilities of Navios and has not made or obtained any evaluations or appraisals of either company's assets and liabilities (contingent or otherwise). Capitalink did not attempt to confirm whether ISE or Navios has good title to its respective assets. Capitalink assumed that the transaction will be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. Capitalink further assumed that the transaction will comply with all applicable maritime and other international laws, statutes, rules and regulations that are deemed applicable. Capitalink assumed that the transaction will be consummated substantially in accordance with the terms set forth in the stock purchase agreement, without any further material amendments thereto, and without waiver by ISE of any of the conditions to any obligations or, in the alternative, that any such amendments, revisions or waivers thereto will not be detrimental to ISE's stockholders.

In connection with rendering its opinion, Capitalink performed certain financial, comparative and other analyses as summarized below. In arriving at its opinion, Capitalink did not ascribe a specific range of values to Navios, but rather made its determination as to the fairness, from a financial point of view, to ISE's stockholders of the consideration to be paid for Navios on the basis of financial and comparative analyses. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial and comparative analysis and the application of those methods to the particular circumstances. Therefore, such an opinion is not readily susceptible to summary description. Furthermore, in arriving at its opinion, Capitalink did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Capitalink believes that its analyses must be considered as a whole and that considering any portion of such analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying its opinion. In its analyses, Capitalink made numerous assumptions with respect to industry



## **Table of Contents**

performance; regulatory, geopolitical, general business and economic conditions; and the technological and scientific environment, among other matters, many of which are beyond the control of ISE and Navios. The principal assumptions made by Capitalink in conducting its analyses were that, over the next several years, the United States economy in general, and the shipping industry and Navios' s business in particular, would not change in a way that would result in a marked improvement to Navios' s financial condition or results of operations, and that there would be no significant, external market factors that would have a positive effect on Navios' s financial condition or results of operations. None of ISE, Navios, Capitalink or any other person assumes responsibility if future results are materially different from those discussed. Any estimates contained in these analyses were not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth therein. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses actually may be sold.

Capitalink' s opinion is necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, February 26, 2005. Accordingly, although subsequent developments may affect its opinion, Capitalink has not assumed any obligation to update, review or reaffirm its opinion.

Each of the analyses conducted by Capitalink was carried out to provide a different perspective on the transaction, and to enhance the total mix of information available. Capitalink did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion as to the fairness, from a financial point of view, of the consideration to ISE' s stockholders. Further, the summary of Capitalink' s analyses described below is not a complete description of the analyses underlying Capitalink' s opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Capitalink made qualitative judgments as to the relevance of each analysis and factors that it considered. In addition, Capitalink may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the range of valuations resulting from any particular analysis described above should not be taken to be Capitalink' s view of Navios' s actual value. In performing its analyses, Capitalink made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond ISE' s control. The estimates contained in Capitalink' s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses or assets do not purport to be appraisals or to necessarily reflect the prices at which businesses or assets may actually be sold. Accordingly, Capitalink' s analyses and estimates are inherently subject to substantial uncertainty. Capitalink believes that its analyses must be considered as a whole and that selecting portions of its analyses or the factors it considered, without considering all analyses and factors collectively, could create an incomplete and misleading view of the process underlying the analyses performed by Capitalink in connection with the preparation of its opinion.

The analyses performed were prepared solely as part of Capitalink' s analysis of the fairness of the consideration from a financial point of view, to ISE' s stockholders, and were provided to ISE' s board of directors in connection with the delivery of Capitalink' s opinion. The opinion of Capitalink was just one of the many factors taken into account by ISE' s Board in making its determination to approve the transaction, including those described elsewhere in this proxy statement/prospectus.

The financial review and analyses include information presented in tabular format. To fully understand Capitalink' s financial review and analyses, the tables must be read together with the text presented. The tables alone are not a complete description of the financial review and analyses and considering the tables alone could create a misleading or incomplete view of Capitalink' s financial review and analyses.

**Table of Contents***Navios Financial Performance Review*

Capitalink undertook a review of Navios' historical and financial data in order to understand and interpret its operating and financial performance and strength. Capitalink reviewed Navios' historical financial data for the three years ended December 31, 2004. Fiscal year (FY) 2002 numbers were pro forma adjusted to take into account the business combination with Anemos Maritime Holdings during that year. Capitalink noted the following:

Revenue has grown significantly over the reviewed period from \$98.4 million in FY2002 to \$333.5 million in FY2004. The revenue growth is predominantly the result of the upturn in pricing in 2003 derived from the global economic recovery, high demand for dry bulk cargo from China and other growing economies, which has been reflected in revenue gains from Navios' chartered-in fleet.

Navios' EBITDA has also risen significantly from \$4.3 million in FY2002 to \$135.7 million in FY2004. The growth was driven by the significantly increased demand described in the immediately preceding paragraph.

Navios has reduced its debt levels significantly during the reviewed period from \$123.9 million in FY2002 to \$50.5 million in FY2004.

*Valuation Overview*

Based upon a review of the historical and projected financial data and certain other qualitative data for Navios, Capitalink utilized several valuation methodologies and analyses to determine a range of values for Navios. Each of the analyses was then weighted 33.3% each to determine an overall indicated equity value range for Navios.

**Navios Indicated Equity Value (in 000 \$)**

	<b>Low</b>	<b>High</b>
Selected Comparable Company	\$ 894,928	- \$ 1,054,570
Discounted Cash Flow	\$ 679,340	- \$ 962,473
Adjusted Net Asset Value	\$ 714,083	- \$ 928,752
<b>Weighted Indicated Equity Value</b>	<b>\$ 762,707</b>	<b>- \$ 928,752</b>

*Selected Comparable Company Analysis*

Capitalink utilized the selected comparable company analysis, a market valuation approach, for the purposes of compiling guidelines or comparable company statistics and developing valuation metrics based on prices at which stocks of similar companies are trading in a public market.

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The selected comparable company analysis is based on a review and comparison of the trading multiples of publicly traded companies that are similar with respect to business model, operating sector, size and target market. Capitalink located 12 companies that it deemed comparable to Navios with respect to their industry sector and operating model, or the Comparable Companies. All of the Comparable Companies are classified under the SIC code 441 (Deep Sea Foreign Transportation of Freight). Ten of the Comparable Companies were primarily involved in the transportation of oil and petroleum products, or the Tanker Companies, while only two of the Comparable Companies concentrate solely on dry bulk freight, or the Dry Bulk Companies. Capitalink noted that four of the ten Tanker Companies have some dry bulk operations. The two Dry Bulk Companies were Excel Maritime Carriers Ltd, or Excel, and DryShips, Inc., or DryShips.

Capitalink reviewed certain financial information relating to Navios in the context of the corresponding financial information, ratios and public market multiples for the Comparable Companies. No company used in Capitalink's analysis was deemed to be identical or directly comparable to Navios. Accordingly, Capitalink considered the multiples for the Comparable Companies, taken as a whole, to be more relevant than the multiples of any single company.

**Table of Contents**

The results of this analysis are summarized as follows:

	<u>Low</u>	<u>High</u>	<u>Avg.</u>
Market Value as a Multiple of 2004 Net Income	6.0x	39.8x	11.7x
Market Value as a Multiple of 2005 Est. Net Income	4.7x	30.4x	10.6x
Market Value as a Multiple of 2005 Est. Net Income	7.1x	27.3x	14.5x
	<u>Low</u>	<u>High</u>	<u>Avg.</u>
Enterprise Value as a Multiple of 2004 EBITDA	6.2x	11.8x	8.3x
Enterprise Value as a Multiple of 2005 Est. EBITDA	6.0x	8.8x	7.4x
Enterprise Value as a Multiple of 2005 Est. EBITDA	7.1x	10.3x	8.3x

Based on the selected market value and enterprise value multiples, Capitalink developed valuation multiple ranges to apply to the Navios FY2004 and estimated 2005 and 2006 net income and EBITDA. This analysis implied a range of equity values from approximately \$895 million to \$1.05 billion.

As noted above, none of the Comparable Companies is identical or directly comparable to ISE or Navios. Accordingly, Capitalink considered the multiples for such companies, taken as a whole, to be more relevant than the multiples of any single company. Further, an analysis of publicly traded companies is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading of such companies.

*Discounted Cash Flow Analysis*

Utilizing projections provided by ISE management and their advisors, Capitalink determined the net present value of the unlevered free cash flows to determine the enterprise value for Navios. Capitalink then deducted net interest bearing debt to derive an indicated equity value for Navios.

To arrive at a present value, Capitalink used discount rates ranging from 8.0% to 10.0%. This was based on an estimated weighted average cost of capital, or WACC, of 9.0%. Capitalink used a range of perpetual growth rates, which was applied to the FY2013 free cash flow to determine a terminal value.

Based on the assumptions and scenarios discussed, Capitalink calculated an equity value range of between \$679.3 million and \$962.5 million.

*Adjusted Net Asset Value Analysis*

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An adjusted net asset value analysis examines each of the divisions of Navios, and values them separately on a stand-alone basis. The premise of this approach is that the value of Navios is equal to the value of its individual parts. Capitalink valued each of Navios' s divisions utilizing a combination of current market valuations and cash flow valuation methodologies. The analyses presented include indicated valuations of Navios' s owned vessels, chartered-in fleet, vessel purchase options, short term chartering, COAs and risk management operations, and the Uruguay port.

Based on the individual valuations, Capitalink determined an adjusted net asset value for Navios of between approximately \$714.0 million and approximately \$928.8 million.

### *Owned Vessels*

Capitalink determined the adjusted net asset value range for the vessels owned by Navios, utilizing current market valuations performed on the ships from a number of ship brokerage companies, as provided by ISE' s management. Based on the information, Capitalink determined the adjusted net asset value range for the owned vessels of Navios of between approximately \$187.8 million and \$212.0 million.



## **Table of Contents**

### *Chartered-in Fleet*

Capitalink determined the value of Navios' s chartered-in fleet utilizing a discounted cash flow methodology utilizing projections provided by ISE' s management and advisors. Capitalink utilized a range of discount rates between 11.4% and 13.4% based on an estimated WACC of 12.4%. Capitalink also determined a terminal value using two methodologies including a terminal EBITDA multiple and a perpetual growth rate. Based on these assumptions, Capitalink determined a range of equity values for the chartered-in fleet of between approximately \$212.2 million and approximately \$233.7 million.

### *Vessel Purchase Options*

Capitalink determined the value of Navios' s chartered-in vessel purchase options utilizing the Black-Scholes method for valuing a call option. The Black-Scholes approach for valuing options assumes that the current market value, or CMV, of the asset underlying the option should be used in determining the intrinsic value of the option. However, Capitalink noted that utilizing the CMV may over-value the options given:

the recent volatility in the current market valuation of used dry bulk vessels and the possibility that the sector may be at the top of the business cycle;

the recent volatility in the US dollar exchange rate and the possibility for a stronger US dollar as the United States economy improves; and

unlike typical options for securities, commodities and exchange rates, vessels are a depreciating asset (particularly with vessels older than 10-15 years old).

Therefore, Capitalink prepared two scenarios whereby the value of the asset underlying the option is 50% of the CMV and 75% of the CMV. Capitalink also assumed a price volatility of 20% and a risk free rate of approximately 3.99%. Based on these assumptions, Capitalink determined a value of the purchase options to be approximately \$108.4 million and \$231.8 million.

### *Short-Term Chartering, COAs and Risk Management*

Capitalink determined the value of Navios' s short term chartering and trading operations by discounting the projected cash flows at a range of discount rates of between 14.0% and 18.0% to reflect the dependency on market volatility in this operation. The projections were obtained from ISE' s management and advisors and assume a conservative reduction in FFA trading activity. The projections assumed constant revenue and EBITDA of approximately \$109.4 million and \$22.0 million, respectively. Based on these assumptions, Capitalink determined a range of indicated values for the short term chartering and trading operations of between approximately \$122.2 million and approximately \$157.1 million.

### *Uruguay Port*

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Capitalink determined the value of Navios' s Uruguay port operations utilizing a discounted cash flow analysis and a comparable company analysis. Based upon the two analyses, Capitalink determined an indicated value range for the port operations of between approximately \$49.3 million and approximately \$60.0 million.

### *Discounted Cash Flow Analysis*

Utilizing projections provided by ISE's management and advisors, Capitalink discounted the projected free cash flows at a range of discount rates of between 13.6% and 15.6% based on an estimated WACC of 14.6%.

Based on these assumptions, Capitalink determined a range of equity values for the Uruguay port of between approximately \$50.5 million and approximately \$62.4 million.

### *Comparable Company Analysis*

Capitalink also examined a selection of publicly listed port companies (the Port Companies), and examined their operating statistics and trading multiples.

## **Table of Contents**

A majority of organizations that own port operations are private and are typically owned by governmental or state-owned companies. Consequently, Capitalink was limited to those countries that had privatized their country's port operations, particularly New Zealand and the United Kingdom.

Capitalink selected a multiple range for the Uruguay Port based on multiples of LTM net income and LTM EBITDA. Capitalink expects this range to be slightly higher than the Port Companies because of their tax-free status, higher EBITDA margin and higher revenue and EBITDA growth.

Based on a range of LTM net income multiple of between 15.0 times and 18.0 times, and a range of LTM EBITDA multiple of between 10.0 times and 12.0 times, Capitalink determined a range of equity values for the Uruguay Port of between approximately \$48.1 million and approximately \$57.7 million.

Capitalink delivered its written opinion to ISE's board of directors on February 26, 2005, which stated that, as of such date, based upon and subject to the assumptions made, matters considered, and limitations on its review as set forth in the opinion, (i) the consideration to be paid in the acquisition is fair, from a financial point of view, to ISE's stockholders, and (ii) the fair market value of Navios is at least equal to 80% of ISE's net assets. Capitalink is an investment banking firm that, as part of its investment banking business, regularly is engaged in the evaluation of businesses and their securities in connection with mergers, acquisitions, corporate restructurings, private placements, and for other purposes. ISE's Board of Directors determined to use the services of Capitalink because it is a recognized investment banking firm that has substantial experience in similar matters. Capitalink has received a fee in connection with the preparation and issuance of its opinion. In addition, ISE has agreed to indemnify Capitalink for certain liabilities that may arise out of the rendering of the opinion. Capitalink does not beneficially own any interest in ISE or Navios and has not provided services to either party other than for rendering the fairness opinion to ISE. In connection with the issuance of the written opinion, Capitalink was paid a fee of \$175,000.

## **Appraisal or Dissenters Rights**

No appraisal rights are available under the Delaware General Corporation Law for the stockholders of ISE in connection with the acquisition proposal.

## **United States Federal Income Tax Consequences of the Acquisition**

The discussion surrounding the material US federal income tax consequences of the acquisition is discussed in conjunction with the tax consequences associated with the reincorporation proposal. ISE stockholders are encouraged to review the section entitled "United States Federal Income Tax Considerations of the Acquisition and Reincorporation" starting on page 53.

## **Regulatory Matters**

The acquisition and the transactions contemplated by the stock purchase agreement are not subject to the HSR Act or any other material federal or state regulatory requirement or approval.

**Consequences if Acquisition Proposal is Not Approved**

If the acquisition proposal is not approved by the stockholders, ISE will not acquire Navios and ISE will continue to seek other potential business combinations, including an operating business or fleet of vessels in the dry bulk shipping industry. In addition, if ISE does not acquire Navios, the right to acquire Navios may be assigned to an affiliate pursuant to the stock purchase agreement, which affiliate could include Angeliki Frangou and members of her family.

## **Table of Contents**

### **Required Vote**

Approval of the acquisition proposal will require the affirmative vote of a majority of the shares of ISE's common stock issued in ISE's initial public offering that are present in person or by proxy and entitled to vote at the meeting. In addition, each ISE stockholder that holds shares of common stock issued in ISE's initial public offering or purchased following such offering in the open market has the right to vote against the acquisition proposal and, at the same time demand that ISE convert such stockholder's shares into cash equal to a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE's initial public offering is deposited. These shares will be converted into cash only if the acquisition is completed and the stockholder requesting conversion holds such shares until the date the acquisition is consummated. However, if the holders of 6,555,000 or more shares of common stock issued in ISE's initial public offering, an amount equal to 20% or more of the total number of shares issued in the initial public offering, vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then ISE will not be able to consummate the acquisition. Broker non-votes, abstentions or the failure to vote on the acquisition proposal will have no effect on the outcome of the vote.

### **Recommendation**

After careful consideration, ISE's board of directors has determined unanimously that the acquisition proposal is fair to and in the best interests of ISE and its stockholders. ISE's board of directors has approved and declared advisable the acquisition proposal and unanimously recommends that you vote or give instructions to vote **FOR** the proposal to approve the acquisition.

The foregoing discussion of the information and factors considered by the ISE board of directors is not meant to be exhaustive, but includes the material information and factors considered by the ISE board of directors.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE ACQUISITION PROPOSAL TO PURCHASE ALL OF THE OUTSTANDING CAPITAL STOCK OF NAVIOS.**

**Table of Contents**

**THE STOCK PURCHASE AGREEMENT**

The following summary of the material provisions of the stock purchase agreement is qualified by reference to the complete text of the stock purchase agreement, a copy of which is attached as Annex A to this proxy statement/prospectus. On May 27, 2005, an amendment was executed solely for the purpose of extending the date on which a closing must occur from June 15, 2005 to July 15, 2005. All stockholders are encouraged to read the stock purchase agreement in its entirety for a more complete description of the terms and conditions of the acquisition.

**Structure of the Acquisition**

At the effective time of the acquisition, Navios will continue as the operating company and become a wholly-owned subsidiary of ISE. It is intended that, subject to stockholder approval of the reincorporation proposal, ISE will reincorporate as a Marshall Islands corporation by means of a merger with the newly acquired Navios.

**Purchase Price-Payment**

At the closing, the Navios shareholders, subject to adjustments and certain holdbacks, will be paid an aggregate of \$607,500,000 in cash for all the outstanding capital stock of Navios, subject to any possible EBITDA adjustments (described below). Of the cash portion of the purchase price, \$4,000,000 will be held back to secure a possible EBITDA purchase price adjustment (described below) that may occur.

**Deposit; Adjustment Deposit**

A deposit of \$3,000,000 was paid by ISE upon the signing of the stock purchase agreement, which deposit is being held in escrow and will be credited against the purchase price. Such deposit may be adjusted to up to \$6,000,000 under certain circumstances prior to closing. In the event that the closing does not occur, any deposit will be returned to ISE, except in those cases where the closing has not occurred due to a breach of certain of the representations, warranties, covenants or agreements made by ISE in the stock purchase agreement. Ms. Frangou has agreed to loan ISE funds to cover the deposit and other transaction expenses in connection with the acquisition of Navios that exceed ISE's funds which are held outside the trust and which are intended to pay for ISE's general and administrative and transaction expenses, which loan shall be repaid without interest at the closing of the acquisition or upon demand thereafter.

**EBITDA-Purchase Price Adjustment**

At the closing of the acquisition, the purchase price shall be adjusted as follows: (i) increased by the amount, if any, by which the estimated EBITDA (as defined by the stock purchase agreement) for the period from and including January 1, 2005 through and including the date of the closing of the acquisition, or the Estimated EBITDA, is greater than the number calculated by multiplying \$300,000 for every calendar day during the period from and including January 1, 2005 through and including the date of the closing of the acquisition, or the Target EBITDA, and (ii) decreased by the amount, if any, by which the Estimated EBITDA is less than the Target EBITDA. In addition, \$4,000,000 of the purchase price shall be deposited into escrow by Navios's shareholders at the closing and held in escrow, pending the determination of the

calculation described in the immediately following paragraph.

Subsequent to the closing of the acquisition, the purchase price shall be adjusted as follows: (i) increased by the amount, if any, by which the calculation presented in a statement to ISE by such accounting firm as agreed to by the parties for the period from and including January 1, 2005 through and including the date of the closing of the acquisition, or the Final EBITDA, is greater than the Estimated EBITDA, and (ii) decreased by the amount, if any, by which the Final EBITDA is less than the Estimated EBITDA. The post closing adjustment shall be promptly paid, as applicable, either by ISE to the escrow agent appointed for Navios' s shareholders or to ISE out of escrow or, if the funds held in escrow account are insufficient to satisfy the amount owed, such deficiency shall be promptly paid by Navios' s shareholders to ISE.

## **Table of Contents**

### **Closing of the Acquisition**

Subject to the provisions of the stock purchase agreement, the closing of the acquisition will take place on July 15, 2005, or, if the conditions described below under *The Stock Purchase Agreement Conditions to the Completion of the Acquisition* have not been satisfied, on the third business day following the satisfaction or waiver of the conditions described below under *The Stock Purchase Agreement Conditions to the Completion of the Acquisition*, or, if on that day, any condition to the respective obligations of either ISE or Navios or the Navios shareholders has not been satisfied or waived, as soon as practicable after all the conditions described below under *The Stock Purchase Agreement Conditions to the Completion of the Acquisition* have been satisfied, unless ISE and the Navios shareholders agree to another time.

### **Representations and Warranties**

The stock purchase agreement contains a number of representations and warranties that each of the Navios shareholders and ISE has made to each other. These representations and warranties relate to:

organization, power and authority;

subsidiaries, equity interests (Navios shareholders only);

capital stock; ownership of the shares (Navios shareholders only);

authorization, execution, delivery, enforceability of the stock purchase agreement;

absence of conflicts or violations under organizational documents, certain agreements and applicable laws or decrees, as a result of the contemplated transaction, receipt of all required consents and approvals;

absence of certain changes or events since December 31, 2004 (Navios shareholders only);

taxes (Navios shareholders only);

employees and employee benefit plans (Navios shareholders only);

litigation;

compliance with applicable laws;

material contracts (Navios shareholders only);



brokerage;

real property and leasehold interests (Navios shareholders only);

related party transactions (Navios shareholders only);

permits (Navios shareholders only);

insurance (Navios shareholders only);

intellectual property (Navios shareholders only);

accuracy of the information contained in the financial statements (Navios shareholders only);

absence of undisclosed liabilities and accounts receivable (Navios shareholders only);

environmental matters (Navios shareholders only);

maritime matters (Navios shareholders only);

bank accounts (Navios shareholders only);

no knowledge of breach, limitation of representations and warranties;

ownership and condition of assets, including vessels (Navios shareholders only);

## **Table of Contents**

financing (ISE only); and

investment intent, no reliance and access to information (ISE only).

## **Materiality and Material Adverse Effect**

Many of the representations and warranties are qualified by materiality or material adverse effect. For the purposes of the stock purchase agreement, a material adverse effect on Navios means any change, development or effect, either individually or in the aggregate, that has been, or would reasonably be expected to be, materially adverse to the assets, liabilities, business, operations, results of operations or condition (financial or otherwise) of Navios and its subsidiaries, considered as one enterprise, excluding, in any case, any change, effect or circumstance that results from or relates to: (i) changes in (A) United States or global economic conditions that do not disproportionately affect Navios or its subsidiaries, (B) laws or accounting standards, principles or interpretations of general application that do not disproportionately impact Navios or its subsidiaries or (C) general economic conditions in the dry bulk shipping industry applicable to all dry bulk ship operations generally; (ii) the announcement by ISE of its plans or intentions with respect to the conduct of Navios's business; or (iii) any natural disaster or any acts of terrorism, sabotage, military action or war (whether or not declared) or any escalation or worsening thereof that do not disproportionately affect Navios and its subsidiaries, considered as one enterprise.

## **Interim Covenants Relating to Navios**

Under the stock purchase agreement, the Navios shareholders have agreed to cause Navios and its subsidiaries, prior to completion of the acquisition, to conduct their business in the ordinary course consistent with past practice, except as expressly permitted by the stock purchase agreement. In addition to this agreement regarding the conduct of business generally, subject to specified exceptions, the Navios shareholders have agreed that Navios and its subsidiaries:

will take such action as may be necessary to maintain, preserve and renew their existence, rights and franchises; preserve their respective business organizations intact; keep available their present officers and employees; and preserve their present business relationships with suppliers, clients, charterers, customers and others;

will maintain, and timely pay all premiums when due, in respect of all of the insurance in effect;

will maintain and repair all of the owned vessels and other respective material personal property in operating condition and repair;

will maintain the owned and leased real property and all other assets in substantially the same condition;

will take all actions necessary to comply with all applicable tax laws consistent with past practice, including filing all material tax returns, and paying all taxes due and owing; not make any change in its accounting methods, principles or practices, except such changes which do not have the effect of increasing tax liability;

will promptly deliver to ISE copies of monthly unaudited balance sheets and income statements;

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will not adopt, enter into or materially amend any benefit plan, or agree to any material increase in the compensation payable to, or any increase in the contractual term of employment of, any non-management employee or agree to any increase in compensation payable to, or any increase in the contractual term of employment of, any director or member of management or consultant;

will not sell, lease, license or otherwise dispose of any material interest in any of the material assets of Navios or any of its subsidiaries or allow the assets to be subject to any new liens (except certain permitted liens);

will not increase or incur any indebtedness except in the ordinary course of business;

**Table of Contents**

will not do or omit to take any action, or permit any omission to act, that would cause a material breach or default under, or the termination, modification or amendment of, any material contract, government license, permit or other authorization;

will not amend its organizational documents;

will not engage with any person in any merger, consolidation or combination or otherwise dispose of any shares of capital stock;

will not amend, modify, extend, renew or terminate any lease, or enter into any new lease, sublease, license or other agreement for the use or occupancy of any real property;

will not make capital expenditures in excess of \$100,000 in the aggregate for any single item or project, other than permitted capital expenditures;

will not take any action which would be reasonably anticipated to have a material adverse effect;

will not enter into any affiliated party transactions;

will not declare, set aside or pay any dividends or other distribution in respect of the capital stock or other equity interests;

will not modify or alter the risk profile of its trading operations or enter into any transaction in violation of its risk control guidelines;

will not grant any irrevocable power of attorney;

will not make any change in the lines of business in which they participate or are engaged;

will not write off or write down any of their assets or properties outside of the ordinary course and consistent with past practice; or

authorize or enter into an agreement in violation of the foregoing.

**No Solicitation by Navios**

Pursuant to the terms of an exclusivity agreement previously entered into, until closing or the effective termination of the stock purchase agreement, Navios has agreed that, it will not (and will use best efforts to ensure that the Navios shareholders and its and its subsidiaries' officers, directors, employees, agents and representatives will not on its behalf) take any action to solicit, initiate, seek, encourage or support any inquiry, proposal or offer from, or furnish any information to, or participate in negotiations with, any person or entity other than ISE, or allow any due diligence regarding any acquisition of the outstanding capital stock of Navios or its subsidiaries, or transfer of all or substantially all of the assets of Navios or its subsidiaries or any other change of control transaction of Navios or its subsidiaries with any other party.

**No Solicitation by ISE**

Pursuant to the terms of an exclusivity agreement previously entered into, until closing or the effective termination of the stock purchase agreement, ISE has agreed not to (and will use its best efforts to ensure that its affiliates, and their shareholders, officers, directors, employees, agents and representatives will not on its behalf), take any action to solicit, initiate, seek, encourage or support any inquiry, proposal or offer from, or furnish any information to, or participate in negotiations with, any person or entity other than Navios and the Navios shareholders with respect to any transaction involving the acquisition by ISE or an affiliate of the capital stock or assets, whether by merger, sale, any competing transaction or otherwise, of any company engaged in the shipping business.

**ISE Stockholders Meeting**

ISE has agreed to call and hold a meeting of its stockholders, as promptly as reasonably practicable, for the purpose of seeking the adoption of the acquisition proposal by its stockholders. ISE has also agreed that it will,

## **Table of Contents**

through its board of directors and subject to their fiduciary duties or as otherwise required by law, recommend to its stockholders that they approve and adopt the acquisition proposal.

## **Access to Information**

To aid in the orderly transition of the business of Navios, during the period prior to the closing, the Navios shareholders will cause Navios and its subsidiaries to give ISE, its counsel, accountants and other representatives, as well as counsel and representatives of ISE's lenders, access during regular business hours to the properties, assets, business, financial, legal, regulatory, tax, compensation and other data and information concerning Navios and its subsidiaries and to Navios's and its subsidiaries' directors, officers, employees, agents, representatives, customers and suppliers for the purposes of such meetings and communications as ISE reasonably desires; provided that such access does not unreasonably interfere with the conduct of the business of Navios and its subsidiaries.

## **Indemnification**

The Navios shareholders have agreed to indemnify and hold harmless ISE and its representatives, successors and permitted assigns, for any damages, whether as a result of any third party claim or otherwise, and which arise from or in connection with the breach of representations and warranties and agreements and covenants of the Navios shareholders. ISE shall indemnify and hold harmless each Navios shareholder from and against any damages, whether as a result of any third party claim or otherwise, and which arise from or in connection with the breach of representations and warranties and agreements and covenants of ISE. Subject to certain exceptions, claims may be asserted once the individual item exceeds \$25,000 and when total damages exceed 1% of the sum of the purchase price. Additionally, subject to certain exceptions, the aggregate liability for losses under the stock purchase agreement shall not exceed 60% of the purchase price. The representations and warranties of the Navios Shareholders will survive the closing for a period of one year and 91 days following closing, provided that certain of the representations and warranties will survive for a longer period.

## **Fees and Expenses**

Except as provided in the stock purchase agreement, each of the Navios shareholders, on the one hand, and ISE, on the other, shall be responsible for their own fees and expenses (including the fees and expenses of its own lawyers, accountants, appraisers and other advisers) in connection with the stock purchase agreement and the transactions contemplated thereby. The Navios shareholders on the one hand and ISE on the other hand will split equally the fees and expenses in connection with the preparation and delivery of certain financial statements and the fees and expenses in connection with the escrow agreements.

## **Public Announcements**

ISE and the Navios shareholders have agreed that any announcements concerning the transactions provided for in the stock purchase agreement by ISE or the Navios shareholders shall be subject to the prior approval of ISE and the Navios shareholders in all essential respects, except that approval shall not be required as to any statements and other information which any party may be required to make pursuant to any applicable rule or regulation of the SEC or as otherwise required by law.

**Pre-Closing Confirmation**

Not later than 48 hours prior to the closing:

ISE is required to give the trustee advance notice of the completion of the acquisition; and

ISE will cause the trustee to provide a written confirmation to Navios confirming the dollar amount of the account balance held by the trustee in the trust account that will be released to ISE upon consummation of the acquisition.

## **Table of Contents**

### **Conditions to the Completion of the Acquisition**

The obligations of ISE to consummate the acquisition are subject to the following conditions:

the representations and warranties of the Navios shareholders must be true and correct in all material respects, as of the date of completion of the acquisition;

the Navios shareholders must have performed in all material respects all obligations that are to be performed by them;

there must not have occurred since the date of the stock purchase agreement, any material effect adverse on Navios;

each of Ted C. Petrone, Michael E. McClure, Shunji Sasada, Pablo Soler and Gabriel Soler will have entered into employment agreements with ISE;

each of Robert G. Shaw, Bruce C. Hoag, Ted C. Petrone, Michael E. McClure, Shunji Sasada, Anastassis G. David and Anthony R. Whitworth will have entered into non-competition and non-solicitation agreements with ISE;

the ISE stockholders shall have approved the transactions contemplated by the stock purchase agreement;

the Navios shareholders shall have caused Navios to satisfy certain outstanding indebtedness of Navios; and

the absence of any order, injunction, suit or proceeding challenging or preventing the acquisition.

The obligation of the Navios shareholders to consummate the acquisition is subject to the following conditions:

ISE's representations and warranties must be true and correct in all material respects, as of the date of completion of the acquisition;

ISE must have performed in all material respects all obligations required to be performed by it under the stock purchase agreement; and

the absence of any order, injunction, suit or proceeding challenging or preventing the acquisition.

### **Termination**

The stock purchase agreement may be terminated at any time, but not later than the closing, as follows:



By mutual written consent of ISE and the Navios shareholders;

By either party if the closing has not occurred by May 20, 2005 (such date being subject to extension upon the occurrence of various events and/or conditions) which date was extended to July 15, 2005 pursuant to the terms and conditions of an amendment to the stock purchase agreement entered into on May 27, 2005; or

By either party if the other party has breached any of its covenants or representations and warranties in any material respect.

**Effect of Termination**

In the event of termination by either the Navios shareholders or ISE, the stock purchase agreement will become void and have no effect, without any liability or obligation on the part of ISE or the Navios shareholders. Upon termination of the stock purchase agreement, other than for termination by the Navios shareholders due to the breach by ISE of certain of its representations, warranties or covenants, any deposits posted by ISE shall be returned to ISE.

## **Table of Contents**

### **Assignment**

Except as expressly provided for in the stock purchase agreement, the rights and obligations of a party thereunder may not be assigned, transferred or encumbered without the prior written consent of the other parties. Under certain circumstances, ISE may assign, in whole but not in part, all of its rights and cause the assumption of all of the obligations under the stock purchase agreement only to an affiliate of ISE which has met certain specified conditions. As previously indicated, Ms. Frangou has indicated that if shareholder approval for the acquisition is not obtained, she may acquire Navios individually or through one of her affiliated companies. In the event of such acquisition by Ms. Frangou, she would continue to serve as ISE's Chairman and Chief Executive Officer.

### **Amendment**

Any purported amendment, modification or supplement to the stock purchase agreement shall be null and void unless it is in writing and signed by ISE and holders of 60% of the outstanding shares of Navios held by the Navios shareholders.

### **Further Assurances**

Each of ISE and the Navios shareholders agreed that it will execute and deliver, or cause to be executed and delivered, on or after the date of the stock purchase agreement, all such other documents and instruments and will take all reasonable actions as may be necessary to transfer and convey the shares of capital stock of Navios to ISE.

### **Shareholders' Agent**

The Navios shareholders have designated Robert G. Shaw and Bruce C. Hoag as shareholders' agent with authority to make, except for the decision to terminate the stock purchase agreement or extend the closing date, all decisions and determinations and to take all actions (including giving consents and waivers to the stock purchase agreement) required or permitted under the stock purchase agreement on behalf of the Navios shareholders, and any such action, decision or determination so made or taken shall be deemed the action, decision or determination of the Navios shareholders, and any notice, document, certificate or information required to be given to any Navios shareholder shall be deemed so given if given to the shareholders' agent. ISE may conclusively and absolutely rely, without inquiry, upon any action of the shareholders' agent in all matters in which it has been granted authority. All actions, decisions and instructions of the shareholders' agent taken, made or given pursuant to the authority granted to the shareholders' agent shall be final, conclusive and binding upon the Navios shareholders. As Messrs. Shaw and Hoag are also shareholders of Navios, it is possible that potential conflicts of interest may arise with respect to their obligations as shareholders' agent and their interests as shareholders of Navios.

## **EMPLOYMENT AGREEMENTS**

Each of Ted C. Petrone, Michael E. McClure, Shunji Sasada, Pablo Soler and Gabriel Soler has entered into an employment agreement, each to be effective at the time of the closing of the acquisition of Navios. The following description of the employment agreements describes the

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material terms of the employment agreements but does not purport to describe all of the terms of the employment agreements. In the event the stock purchase agreement is terminated, the employment agreements will automatically terminate. The complete text of the form of employment agreement for each of Messrs. Petrone, McClure, Sasada and the Solers is attached as Annex E to this proxy statement/prospectus and is incorporated by reference into this proxy statement/prospectus. We encourage all stockholders to read the form of employment agreement in its entirety.

In addition, each of such individuals has executed a Non-Competition and Non-Solicitation Agreement, to be effective on the date of the closing.

## **Table of Contents**

### **Scope of Employment**

The employment agreements provide that, after the acquisition, Ted C. Petrone will be employed as the Vice President Panamax, Michael E. McClure as the Vice President Research & Risk Management and Shunji Sasada as the Vice President Handymax of ISE, Pablo Soler as the General Manager of CNSA and Gabriel Soler as the Manager of Port Facilities. Messrs. Petrone, McClure, Sasada and the Solers are collectively sometimes referred to as the employees. Other than these differences in offices (and other requirements under applicable laws), the employment agreements are substantially identical. The employment agreements of Gabriel Soler and Pablo Soler are for a period of one year and vary slightly from the form of agreement as a result of Uruguayan law. In addition, their agreements do not require them to enter into separate non-compete agreements.

### **Compensation**

Each employee:

is entitled to a base salary equal to 120% of his current base salary for a term of two years (except for the agreements with Pablo Soler and Gabriel Soler, which agreements will be for a one-year term); and

is eligible for an annual cash bonus which, in 2005 is based on profitability of the company and thereafter in the sole discretion of ISE. Any such bonus will be calculated based on criteria to be established and determined at the time of such grant by the board of directors.

### **Fringe Benefits, Reimbursement of Expenses**

Each employee is entitled, among other things, to:

participate in all benefit programs established and made available to its management employees, if any; and

reimbursement for reasonable travel, entertainment and other expenses incurred or paid by him in connection with, or related to the performance of his duties, responsibilities or services under the agreement, upon presentation by the employee of documentation, expense statements, vouchers and/or such other supporting information as may be reasonably requested.

### **Termination Benefits**

If the agreement is terminated by the company for cause or by the employee voluntarily, the company shall have no further obligations other than to pay to employee the compensation and benefits, including payment for accrued but untaken vacation days, through the last day of his actual employment.

If the agreement is terminated by the company upon the employee's death or disability, the company shall pay to employee's estate or to employee, as the case may be, compensation which would otherwise be payable to him for a period of thirty (30) days from the date such termination occurs and payment for any accrued but untaken vacation days, through the last day of employment. Employee or his estate shall also be eligible to receive any benefits which he or it are entitled to receive under the various company fringe benefit plans for the twelve months following employee's death or disability.

If the agreement is terminated by the company for reasons other than cause or by employee voluntarily or for death or disability, then the employee is entitled to:

the greater of an amount equal to his base salary for six months or the salary due for the remainder of the agreement term;

payment for accrued but untaken vacation days; and

continued contributions toward employee's health care, dental, disability and life insurance benefits for a period of six months from the last day of employee's employment or for the remainder of time left in the agreement term, whichever is greater (unless employee is actually covered by an equivalent benefit, at the same cost to employee, if any, from another employer during such period).

**Table of Contents**

Cause means:

a finding by the company that employee has engaged in dishonesty, gross negligence or gross misconduct that is injurious to the company;

employee's conviction or entry of nolo contendere to any felony or crime involving moral turpitude, fraud or embezzlement of company property;

the employee's material breach of the employment agreement, which, if curable, has not been cured by employee within 14 days after he shall have received written notice from the company stating with reasonable specificity the nature of such breach; or

the employee's material breach of any of the terms of the Non-Competition Agreement and Non-Solicitation Agreement.

**Table of Contents**

**THE REINCORPORATION PROPOSAL**

**General**

The board of directors has unanimously approved and recommends that the holders of ISE common stock approve the reincorporation, which will change the domicile of ISE from the State of Delaware to the Republic of the Marshall Islands. The reincorporation will be effected by means of a merger of ISE into Navios which, after completion of the acquisition of Navios, will be a wholly-owned Marshall Islands subsidiary of ISE, pursuant to the terms of a plan and agreement of merger, a copy of which will be in substantially the form attached hereto as Annex C. The reincorporation will permit ISE to continue receiving the regulatory, financial and tax benefits that Navios, as a Marshall Islands corporation is afforded as an international shipping company. As part of the merger with the newly acquired Navios, ISE's corporate name will be changed to Navios Maritime Holdings Inc.

The reincorporation would result in the adoption of a new articles of incorporation and by-laws which, as described below, would differ from our current charter and bylaws in various ways.

In the event this proposal is not adopted, ISE will continue to operate as a Delaware corporation, subject to its existing certificate of incorporation and bylaws under Delaware law.

If the holders of ISE common stock approve the reincorporation, ISE as it currently exists will be merged with and into Navios, the Marshall Islands corporation, and ISE will be renamed Navios Maritime Holdings Inc. Upon completion of the reincorporation, pursuant to the articles of incorporation to be filed in connection with the reincorporation, the reincorporated company will have the authority to issue 121,000,000 shares of all classes of capital stock, of which 120,000,000 shares will be common stock, par value \$.0001 per share and 1,000,000 shares will be preferred stock, par value \$.0001 per share. ISE currently has the same number of authorized shares of capital stock. If the reincorporation is approved by the holders of ISE common stock, it is anticipated that the merger to effectuate the reincorporation will become effective as soon as practicable following the special meeting and the acquisition of Navios. Under the plan and agreement of merger, however, the board of directors retains discretion to abandon or terminate the reincorporation after receipt of stockholder approval, but prior to filing the necessary documentation with the State of Delaware and the Republic of the Marshall Islands, if the board of directors determines that the reincorporation is no longer in the best interests of ISE and its stockholders.

When the merger becomes effective, (i) ISE will cease to exist, (ii) Navios, pursuant to the articles of incorporation, bylaws and plan and agreement of merger to be filed in connection with the merger of ISE and Navios, will succeed, to the fullest extent permitted by law, to all of the business, assets and liabilities of ISE, (iii) each share of common stock of ISE will be automatically converted into a corresponding share of the common stock of the newly reincorporated company, and the outstanding shares of Navios will be surrendered and extinguished, and (iv) ISE-Marshall Islands will replace ISE-Delaware as a party to its principal agreements, if any.

In connection with the reincorporation, ISE stockholders will receive an equal number of shares of common stock of Navios Maritime Holdings Inc., the name of the company following the acquisition and reincorporation, in exchange for their ISE common stock and Navios Maritime Holdings Inc. will assume the outstanding ISE warrants, the terms and conditions of which will not change, except that, upon exercise, warrant holders will receive shares of common stock of Navios Maritime Holdings Inc.

**Appraisal Rights**

If the reincorporation occurs, the ISE stockholders who do not vote in favor of the reincorporation proposal have the right to demand in cash the fair value of their ISE shares (exclusive of any element of value arising from the accomplishment or expectation of the reincorporation) instead of taking the surviving corporation common stock. Holders of warrants to purchase ISE common stock do not have any appraisal rights.



## **Table of Contents**

ISE common stock will not be converted into common stock of the reincorporated company if the holder of the shares validly exercises and perfects statutory appraisal rights with respect to the shares. When and if the holder of those shares withdraws the demand for appraisal or otherwise becomes ineligible to exercise appraisal rights, the shares will automatically convert into shares of the reincorporated company common stock on the same basis as the other shares that convert in the reincorporation.

To perfect the appraisal right, stockholders must not vote in favor of the reincorporation proposal and then mail or deliver a written demand for appraisal, before the taking of the vote on the reincorporation at the special meeting of ISE stockholders. This written demand must be separate from any vote against approval of the reincorporation proposal. Voting against approval of the reincorporation proposal or failing to vote on the proposal will not constitute a demand for appraisal within the meaning of Section 262 of the Delaware General Corporations Law. The written demand should be delivered to:

International Shipping Enterprises, Inc., 1225 Franklin Ave., Suite 325, Garden City, New York 11530, Attention: Avisheh Avini.

A written demand for appraisal of the ISE shares is only effective if it reasonably informs ISE of the identity of the stockholder and that the stockholder demands appraisal of his, her or its shares. Accordingly, the written demand for appraisal should specify the stockholder's name and mailing address, the number of shares of ISE common stock owned and that the stockholder is thereby demanding appraisal.

A dissenting stockholder who is the record owner, such as a broker, of ISE common stock as a nominee for others, may exercise a right of appraisal with respect to the shares held for one or more beneficial owners, while not exercising such right for other beneficial owners. In that case, the record stockholder should specify in the written demand the number of shares as to which the stockholder wishes to demand appraisal. If the written demand does not expressly specify the number of shares, ISE will assume that the written demand covers all the shares of ISE common stock that are in the nominee's name.

It is important that ISE receive all written demands promptly as provided above. Failure to comply with any of these conditions will result in the stockholder only being entitled to receive the shares of the reincorporated company after the reincorporation.

Dissenting stockholders must not approve the reincorporation proposal. If a dissenting stockholder votes in favor of the reincorporation, the stockholder's right to appraisal will terminate, even if the stockholder previously filed a written demand for appraisal. A vote against approval of the reincorporation is not required in order to exercise dissenters' rights.

Dissenters must continuously hold their shares of ISE common stock from the date they make the demand for appraisal through the closing of the reincorporation. Record holders of ISE common stock who make the appraisal demand, but subsequently sell their shares of common stock prior to the merger will lose any right to appraisal in respect of the sold shares.

Within 120 days after the effective date of the reincorporation merger, either the surviving corporation or any stockholder who has complied with the conditions of Section 262 may file a petition in the Delaware Court of Chancery demanding that the Chancery Court determine the fair value of the shares of stock held by all the stockholders who are entitled to appraisal rights. Neither ISE nor the surviving corporation has any intention at this time of filing this petition. Because the surviving corporation has no obligation to file this petition, if no dissenting stockholder files this petition within 120 days after the closing, dissenting stockholders may lose their rights of appraisal.

A dissenting stockholder who no longer wishes to exercise appraisal rights must withdraw the holder's demand for appraisal rights within 60 days after the effective date of the reincorporation merger. A stockholder also may withdraw a demand for appraisal after 60 days after the effective date of the merger, but only with the written consent of the surviving corporation. If a stockholder effectively withdraws a demand for appraisal rights, the stockholder will receive the merger consideration provided in the reincorporation.

## **Table of Contents**

If the stockholder is in compliance with the demand requirements, it is entitled to receive from the surviving corporation a statement setting forth the aggregate number of shares for which appraisal has been demanded and the aggregate number of stockholders making the demand. To obtain this statement, the stockholder must make a written demand to the surviving corporation within 120 days after the effective date of the reincorporation. The surviving corporation must make the statement before the later of (i) the 10th day after receiving such request or (ii) the 10th day after the period within which demand for appraisal rights must be made has expired.

If a Chancery Court proceeding is commenced by a dissenting stockholder, the surviving corporation has 20 days to provide the court with the names of dissenting stockholders with which it has not settled a claim for appraisal. The court may then send notice of a hearing to all the stockholders demanding appraisal rights, and then conduct a hearing to determine whether the stockholders have fully complied with Section 262 and their entitlement to the appraisal rights under that section. The court may require deposit of the stock certificates of dissenting stockholders with the court. A dissenting stockholder who does not follow this requirement may be dismissed from the proceeding.

The Chancery Court will determine the value of the shares. To determine the fair value, the court will consider all relevant factors, and will exclude any appreciation or depreciation due to the anticipation or accomplishment of the reincorporation. Whether or not an investment banking firm has determined that the merger is fair is not an opinion that the merger consideration is fair value under Section 262. Upon determination of the value, the surviving corporation will be ordered to pay that value, together with simple or compound interest as the court directs. To receive payment, the dissenting stockholders must surrender their stock certificates to the surviving corporation.

The costs of the appraisal proceeding may be assessed against the surviving corporation or the stockholders as the court determines.

Following the reincorporation, as a result of the merger with Navios, ISE will be a Marshall Islands corporation and the rights of its shareholders, directors and officers will be governed by Marshall Islands law and by the amended and restated articles of incorporation and bylaws of Navios filed in connection with the reincorporation, rather than by Delaware law and our existing certificate of incorporation, as amended, and bylaws. A copy of the amended and restated articles of incorporation and bylaws we intend to file in the Marshall Islands in conjunction with the reincorporation merger is attached hereto as Annex B. Copies of ISE's existing certificate of incorporation, as amended, and bylaws are available for inspection at ISE's principal offices and will be sent to stockholders upon request directed to ISE, Attention: Avisheh Avini, 1225 Franklin Avenue, Suite 325, Garden City, New York 11530.

A discussion of the material similarities and differences of the governing charter documents between ISE and the amended and restated articles of incorporation of Navios appears below. This discussion is not intended to be complete and is qualified in its entirety by reference to Annex B attached hereto and to ISE's existing certificate of incorporation, as amended, and bylaws, the General Corporation Law of the State of Delaware and the Business Corporations Act of the Marshall Islands Associations Law.

## **Merger Agreement**

The reincorporation will be effectuated through a plan and agreement of merger between ISE and Navios. Such merger, and thus the reincorporation, will only be completed if ISE acquires Navios and Navios becomes a wholly-owned subsidiary of ISE.

*Conditions to the Merger.* The obligations of ISE and Navios, which, at the time of the merger will be ISE's wholly-owned subsidiary, to complete the merger are subject to the satisfaction or waiver of specified conditions, including the following:

the approval of the reincorporation by the affirmative vote of a majority of the outstanding shares of ISE's common stock;

**Table of Contents**

the absence of any law, order or injunction prohibiting the consummation of the merger; and

the receipt of all approvals and the completion of filings or notices necessary for completion of the merger.

*Completion and Effectiveness of the Merger.* Upon the filing of the articles of merger and amended and restated articles of incorporation and by-laws with the Republic of the Marshall Islands, ISE, now renamed Navios Maritime Holdings Inc. and incorporated as a Marshall Islands corporation, will, consistent with the amended and restated articles of incorporation and by-laws, possess all the rights, privileges, immunities, powers and purposes of the constituent corporations, all the property, real and personal, causes of action and every other asset of each of the constituent corporations and Navios Maritime Holdings Inc., the merged company, shall assume and be liable for all the liability, obligations and penalties of each of the constituent corporations.

**Comparison of Stockholder Rights**

Upon the completion of the reincorporation, the articles of incorporation and bylaws, attached hereto as Annex B, will become the governing document of the surviving and newly reincorporated corporation. Although the corporate statutes of Delaware and the Republic of the Marshall Islands are similar, certain differences exist. Stockholders should refer to the annexes of the articles of incorporation and bylaws and to the Delaware corporate law and corporate law of the Republic of the Marshall Islands to understand how these laws apply to the parties to the merger. Stockholders are encouraged to review the articles of incorporation and bylaws that will be in effect upon the reincorporation, as they impact the rights of a stockholder. For example, a quorum for a meeting of stockholders of ISE is currently a majority of the outstanding shares, as opposed to after the reincorporation, when a quorum will be only one-third of the outstanding shares.

The following table provides a comparison between the statutory provisions of the Business Corporation Act (BCA) of the Republic of the Marshall Islands and the Delaware General Corporation Law relating to stockholders' rights:

Marshall Islands	Delaware
<b>Stockholder Meetings</b>	
Held at a time and place as designated in the bylaws	May be held at such time or place as designated in the certificate of incorporation or the bylaws, or if not so designated, as determined by the board of directors
May be held in or outside of the Marshall Islands	May be held in or outside of Delaware
Notice: Whenever stockholders are required to take action at a meeting, written notice shall state the place, date and hour of the meeting and indicate that it is being issued by or at the direction of the person calling the meeting	Notice: Whenever stockholders are required to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, and the means of remote communication, if any
A copy of the notice of any meeting shall be given personally or sent by mail not less than 15 nor more than 60 days before the meeting	Written notice shall be given not less than 10 nor more than 60 days before the meeting
<b>Stockholders' Voting Rights</b>	
Any action required to be taken by a meeting of stockholders may be taken without a meeting if consent is in writing and is signed by all	Stockholders may act by majority written consent

the stockholders entitled to vote

**Table of Contents**

**Marshall Islands**

Any person authorized to vote may authorize another person to act for him by proxy

Unless otherwise provided in the articles of incorporation, a majority of shares entitled to vote constitutes a quorum. In no event shall a quorum consist of fewer than one third of the shares entitled to vote at a meeting

No provision for cumulative voting

**Delaware**

Any person authorized to vote may authorize another person or persons to act for him by proxy

For stock corporations, a certificate of incorporation or bylaws may specify the number to constitute a quorum but in no event shall a quorum consist of less than one-third of shares entitled to vote at a meeting. In the absence of such specifications, a majority of shares entitled to vote shall constitute a quorum

The certificate of incorporation may provide for cumulative voting

**Directors**

The board of directors must consist of at least one member

Number of members can be changed by an amendment to the bylaws by the stockholders, or by action of the board

If the board of directors is authorized to change the number of directors, it can only do so by an absolute majority (majority of the entire board)

The board of directors must consist of at least one member

Number of board members shall be fixed by the bylaws, unless the certificate of incorporation fixes the number of directors, in which case a change in the number shall be made only by amendment of the certificate of incorporation.

**Dissenter s Rights of Appraisal**

Stockholder s have a right to dissent from a merger or sale of all or substantially all assets not made in the usual course of business, and receive payment of the fair value of their shares

A holder of any adversely affected shares who does not vote on or consent in writing to an amendment to the articles of incorporation has the right to dissent and to receive payment for such shares if the amendment:

Alters or abolishes any preferential right of any outstanding shares having preference; or

Creates, alters, or abolishes any provision or right in respect to the redemption of any outstanding shares; or

Alters or abolishes any preemptive right of such holder to acquire shares or other securities; or

Excludes or limits the right of such holder to vote on any matter, except as such right may be limited by the voting rights given to new shares then being authorized of any existing or new class

Appraisal rights shall be available for the shares of any class or series of stock of a corporation in a merger or consolidation, subject to certain exceptions

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**Table of Contents**

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**Marshall Islands**

**Delaware**

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**Stockholder s Derivative Actions**

An action may be brought in the right of a corporation to procure a judgment in its favor, by a holder of shares or of voting trust certificates or of a beneficial interest in such shares or certificates. It shall be made to appear that the plaintiff is such a holder at the time of bringing the action and that he was such a holder at the time of the transaction of which he complains, or that his shares or his interest therein devolved upon him by operation of law

Complaint shall set forth with particularity the efforts of the plaintiff to secure the initiation of such action by the board or the reasons for not making such effort

Such action shall not be discontinued, compromised or settled, without the approval of the High Court of the Republic

Attorney s fees may be awarded if the action is successful

Corporation may require a plaintiff bringing a derivative suit to give security for reasonable expenses if the plaintiff owns less than 5% of any class of stock and the shares have a value of less than \$50,000

In any derivative suit instituted by a stockholder or a corporation, it shall be averred in the complaint that the plaintiff was a stockholder of the corporation at the time of the transaction of which he complains or that such stockholder s stock thereafter devolved upon such stockholder by operation of law

**Federal Income Tax Consequences**

**General**

The following discussion addresses certain United States federal income tax aspects of the acquisition and reincorporation. It does not address other tax aspects of the transactions (including issues arising under state, local and foreign tax laws other than the Marshall Islands), nor does it attempt to address the specific circumstances of any particular stockholder of ISE.

ISE will not request a ruling from the IRS concerning the tax matters as discussed below, and there can be no assurance that the IRS or a court would agree with ISE on each or any tax conclusion.

**Marshall Islands Tax Considerations**

ISE will be incorporated in the Marshall Islands. Under current Marshall Islands law, ISE will not be subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments.

**United States Federal Income Tax Considerations of the Acquisition and Reincorporation**



ISE believes that for federal income tax purposes, the purchase of the shares of the stock of Navios by ISE, followed by the merger of ISE into Navios, should be treated as the direct purchase of the Navios shares by the shareholders of ISE, and that the separate existence of Navios be ignored for federal income tax purposes.

## **Table of Contents**

Accordingly, ISE does not believe that the merger of ISE into Navios will result in the recognition of gain or loss to ISE or its shareholders. ISE bases its conclusion on Income Tax Regulations setting forth standards to determine whether a corporation or its shareholders should be treated as the purchaser of stock by a corporation or its shareholders, and on more general authority relating to the treatment of transitory corporations used in transactions.

ISE believes that each shareholder of ISE should have the same basis in its shares of Navios that it had in its shares of ISE. ISE also believes that the holding period of a shareholder in its ISE shares will not include the holding period that such shareholder had in its shares of ISE prior to the acquisition of Navios and reincorporation of ISE.

There is no authority, however, that directly controls the tax treatment of the purchase of the shares of Navios and the merger of ISE into Navios. The IRS or a court could disagree with ISE's position, and claim that the merger results in gain or loss to the shareholders of ISE, or that shareholders have a different basis or holding period in their shares.

### *Taxation of Operating Income: In General*

ISE will be incorporated under the laws of the Marshall Islands. Accordingly, it will be taxed as a foreign corporation by the United States, unless ISE's reincorporation as a Marshall Islands corporation results in ISE continuing to be taxed as a United States corporation under newly enacted provisions of the Code. ISE believes that it is more likely than not that the income tax principles and Income Tax Regulations referred to above would be interpreted to mean that the new provisions of the Code will not apply, and that ISE will be taxed by the United States as a foreign corporation. The IRS or a court, however, could disagree with ISE's position. If ISE were taxed as a domestic corporation, it could be subject to substantially greater United States income tax than contemplated below.

In general, a foreign corporation is subject to United States tax on income that is treated as derived from US source income or that is effectively connected income. Based on its current plans, however, ISE expects that its income from sources within the United States will be international shipping income that qualifies for exemption from United States federal income taxation under Section 883 of the Code, and that it will have no effectively connected income. Accordingly, ISE does not expect to be subject to federal income tax on any of its income.

If ISE is taxed as a foreign corporation and the benefits of Code Section 883 are unavailable, ISE's United States source shipping income that is not effectively connected income would be subject to a four percent (4%) tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. ISE believes that no more than fifty percent (50%) of ISE's shipping income would be treated as United States source shipping income because, under ISE's current business plan, its shipping income will be attributable to transportation which does not both begin and end in the United States. Thus, the maximum effective rate of United States federal income tax on ISE's shipping income would never exceed two percent (2%) under the four percent (4%) gross basis tax regime.

To the extent the benefits of Code Section 883 exemption are unavailable and ISE's international shipping income is considered to be effectively connected income, such income, net of applicable deductions, would be subject to the United States federal corporate income tax. United States corporate income tax would also apply to any other effectively connected income of ISE, and to ISE's worldwide income if it were taxed as a domestic corporation. (See, "United States Federal Income Tax Considerations of the Acquisition and Reincorporation United States Tax Consequences of Purchase and Downstream Merger" above). This could result in the imposition of a tax of up to 35% on ISE's income, except to the extent that ISE were able to take advantage of more favorable rates that may be imposed on shipping income of domestic corporations or foreign corporations. In addition, as a foreign corporation, ISE could potentially be subject to the thirty percent (30%) branch profits on effectively connected income, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to

the conduct of its United States trade or business. Since ISE does not intend to have any vessel sailing to or from the United States on a regularly scheduled basis, ISE believes that none of its international shipping income will be effectively connected income.

## **Table of Contents**

### *United States Taxation of Gain on Sale of Vessels*

Regardless of whether ISE qualifies for exemption under Code Section 883, it will not be subject to United States federal income taxation with respect to gain realized on a sale of a vessel, provided that the sale is considered to occur outside of the United States as defined under United States federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected that any sale of a vessel by ISE will be considered to occur outside of the United States.

## **United States Federal Income Taxation of US Holders**

As used herein, the term "US Holder" means a beneficial owner of common stock that

is an individual United States citizen or resident, a United States corporation or other United States entity taxable as a corporation, an estate of which the income is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust;

owns ISE common stock as a capital asset; and

owns less than ten percent (10%) of ISE's common stock for United States federal income tax purposes.

If a partnership holds ISE common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding ISE common stock, you should consult your tax advisor.

### *Distributions*

Subject to the discussion of passive foreign investment companies below, distributions made by ISE with respect to ISE common stock to a US Holder will generally constitute dividends to the extent of ISE's current or accumulated earnings and profits, as determined under United States federal income tax principles, and will be included in the US Holder's gross income. Distributions in excess of such earnings and profits will first be treated as a nontaxable return of capital to the extent of the US Holder's tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because ISE is not a United States corporation, US Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions it receives from ISE. Dividends paid with respect to ISE's common stock will generally be treated as "passive income" for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

Dividends paid on ISE common stock to a US Holder who is an individual, trust or estate, a US Non-Corporate Holder, will generally be treated as "qualified dividend income" that is taxable to such US Non-Corporate Holder at preferential tax rates (through 2008), provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the Over-The-Counter Bulletin Board); (2) ISE is not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable

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year (which ISE does not believe it is or will be); (3) the US Non-Corporate Holder has owned the common stock for more than sixty (60) days in the 121-day period beginning sixty (60) days before the date on which the common stock becomes ex-dividend; and (4) the US Non-Corporate Holder is under no obligation to make related payments with respect to positions in substantially similar or related property. Special rules may apply to any extraordinary dividend generally, a dividend in an amount equal to or in excess of ten percent of a stockholder's adjusted basis in a share of common stock paid by ISE. If ISE pays an extraordinary dividend on its common stock that is treated as qualified dividend income, then any loss derived by a US Non-Corporate Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

## **Table of Contents**

There is no assurance that any dividends paid on ISE common stock will be eligible for these preferential rates in the hands of a US Non-Corporate Holder, although ISE believes that they will be so eligible. Any dividends out of earnings and profits ISE pays which are not eligible for these preferential rates will be taxed as ordinary income to a US Non-Corporate Holder.

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

Assuming ISE does not constitute a passive foreign investment company for any taxable year, a US Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of ISE common stock in an amount equal to the difference between the amount realized by the US Holder from such sale, exchange or other disposition and the US Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the US Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as United States source income or loss, as applicable, for United States foreign tax credit purposes. Long-term capital gains of US Non-Corporate Holders are eligible for reduced rates of taxation. A US Holder's ability to deduct capital losses is subject to certain limitations. See, "United States Federal Income Tax Considerations of the Acquisition and Reincorporation through a Downstream Merger" and "United States Tax Consequences of Acquisition and Reincorporation through a Downstream Merger" above, for a discussion of certain tax basis and holding period issues related to ISE common stock.

### *Passive Foreign Investment Company Status and Significant Tax Consequences*

Special United States federal income tax rules apply to a US Holder that holds stock in a foreign corporation classified as a passive foreign investment company for United States federal income tax purposes. A foreign corporation will be a foreign passive investment company if 75% or more of its gross income for a taxable year is treated as passive income, or if the average percentage of assets held by such corporation during a taxable year which produce or are held to produce passive income is at least 50%. A US Holder of stock in a passive foreign investment company can be subject to current taxation on undistributed income of such company or to other adverse tax results if it does not elect to be subject to such current taxation.

ISE believes that it will not be a passive foreign investment company because it believes that its shipping income will be active services income and most of its assets will be held for the production of active services income.

Since there is no legal authority directly on point, however, the IRS or a court could disagree with ISE's position and treat its shipping income and/or shipping assets as passive income or as producing or held to produce passive income. In addition, although ISE intends to conduct its affairs in a manner that would avoid ISE being classified as a passive foreign investment company with respect to any taxable year, it cannot ensure that the nature of its operations will not change in the future.

## **United States Federal Income Taxation of Non-US Holders**

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

*Dividends on Common Stock*

Non-US Holders generally will not be subject to United States federal income tax or withholding tax on dividends received with respect to ISE common stock, unless that income is effectively connected with the Non-US Holder's conduct of a trade or business in the United States. If the Non-US Holder is entitled to the benefits of a United States income tax treaty with respect to those dividends, that income is taxable only if it is attributable to a permanent establishment maintained by the Non-US Holder in the United States. In the event that following its merger into Navios, ISE continues to be taxed as a United States corporation under newly enacted provisions of the Code, dividends received by Non-US Holders could be subject to United States withholding tax. See discussion above under United States Tax Consequences of the Acquisition and Reincorporation through a Downstream Merger, Taxation of Operating Income: In General.

## **Table of Contents**

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

Non-US Holders generally will not be subject to United States federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of ISE's common stock, unless:

the gain is effectively connected with the Non-US Holder's conduct of a trade or business in the United States (and, if the Non-US Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain is attributable to a permanent establishment maintained by the Non-US Holder in the United States); or

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

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

## **Backup Withholding and Information Reporting**

In general, dividend payments or other taxable distributions, made within the United States to the shareholder, will be subject to information reporting requirements if the shareholder is a non-corporate US Holder. Such payments or distributions may also be subject to backup withholding tax if the shareholder is a non-corporate US Holder and:

fails to provide an accurate taxpayer identification number;

is notified by the IRS that the shareholder failed to report all interest or dividends required to be shown on the shareholder's federal income tax returns; or

in certain circumstances, fails to comply with applicable certification requirements.

Non-US Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8ECI or W-81MY, as applicable.

If the shareholder is a Non-US Holder and sells the shareholder's common stock to or through a United States office of a broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless the shareholder certifies that the shareholder is a non-United States person, under penalties of perjury, or otherwise establishes an exemption. If the shareholder sells common stock through a



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non-United States office of a non-United States broker and the sales proceeds are paid to the shareholder outside the United States, then information reporting and backup withholding generally will not apply to that payment. United States information reporting requirements, but not backup withholding, however, will apply to a payment of sales proceeds, even if that payment is made to the shareholder outside the United States, if the shareholder sells common stock through a non-United States office of a broker that is a United States person or has some other contacts with the United States. Such information reporting requirements will not apply, however, if the broker has documentary evidence in its records that the shareholder is a non-United States person and certain other conditions are met, or otherwise establishes an exemption.

The conclusions expressed above are based on current United States tax law. Future legislative, administrative or judicial changes or interpretations, which can apply retroactively, could affect the accuracy of those conclusions.

## **Table of Contents**

The discussion does not address all of the tax consequences that may be relevant to particular taxpayers in light of their personal circumstances or to taxpayers subject to special treatment under the Code. Such taxpayers include non-US persons, insurance companies, tax-exempt entities, dealers in securities, banks and persons who acquired their shares of capital stock pursuant to the exercise of employee options or otherwise as compensation.

**BECAUSE OF THE COMPLEXITY OF THE TAX LAWS, AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR STOCKHOLDER MAY BE AFFECTED BY MATTERS NOT DISCUSSED ABOVE, EACH ISE STOCKHOLDER IS URGED TO CONSULT A TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE TRANSACTIONS CONTEMPLATED BY THE STOCK PURCHASE AGREEMENT AND REINCORPORATION TO HIM, HER OR IT, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-US TAX LAWS, AS WELL AS FEDERAL TAX LAWS.**

## **Enforceability of Civil Liabilities**

Upon completion of the reincorporation ISE will be a Marshall Islands corporation. A majority of the directors, officers and the experts named in the prospectus reside outside the United States. In addition, a substantial portion of the assets and the assets of the directors, officers and experts are located outside the United States. As a result, you may have difficulty serving legal process within the United States upon ISE or any of these persons. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in United States courts against ISE or these persons in any action, including actions based upon the civil liability provisions of United States federal or state securities laws. Furthermore, there is substantial doubt that the courts of the Marshall Islands would enter judgments in original actions brought in those courts predicated on United States federal or state securities laws.

## **Consequences if Reincorporation Proposal is Not Approved**

If the reincorporation proposal is not approved by the stockholders, ISE will continue to operate under Delaware law and, assuming the acquisition of Navios and is completed, Navios would be subject to US income taxation on certain of its operations. In the future, the board of directors may seek certain amendments to the certificate of incorporation, as amended, and by-laws or re-submit a proposal to the stockholders asking them to approve ISE's reincorporation in a foreign jurisdiction, in other words, a jurisdiction outside of the United States.

## **Required Vote**

Approval of the reincorporation proposal will require the affirmative vote of a majority of the outstanding shares of ISE's common stock. Abstentions or the failure to vote on the reincorporation proposal will have the same effect as votes cast against approval of the proposal. A broker non-vote will have the same effect as a vote against the reincorporation proposal.

## **Recommendation**

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After careful consideration, ISE's board of directors has determined unanimously that the reincorporation proposal is fair to and in the best interests of ISE and its stockholders. ISE's board of directors has approved and declared advisable the reincorporation proposal and unanimously recommends that you vote or give instructions to vote FOR the proposal to approve the reincorporation.

The foregoing discussion of the information and factors considered by the ISE board of directors is not meant to be exhaustive, but includes the material information and factors considered by the ISE board of directors.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE REINCORPORATION PROPOSAL TO REINCORPORATE ISE FROM THE STATE OF DELAWARE TO THE REPUBLIC OF THE MARSHALL ISLANDS BY MEANS OF A MERGER WITH NAVIOS, WHICH AT THE TIME OF THE REINCORPORATION WILL BE ISE'S WHOLLY-OWNED MARSHALL ISLANDS SUBSIDIARY.**

**Table of Contents**

**INFORMATION ABOUT NAVIOS**

**Introduction**

Navios is one of the leaders in seaborne shipping, specializing in the worldwide carriage, trading, storing, and other related logistics of international dry bulk cargo transportation. For over 50 years, Navios has worked with raw materials producers, agricultural traders and exporters, industrial end-users, shipowners, and charterers and, more recently, acquired an in-house technical ship management expertise. Navios's core fleet, the average age of which is approximately 3.5 years, consists of a total of 28 vessels, aggregating approximately 1.8 million deadweight tons or dwt. Navios owns six modern Ultra-Handymax (50,000-55,000 dwt) vessels and operates 22 Panamax (70,000-83,000 dwt) and Ultra-Handymax vessels under long-term time charters, 15 of which are currently in operation, with the remaining seven scheduled for delivery at various times over the next two years. Navios has options, many of which are in the money, to acquire 13 of the 22 time chartered vessels. The owned vessels have a substantial net asset value, and the vessels controlled under the in-charters are at rates well below the current market. Operationally, Navios has, at various times over the last two years, deployed over 50 vessels at any one time, including its core fleet.

Navios also owns and operates the largest bulk transfer and storage facility in Uruguay. While a relatively small portion of Navios's overall enterprise, ISE believes that this terminal is a stable business with strong growth and integration prospects.

**The International Dry Bulk Shipping Industry**

The data contained in this section relating to the international dry bulk shipping industry has been provided by Drewry Shipping Consultants and is taken from Drewry databases and other sources available in the public domain. Drewry has advised us that it accurately describes the international dry bulk shipping industry and that some information in their database may be based on or include subjective judgments or estimates. Equally, no independent verification has been carried out of data drawn from other sources. Drewry's methodologies for collecting information and data, and therefore the information discussed in this section, may differ from those of other sources, and does not reflect all or even necessarily a comprehensive set of the actual transactions occurring in the dry bulk shipping industry. Accordingly, Drewry accepts no liability for any loss suffered in consequence of any reliance on such information and data.

***Industry Overview***

The marine industry provides a vital link in international trade, with oceangoing vessels representing the most efficient, and often the only method, of transporting large volumes of basic commodities and finished products over long distances. In 2004, approximately 2.4 billion tons of dry bulk cargo was transported by sea, comprising more than one-third of all international seaborne trade. The breakdown of all seaborne trade by main commodity type is shown below.

**World Seaborne Trade as of December 31, 2004 (Provisional)**

**Tons (Million)                      % Total**

<b>All Cargo</b>		
Dry Bulk	2,456	38.6%
Liquid (Oils/Gases/Chemicals)	2,520	39.6%
Container Cargo	896	14.1%
Non-Container General Cargo	493	7.8%
<b>Total</b>	<b>6,635</b>	<b>100%</b>
<b>Trade in Dry Bulk Commodities Only</b>		
Coal	625	9.8%
Iron Ore	645	10.1%
Grain	228	3.6%
Minor Bulks	958	15.1%
<b>Total</b>	<b>2,456</b>	<b>38.6%</b>

Source: Drewry

## **Table of Contents**

Dry bulk cargo is categorized as major and minor bulk cargoes. The following is an overview, categorized by cargo type, of the primary trade routes and principal vessel sizes used for shipments of the major (coal, iron, ore and grain) and minor bulk cargoes:

*Coal.* There are two principal types of coal: steam (or thermal) coal and coking (or metallurgical) coal. The main exporters of coal are Australia, South Africa, Indonesia, United States, Colombia, Canada, and China. The main importers of coal are Europe, Japan, South Korea, Taiwan, China, India, and the Middle East. The coking coal market is closely linked to demand from integrated steel makers who use coking coal in blast furnaces to make pig iron which, in turn, is converted into steel. Steam coal is mainly used in the production of electricity, and the transportation of steam coal is an important driver of the Capesize and Panamax markets. Increases in steam coal demand have been significant, as both developed and developing nations require increasing amounts of electric power.

*Iron Ore.* Until the start of the 1990s, when it was overtaken by the combined steam and coking coal sectors, iron ore was the largest dry bulk trade. It remains, however, the primary employer of the largest ships in the dry bulk fleet. Used principally as the primary raw material in steel making, iron ore imports are dominated by Europe, Japan, China, South Korea, and the United States. The primary exporters of iron ore are Brazil, Australia and India. Other significant exporters include Canada, Sweden, South Africa, Venezuela, Mauritania, Peru and Chile.

*Grain.* The principal exporters of grain are Canada, United States, Europe, Australia, and South America. The principal importers are Japan, South Korea, China, South East Asia, the Middle East, North Africa, and Europe. Grain production is subject to both growing conditions and natural disasters which affect crop yields and demand patterns.

*Minor Bulk Cargoes.* Minor bulk cargoes include steel products, forest products, agricultural products, bauxite and alumina, phosphates, petcoke, cement, sugar, salt, minerals, scrap metal, and pig iron. Minor dry bulk cargoes are not a major component of Capesize or Panamax carrier demand, although Panamax vessels also transport cargoes such as bauxite, phosphate rock, sulphur, some fertilizers, various other ores and minerals and a few agribulks.

**Table of Contents**

***Demand for Dry Bulk Vessels***

The dry bulk trade is influenced by the underlying demand for the dry bulk commodities which, in turn, is influenced by the level of worldwide economic activity. Generally, growth in gross domestic product, or GDP, and industrial production correlate with peaks in demand for seaborne transportation. The following chart (which is as of December 31, 2004) demonstrates a steady increase in world dry cargo trade over the last two decades, with an average increase of 4% over the last five years:

*Source: Drewry*

Moreover, the dry bulk shipping market over the last two years has displayed strong industry fundamentals, driven primarily by:

Economic growth and urbanization in China, Brazil, India and the Far East, with attendant increases in steel production, power generation, and grain consumption, leading to greater demand for dry bulk shipping;

Inefficient transportation bottlenecks due to long term under-investment in global transportation infrastructure and high demand for dry bulk commodities; and

Limited capacity of shipyards due to the orderbook for tankers and container ships, restricting future deliveries of dry bulk newbuildings.

**Table of Contents**

Historically, certain economies have acted from time to time as the locomotive of the dry bulk carrier market. In the 1990s, the Far East Asian emerging economies acted as the locomotive with demand for seaborne trade correlating with Japanese industrial production. Currently, China is the main driving force behind the increase in seaborne dry bulk trades and the demand for dry bulk carriers. Chinese imports of coal, iron ore, and, more recently, steel products (China used to be an exporter but, due to its own high demand, now needs to import steel products) have also increased sharply in the last five years, thereby creating additional demand for dry bulk carriers. Management expects India, with its large population, economic growth and urbanization to sustain this trend of greater demand for dry bulk shipping. Globally, total seaborne trade in all dry bulk commodities increased from 1.97 billion tons to 2.45 billion tons, representing an increase of 24.8%, as shown by the following chart:

**Seaborne Dry Bulk Trade (Million Tons)**

<u>Year</u>	<u>Iron Ore</u>	<u>Steam Coal</u>	<u>Coking Coal</u>	<u>Grains</u>	<u>Major Bulks</u>	<u>Minor Bulks</u>	<u>Total</u>	<u>% Change</u>
1999	431	309	173	220	1,133	835	1,968	1.1
2000	484	344	179	230	1,237	863	2,100	6.8
2001	477	383	181	235	1,276	862	2,138	1.7
2002	514	387	181	220	1,302	885	2,187	2.3
2003	573	414	183	215	1,385	917	2,302	5.3
2004	645	432	193	228	1,498	958	2,456	6.7

Source: Drewry

Another industry measure of vessel demand is ton-miles, which is calculated by multiplying the volume of cargo moved on each route by the distance of such voyage. Between 1999 and 2004, ton-mile demand in the dry bulk sector increased by 25%, to 11,511 billion ton-miles.

**Ton-Mile Demand**

<u>Year</u>	<u>Billion Ton Miles</u>	<u>% Change</u>
1999	9.204	0.8
2000	9.824	6.7
2001	9.958	1.4
2002	10.226	2.7
2003	10.804	5.7
2004 (provisional)	11,511	6.5

Source: Drewry

**Supply of Dry Bulk Vessels**



The global dry bulk carrier fleet is divided into four categories, based on a vessel's carrying capacity. These categories consist of:

*Capesize.* These vessels, which today are typically over 100,000 dwt, are the largest size of dry bulk carriers. Capesize vessels typically carry relatively low value cargoes for which large cargo lot sizes are of primary importance. Consequently, Capesize vessels are mainly used to transport iron ore or coal and, to a lesser extent, grains, primarily on long-haul routes. These vessels are not capable of traversing the Panama Canal due to their size and, therefore, lack the flexibility of smaller vessels.

*Panamax.* These vessels range in size from 60,000 to 80,000 dwt and are designed with the maximum width that will allow them to travel fully-loaded through the Panama Canal. They are also often engaged in many major international trade routes that do not involve transit through the Panama Canal. Panamax

**Table of Contents**

bulk carriers are mainly used to transport major bulk cargoes, such as coal and grain and, to a lesser degree, iron ore, as well as a number of minor bulk cargoes, such as bauxite, petroleum coke, some fertilizers and fertilizer raw materials, and various minerals.

*Handymax and Ultra-Handymax.* Vessels in this category range in size from 30,000 to 55,000 dwt and are often equipped with cargo loading and unloading gear, such as cranes, which makes them well suited to call at ports that either are not equipped with gear for loading or discharging of cargo or have draft restrictions. These vessels can trade on worldwide routes carrying mainly grains and minor bulk cargoes.

*Handysize.* Vessels in this sector are the smallest (under 30,000 dwt) and carry exclusively minor bulk cargoes. Historically, the handysize dry bulk carrier sector was viewed as the most versatile. These vessels also carry finished products and minor bulk cargoes, although, increasingly, vessels in this sector are now more limited to trading regionally and in coastal waters.

The supply of dry bulk shipping capacity, measured by the amount of suitable vessel tonnage available to carry cargo, is determined by the size of the existing worldwide dry bulk fleet, the number of new vessels on order, the scrapping of older vessels, and the number of vessels out of active service (*i.e.*, laid up or otherwise not available for hire). In addition to prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping, and laying-up include newbuilding prices, second-hand vessel values in relation to scrap prices, costs of bunkers and other voyage expenses, costs associated with classification society surveys, normal maintenance and insurance coverage, the efficiency and age profile of the existing fleets in the market, and government and industry regulation of maritime transportation practices.

The supply of dry bulk vessels is not only a result of the number of ships in service, but also the operating efficiency of the fleet. For example, during times of very heavy commodity demand, bottlenecks develop in the form of port congestion, which absorbs fleet capacity through delays in loading and discharging of cargo. A particularly extreme example of this occurred during the steam coal demand boom in 1980, when enormous queues developed at the main coal loading ports in the United States and Australia. A similar situation developed in the second half of 2003, when port delays in Australia and China were estimated to have reduced fleet supply by at least 10%.

As of December 31, 2004, the world's dry bulk fleet totaled 5,923 vessels, aggregating approximately 323.8 million dwt. The average age of the fleet is approximately 15 years. 31% of the world dry bulk fleet is over 20 years old, while the orderbook for newbuildings represents only 20% of the existing world dry bulk fleet, as shown in the following chart:

**The Dry Bulk Carrier Fleet December 31, 2004**

	Fleet Profile			Ships Older Than 20 Years of Age			Orderbook		
	No. of	Dwt	% of	No. of	% of	Scrap	No. of	Dwt	% of
	Ships	Million	Fleet	Ships	Class	Age <sup>(1)</sup>	Ships	Million	Class
Capesize	674	101.4	31.3	70	11.5	27	131	25.6	25.2
Panamax	1,211	86.8	26.8	251	20.7	24	275	21.1	24.3
Handymax	2,190	92.2	28.5	595	27.2	26	367	17.3	18.8
Handysize	1,915	43.4	13.4	959	50.1	27	60	1.5	3.4
<b>Total</b>	<b>5,923</b>	<b>323.8</b>	<b>100.0</b>	<b>1,875</b>	<b>31.7</b>	<b>26</b>	<b>827</b>	<b>65.5</b>	<b>20.2</b>

(1) Average vessel age at scrapping 1999-2003

*Source: Drewry*

**Table of Contents**

The level of scrapping activity is generally a function of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs. The following table illustrates the scrapping rates of dry bulk carriers for the periods indicated.

	1999	2000	2001	2002	2003	2004
<b>Dry Bulk Carrier Scrapping:</b>						
Capesize						
No. of vessels	13	4	3	8	2	1
Dwt (in millions)	1.2	0.5	0.4	0.9	0.3	0.1
% of fleet scrapped	1.5	0.6	0.5	1.0	0.3	0.1
Panamax						
No. of vessels	45	11	28	18	7	1
Dwt (in millions)	3	0.7	1.9	1.2	0.5	0.09
% of fleet scrapped	4.1	1.0	2.5	1.5	0.6	0.1
Handymax						
No. of vessels	53	40	40	25	29	0
Dwt (in millions)	2.2	1.5	1.5	0.9	1.1	0
% of fleet scrapped	3.1	2.0	1.9	1.1	1.3	0.0
Handysize						
No. of vessels	66	50	62	64	25	5
Dwt (in millions)	1.5	1.2	1.4	1.6	0.6	0.1
% of fleet scrapped	3.2	2.6	3.2	3.7	1.4	0.3
Total						
No. of vessels	177	105	123	115	63	7
Dwt (in millions)	8.3	3.8	5.2	4.7	2.4	0.3
% of fleet scrapped	3.1	1.4	1.8	1.6	0.8	0.1

Source: Drewry

The average age at which a vessel is scrapped over the last five years has been 26 years.

**Charter Market**

Dry bulk carriers are employed in the market through a number of different chartering options. The general terms typically found in these types of contracts are described below.

*Bareboat Charter.* A bareboat charter involves the use of a vessel usually over longer periods of time ranging over several years. In this case, all voyage related costs, mainly vessel fuel and port dues, as well as all vessel-operating expenses, such as day-today operations, maintenance, crewing, and insurance, are for the charterer's account. The owner of the vessel receives monthly charter hire payments on a US Dollar per diem basis and is responsible only for the payment of capital costs related to the vessel.

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*Time Charter.* A time charter involves the use of the vessel, either for a number of months or years or for a trip between specific delivery and redelivery positions, known as a trip charter. The charterer pays all voyage-related costs. The owner of the vessel receives semi-monthly charter hire payments on a US Dollar per diem basis and is responsible for the payment of all vessel operating expenses and capital costs of the vessel (except for bunkers or fuel).

*Voyage Charter.* A voyage charter involves the carriage of a specific amount and type of cargo on a load port-to-discharge port basis, subject to various cargo handling terms. Most of these charters are of a single voyage nature, as trading patterns do not encourage round voyage trading. The owner of the

## **Table of Contents**

vessel receives one payment derived by multiplying the tonnage of cargo loaded on board by the agreed upon freight rate expressed on a US Dollar per ton basis. The owner is responsible for the payment of all voyage and operating expenses, as well as the capital costs of the vessel.

*Contract of Affreightment.* A contract of affreightment, or COA, relates to the carriage of multiple cargoes over the same route and enables the COA holder to nominate different ships to perform the individual voyages. Essentially, it constitutes a series of voyage charters to carry a specified amount of cargo during the term of the COA, which usually spans a number of months or years. All of the ship's operating expenses, voyage expenses, and capital costs are borne by the ship owner. Freight normally is agreed on a US per ton basis.

*Spot Charter.* Spot chartering activity involves chartering either on a single voyage or a trip charter.

## ***Charter Rates***

Charter (or hire) rates paid for dry bulk carriers are generally a function of the underlying balance between vessel supply and demand. Over the past 25 years, dry bulk cargo charter rates have passed through cyclical phases with these changes in the vessel supply-demand imbalance, creating a pattern of rate peaks and troughs. In 2003 and 2004, rates for all sizes of dry bulk carriers strengthened to their highest levels ever. The most crucial driver of this upsurge in charter rates was the high level of demand for raw materials imported by China.

In the time charter market, rates vary depending on the length of the charter period as well as ship specific factors, such as age, speed, and fuel consumption. Generally, short-term time charter rates are higher than long-term charter rates. The market benchmark tends to be a 12-month time charter rate, based on a modern vessel. The following chart shows one year time charter rates for Handymax, Panamax and Capesize dry bulk carriers between 1996 and 2004.

### **Time Charter Rates**

**(in US dollars per day)**

*Source: Drewry*

In the voyage charter market, rates are influenced by cargo size, commodity, port dues, and canal transit fees, as well as delivery and redelivery regions. In general, larger cargo size is quoted at a lower per ton rate than a smaller cargo size. Routes with costly ports or canals command higher rates than routes with low port dues and

## **Table of Contents**

no canals to transit. Voyages with a load port within a region that includes ports where vessels usually discharge cargoes or a discharge port within a region with ports where vessels load cargoes would also be quoted at lower rates. These voyages increase vessel utilization by reducing the unloaded portion (or ballast leg) that was included in the calculations of the previous charter back to the loading area.

The Baltic Exchange, an independent organization comprised of shipbrokers, shipping companies, and other shipping players, provides daily independent shipping market information and has created freight rate indices reflecting the average freight rates (that incorporate actual business concluded as well as daily assessments provided to the exchange by a panel of independent shipbrokers) for the major bulk carrier trading routes. These indices include the Baltic Panamax Index (BPI, the index with the longest history), and, more recently, the Baltic Capesize Index (BCI) and the Baltic Handymax Index (BHI).

Accompanying the recent surge in freight rates has been renewed interest in freight forward agreements, or FFAs. An FFA is a freight forward swap agreement between counterparties or entered into over an exchange, where the settlement price designated for a future period is derived from the Baltic Exchange indices. FFAs enable a market participant thereby manage their exposure to a fluctuating market.

### ***Vessel Prices***

The shipping industry is currently in a relatively unusual position. Each of its major sectors—dry bulk carriers, tankers, and containerships—has been prospering. This has triggered an upsurge in newbuilding activity in each sector. In addition, newbuilding demand is also strong for Liquefied Natural Gas, or LNG, carriers, and other specialized vessels. This is significant because the near term availability of newbuilding berths for vessel delivery before the third and fourth quarters of 2008 is scarce, which directly impacts the supply of new vessels to the market. Thus, the combination of shortage of berth space, rising demand for vessels, and rising raw material costs (especially the price of steel), has greatly increased newbuilding prices.

The following tables present the average prices for both secondhand and newbuilding dry bulk carriers for the periods indicated.

#### **Dry Bulk Carrier Newbuilding Prices**

**(in millions of US dollars)**

*Source: Drewry*

**Table of Contents**

**Dry Bulk Carrier Secondhand Prices**

**(in millions of US dollars)**

*Source: Drewry*

In the secondhand market, the steep increase in newbuilding prices and the strength in the charter market have also affected vessel prices. With vessel earnings running at relatively high levels and a limited availability of newbuilding berths, the ability to deliver a vessel early has resulted in increases in secondhand prices, especially for modern tonnage.

**Navios Maritime Holdings Inc.**

Navios Corporation, the predecessor company to Navios, was incorporated in 1954 as a corporate subsidiary of United States Steel Corporation for the transportation of its iron ore requirements. In the mid-1970s, Navios transformed itself from a captive ore carrier for United States Steel to a third party cargo carrier that, in the mid-1980s, was sold to Fednav Limited, Canada's largest international shipping group. From 1989 until 2002, Navios underwent a series of leveraged management buyouts and corporate restructuring with the support of various shipping groups, while at the same time adapting its business model to suit the changing requirements of the dry bulk shipping market.

More recently, Navios Corporation, a Marshall Islands corporation, and Anemos Maritime Holdings, a Cayman Islands company, merged effective December 11, 2002. This business combination marked the transformation of Navios from being primarily an operator of large physical contracts of affreightment, based on relationships with industrial end-users, to a leading international maritime enterprise focused on the transportation and handling of dry bulk cargoes through the ownership, operation, and chartering of vessels. Anemos was incorporated in the Cayman Islands in February 1999 to hold all of the capital stock of certain Cayman Islands and Liberian corporations that owned and operated six older dry bulk vessels in the international shipping market. Anemos was also formed to hold the capital stock of nine Marshall Islands corporations that each contracted with Sanoyas Shipyard in Mizushima, Japan for the construction of a series of dry bulk ultra-handymax vessels. Another subsidiary of Anemos, named Levant Maritime International SA, which was originally incorporated in Liberia but was later redomiciled in the Marshall Islands and re-named Navios ShipManagement Inc., was responsible for the technical management of all vessels owned by Anemos.



**Table of Contents**

subsidiaries, including the older vessels, and for the supervision of the construction of the nine newbuildings at the Sanoyas shipyard. Commercial management of the Anemos fleet was contracted to Levant Maritime Co. Ltd., a UK company based in London which was affiliated with two of Anemos's former minority shareholders. Anemos modernized its fleet by selling off the older vessels, as the newbuildings delivered from the shipyard, between 2000 and early 2003. The personnel of Navios ShipManagement Inc. include the manager of the Piraeus office, a former senior marine classification society surveyor with B.Sc. and M.Sc. degrees in mechanical engineering from the Illinois Institute of Technology and experience in supervising newbuilding construction; a Greek-educated naval architect; and three port captains and two marine superintendent engineers, who are all graduates of official Greek merchant marine academies, and who all served as officers on bulk carriers before assuming responsibilities and gaining relevant experience in shore-side technical ship management.

**Table of Contents**

Today, Navios is headquartered in South Norwalk, Connecticut, and maintains offices in Piraeus, Greece, and Montevideo, Uruguay. Navios's corporate structure is functionally organized: commercial ship management and risk management are conducted through Navios Corporation and its wholly-owned subsidiaries (out of South Norwalk and Piraeus, respectively), while the ownership and technical management of Navios's owned vessels are conducted through Anemos Maritime Holdings Inc. and its wholly-owned subsidiaries (out of Piraeus). Navios owns the Nueva Palmira port and transfer facility indirectly through its Uruguayan subsidiary, Corporación Navios Sociedad Anonima, or CNSA. All of Navios's subsidiaries are wholly-owned, except for Acropolis Shipping & Trading Inc., a charter broker that acts on behalf of both Navios and third parties and of which Navios owns 50% of the outstanding equity. The remaining 50% equity of Acropolis is owned by Mr. Stavros Liaros, Acropolis's Chief Executive Officer and a resident of Piraeus, Greece. The chart below sets forth Navios's current corporate structure, which we intend to maintain after the acquisition (all corporations are domiciled in the Republic of the Marshall Islands, except for Acropolis, which is a Liberian corporation, and CNSA, which is an Uruguayan company):

## **Table of Contents**

### **Business Strategy**

Navios's strategy and business model involves the following:

*Operation of a high quality, modern fleet.* Navios owns and charters in a modern, high quality fleet, having an average age of approximately 3.5 years, that provides numerous operational advantages, including more efficient cargo operations, lower insurance and vessel maintenance costs, higher levels of fleet productivity, and an efficient operating cost structure;

*Pursue an appropriate balance between vessel ownership and a long-term chartered in fleet.* Navios controls, through a combination of vessel ownership and long-term time chartered vessels, approximately 1.8 million dwt in dry bulk tonnage, making Navios one of the largest independent dry bulk operators in the world. Navios's ability, through its longstanding relationships with various shipyards and trading houses, to charter in vessels at favorable rates allows it to control additional shipping capacity without the capital expenditures required by new vessel acquisition. In addition, having purchase options on 13 of the 22 time chartered vessels permits Navios to determine when is the most commercially opportune time to own or charter in vessels. Navios intends to monitor developments in the sales and purchase market to maintain the appropriate balance between owned and long-term time chartered vessels;

*Capitalize on Navios's established reputation.* Navios believes its reputation and commercial relationships enable it to obtain favorable long-term time charters, step into the market and increase its short term tonnage capacity to several times the capacity of its core fleet, as well as obtain access to freight opportunities through COA arrangements not readily available to other industry participants. This reputation has also enabled Navios to obtain favorable vessel acquisition terms, as reflected in the purchase options contained in many of its long-term charters, which are superior to the prevailing purchase prices in the open vessel sale and purchase market;

*Utilize industry expertise to take advantage of market volatility.* The dry bulk shipping market is cyclical and volatile. Navios uses its experience in the industry, sensitivity to trends, and knowledge and expertise as to risk management and FFAs to hedge against, and in some cases, generate profit from, such volatility;

*Maintain high fleet utilization rates.* The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the days its vessels are off-hire. At 99.6%, ISE believes that Navios has one of the highest fleet utilization rates in the industry.

*Maintain customer focus and reputation for service and safety.* Navios is recognized by its customers for high quality of its service and safety record. Navios's high standards for performance, reliability, and safety provides Navios with an advantageous competitive profile.

*Enhance vessel utilization and profitability through a mix of spot charters, time charters, and COAs and strategic backhaul and triangulation methods.* Specifically, this strategy is implemented as follows:

The operation of voyage charters or spot fixtures for the carriage of a single cargo from load port to discharge port;

The operation of time charters, whereby the vessel is hired out for a predetermined period but without any specification as to voyages to be performed, with the shipowner being responsible for operating costs and the charterer for voyage costs; and

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The use of COAs, under which Navios contracts to carry a given quantity of cargo between certain load and discharge ports within a stipulated time frame, but does not specify in advance which vessels will be used to perform the voyages.

In addition, Navios attempts, through selecting COAs on what would normally be backhaul or ballast legs, to enhance vessel utilization and, hence, profitability. The cargoes are in such cases used to position vessels at or near major loading areas (such as the US Gulf) where spot cargoes can readily be obtained. This reduces ballast time to be reduced as a percentage of the round voyage. This strategy is referred to as triangulation.

## **Table of Contents**

Navios is one of relatively few major owners and operators of this type in the dry bulk market, and it is one of the most experienced. In recent years, it has further raised the commercial sophistication of its business model by using market intelligence derived from its risk management operations and, specifically, its freight derivatives hedging desk, to make more informed decisions in the management of its fleet.

### **Competitive Advantages**

Controlling approximately 1.8 million dwt in dry bulk tonnage, Navios is one of the largest independent dry bulk operators in the world. ISE believes that Navios occupies a competitive position within the industry in that its reputation in the global dry bulk markets permits it to step in at any time, and take on spot, medium, or long-term freight commitments, depending on its view of future market trends. In addition, many of the long-term charter deals that form the core of Navios's fleet were brought to the attention of Navios prior to their ever being quoted in the open market. Even in the open market, Navios's solid reputation allows it, on very short notice, to take in large amounts of tonnage on a short, medium, or long-term basis. This ability is possessed by relatively few shipowners and operators, and is a direct consequence of Navios's market reputation for reliability in the performance of its obligations in each of its roles as a shipowner, COA operator, and charterer. Navios, therefore, has much greater flexibility than a traditional shipowner or charterer to quickly go long or short relative to the dry bulk markets.

Navios's long involvement and reputation for reliability in the Asian region have also allowed the company to develop its privileged relationships with many of the largest trading houses in Japan, such as Marubeni Corporation and Mitsui & Co. Through these institutional relationships, Navios obtains relatively low-cost, long-term charter deals, with options to extend time charters on the majority of its vessels, and purchase the vessels transactions. Through its established reputation and relationships, Navios has access to opportunities not readily available to most other industry participants who lack Navios's brand recognition, credibility, and track record.

In addition to its superior and long-standing reputation and flexible business model, we believe that Navios is well positioned in the dry bulk market on the basis of the following factors:

A high quality, modern fleet of vessels that provides a variety of operational advantages, such as lower insurance premiums, higher levels of productivity, and efficient operating cost structures, as well as a competitive advantage over owners of older fleets, especially in the time charter market, where age and quality of a vessel are of significant importance in competing for business;

A core fleet which has been chartered in (through 2013, assuming all available charter extension periods are exercised) on attractive terms (based on prices locked-in before the upswing in rates began in 2003) that allow Navios to charter out the vessels at a considerable spread during strong markets and to weather down cycles in the market while maintaining low operating expenses;

Strong cash flows from creditworthy counterparties;

Strong commercial relationships with both freight customers and Japanese trading houses and ship owners, providing Navios with an entrée to future attractive long-term time charters on newbuildings with valuable purchase options; and

Visibility into worldwide commodity flows through its physical shipping operations and terminal operations in Uruguay.

We intend to maintain and build on this qualitative advantage, while at the same time continuing to benefit from Navios's favorable reputation and capacity position.

**Shipping Operations**

*Navios's Fleet.* Navios operates a core fleet of vessels that represents a store of embedded value in today's strong dry bulk market. This fleet is comprised of six modern owned Ultra-Handymax vessels and 22

**Table of Contents**

Ultra-Handymax and Panamax vessels (13 of which have purchase options that are in the money ) chartered in at rates well below the market.

*Owned Fleet.* Navios owns a fleet of six modern Ultra-Handymax vessels whose technical specifications and youth distinguish them in a market where approximately 25% of the dry bulk world fleet is composed of 20+ year-old ships. With an average age of approximately 3.5 years, the owned vessels have a substantial net asset value.

<u>Vessel Name</u>	<u>Year Built</u>	<u>Deadweight</u>
		<i>(in metric tons)</i>
Navios Achilles	2001	52,063
Navios Apollon	2000	52,073
Navios Herakles	2001	52,061
Navios Hios	2003	55,180
Navios Ionian	2000	52,068
Navios Kypros	2003	55,180

The owned vessels are substantially identical sister vessels (they were all built at the Sanoyas Shipyard in Japan) and, as a result, Navios has built-in economies of scale with respect to technical ship management. Further, they have been built to technical specifications that far exceed those of comparable tonnage in the marketplace today, such as the following:

Four of the six owned vessels each have five cranes (which is more than the industry standard), allowing for increased loading and discharging rates, thereby increasing the efficiency of vessel operations;

The majority of the owned vessels are equipped with cranes that have 30 and 35 metric tons of lifting capacity, allowing for lifting of different types of heavy cargoes, thereby increasing the vessels' trading flexibility and efficiency;

The owned vessels have CO2 fittings throughout all cargo holds, allowing for the loading of a variety of special cargoes (such as timber and wood pulp), thereby enhancing the potential trading routes and profitability of the vessels; and

The tank top strengths in all holds are of 24mt/m2, also allowing for the carriage of heavy cargoes.

*Long Term Fleet.* In addition to the six owned vessels, Navios operates a fleet of 22 Panamax (70,000-83,000 dwt) and Ultra-Handymax (50,000-55,000 dwt) vessels under long-term time charters, having an average age of approximately 3.5 years. Of the 22 chartered vessels, 15 are currently in operation and seven are scheduled for delivery at various times over the next two years, as set forth in the following table:

<u>Vessel Name</u>	<u>Year Built/Yard</u>	<u>Deadweight</u> (in metric tons)	<u>Delivery Date</u> of Vessel	<u>Time Charter Period</u>	<u>Purchase Option</u>
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**ULTRA-HANDYMAXES**

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Navios Horizon	2001/Mitsui	50,346	April 17, 2001	5 years + 3 years option	Yes
Navios Vector	2002/Mitsui	50,296	October 17, 2002	5 years + 3 years option	Yes
Navios Meridian	2002/Mitsui	50,316	August 8, 2002	5 years + 3 years option	Yes
Navios Mercator	2002/Imabari	53,553	July 17, 2002	5 years + 2 years option	Yes
Navios Arc	2003/Imabari	53,514	January 28, 2003	5 years + 2 years option	Yes
Navios TBN	2006/Imabari	53,400	2006	7 years + 2 years option	Yes
Navios TBN	2007/Imabari	53,400	2007	5 years + 3 years option	Yes



**Table of Contents**

Vessel Name	Year Built/Yard	Deadweight	Delivery Date	Time Charter Period	Purchase Option
		(in metric tons)	of Vessel		
<b>PANAMAXES</b>					
Linda Oldendorff	1995/B&W	75,100	November 11, 2003	2.25 years	No
Navios Magellan	2000/Namura	74,333	January 25, 2000	5 years + 3 years option	Yes
Seattle Trader	2000/Sanoyasu	75,681	June 14, 2000	3 years + 2 years option	No
Navios Galaxy	2002/Namura	74,195	June 5, 2001	5 years + 3 years option	Yes
Marilena D Amato	2001/Hudong	74,500	November 7, 2003	2 years	No
Navios Star	2002/Imabari	76,662	April 1, 2002	5 years + 3 years option	Yes
Navios Cielo	2003/Sanoyasu	75,829	June 12, 2003	5 years + 2 years option	No
Navios Hyperion	2004/Sanoyasu	75,500	February 10, 2004	5 years + 2 years option	Yes
Navios Orbiter	2004/Imabari	76,000	February 8, 2004	5 years + 3 years option	Yes
Navios Orion	2005/Imabari	76,000	January 10, 2005	5 years + 3 years option	No
Navios Aurora	2005/Universal	75,200	June 22, 2005	5 years + 3 years option	Yes
Navios Titan	2006/Tsuneishi	82,800	2005	5 years + 3 years option	No
Navios TBN	2006/Sanoyasu	75,500	2006	7 years	No
Navios TBN	2006/Tsuneishi	82,800	2006	5 years + 3 years option	No
Navios TBN	2007/Universal	75,200	2007	7 years	No

Many of Navios' s current long-term, chartered-in tonnage is chartered from shipowners with whom Navios has long-standing relationships. Navios pays these shipowners daily rates of hire for such vessels, and then charters out these vessels to other parties, who pay Navios a daily rate of hire. Navios also enters into COAs pursuant to which Navios has agreed to carry cargoes, typically for industrial customers, who export or import dry bulk cargoes. Further, Navios enters into spot market voyage contracts, where Navios is paid a rate per ton to carry a specified cargo from point A to point B.

The chartered vessels are chartered in at rates well below the market, allowing Navios to charter out those vessels at a significant spread over the daily hire it pays for the vessels to their owners. Navios can take advantage of options it has to extend the period of its long-term charters, maintaining low charter-in rates and, thus, lower overall operational expenses. Navios also has the ability to exercise its purchase options, many of which are in the money, with respect to 13 of the 22 chartered vessels.

*Short Term Fleet.* Navios' s fleet consists entirely of panamax and ultra-handymax vessels and is classified by Navios into the following three categories: (1) Navios' s owned fleet are the six ultra-handymax vessels that Navios owns; (2) Navios' s long-term fleet that are the panamax and ultra-handymax vessels that Navios, as a charterer, takes into its commercial employment under long-term charters, meaning charters for a duration of more than 12 months, that, together with its owned fleet, are termed Navios' s core fleet; and (3) Navios' s short term fleet which is comprised of between 20 to 40 panamax and handymax vessels that at any given time Navios, as a charterer, has under charter for a duration of less than 12 months.

*Anticipated Exercise of Vessel Purchase Options.* ISE expects to exercise its purchase options on the M/V Navios Horizon, the M/V Navios Meridian, the M/V Navios Galaxy, the M/V Navios Magellan and the M/V Navios Mercator during the fourth quarter of 2005, and the M/V Navios Arc during the first quarter of 2006. The option exercise prices on these vessels are below the prices that would be required to purchase vessels of similar types and ages. Accordingly, assuming that there is no substantial change in the prices for vessels or the shipping industry generally, ISE anticipates that, following the acquisition of Navios, it will exercise these options, which would require an aggregate cash outlay of approximately \$119.3 million.



## **Table of Contents**

**Management and Operation of the Fleet.** Navios's commercial ship management and vessel operations are conducted out of its South Norwalk, Connecticut, office. Navios performs the technical management of the owned vessels from its Piraeus office. The financial risk management related to the operation of its fleet is conducted through both its South Norwalk and Piraeus offices, as explained more fully below.

**Commercial Ship Management.** Commercial management of Navios's fleet involves identifying and negotiating charter party employment for the vessels. Navios uses the services of Acropolis Shipping & Trading Inc., based in Piraeus, as well as numerous third-party charter brokers, to solicit, research, and propose charters for its vessels. Charter brokers research and negotiate with different charterers and propose charters to Navios for cargoes suitable for carriage by Navios's vessels. Navios then evaluates the employment opportunities available for each type of vessel and arranges cargo and country exclusions, bunkers, loading and discharging conditions, and demurrage.

**Technical Ship Management.** Navios provides, through its subsidiary, Navios ShipManagement Inc, technical ship management and maintenance services to its owned vessels. Based in Piraeus, Greece, the operation is run by experienced professionals who oversee every step of technical management, from the production of the vessels in Japan to subsequent shipping operations throughout the life of a vessel, including the superintendence of maintenance and repairs and drydocking.

**Operations.** The operations department, which is located in South Norwalk, Connecticut, supervises the post-fixture business of the vessels in Navios's fleet (*i.e.*, once the vessel is chartered and being employed) by monitoring their daily positions to ensure that the terms and conditions of the charters are being fulfilled. The operations department also sends superintendents to the vessels to supervise the loading and discharging of cargoes when necessary to minimize time spent in port. The operations department also generally deals with all matters arising in relation to the daily operations of Navios's fleet that are not covered by Navios's other departments.

**Financial Risk Management.** Navios actively engages in assessing financial risks associated with fluctuating future freight rates, daily time charter hire rates, fuel prices, credit risks, interest rates and foreign exchange rates. Financial risk management is carried out under policies approved and guidelines established by the executive management.

**Freight Rate Risk.** Navios uses FFAs to hedge its physical exposures in shipping capacity and freight commitments and respond to fluctuations in the dry bulk shipping market by augmenting its overall long or short position. These FFAs settle monthly in cash on the basis of publicly quoted indices, not physical delivery. These instruments typically cover periods from one month to one year, and are based on time charter rates or freight rates on specific quoted routes. Navios enters into these FFAs through over-the-counter transactions and over NOS ASA, a Norwegian clearing house. Navios's traders work closely with the chartering group to ensure that the most up-to-date information is incorporated into the company's commercial ship management strategy and policies.

**Credit Risk.** Navios closely monitors its credit exposure to charterers, counter-parties and FFAs. Navios has established policies designed to ensure that contracts are entered into with counter-parties that have appropriate credit histories. Counter-parties and cash transactions are limited to high credit quality financial institutions. Most importantly, Navios has strict guidelines and policies that limit the amount of credit exposure.

**Interest Rate Risk.** Navios uses interest rate swap agreements to reduce exposure to fluctuations in interest rates. Specifically, the company enters into interest rate swap contracts that entitle it to receive interest at floating rates on principal amounts and oblige it to pay interest at fixed rates on the same amounts. Thus, these instruments allow Navios to raise long-term borrowings at floating rates and swap them into fixed rates. Although these instruments are intended to minimize the anticipated financing costs and maximize gains for Navios that may be set off against interest expense, they may also result in losses, which would increase financing costs.



## **Table of Contents**

*Foreign Exchange Risk.* Although Navios' revenues are dollar-based, 2.7% of its expenses related to its port operations are in Uruguayan pesos and 2.4% of its expenses related to operation of its Piraeus office are in Euros. Navios actively engages its foreign currency transactions to hedge its exposure to fluctuations in such currencies.

## **Port and Terminal Operations**

**Overview.** Navios owns and operates the largest bulk transfer and storage terminal in Uruguay, one of the most efficient and prominent operations of its kind in South America. Situated in a free trade zone in the port of Nueva Palmira at the confluence of the Parana and Uruguay rivers, the terminal operates 24 hours per day, seven days per week, and is ideally located to provide customers, consisting primarily of leading international grain and commodity houses, with a convenient and efficient outlet for the transfer and storage of a wide range of commodities originating in the Hidrovia region of Argentina, Bolivia, Brazil, Paraguay, and Uruguay.

Navios has had a lease with the Republic of Uruguay dating back to the 1950s for the land on which it operates. The lease has been extended and now expires in 2025, but this term may be extended for an additional 20 years in Navios' option. Navios believes the terms of the lease reflect Navios' very high-level relationships within the Republic of Uruguay. Additionally, since the Navios terminal is located in the Nueva Palmira Tax Free Zone, foreign commodities moving through the terminal is free of Uruguayan taxes. Certificates of deposit are also obtainable for commodity entering into the station facility.

There is also considerable scope for further expansion of this bulk terminal operation in Uruguay. In addition, after completion of the current expansion of its storage capacity through the construction of its largest grain silo, Navios' terminal port will have approximately 11 acres of available river front land for future development. The increased flow of commodity products through the Nueva Palmira port has allowed Navios to steadily increase throughput. Navios is considering further expansion, as existing and new customers are increasingly demanding long-term terminal transfer and storage services.

Although one of the smaller countries in South America, Uruguay is regarded as one of the most stable countries on the continent. The population is almost 100% literate, with a large middle class and a well-established democracy. The banking system is modern and efficient by international standards.

**Table of Contents**

76

## **Table of Contents**

**Port Infrastructure.** The terminal stands out in the region because of its sophisticated design, efficiency, and multimodal operations. The Navios terminal has specially designed storage facilities and conveying systems that provide tremendous flexibility in cargo movements that help to avoid delays to vessels and barge convoys. The terminal offers 205,000 tons of clean and secure grain silo capacity. With nine silos (some with internal separations) available for storage, customers are assured their commodities will be naturally separated. The terminal has the latest generation, high precision, independent weigh scales, both for discharging and loading activity.

The terminal has two docks. The main outer dock is 240 meters long and accommodates vessels of up to 85,000 dwt loading to the maximum permitted draft of the Martin Garcia Bar and Mitre Canal. The dock has three new ship loaders capable of loading vessels at rates of up to 20,000 tons per day, depending on commodity. The inner face of this dock is equipped for discharging barge convoys. The secondary inner dock measures 170 meters long and is dedicated to the discharge of barge convoys. This activity is carried out on both sides of the dock. The terminal is capable of discharging barge convoys at rates averaging 10,000 to 14,000 tons per day, depending on the type of barges and commodity. Fixed duty cycle cranes located on each dock carry out the discharging of barge convoys. The process is optimized through the selection of the most appropriate size and type of buckets according to the commodity to be discharged.

The facility's current theoretical throughput capacity is 3.0 million tons, and we believe that the 2005 throughput should be a record amount of approximately 2.2 million tons.

**Port Operation.** The commodities most frequently handled include grain and grain by-products, as well as some ores, sugar, and salt. The terminal receives bulk cargoes from barges, trucks, and vessels, and either transfers them directly to dry bulk carriers or stores them in its own modern silos for later shipment.

Dedicated professionals operate the terminal, taking pride in the quality of service and responsiveness to customer requirements. Management is attentive to commodity storage conditions seeking to maintain customer commodity separation at all times and minimize handling losses. The terminal operates 24 hours/day, seven days/week, to provide barge and ship traffic with safe and fast turnarounds. The ability to conduct multiple operations simultaneously involving ocean vessels, barges, trucks, and grain silos further enables the terminal to efficiently service customers' needs.

The Navios port is also unique in its pricing policy by using a fixed fee structure to charge its clients. Other regional competitors charge clients a complicated fee structure, with many variable add-on charges. Navios' pricing policy provides clients with a transparent, comprehensive, and hassle-free quote that has been extremely well received by port patrons. The Uruguay port operations present the additional advantage of generating revenue in US dollars, whereas the majority of its costs are in local currency.

**Future Growth.** The development of South American grain markets dates back to President Carter's embargo of grain against the Soviet Union in 1979. As a result of that decision, the USSR took steps to secure grain supplies from sources outside North America. By 1981, Argentina had become a significant grain exporter to the USSR, and Brazil quickly followed. The intervening decade saw the development of grain exports markets from these two countries as successive local governments recognized the significant benefits of US dollar income. In the 1990s, Paraguay began to export small quantities of grain and, more recently, Bolivia has expanded its grain exports; the significance of grain exports from these two countries is that both are land-locked. The table below highlights the gradual development of export volumes through the Navios facility in Nueva Palmira, and ISE believes this growth will continue as both countries continue to drive for larger hard currency income.

**Table of Contents**

**Navios Uruguay Annual Throughput Volumes**

Navios is currently in negotiations with significant existing and new customers, who have expressed high levels of interest in entering in long-term business relationships with the company based on the growing Uruguay grain market.

*Navios Uruguay Export Market.* Over the past few years, Uruguay has begun to develop its grain exports that, historically, were very small because land was allocated to cattle and sheep farming. The rapid rise in Uruguayan exports is apparent from the chart below. Most importantly for the Navios terminal, the natural growth area for grain in Uruguay is in the western region of the country on land that is located in close proximity to Nueva Palmira.

**Uruguay Grain Exports**

*Source: Uruguayan Farm Cooperative (as of December 31, 2004)*



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**Table of Contents**

In 2004, Navios completed construction of four new cylindrical silos designed specifically to receive Uruguayan commodities. Before these silos had been completed, local exporters had booked their total capacity for a period of three years. This was the first time in the terminal's history that additional silo capacity was booked before completion of construction. As a result of yet further significant new customer demand from companies such as Cargill, Bunge, and Louis Dreyfus, as well as from a number of smaller local grain merchandisers, Navios started construction of a new 75,000 ton silo that, once completed, will be the largest in Uruguay. Completion is scheduled for August 2005. This additional silo will add approximately 35% to the terminal's existing storage capacity and will service the increased exports of Uruguayan soybeans. The total investment for this project includes the new silo, as well as two new truck un-loaders, and new truck weigh scales. Of traditional horizontal, concrete construction, the silo design incorporates wall separations, mechanical air ventilation systems as well as a sensitive temperature monitoring equipment.

**Customers**

The international dry bulk shipping industry is highly fragmented and, as a result, there are numerous charterers. The charterers for Navios's core fleet come from leading enterprises that mainly carry iron ore, coal, and grain cargoes. Navios's assessment of a charterer's financial condition and reliability is an important factor in negotiating employment of its vessels. Navios generally charters its vessels to major trading houses (including commodities traders), major producers and government-owned entities rather than to more speculative or undercapitalized entities. Navios's customers under charterparties, COAs, and its counterparties under FFAs, include national, regional and international companies, such as Cargill International SA, COSCO Bulk Carriers Ltd., Dampskipsselskapet Norden, Glencore International A.G., Furness Withy Pty. Ltd., Louis Dreyfus Corp., Mitsui O.S.K. Lines Ltd., Rudolf A. Oetker, Sinochart and Taiwan Maritime Transportation Corp. During the year ended December 31, 2004, none of such customers accounted for more than 10% of revenues, with the exception of Taiwan Maritime Transportation Corp. that accounted for 15.92% of revenues. During 2003, none of Navios's customers or counterparties accounted for more than 10% of Navios's total revenues, with the exception of Cargill International S.A. that accounted for 29.4%.

Navios's terminal at Nueva Palmira, Uruguay conducts business with customers engaged in the international sales of agricultural commodities who book parts of the terminal's silo capacity and transship cargoes through the terminal. In 2004, the two largest customers of the terminal were Agrograin SA, a subsidiary of the Archer Daniels Midland group, which accounted for 46.4% of the terminal's revenues, and Multigranos SA which accounted for 14.1% of such revenues. These two customers were also the largest two sources of revenues for the terminal in 2003 accounting for the following respective percentages of its total revenues in that year: Agrograin SA (43%) and Multigranos (20%).

**Competition**

The dry bulk shipping markets are extensive, diversified, competitive, and highly fragmented, divided among approximately 1,500 independent dry bulk carrier owners. The world's active dry bulk fleet consists of approximately 5,923 vessels, aggregating some 323.8 million dwt. As a general principle, the smaller the cargo carrying capacity of a dry bulk carrier, the more fragmented is its market, both with regard to charterers and vessel owners/operators. Even among the larger dry bulk owners and operators, whose vessels are mainly in the larger sizes, only three companies have fleets of 100 vessels or more: the Chinese Government (directly and through China Ocean Shipping and China Shipping Group) and the two largest Japanese shipping companies, Mitsui OSK Lines and Nippon Yusen Kaisha. There are no more than 30 owners with fleets of between 20 and 100 vessels. However, vessel ownership is not the only determinant of fleet control. Many owners of bulk carriers charter their vessels out for extended periods, not just to end-users (owners of cargo), but also to other owner/operators and to tonnage pools. Such operators may, at any given time, control a fleet many times the size of their owned tonnage. Navios is one such operator; others include CCM (Ceres Hellenic/Coeclerici), Bocimar, Zodiac Maritime, Louis-Dreyfus/Cetragpa, Cobelfret and Torvald Klaveness.

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**Table of Contents****Governmental and Other Regulations**

**Governmental Regulation.** Government regulation significantly affects the ownership and operation of vessels. These regulations include international conventions, national, state, and local laws, and regulations in force in the countries in which vessels may operate or are registered. A variety of governmental and private entities subject vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (US Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry), and charterers, particularly terminal operators. Certain of these entities require vessel owners to obtain permits, licenses, and certificates for the operation of their vessels. Failure to maintain necessary permits or approvals could require a vessel owner to incur substantial costs or temporarily suspend operation of one or more of its vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators, and charterers is leading to greater inspection and safety requirements on all vessels, and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to stricter environmental standards. Vessel owners are required to maintain operating standards for all vessels that will emphasize operational safety, quality maintenance, continuous training of officers and crews, and compliance with United States and international regulations.

**Environmental Regulations.** The International Maritime Organization, or IMO, has negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships, which was ratified on May 18, 2004, and will become effective on May 19, 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions.

Under the International Safety Management Code, or ISM Code, effective since July 1998, the party with operational control of a vessel is required to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by the respective flag state for the vessel, under the ISM Code. Noncompliance with the ISM Code and other IMO regulations may subject a ship owner to increased liability, may lead to decreases in available insurance coverage for affected vessels, and may result in the denial of access to, or detention in, some ports. For example, the United States Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in ports in the United States and European Union.

**Security Regulations.** Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the United States Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect on July 1, 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security, or ISPS, Code. Among the various requirements are:

on-board installation of automatic information systems, or AIS, to enhance vessel-to-vessel and vessel-to-shore communications;

on-board installation of ship security alert systems;

## **Table of Contents**

the development of vessel security plans; and

compliance with flag state security certification requirements.

The United States Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-US vessels from MTSA vessel security measures, provided such vessels have on board, by July 1, 2004, a valid International Ship Security Certificate, or ISSC, that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code.

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

The classification society also undertakes, on request, other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case or to the regulations of the country concerned. For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

***Annual Surveys:*** For seagoing ships, annual surveys are conducted for the hull and the machinery (including the electrical plant) and, where applicable, for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

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

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

## **Risk of Loss and Liability Insurance**

***General.*** The operation of any cargo vessel includes risks such as mechanical failure, physical damage, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities, and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any

vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market. While we believe that Navios' s present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that Navios will always be able to obtain adequate insurance coverage at reasonable rates.

## **Table of Contents**

***Hull and Machinery and War Risk Insurances.*** Navios has marine hull and machinery and war risk insurance, which includes the risk of actual or constructive total loss, for all of the six owned vessels. Each of the owned vessels are covered up to at least fair market value, with a deductible for the hull and machinery insurance in the amount of \$75,000. There are no deductibles for the war risk insurance. Navios has also arranged increased value insurance for most of the owned vessels. Under the increased value insurance, in case of total loss of the vessel, Navios will be able to recover the sum insured under the increased value policy in addition to the sum insured under the hull and machinery policy. Increased value insurance also covers excess liabilities that are not recoverable in full by the hull and machinery policies by reason of under insurance.

***Protection and Indemnity Insurance.*** Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which covers Navios's third party liabilities in connection with its shipping activities. This includes third-party liability and other related expenses of injury or death of crew, passengers and other third parties, loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances, and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or clubs. Subject to the capping discussed below, Navios's coverage, except for pollution, is unlimited. Navios's current protection and indemnity insurance coverage for pollution is \$1.0 billion per vessel per incident. The fourteen P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. As a member of a P&I Association, which is a member of the International Group, Navios is subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations, and members of the pool of P&I Associations comprising the International Group.

## **Risk Management**

Risk management in the shipping industry involves balancing a number of factors in a cyclical and potentially volatile environment. Fundamentally, the challenge is to appropriately allocate capital to competing opportunities of owning or chartering vessels. In part, this requires a view of the overall health of the market, as well as an understanding of capital costs and return. Thus, stated simply, one may charter part of a fleet as opposed to owning the entire fleet to maximize risk management and economic results. This is coupled with the challenge posed by the complex logistics of ensuring that the vessels controlled by Navios are fully employed.

Navios manages risk through a number of strategies, including vessel control strategies (chartering and ownership) freight carriage and FFA trading. Navios vessel control strategies include seeking the appropriate mix of owned vessels, long and short-term chartered in vessels, coupled with purchase options, when available, and spot charters. Navios also enters into COAs, which gives Navios, subject to certain limitations, the flexibility to determine the means of getting a particular cargo to its destination. Navios's FFA trading strategies include taking economic hedges around vessels that are on hire or coming off hire to protect against the risk of movement in rates.

## **Legal Proceedings**

Navios is not involved in any legal proceedings which may have a significant effect on its business, financial position, results of operations or liquidity, nor is ISE aware of any proceedings that are pending or threatened which may have a significant effect on its business, financial position, results of operations or liquidity. From time to time, Navios may be subject to legal proceedings and claims in the ordinary course of business, involving principally commercial charter party disputes. It is expected that these claims would be covered by insurance if they involve liabilities such as arise from a collision, other marine casualty, damage to cargoes, oil pollution, death or personal injuries to crew, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.



## **Table of Contents**

### **Crewing and Shore Employees**

Navios crews its vessels primarily with Greek officers and Filipino officers and seamen. Navios's fleet manager is responsible for selecting its Greek officers, which are hired by Navios's vessel owning subsidiaries. Navios's Filipino officers and seamen are referred to Navios's fleet manager by Cosmos Marine Management S.A. and Crossworld Marine Services Inc., two independent crewing agencies. The crewing agencies handle each seaman's training, travel, and payroll. Navios requires that all of its seamen have the qualifications and licenses required to comply with international regulations and shipping conventions.

As to shoreside employees, Navios employs 27 in its Connecticut office, 15 in its Piraeus office, and eight employees in its Montevideo office, with an additional 70 employees working at the port facility in Nueva Palmira.

### **Facilities**

Navios currently leases the following properties:

Navios Corporation has leased approximately 12,458 square feet of space at its headquarters located at 20 Marshall Street, South Norwalk, CT, 06820 under a lease that expires in May 15, 2011. Navios has sublet approximately 1,394 square feet of space to Healy & Baillie, LLP, under a sub-lease that expires on May 15, 2011.

Navios ShipManagement Inc. has leased approximately 268 square meters of space at 67, Notara Street, Piraeus, Greece, under a lease that expires on May 31, 2012. Navios Corporation has leased approximately 37 square meters of space on the 4<sup>th</sup> floor at 67, Notara Street under a lease that expires on May 31, 2012.

Navios ShipManagement Inc. has leased approximately 42 square meters of space at Apostolon #3, 2<sup>nd</sup> Floor, Town of Chora, Island of Hios, Greece under a lease that expires on March 31, 2006.

Navios ShipManagement Inc. has leased an apartment for use by its expatriate employees at Stratiotikou Syndesmou #10, 5th Floor, Kolonaki, Athens, Greece, under a lease that expires on March 31, 2006.

Navios ShipManagement Inc. has leased an apartment for use by its expatriate employees at Apartment Ypsilantou #5, 2nd Floor, Kolonaki, Athens, Greece, under a lease that expires on May 31, 2005.

Corporación Navios Sociedad Anonima leases the land on which it operates its port and transfer facility, located at Zona Franca, Nueva Palmira, Uruguay. This lease is between Uruguayan National Authority of Free Zones and Corporación Navios Sociedad Anonima, which expires on November 29, 2025, with an option to extend for another 20 years.

Corporación Navios Sociedad Anonima owns the premises from which it operates in Montevideo, Uruguay. This space is approximately 112 square meters and is located at Juan Carlos Gomez 1445, Oficina 701, Montevideo 1100, Uruguay.



**Quantitative and Qualitative Disclosures about Market Risk**

Navios is exposed to certain risks related to interest rate, foreign currency and charter rate risks. To manage these risks, Navios uses interest rate swaps (for interest rate risk), forward exchange contracts (for foreign currency risk), and FFAs (for charter rate risk).

*Interest Rate Risk*

**Debt Instruments**

On December 31, 2004, Navios had a total of \$49.5 million in long term indebtedness. The debt is dollar denominated and bears interest at a floating rate. The fair market value of Navios' s fixed rate debt was its face value as of December 31, 2004. Because the interest on the debt is at a floating rate, changes in interest rates

## **Table of Contents**

would have no effect on the value of the debt. We anticipate that upon the acquisition of Navios by ISE, this debt will be repaid in full by ISE's anticipated senior secured credit facility. For a discussion of the terms of this facility, see page 111.

## **Interest Rate Swaps**

Navios has entered into interest rate swap contracts to hedge its exposure to variability in its floating rate long term debt. Under the terms of the interest rate swaps Navios and the banks agreed to exchange, at specified intervals, the difference between a paying fixed rate and floating rate interest amount calculated by reference to the agreed principal amounts and maturities. The interest rate swaps allow Navios to convert long-term borrowings issued at floating rates into equivalent fixed rates.

At December 31, 2004, Navios had entered into a total of four swaps with the Royal Bank of Scotland and Alpha Bank with a total notional principal amount of \$49.7 million. The swaps were entered into at various points in 2001 and mature in 2006 and 2010 in the respective amounts of \$26.0 million and \$23.7 million.

Navios estimates that it would have to pay \$3.1 million to terminate these agreements as of December 31, 2004. Navios's net exposure to interest rate fluctuations is approximately \$0.8 million at December 31, 2004. Navios's net exposure is based on total floating rate debt less the notional principal of floating to fixed interest rate swaps. A one hundred basis point change in interest rates would increase or decrease interest expense by \$8,000 per year as of December 31, 2004. The swaps are set by reference to the difference between the 3 month LIBOR (which is the base rate under Navios's long term borrowings) and the yield on the US ten year treasury bond. The swaps effectively fix interest rates at 5.5%. However, once market interest rates exceed 7.5%, Navios would only be subject to the market interest rates in excess of the 7.5%.

## ***Foreign Currency Risk***

### **Foreign Currency Forward Contracts**

In general, the shipping industry is a dollar dominated industry. Revenue is set in US dollars, and approximately 94% of Navios's expenses are also incurred in US dollars. To cover expenses incurred in EUROS, Navios entered into short term forward exchange contracts. These contracts hedge against the fluctuations of the EURO against the US Dollar. Through these contracts Navios purchased 2.5 million at an average exchange rate of \$1.32 with a fair value of \$3.3 million in the year ending December 31, 2004. These contracts mature within twelve months of the balance sheet date for all periods. Contracts entered into during 2004 will settle monthly between March and June 2005. The fair value of these contracts as of December 31, 2004, amounted to \$126,000.

## ***Charter Rate Risk***

### **Forward Freight Agreements (FFAs)**

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Navios enters into FFAs as economic hedges relating to identifiable ship and/or cargo positions and as economic hedges of transactions that Navios expects to carry out in the normal course of its shipping business. By using FFAs, Navios manages the financial risk associated with fluctuating market conditions. The effectiveness of a hedging relationship is assessed at its inception. If an FFA qualifies for hedge accounting, any gain or loss on the FFA is first recognized when measuring the profit or loss of related transaction. However, for the years ended December 31, 2004 and 2003, none of the FFAs qualified for hedge accounting, and, accordingly, all gains or losses from FFAs have been recorded in the statement of operations for such periods. It is anticipated that FFAs will continue to be so treated, and, accordingly, may result in material fluctuation in results from operations.

**Table of Contents**

FFAs cover periods ranging from one month to one year and are based on time charter rates or freight rates on specific quoted routes. FFAs are executed either over-the-counter, between two parties, or through NOS ASA, a Norwegian clearing house. FFAs are settled in cash monthly based on publicly quoted indices. NOS ASA requires both base and margin collaterals. Certain portions of these collateral funds may be restricted at any given time, as determined by NOS ASA. As of December 31, 2004, and December 31, 2003, Navios' restricted balance with NOS ASA was \$2.8 million and \$0, respectively.

Navios is exposed to market risk in relation to its FFAs and could suffer substantial losses from these activities in the event expectations are incorrect. Navios trades FFAs with an objective of both economically hedging the risk on the fleet, specific vessels or freight commitments and taking advantage of short term fluctuations in market prices. The total principal amount of open FFAs at December 31, 2004 was approximately \$1.8 million. A ten percent change in underlying freight market indices would increase or decrease net income by \$1.0 million as of December 31, 2004.

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**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS OF NAVIOS**

The following is a discussion of Navios's financial condition and results of operations comparing the fiscal years ended December 31, 2004 and 2003. You should consider the foregoing when reviewing the consolidated financial statements and this discussion. You should read this section together with the consolidated financial statements including the notes to those financial statements for the years mentioned above.

**Overview**

Navios is one of the leaders in seaborne shipping, specializing in the worldwide carriage, trading, storing, and other related logistics of international dry bulk cargo transportation. For over 50 years, Navios has worked with raw materials producers, agricultural traders and exporters, industrial end-users, shipowners, and charterers and, more recently, acquired an in-house technical ship management expertise. Navios's core fleet, the average age of which is approximately 3.5 years, consists of a total of 28 vessels, aggregating approximately 1.8 million deadweight tons, or dwt. Navios owns 6 modern Ultra-Handymax (50,000-55,000 dwt) vessels and operates 22 Panamax (70,000-83,000 dwt) and Ultra-Handymax vessels under long-term time charters, 15 of which are currently in operation, with the remaining 7 scheduled for delivery at various times over the next two years. Navios has options, many of which are in the money, (i.e. the purchase option price is below the open market value of the vessel subject to the option) to acquire 13 of the 22 time chartered vessels. The owned vessels have a substantial net asset value, and the vessels controlled under the in-charters are at rates well below the current market. Operationally, Navios has, at various times over the last two years, deployed over 50 vessels at any one time, including its core fleet.

Navios policy has been to take a portfolio approach to managing risk. This policy led the company to time charter out to various shipping industry counterparties considered by management to be superior credit risks, 22 vessels in its core fleet (i.e. vessels owned by Navios or which it has taken into its fleet under charters having a duration of more than 12 months) during 2004 for various periods of between one and three years. By doing this the company has aimed to lock-in, subject to credit and operating risks, favorable forward cash flows which it believes will cushion it against volatile market swings. In addition, the company actively trades additional vessels taken in on shorter term charters of less than 12 months duration as well as contracts of affreightment and FFA contracts. These are entered into with a view towards maximizing earnings and hedging the company's market exposure. In 2004, this policy had the effect of generating TCEs that, while high by the average historical levels of the dry bulk freight market over the last 30 years, were below those which could have been earned had the Navios fleet been operated purely on short term, spot employment. It will also however have the effect of generating higher TCEs than spot employment should the dry bulk market experience a downturn over the course of 2005 through 2006.

Management believes Asian demand for commodities likely will remain robust on the back of strong expected economic growth. China, which is one of the main importers of most major dry bulk commodities such as iron ore and grains, is expected to continue its rapid growth and urbanization over the next few years. Significant commodities imports from Asia, especially China and India, combined with limited dry bulk capacity supply caused by constraints on available shipyard vessel construction berths and port congestion, should contribute to freight rates for the foreseeable future remaining at levels that are historically high compared to those that have prevailed for most of the last 30 years, albeit not necessarily at the highest levels reached in 2004. As of December 31, 2004, Navios had chartered-in its capacity at rates significantly lower than current and near-future rates. The average cost to Navios of the 26 vessels in Navios's long-term chartered-in fleet as of December 31, 2004 is \$9,737 per day for 2005. Based on Clarksons Research Statistics dated December 24, 2004, the average one year time charter TCE rate for the fleet is approximately \$33,500 per day. Furthermore, Navios has the ability to increase its owned fleet through in-the-money purchase options exercisable in the near future. Management believes that Navios's existing cash flow generation should allow it access to available financing in the debt markets to exercise its purchase options at will.



## **Table of Contents**

Management believes that a decrease in global commodity demand from its current level and the delivery of dry carrier newbuildings into the world fleet would have an adverse impact to future revenue and profitability. However, Navios' s long-term chartered fleet would offset the impact of a short-term decline in freight rates. The reduced freight rate environment would also have an adverse impact on the value of Navios' s owned fleet and the presently in-the-money purchase options. In reaction to a decline in freight rates, available ship financing may also be negatively impacted.

Navios also owns and operates the largest bulk transfer and storage facility in Uruguay. While a relatively small portion of Navios' s overall enterprise, Navios believes that this terminal is a stable business with strong growth and integration prospects.

Management believes that the continuing development of Uruguayan, Paraguayan and Brazilian grain exportation will foster throughput growth and therefore increase revenues at its Nueva Palmira port terminal. Should this development be delayed, grain harvests reduced, or the market experience an overall decrease in the demand for grain, the port terminal operations would be adversely affected.

## **Factors Affecting Navios' s Results of Operations**

Navios actively manages the risk of its operations by: (i) operating the vessels in its fleet in accordance with all applicable international standards of safety and technical ship management; (ii) enhancing vessel utilization and profitability through an appropriate mix of spot charters (time charters for short-term employment) and contracts of affreightment (COAs); (iii) monitoring the dollar impact of corporate exposure from both physical and FFA transactions; (iv) monitoring market and credit risk limits; (v) adhering to risk management and operation policies and procedures; and (vi) requiring counterparty credit approvals.

Navios believes that the important measures for analyzing trends in its results of operations consist of the following:

**Market Exposure:** Navios manages the size and composition of its fleet, by chartering and owning vessels, to adjust to anticipated changes in market rates. Navios aims to achieve an appropriate balance between vessel ownership and a long-term chartered in fleet and controls approximately 1.8 million dwt in dry bulk tonnage. Navios' s options to extend the duration of vessels it has under long-term time charter (durations of over 12 months) and its purchase options on 13 chartered vessels permits Navios to adjust the cost and the fleet size to correspond to market conditions.

**Available days:** Available days is the number of the operating days less the aggregate number of days that the vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that is spent positioning the vessels. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

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

**Fleet utilization:** Fleet utilization is obtained by dividing the number of operating days during a period by the number of available days during the period. The shipping industry uses fleet utilization to measure a company' s efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under

guarantee, vessel upgrades, special surveys or vessel positioning.

TCE rates: TCE rates are defined as voyage and time charter revenues plus gains or losses on FFAs less voyage expenses during a period divided by the number of available days during the period.



**Table of Contents**

Management of Navios includes the gains or losses on FFAs in the determination of TCE rate as neither voyage and time charter revenues nor gains or losses on FFAs are evaluated in isolation. Rather, the two are evaluated together to determine total earnings per day. The TCE rate is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts, while charter hire rates for vessels on time charters generally are expressed in such amounts.

The following table reflects available days, operating days, fleet utilization, and TCE rates for the periods ended December 31, 2004, December 31, 2003 and December 31, 2002.

	Year Ended		
	December 31,		
	2004	2003	2002
Available Days	11,984	12,243	2,549
Operating Days	11,932	12,205	2,547
Fleet Utilization	99.57%	99.69%	99.92%
Time Charter Equivalent (TCE)*	\$ 25,947	\$ 16,242	\$ 11,267
* Including gains and losses from FFAs. While FFAs are related to our shipping business, they are for accounting purposes a distinct activity. TCE rates excluding FFA gains were \$21,128 (2004), \$12,067 (2003) and \$11,267 (2002).			

While the TCE rates for 2003 and 2004 are historically high compared to those that prevailed during the last 25 years in the dry bulk market for vessels of the types that comprise Navios' fleet, they are lower than spot rates that prevailed on average for such vessels in 2004. This differential is attributable to Navios' policy of employing out its vessels on long-term charters in order to secure visible forward earnings for its fleet at historically high levels extending beyond 2004.

**Voyage and Time Charter**

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

the duration of the charters;

decisions relating to vessel acquisitions and disposals;

the amount of time spent positioning vessels;

the amount of time that vessels spend in dry-dock undergoing repairs;

maintenance and upgrade work;

the age, condition and specifications of the vessels;

levels of supply and demand in the dry bulk shipping industry; and

other factors affecting spot market charter rates for dry bulk carriers.

#### **Spot Charters, Contracts of Affreightment and FFAs**

Navios enhances vessel utilization, which was 99.6% in 2004 and 99.7% in 2003, through a mix of spot charters, time charters, COAs and strategic backhauls, as follows:

The operation of voyage charters or spot fixtures for the carriage of a single cargo from load port to discharge port;

The use of COAs, under which Navios contracts to carry a given quantity of cargo between certain load and discharge ports within a stipulated time frame; and

## **Table of Contents**

The use of FFAs both as economic hedges in reducing risk on specific vessel(s), freight commitments or the overall fleet or operations and in order to increase or reduce the size of its exposure to the dry bulk shipping market.

In addition, Navios, through selecting COAs on what would normally be backhaul or ballast legs, attempts to enhance vessel utilization and profitability. The cargoes are used to position vessels at or near major loading areas (such as the US Gulf) where spot cargoes can readily be obtained. This enables ballast time to be reduced as a percentage of the round voyage. This strategy is referred to as triangulation.

## **Results of Operations**

### **Voyage and Time Charter**

This analysis and evaluation of the consolidated results of operation focuses on the operating performance of Navios's dry bulk fleet. Navios's vessels are deployed under either medium-to-long term time charters or spot market charters. Revenues vary with each type of charter and prevailing shipping rates. Expenses also vary with each type of charter.

Time charters are available for varying periods, ranging from a single trip (spot charter) to long-term which may be many years. In general, a long-term time charter assures the vessel owner of a consistent stream of revenue. Operating the vessel in the spot market affords the owner greater speculative opportunity, which may result in high rates when vessels are in high demand or low rates when vessel availability exceeds demand. Vessel charter rates are affected by world economics, international events, weather conditions, strikes, governmental policies, supply and demand, and many other factors that might be beyond the control of management.

Consistent with industry practice, Navios uses time charter equivalent, or TCE, revenue which comprises revenue from vessels operating on time charters, or TC revenue, and voyage revenue less voyage expenses from vessels operating on voyage charters in the spot market. TCE revenue serves as a measure of analyzing fluctuations between financial periods and as a method of equating revenue generated from a voyage charter to time charter revenue. TCE revenue also serves as industry standard for measuring revenue and comparing results between geographical regions and among competitors.

Navios operates a fleet of owned ultra handymax vessels and a fleet of chartered-in panamax and ultra handymax vessels that are employed to provide world wide transportation of bulk commodities under freight contracts and through sub-time charter employment to other leading shipping companies.

### **COAs and FFAs**

Navios enters into COAs with major industrial end users of bulk products, primarily in the steel, energy and grain sectors. These contracts are entered into with a view to making profit, while also as a means of maintaining relationships, obtaining market information and continuing a market presence in this market segment. Navios has adopted a strategy of entering into COAs to carry freight into known loading areas, such as the US Gulf and the Gulf of St. Lawrence, where subsequent spot or voyage charters can be obtained profitably.

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Navios enters into FFAs as economic hedges relating to identifiable ship and/or cargo positions and as economic hedges of transactions that Navios expects to carry out in the normal course of its shipping business. By using FFAs, Navios manages the financial risk associated with fluctuating market conditions. The effectiveness of a hedging relationship is assessed at its inception. If an FFA qualifies for hedge accounting, any gain or loss on the FFA is first recognized when measuring the profit or loss of related transaction. However, for the years ended December 31, 2004 and 2003, none of the FFAs qualified for hedge accounting, and, accordingly, all gains or losses from FFAs have been recorded in statement of income for the periods. It is

## **Table of Contents**

anticipated that FFAs will continue to be so treated and, accordingly, may result in material fluctuations in results from operations.

FFAs cover periods ranging from one month to one year and are based on time charter rates or freight rates on specific quoted routes. FFAs are executed either over-the-counter, between two parties, or through NOS ASA, a Norwegian clearing house. FFAs are settled in cash monthly based on publicly quoted indices. NOS ASA requires both base and margin collaterals. Certain portions of these collateral funds may be restricted at any given time, as determined by NOS ASA. As of December 31, 2004, and December 31, 2003, Navios' restricted balance with NOS ASA was \$2.8 million and \$0, respectively. Also included in restricted cash as of December 31, 2004 and 2003 are amounts held as security in the form of letters of guarantee or letters of credit totaling \$0.745 million and \$0.784 million, respectively.

At the end of each calendar quarter, the fair value of FFAs traded over-the-counter are determined from an index published in London, United Kingdom, and the fair value of those FFAs traded with NOS ASA are determined from the NOS' valuation.

## **Income Statement Breakdown by Segment**

Navios reports financial information and evaluates its operations by charter revenues and not by vessel type, length of ship employment, customers or type of charter. Navios does not have discrete financial information to evaluate the operating results for each such type of charter. Although revenue can be identified for these types of charters, management cannot and does not identify expenses, profitability or other financial information for these charters. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the owned and chartered-in fleet and, thus, Navios has determined that it operates under two reportable segments, Vessel Operations and Port Terminal.

Navios has two reportable segments from which it derives its revenues: Vessel Operations and Port Terminal. The reportable segments reflect the internal organization of Navios and strategic businesses that offer different products and services. The Vessel Operations business consists of transportation and handling of bulk cargoes through ownership, operation, and trading of vessels, freight and FFAs. The Port Terminal business consists of operating a port and transfer station terminal. Navios measures segment performance based on net income. For further information about this segment information, please see Note 19 to the Financial Statements of Navios.

## **For the three months ended March 31, 2005 compared to the three months ended March 31, 2004**

*Revenue:* Revenues decreased by \$4.8 million or 7.3%, to \$61.4 million for the three months ended March 31, 2005 compared to \$66.2 million for the three months ended March 31, 2004. Navios earns revenue from freight operations on both owned and chartered-in vessels and the port terminal. Revenues from vessel operations decreased by \$4.6 million, or 7.1% to \$60.2 million for the three months ended March 31, 2005, compared to \$64.7 million for the three months ended March 31, 2004. This decrease is principally attributable to a reduction in the number of vessels operated by the Company during the respective periods. Total vessel days employed decreased 26.8% from 37 equivalent vessels for the three months ended March 31, 2004 to 27 for the three months ended March 31, 2005. The decrease in the number of vessel days was partially offset by an increase in the average revenue rate achieved which improved from \$19,436 per day for the three months ended March 31, 2004 to \$24,667 per day for the three months ended March 31, 2005. Also, following an accident caused by a compulsory pilot in December, Navios Kypros had to be taken out of service for 22 days in January. Loss of revenue associated with the accident was approximately \$0.9 million.

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Revenues from the port terminal decreased by \$.2 million or 13.3%, to \$1.3 million for the three months ended March 31, 2005 as compared to \$1.5 million for the three months ended March 31, 2004. This decrease was attributable to the fact that for the three months ended March 31, 2004 throughput volumes (the traditional

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**Table of Contents**

low season for the terminal business) were a historical all time record high. The higher than normal volume resulted because of an unusual late season Paraguayan grain harvest. For the three months ended March 31, 2005 throughput volumes were more consistent with normal seasonal patterns. Terminal throughput volume decreased approximately 25% to 0.33 million tons of agricultural and other products for the three months ended March 31, 2005 from the record 0.44 million tons for the three months ended March 31, 2004.

*Gains and Losses on FFAs:* Income from FFAs decreased by \$38.2 million to a loss of \$4.6 million during the three months ended March 31, 2005 as compared to a gain of \$33.6 million during the three months ended March 31, 2004. Navios recognizes the change in fair value of derivatives on a quarterly basis. For the three months ended March 31, 2005 and 2004, FFAs did not qualify for hedge accounting treatment. Accordingly, changes in the fair value of FFAs were recognized in the income statement. The FFA market has experienced significant volatility in the past few years and accordingly recognizing the changes in fair value FFAs has caused significant volatility in earnings. The extent of the impact on earnings is dependent on two factors: market conditions and Navios' net position in the market.

Recognizing the change in the fair value of FFAs for the three months ended March 31, 2004 resulted in the recognition of a gain of \$33.6 million. 57.8% of total annual gain from FFAs activity in 2004 was recognized in the three months ended March 31, 2004. The gain was attributable to two factors. First, Navios had bought more FFA contracts than they had sold resulting in a net long FFA position equivalent to 8.6 vessels as of December 31, 2003. The second factor that contributed to the significant gain was that there was a dramatic increase in the market price during the three months ended March 31, 2004. As an indicator of the market movement, the Baltic Panamax time charter index improved from just over \$15,000 per day at the beginning of the fourth quarter of 2003 to over \$45,000 per day in the first quarter of 2004. The combination of Navios' net long position and significant increase in the market resulted in the significant gain for the three months ended March 31, 2004.

On the other hand, recognizing the change in the fair value of FFAs for the three months ended March 31, 2005 resulted in the recognition of a loss of \$4.6 million. First, Navios' net long FFA position was smaller and equivalent to two vessels as of December 31, 2004. The second factor that contributed to the loss was that there was a decrease in the market price during the three months ended March 31, 2005. As an indicator of the market movement, the Baltic Panamax time charter index changed from \$43,000 to \$37,000 in the first quarter of 2005. Furthermore, Navios reduced its trading volume and incurred actual losses on FFAs that were closed during the three months ended March 31, 2005. Navios reduced its exposure to the market by entering into fewer trades which decreased 41.3% to 44 in 2005 from 75 in 2004. The FFA trading environment during the three months ended March 31, 2005 was particularly difficult because directional movements of the overall dry bulk market were significantly less pronounced than during the first quarter of 2004.

*Time Charter and Voyage Expenses:* Time charter and voyage expenses decreased 25.6%, or \$11.9 million to \$37.5 million for the three months ended March 31, 2005 as compared to \$46.5 million for the three months ended March 31, 2004. The decrease was primarily due to utilizing fewer equivalent vessels which were reduced from 31 for the three months ended March 31, 2004 to 21 for the three months ended March 31, 2005. The average chartered-in rate increased from \$16,667 per day for the three months ended March 31, 2004 to \$18,189 per day for the three months ended March 31, 2005.

Direct costs from the port terminal for the three months ended March 31, 2005, increased by \$0.1 million or 14.3% to \$0.8 million compared to \$0.7 million for the three months ended March 31, 2004. This increase is primarily attributable to the direct costs for wages, salaries and benefits for eight additional employees hired in anticipation of increased throughput later in the year.

Direct costs represented 61.1% of revenues for the three months ended March 31, 2005 compared to 74.5% for the three months ended March 31, 2004.





## **Table of Contents**

*Direct Vessel Expenses:* Direct vessel expenses for the operation of the owned fleet changed minimally from \$2.1 million for the three months ended March 31, 2005 as compared to \$2.2 million for the three months ended March 31, 2004. Direct vessel expenses include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. Direct vessel expenses represented 3.4% of revenues for the three months ended March 31, 2005 as compared to 3.3% for the three months ended March 31, 2004.

*General and Administrative Expenses:* General and administrative expenses increased by \$0.5 million, or 16.1%, to \$3.6 million for the three months ended March 31, 2005 as compared to \$3.1 million for the three months ended March 31, 2004. The increase resulted primarily from the payment of \$0.9 million for professional fees and expenses incurred in relation to the agreed sale of Navios stock to International Shipping Enterprises Inc. ( ISE ). The increased cost was partially offset by reduced amounts for severance cost of \$0.1 million and lower professional fees of \$0.3 million for services received unrelated to the Navios stock sale transaction to ISE. General and administrative expenses represented 5.9% of revenues for the three months ended March 31, 2005 as compared to 4.7% for the three months ended March 31, 2004.

*Depreciation and Amortization:* Depreciation and amortization, which include depreciation of the owned dry bulk fleet and amortization and capital leases were essentially unchanged. Depreciation and amortization represented 2.4% of revenues for the three months ended March 31, 2005 as compared to 2.2% for the three months ended March 31, 2004.

*Net Interest Expense and Income:* Net interest expense decreased by \$0.5 million, or 71.4%, to \$0.2 million for the three months ended March 31, 2005 as compared to \$0.7 million for the prior year. This decrease is mainly due to a lower average principal amount of bank loans outstanding of \$50.3 million for the three months ended March 31, 2005 as compared to \$97.3 million for the three months ended March 31, 2004. Interest income was \$0.3 million for the three months ended March 31, 2005 as compared to \$0.1 million for the three months ended March 31, 2004 due to higher average cash balances which increased from \$39.7 million in 2004 to \$59.6 million in 2005 and higher interest earnings rates for the periods which changed from 0.9% in 2004 to 2.3% in 2005.

*Net Income:* Net income decreased by \$28.8 million to \$13.0 million for the three months ended March 31, 2005 as compared to \$41.8 million for the prior year. Net income from vessel operations decreased by \$28.5 million, to \$12.6 million for the three months ended March 31, 2005 as compared to \$41.2 million for the same period last year. Net income from the port terminal decreased by \$0.3 million to \$0.3 million for the three months ended March 31, 2005 as compared to \$0.6 million for the prior year.

## **Liquidity and Capital Resources**

Navios has historically financed capital requirements with cash flow from operations, equity contributions from stockholders and bank term loans. Main uses of funds have been capital expenditures for the acquisition of new vessels, new construction and upgrades at the port terminal, expenditures incurred in connection with ensuring that the owned vessels comply with international and regulatory standards, repayments of bank loans and payments of dividends. Navios anticipates that prior to its acquisition a portion of its available cash balances will be used to repay all existing Navios debt which will be approximately \$50.0 million. Subsequent to its acquisition, ISE anticipates that internally generated cash flow and borrowings under the secured credit facility which is being put in place by ISE that will be sufficient to fund the operations of the fleet and the port terminal, including working capital requirements.

If Navios does not acquire any additional vessels, ISE believes that the current cash balance as well as operating cash flows will be sufficient to meet liquidity needs for the next two to three years, assuming the charter markets do not deteriorate materially. If Navios does acquire additional vessels, it will rely on cash from operations and new debt to meet its liquidity needs going forward. Navios's business is capital intensive and its future success will depend on its ability to maintain a high-quality fleet through the acquisition of newer dry bulk vessels. These acquisitions

will be principally subject to market conditions and well as Navios ability to acquire dry bulk carriers on favorable terms.

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**Table of Contents***Cash provided by operating activities*

Net cash provided by operating activities decreased \$4.6 million to \$18.2 million for the three months ended March 31, 2005 as compared to \$22.8 million for the three months ended March 31, 2004.

In determining net cash provided by operating activities, net income is adjusted for the effects of certain non cash transactions. Net income decreased \$28.8 million from \$41.8 million for the three months ended March 31, 2004 to \$13.0 million for the three months ended March 31, 2005. Unrealized gains and losses on FFAs changed \$35.1 million from an unrealized gain of \$18.2 million for the three months ended March 31, 2004 to an unrealized loss of \$16.9 million for the three months ended March 31, 2005. Unrealized gains and losses from FFAs result from recognizing in profit or loss the change in fair value of derivatives. The same treatment is applied to interest rate swaps. The change in the fair value of outstanding interest rate swaps generated an unrealized loss of \$1.1 million for the three months ended March 31, 2004 compared to an unrealized gain of \$0.6 million for the three months ended March 31, 2005. The change in the value of interest rate swaps resulted from changes in long term interest rates which increased in the first quarter of 2004 and fell in the first quarter of 2005. The recognition of changes in fair value of these derivatives in profit or loss is required because the FFAs and the interest rate swaps do not qualify for hedge accounting.

*Significant changes in working capital are as follows:*

Cash provided by operating activities decreased for the three months ended March 31, 2005 as the result of a \$1.5 million increase in restricted cash balances. The increase was caused by increased margin requirements for FFAs traded over the Norwegian Options Exchange. These trades were done in the normal course of business.

Cash provided by operating activities decreased for the three months ended March 31, 2004 and March 31, 2005 as a result of increases in accounts receivable of \$1.5 million and \$4.2 million, respectively. Changes in amounts due from FFA trading partners caused the changes in both periods. Amounts due from FFA trading partners increased from \$12.1 million in December 2003 to \$18.1 million in March 2004 causing a \$6.0 million increase. Reductions in various other receivable balances account for the remainder of the change for the period. Similarly, amounts due from FFA trading partners changed from \$12.7 million in December 2004 to \$14.3 million in March 2005 for a change of \$1.6 million. Increases in various other receivable balances account for the remainder of the change.

Prepaid voyage cost decreased \$4.6 million in the first quarter of 2004. The decrease occurred primarily in prepaid charter hire cost which decreased from \$9.1 million in December 2003 to \$5.6 million in March 2004 causing a change of \$3.5 million. Other prepaid balances decreased \$1.1 million. These decreases were primarily a result of the average prepaid amount per vessel changing from \$0.3 million in December 2003 to \$0.2 million in March 2004. The situation reversed in the first quarter of 2005. Prepaid voyage cost increased \$5.9 million. The major change again occurred in charter hire cost which increased from \$7.1 million in December 2004 to \$11.3 million in March 2005 for an increase of \$4.2 million. Prepaid fuel cost increased from \$4.1 million to \$4.9 million for an increase of \$0.8 million. Prepaid insurance premium cost and other miscellaneous items made up the residual of the increase. These increases resulted from an increase in the average prepaid amount per vessel which changed from \$0.3 million in December 2004 to \$0.5 million in March of 2005.

Prepaid expenses and other assets increased \$1.4 million in the first quarter of 2005. The major causes included an increase in amounts paid for repairs to the Navios Kypros of \$0.8 million, which are recoverable from insurance, and an increase in port advances from \$1.5 million in December 2004 to \$2.1 million in March 2005. Increased port advances resulted from increased freight cargo movements between the periods.

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Accrued expenses decreased \$2.6 million in the period ending March 2005. The major causes of the decrease included \$0.8 million related to the cash settlement of litigation regarding the SD Victory and a decrease in the accrual for loss making voyages in progress from \$1.3 million in December of 2004 to \$0.1

## **Table of Contents**

million in March 2005 causing a change of \$1.2 million. Estimated losses on voyages are provided for in full at the time such losses become evident.

Deferred voyage revenue decreased \$4.8 million in March 2004 and increased \$3.8 million in March 2005. Changes in deferred revenue are directly related to changes in prepaid voyage cost. That is, generally when the fleet size increases or decreases prepaid voyage cost increases or decreases and deferred voyage revenue increases or decreases. Deferred revenue changed from \$16.9 million in December of 2003 to \$12.1 million in March of 2004 for a change \$4.8 million. Deferred revenue changed from \$15.0 million in December of 2004 to \$18.8 million in March of 2005 for a change of \$3.8 million.

### ***Cash used in investing activities***

Cash used by investing activities was \$1.7 million for the three months ended March 31, 2005 as compared to cash used by investing activities of \$1.2 million for the year ended March 31, 2004 or a 41.7% increase. Both investments were partial payments for silos under construction at the port terminal.

Fixed assets under construction represents the amounts paid by Navios in accordance with the terms of the purchase agreements for the construction of four vertical silos during 2004 and a new horizontal silo with ancillary equipment during 2005.

### ***Cash used in financing activities***

Cash used in financing activities was \$0.3 million for the three months ended March 31, 2005 as compared to cash used in financing activities of \$1.7 million for the three months ended March 31, 2004. During the three months ended March 31, 2004, there were \$1.5 million in principal payments and \$0.2 million in preferred stock redemption. There was no outstanding preferred stock as of December 31, 2004 and the sole use of cash used in financing activities was the payment on the principal of long-term debt.

During the first quarter of 2005, Navios distributed no dividends.

## **EBITDA**

EBITDA represents net income before interest, taxes, depreciation and amortization. Navios uses EBITDA because Navios believes that EBITDA is a basis upon which liquidity position can be assessed and because Navios believes that EBITDA presents useful information to investors regarding Navios' ability to service and/or incur indebtedness. Navios also uses EBITDA (i) in its credit agreement to measure compliance with covenants such as interest coverage and debt incurrence; (ii) by prospective and current lessors as well as potential lenders to evaluate potential transactions; and (iii) to evaluate and price potential acquisition candidates.

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EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of Navios' results as reported under GAAP. Some of these limitations are: (i) EBITDA does not reflect changes in, or cash requirements for, working capital needs, and (ii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should not be considered as a principal indicator of Navios' performance.

EBITDA, as defined in Selected Historical Financial Information, decreased by \$29.4 million, or 66.8%, to \$14.6 million for the three months ended March 31, 2005 compared to \$44.0 million for the three months ended March 31, 2004. This decrease is due primarily to the reported FFA loss of \$4.3 million for the first quarter of 2005 against a \$33.6 million net gain during the first quarter of 2004.

In addition, EBITDA was negatively impacted by \$1.0 million of transaction costs relating to the sale of Navios to ISE.

## **Table of Contents**

### **Long Term Debt Obligations and Credit Arrangements**

As of March 31, 2005, long-term portion of debt obligations were stable at \$49.3 million and current portion was \$1.0 million compared to \$89.9 million long-term portion and \$6.8 million current portion as of March 31, 2004.

It is currently anticipated that, before the closing of the acquisition of Navios by ISE, all amounts outstanding under current Navios loan facilities in the approximate amount of \$50.0 million as of June 15, 2005 will be paid in full, using available Navios funds. No prepayment penalties will be incurred as a result of the payment and termination of Navios' s credit facilities. It is also anticipated that the senior secured credit facility to be established and drawn upon in connection with the acquisition of Navios will be repaid with the proceeds of a debt offering that ISE hopes to complete in 2005, although there can be no assurance that such an offering will ever be commenced or completed.

### **Concentration of Credit Risk**

No counterparties accounted for more than 10% of Navios' s counterparty risk in either of the respective periods.

### **Effects of Inflation**

Navios does not consider inflation to be a significant risk to the cost of doing business in the foreseeable future. Inflation has a moderate impact on operating expenses, drydocking expenses and corporate overhead.

### **Off-Balance Sheet Arrangements**

Charter hire payments to third parties for certain chartered-in vessels are accounted for as operating leases. Navios is also committed to making rental payments under operating leases for its office premises. With the exception of payments made during the first quarter of 2005 future minimum rental payments under Navios' s non-cancelable operating leases are unchanged from the amounts disclosed in footnote 16, Commitments and Contingencies, of the 2004 annual statements included in the S-4 registration statement.

As of March 31, 2005, Navios was contingently liable for letters of guarantee and letters of credit amounting to \$.6 million issued by various banks in favor of various organizations. These are collateralized by cash deposits which are included as a component of restricted cash. Navios issued guarantees to third parties amounting to \$1.2 million at March 31, 2005 as compared to \$0 at March 31, 2004, pursuant to which Navios irrevocably and unconditionally guarantees its subsidiaries' obligations under the dry bulk shipping FFAs. The guarantees remain in effect for a period of six months following the last trade date, which was January 26, 2005

### **Outlook**

Dry bulk fundamentals remain attractive. The United States, India, Brazil and especially China continue to contribute to strong global economic growth. More specifically, Chinese demand for iron ore, coal and steel products plays a significant part in sustaining dry bulk market at high levels. The high price of oil has contributed to increased movements of steam coal which is expected to continue for the foreseeable future. Additionally, new



## Table of Contents

longer haul trade routes have developed that management anticipates should serve to stimulate ton-mile demand while port congestion continues to absorb global fleet tonnage whose growth is limited as shipyard capacity is dominantly allocated to container and tanker building.

By entering in fix-rate time charters at charter-in rates much lower than current prevailing rates, Navios has secured a steady earnings structure enabling the company to be profitable at low rates. Navios has also chartered out the majority of its owned and chartered-in vessels for the remaining months of 2005 at levels that far exceed direct costs and charter-in rates. The average cost to Navios of the 15 vessels in Navios long-term chartered-in fleet which was \$9,737 per day as of December 31, 2004, remains essentially unchanged as of the period ended March 31, 2005.

Additionally, Navios benefits from comparatively higher operational leverage than other dry bulk shipping companies because much of Navios fleet consists of vessels chartered in under operating leases that require no capital cost as opposed to other companies that have largely owned vessel that require significant capital investment. Its Uruguay port terminal operations results are highly correlated to South American grain production, in particular Paraguayan, Uruguayan and Bolivian production, which is expected to significantly increase. With second quarter dry bulk market movements becoming more pronounced relative to those of the first quarter management anticipates that income from increased FFA activity will generate gains more in line with historical averages than first quarter 2005 results.

### **For the year ended December 31, 2004 compared to the year ended December 31, 2003**

Revenue: Revenues increased by \$99.5 million, or 55.4% to \$279.2 million for the year ended December 31, 2004 compared to \$179.7 million for the prior year. Navios earns revenue from freight operations on both owned and chartered-in vessels and the port terminal. Revenues from vessel operations increased by \$98.7 million, or 57.1% to \$271.5 million for the year ended December 31, 2004, compared to \$172.8 million for the prior year. This increase is principally attributable to increases in the average daily time charter rate to \$25,947 in 2004 from \$16,242 in 2003, offset slightly by a decrease in average fleet size from 33.4 vessels to 32.6 vessels.

Gains on FFAs: Income from FFAs increased by \$6.6 million, or 12.9%, to \$57.7 million during the year ended December 31, 2004 as compared to \$51.1 million during the year ended December 31, 2003. This was mainly due to an increase in the volume of trading as well as an overall increase in the market price. The increase in the number of participants in FFA derivative trading has deepened the market and allowed for higher volume and increased liquidity. In 2004 the company executed 336 trades compared to 328 in 2003. Additionally, as a representative indicator the average spot value for a standard Baltic type panamax for 2004 was \$37,750 per day compared to \$20,150 per day for 2003. Management believes that the FFA market will continue to grow in volume and number of participants as more traditional shipping industry participants and financial institutions enter the market place. Freight Investor Services, a London-based broker, estimates that the total number of trades (including both tanker and dry bulk) increased to 8,300 in 2004 from 5,800 in 2003. The increase in the market volume and participation will provide additional liquidity; however, FFA gains and losses are difficult to forecast as the future levels of volatility and trading are unpredictable.

Management of Navios includes the gains or losses on FFAs in the determination of time charter equivalent ( TCE ) rates as neither voyage and time charter revenues nor gains or losses on FFAs are evaluated in isolation, rather the two are evaluated together to determine total earnings per day. This increase in TCE rates was caused by the combination of increased demand for dry bulk transportation by commodities producers and the corresponding lag in dry bulk supply adjustment due to shipyard focus on container and tanker building and port congestion. Management believes this trend is likely to continue albeit not at the extremely high levels the dry bulk market experienced in the first and second quarters of 2004. Global commodities demand is expected to remain strong, especially in Asia. However, shipyard capacity is expected to remain tight due to much of the construction berth capacity being allocated to newbuildings of tankers and container ships rather than dry bulk ships. Port infrastructure is expected to continue to cause port congestion in the near term.



**Table of Contents**

Revenues from the port terminal increased by \$0.7 million, or 10.1%, to \$7.6 million for the year ended December 31, 2004 as compared to \$6.9 million for the prior year. This increase was attributable to an increase in terminal throughput volume of approximately 12% to 2.03 million tons of agricultural and other products held in the terminal from 1.81 million tons of agricultural and other products. Strong development of South American, mainly Uruguayan, Paraguayan and Bolivian, grain exports, resulting in new contracts with global grain companies, account for the rise in volume. Management believes this trend will continue and Navios has invested in an additional silo at the terminal in response to expected increased grain and commodity throughput volume. The silo became operational in the second quarter of 2004 and management believes that it could contribute 500,000 tons of additional annual throughput.

Time charter, voyage and port terminal expense: Time charter and voyage expenses increased \$43.5 million, or 31.8%, to \$180.0 million for the year ended December 31, 2004 as compared to \$136.5 million for the prior year. Direct costs from vessel operations increased by \$42.9 million to \$176.6 million for the year ended December 31, 2004 as compared to \$133.7 million for the prior year. Direct costs include expenses related to particular voyages, including time charter hire paid and voyage freight and paid bunkers. The increase was mainly due to higher chartered-in rates for vessels added to the fleet in 2004 as the average time charter hire rate per day increased to \$16,118 per day in 2004 compared to \$11,157 per day in 2003. The higher demand from commodity producers for dry bulk capacity was not matched by commensurate supply of newbuildings. This market tightness was further intensified by port congestion that drew vessels out of the market while delayed in ports.

Port terminal expense increased by \$0.6 million to \$3.4 million for the year ended December 31, 2004 as compared to \$2.8 million for the prior year. This increase was attributable primarily to increased labor costs and repair and maintenance expenses. Labor costs increased approximately \$0.22 million due to higher day laborer staffing levels required to process the higher volume handled over the period ended December 31, 2004. Furthermore, costs of \$0.23 million were incurred to repair a crane located at the port terminal. Navios expects labor costs to continue to increase due to the additional of the new silos in 2004.

Direct costs represented 64.5% of revenues for the year ended December 31, 2004 compared to 76.0% for the prior year.

Direct Vessel Expenses: Direct vessel expenses decreased \$2.2 million, or 21.2%, to \$8.2 million for the year ended December 31, 2004 as compared to \$10.4 million for the prior year. Direct expenses for owned vessels include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. The decline in direct vessel expense was due to the disposal of three owned vessels and one leased vessel in 2003. Vessel operating days decreased 27.0% to 2,196 days in 2004 from 3,010 days in 2003. The decrease in vessel operating days resulted from the sale of three owned vessels during 2003. The decrease was partially offset by an 8.7% increase in average running costs per day which increased to \$3,745 per day in 2004 from \$3,445 per day in 2003. The increase in average running cost per day resulted from increased labor, insurance and repair costs. Direct vessel expenses represented 2.9% of revenues for the year ended December 31, 2004 as compared to 5.8% for the prior year. Navios has the ability to increase its owned fleet through in-the-money purchase options exercisable in the near future. After the acquisition of Navios by ISE, ISE intends to exercise some of these options and as a result direct vessel expenses are expected to increase in the future.

General and Administrative Expenses: General and administrative expenses increased by \$1.1 million, or 9.5%, to \$12.7 million for the year ended December 31, 2004 as compared to \$11.6 million for the prior year. The increase resulted primarily from a \$1.3 million increase in discretionary bonuses in 2004 to \$3.4 million as compared to the prior year. Also, professional fees increased \$.7 million primarily as a result of corporate restructuring. Discretionary bonuses increased as additional compensation was awarded to certain employees for their contribution to Navios's strong performance for the year ended December 31, 2004. Increased professional fees were primarily related to the closure of an office that Anemos Maritime Holdings had maintained in London.

## **Table of Contents**

These increased costs were partially offset by reduced salaries and benefit costs related to the closure of the London office. General and administrative expenses represented 4.6% of revenues for the year ended December 31, 2004 as compared to 6.5% for the prior year.

**Depreciation and Amortization:** Depreciation and amortization, which include depreciation of the owned dry bulk fleet and amortization of capital leases, decreased by \$2.9 million, or 33.0%, to \$5.9 million for the year ended December 31, 2004 as compared to \$8.8 million for the prior year. The decrease is primarily due to a reduction in the number of owned and leased vessels in the fleet. In addition, capital lease amortization declined by \$1.9 million in 2004 as compared to the prior year as a result of the sale of the leased vessel. Depreciation and amortization represented 2.1% of revenues for the year ended December 31, 2004 as compared to 4.9% for the prior year. Subsequent to the acquisition of Navios by ISE, depreciation and amortization is expected to increase when vessels are acquired from the exercise of the purchase options for several of the vessels in 2005 and 2006.

**Net Interest Expense and Income:** Net interest expense decreased by \$2.4 million, or 47.1%, to \$2.7 million for the year ended December 31, 2004 as compared to \$5.1 million for the prior year. This decrease is mainly due to a lower average principal amount of bank loans outstanding in 2004 as compared to the prior year as part of the cash generated over the period was used to pre-pay debt. The average outstanding principal amount of bank loans was \$87.7 million in 2004 compared to \$122.3 million in 2003. Furthermore, the weighted average effective interest rate on debt decreased to 2.3% in 2004 from 2.7% in 2003. Interest income was \$789,000 for the year ended December 31, 2004 as compared to \$134,000 for the prior year due to a higher average cash balance and a slightly higher interest rate on deposits. The average cash balance was \$62.6 million in 2004 compared to \$18.8 million in 2003. Furthermore, the weighted average effective interest rate on deposits increased to 1.37% in 2004 from 1.04% in 2003.

**Net Income:** Net income increased by \$71.6 million, or 129.0%, to \$127.1 million for the year ended December 31, 2004 as compared to \$55.5 million for the prior year. Net income from vessel operations increased by \$71.2 million, or 135.4% to \$123.8 million for the year ended December 31, 2004 as compared to \$52.6 million for the prior year. Net income from the port terminal increased by \$0.3 million, or 10.0%, to \$3.3 million for the year ended December 31, 2004 as compared to \$3.0 million for the prior year.

## **For the year ended December 31, 2003 compared to the year ended December 31, 2002**

On December 11, 2002, the shareholders of Anemos Maritime Holdings, or Anemos, and Navios Corporation, a subsidiary of Navios, each contributed their respective interests for shares of a newly created entity incorporated in the Marshall Islands. For accounting purposes, Anemos was considered the acquirer. As a result of the acquisition, Navios recognized as an asset \$2.1 million for the brand name and \$0.23 million for goodwill. To the extent that 345 out of 365 days of 2002 include only Anemos's results, the financials of 2002 are not directly comparable to the ones of 2003.

In 2003, Navios experienced a number of developments with respect to its operations. Navios's equity increased by 130%, to \$96.3 million, at December 31, 2003 from \$41.8 million at December 31, 2002 as a result of net income of \$55.5 million and a redemption of common stock of \$0.9 million. In addition, in February and March 2003, Navios completed the construction of the M/V Navios Kypros and the M/V Navios Hios. During 2003, Navios sold the following vessels: the M/V Navios Pioneer, the M/V Agios Konstantinos, the M/V Artemis and the M/V Navios Aegean for net sale proceeds of \$63.0 million. Furthermore, as of December 31, 2003, Navios had bank loans of \$98.2 million as compared to \$123.9 million at December 31, 2002. This reduction is the result of scheduled principal repayments and loan prepayments due to the disposal of three vessels.

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Revenue: Revenues increased by \$153.0 million to \$179.7 million for the year ended December 31, 2003 compared to \$26.7 million for the prior year. Navios earns revenue from freight operations on both owned and chartered-in vessels and the port terminal. This increase is attributable to a substantially larger Navios fleet

## **Table of Contents**

resulting from the consolidation of Navios Corporation and Anemos in December 2002 and to the higher freight market. Increases in TCE rates resulted from higher demand for sea-borne transportation of dry bulk commodities and port congestion at a time when these demand factors were not matched by a commensurate increase in the supply of dry bulk carrier newbuilding.

Gains and losses from FFAs: Income from FFAs increased by \$50.6 million to \$51.1 million during the year ended December 31, 2003 as compared to \$0.5 million during the year ended December 31, 2002. FFA income for the year ended December 31, 2002 incorporates only 20 days of activity. Anemos never traded FFAs and thus no FFA trading gains are reflected in its financial results for the period prior to the combination with Navios Corporation in December 2002.

Time Charter, voyage and port terminal expenses: Time charter, voyage and port terminal expenses increased \$130.4 million to \$136.5 million for the year ended December 31, 2003 as compared to \$6.1 million for the prior year. The increase was due to the fact that prior to the December 2002 business combination, Anemos had no time chartered-in vessels in its fleet. Furthermore, direct costs associated with the port terminal increased in 2003 due to the fact that the port terminal was acquired as part of the December 2002 business combination, so port terminal expenses for the year ended December 31, 2002 represents only 20 days of costs. Direct costs represented 76.0% of revenues for the year ended December 31, 2003, as compared to 22.9% for the prior year.

Direct Vessel Expenses: Direct vessel expenses increased \$2.2 million to \$10.4 million for the year ended December 31, 2003 as compared to \$8.2 million for the prior year. The increase is attributable to an increase in the size of the owned fleet. Navios took delivery of two newbuildings early in 2003. Direct vessel expenses include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. Direct vessel expenses represented 5.8% of revenues for the year ended December 31, 2003 as compared to 30.6% for the prior year.

General and Administrative Expenses: General and administrative expenses increased by \$9.4 million, to \$11.6 million for the year ended December 31, 2003 as compared to \$2.3 million for the prior year. The increase is attributable to the addition of all of Navios's general and administrative cost upon the business combination with Anemos in December 2002. General and administrative expenses represented 6.5% of revenues for the year ended December 31, 2003 as compared to 8.5% for the prior year.

Depreciation and Amortization: Depreciation and amortization, which includes depreciation of the owned dry-bulk fleet and amortization of capital leases, increased by \$2.8 million to \$8.8 million for the year ended December 31, 2003 as compared to \$6.0 million for the prior year. The increase in depreciation stems from the larger amount by which the two new vessels were depreciated. Depreciation and amortization represented 4.9% of revenues for the year ended December 31, 2003 as compared to 22.4% for the prior year.

Net Interest Expense: Net interest expense increased by \$1.2 million to \$5.1 million for the year ended December 31, 2003 as compared to \$3.9 million for the prior year. The increase is attributable to servicing interest due on additional debt incurred to finance the acquisition of the two newbuildings delivered to Navios in early 2003.

Net Income: Net income increased by \$61.1 million to \$55.5 million for the year ended December 31, 2003 as compared to a net loss of \$5.6 million for the prior year that was attributable to the Anemos Maritime Holdings side of the business combination that took place in December 2002.

**Liquidity and Capital Resources**

Navios has historically financed capital requirements with cash flow from operations, equity contributions from stockholders and bank term loans. Main uses of funds have been capital expenditures for the acquisition of new vessels, new construction and upgrades at the port terminal, expenditures incurred in connection with

## **Table of Contents**

ensuring that the owned vessels comply with international and regulatory standards, repayments of bank loans and payments of dividends. Navios anticipates that prior to its acquisition, a portion of its available cash balances will be used to repay all existing Navios debt which will be approximately \$50.0 million dollars. Subsequent to its acquisition, ISE anticipates that internally generated cash flow and borrowings under the secured credit facility which is being put in place by ISE, will be sufficient to fund the operations of the fleet and the port terminal, including working capital requirements.

If Navios does not acquire any additional vessels, ISE believes that the current cash balance as well as operating cash flows will be sufficient to meet liquidity needs for the next two to three years. If Navios does acquire additional vessels, it will rely on cash from operations and new debt to meet its liquidity needs going forward. Navios' s business is capital intensive and its future success will depend on its ability to maintain a high-quality fleet through the acquisition of newer dry bulk vessels. The extent of these acquisitions will depend on future market conditions and Navios' s ability to acquire dry bulk carriers on favorable terms.

### ***Cash provided by operating activities***

Net cash provided by operating activities increased \$115.8 million to \$137.2 million for the year ended December 31, 2004 as compared to \$21.4 million for the year ended December 31, 2003. The increase in cash provided by operating activities in 2004 resulted primarily from higher net income and improvements in working capital during the year ended 2004.

In determining net cash provided by operating activities, net income is adjusted for the effects of certain non-cash transactions. The unrealized gain or loss on FFAs that results from recognizing derivatives at fair value at the balance sheet date can be significant non-cash items that affect the reconciliation of net income to cash provided by operating activities. For the year ended December 31, 2004, Navios recognized an unrealized gain on FFAs of \$0.6 million. For the year ended December 31, 2003, the unrealized gain on FFAs was \$45.9 million. The significant unrealized gain in 2003 resulted from the company having a net long position in FFA contracts at December 31, 2003 (net long position means more FFA contracts were bought than sold). Navios' s net long position was the equivalent of 8.6 vessels for one year. These contracts were purchased prior to and during the very steep increase in the dry bulk market that occurred between September and December 2003. Management considers the Panamax time charter average published by the Baltic Exchange to be a good bellweather indicator of market. During this three month period the Panamax time charter average increased from less than \$20,000 dollars per day to over \$35,000 dollars per day. The unrealized gain of \$0.8 million in 2002 reflects 20 days of Navios FFA activity. Anemos Maritime Holdings Inc. did not trade FFAs.

Significant changes in working capital are as follows:

Accounts receivable are comprised of trade accounts receivable as well as amounts due from settlement of FFAs. In 2004, cash provided by operating activities increased by \$2.7 million as a result of a decrease in accounts receivable. The decrease in accounts receivable is primarily attributable to the fact that at December 31, 2003 there was an unusual receivable balance of \$2.6 million for coal cargo due from one customer. This amount was paid during 2004. In 2003, cash provided by operating activities decreased by \$12.9 million as a result of an increase in accounts receivable. The increase primarily related to a \$10.9 million increase in receivables due from the settlement of FFAs at December 31, 2003. The remaining \$2.0 million increase in receivables is attributable to the increase in Navios' s fleet at December 31, 2003 compared to December 31, 2002.

Prepaid voyage costs consist predominately of charter hire paid in advance and prepaid bunker fuel on time chartered ships. In 2004, cash provided by operating activities increased by \$4.3 million as a result of a decrease in prepaid voyage costs. Prepaid charter hire decreased \$1.6 million and prepaid bunker fuel decreased \$2.0 million. Other miscellaneous prepaid items including insurance premiums decreased \$0.7



million. These changes

## **Table of Contents**

reflect the reduction of the number of vessels in the fleet. In total the number of vessels on which the company had prepaid amounts decreased from 32 in 2003 to 22 in 2004. In 2003, cash provided by operating activities decreased by \$8.0 million as a result of an increase in prepaid voyage costs. This reflects an increase in the number of vessels in the fleet. In total the number of vessels on which the company had prepaid amounts increased from 26 in 2002 to 32 in 2003. In addition due to higher charter hire and bunker fuel cost in 2003 the average prepaid amount per vessel increased from \$0.3 million in 2002 to \$0.5 million in 2003.

Accounts payable are comprised of trade accounts payable as well as amounts payable for the settlement of FFAs. In 2004, cash provided by operating activities increased by \$0.7 million as a result of an increase in accounts payable. The fluctuation occurred in the normal course of business. In 2003, cash provided by operating activities increased by \$10.9 million as a result of an increase in accounts payable. The increase was primarily a result of an increase in amounts due to FFA trading counterparties of \$9.5 million.

Deferred voyage revenue primarily reflects freight and sub-time charter amounts collected on voyages that have not been completed. In 2004, cash provided by operating activities decreased by \$1.8 million as a result of a decrease in deferred voyage revenue. This decrease is attributable to the fact that the number of vessels generating revenue decreased from 37 in 2003 to 28 in 2004. This is offset by the fact that the average amount of deferred revenue per vessel changed from \$0.4 million in 2003 to \$0.5 million per vessel in 2004. In 2003, cash provided by operating activities increased by \$7.6 million as a result of an increase in deferred voyage revenue. This increase is attributable to the fact that the number of vessels generating deferred revenue increased from 31 in 2002 to 37 in 2003. Furthermore, the average deferred revenue per vessel increased from \$0.2 million in 2002 to \$0.4 million in 2003.

### ***Cash provided by (used in) investing activities***

Cash used in investing activities was \$5.0 million for the year ended December 31, 2004. \$1.9 million was the remaining amount related to the construction of four vertical silos that were completed during April 2004. An additional \$2.8 million is classified as fixed assets under construction and represents the amounts paid by Navios in accordance with the terms of purchase agreements entered into for the construction of a new horizontal silo with ancillary equipment for grain storage. Therefore, this amount does not represent the cost of construction as at the balance sheet date. As of December 31, 2004, Navios had outstanding commitments of approximately \$3.2 million with Dieste & Montanez S.A. in Uruguay for the construction of such new horizontal silo with ancillary equipment for soybean storage. This new construction will be funded from internally generated cash flow.

Cash provided by investing activities was \$26.6 million for the year ended December 31, 2003. During 2003, Navios generated \$63.0 million in cash from the disposal of four vessels: the M/V Navios Pioneer, the M/V Agios Konstantinos, the M/V Artemis, and the M/V Navios Aegean. Navios paid \$34.3 million for the acquisition of two vessels: the M/V Navios Kypros and the M/V Navios Hios. An additional \$1.5 million is classified as fixed assets under construction and represents the amounts paid by Navios in accordance with the terms of purchase agreements entered into for the construction of four new vertical silos. These silos were completed in the second quarter of 2004.

Cash used in investing activities was \$3.7 million for the year ended December 31, 2002. In 2002, the installment payments of \$7.7 million were paid primarily in connection with the acquisition of the Navios Hios and Navios Kypros. This was offset by proceeds of \$1.0 million that Navios received from the sale of Chian Sportsman. Furthermore, as part of the acquisition of Navios in December 2002, the company acquired approximately \$3.0 million of cash, net of costs associated with the business combination.

### ***Cash provided by (used in) financing activities***

Cash used in financing activities was \$111.9 million for the year ended December 31, 2004. In 2004, Navios refinanced all of its credit facilities with two revolving debt facilities and one term loan and paid down \$41 million in principal. This resulted in \$139.2 million in principal payments offset by \$91.5 million in proceeds

## **Table of Contents**

from new term loans. In addition, in 2004, Navios redeemed all of its mandatorily redeemable preferred stock for \$15.2 million. There was no outstanding preferred stock as of December 31, 2004. Furthermore, in 2004 Navios redeemed \$9 million in common stock and distributed \$40 million in dividends to its shareholders.

Cash used in financing activities was \$29.4 million for the year ended December 31, 2003. During 2003, Navios repaid \$76.8 million of outstanding debt primarily associated with the vessels that were disposed of during the year. Navios incurred additional debt of \$45 million in conjunction with the acquisition of the two new vessels. Navios also received approximate \$6.4 million from the issuance of mandatorily redeemable preferred stock offset by scheduled redemptions of \$0.7 million.

Cash provided by financing activities was \$5.5 million for the year ended December 31, 2002. Navios generated \$2.2 million from the issuance of common stock and \$9.5 million from the issuance of mandatorily redeemable preferred stock. Navios also received \$2.5 million from long-term borrowings and paid \$8.7 million in scheduled principal payments.

## **EBITDA**

EBITDA represents net income before interest, taxes, depreciation and amortization. Navios uses EBITDA because Navios believes that EBITDA is a basis upon which liquidity position can be assessed and because Navios believes that EBITDA presents useful information to investors regarding Navios' ability to service and/or incur indebtedness. Navios also uses EBITDA (i) in its credit agreement to measure compliance with covenants such as interest coverage and debt incurrence; (ii) by prospective and current lessors as well as potential lenders to evaluate potential transactions; and (iii) to evaluate and price potential acquisition candidates.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of Navios' results as reported under GAAP. Some of these limitations are: (i) EBITDA does not reflect changes in, or cash requirements for, working capital needs, and (ii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA does not reflect any cash requirements for such capital expenditures. Because of these limitations, EBITDA should not be considered as a principal indicator of Navios' performance.

EBITDA, as defined in Selected Historical Financial Information, increased by \$66.2 million, or 95.2%, to \$135.7 million for 2004, compared to \$69.5 million for 2003. This increase is due primarily to the increase in net voyage revenue generated by Navios' fleet as a result of the overall stronger dry bulk market during 2004 as compared to 2003. The increase was offset by the increase in vessel operating expenses and general and administrative expenses for 2004 as compared to 2003.

## **Long Term Debt Obligations and Credit Arrangements**

As of December 31, 2004, long-term debt obligations decreased \$47.7 million to \$50.5 million from \$98.2 million at December 31, 2003. On October 5, 2004, Navios entered into a revolving credit facility of \$51.0 million collateralized by the vessels M/V Navios Apollon, M/V Navios Herakles and M/V Navios Ionian. The revolving credit facility bears interest at LIBOR plus 1% and matures in October 2013. The amount outstanding as of December 31, 2004 was \$18.1 million.

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In October 2004, Navios entered into (i) a revolving credit facility of \$55.0 million, or the Credit Facility, and (ii) a \$10.0 million term loan, or the Term Loan. Each of the loans is secured by the vessels M/V Navios Achilles, M/V Navios Hios, and M/V Navios Kypros. The Credit Facility is also secured by a guarantee of Navios Maritime Holdings Inc. The Credit Facility and the Term Loan are floating rate loans and mature in October 2013 and October 2010, respectively. In October 2004, DnB NOR Bank made available a \$5.0 million line of credit for working capital requirements. Interest accrues at a floating rate and the loan expires in October 2005, subject to annual renewal.

**Table of Contents**

It is currently anticipated that, immediately prior to the closing of the acquisition of Navios by ISE, all amounts outstanding under Navios' s current loan facilities in the approximate amount of \$49.2 million will be paid in full, using existing funds. As a result of the payment and termination of Navios' s credit facilities, no prepayment penalties will be incurred. It is also anticipated that the senior secured credit facility to be established and drawn upon in connection with the acquisition of Navios will be repaid with the proceeds of a debt offering that ISE hopes to complete in 2005, although there can be no assurance that such an offering will ever be commenced or completed. Prior to any such repayment, if at all, as it is currently contemplated, the senior secured credit facility will require annual payments of approximately \$94.0 million, with such amounts gradually decreasing over time.

**Tabular Disclosure of Contractual Obligations**

<b>Contractual Obligations</b>	<b>(in millions)</b>			
	<b>Payment due by period(\$)</b>			
	<b>Total</b>	<b>&lt; 1yr</b>	<b>1-2 yrs</b>	<b>2 yrs &lt;</b>
Long-Term Debt Obligations	50.5	1.0	2.0	520.0
Operating Lease Obligations (Time Charters)	274.7	48.6	49.2	
Construction Obligations	3.0	3.0	0.0	
Rent Obligations	2.8	0.421	0.405	

**Anticipated Exercise of Vessel Purchase Options**

<b>Vessel Name</b>	<b>Vessel Type</b>	<b>Built</b>	<b>DWT</b>
Navios Horizon	Ultra-Handymax	2001	50,346
Navios Meridian	Ultra-Handymax	2002	50,316
Navios Mercator	Ultra-Handymax	2002	53,553
Navios Arc	Ultra-Handymax	2003	53,514
Navios Galaxy	Panamax	2001	74,195
Navios Magellan	Panamax	2000	74,333

ISE expects to exercise its purchase options on the M/V Navios Horizon, the M/V Navios Meridian, the M/V Navios Galaxy and the M/V Navios Magellan and the M/V Navios Mercator during the fourth quarter of 2005 and the M/V Navios Arc during the first quarter of 2006. The option exercise prices on these vessels are substantially below the prices that would be required to purchase vessels of similar types and ages. Accordingly, assuming that there is no substantial change in the prices for vessels or the shipping industry generally, ISE anticipates that, following the acquisition of Navios, it will exercise these options, which would require an aggregate cash outlay of approximately \$119.3 million.

ISE intends to exercise these options and, accordingly, will be required to finance the option exercise prices either with cash flow from operations, debt or a combination thereof. Although ISE' s contemplated senior secured credit facility is expected to have certain covenants restricting incurrence of additional debt and liens, ISE believes it would be permitted, if necessary, to obtain loans collateralized solely by the vessels being purchased and that such loans would be available. If ISE exercises such options as contemplated, in-charter expenses should decrease as a percentage of revenues, but ISE would also expect to incur additional depreciation charges associated with the vessels. However, exercising the options is anticipated to have a favorable impact on EBITDA.

**Concentration of Credit Risk**

For the year ended December 31, 2004, one customer accounted for approximately 15.9% of Navios' s revenue. For the year ended December, 31 2003, one customer accounted for approximately 29.4% of the Navios' s revenue. For the period from December 11, 2002 to December 31, 2002 and the period from January 1, 2002 to December 10, 2002, there were no customers who, individually, accounted for more than 10% of the Navios' s revenue.

## **Table of Contents**

### **Effects of Inflation**

Navios does not consider inflation to be a significant risk to the cost of doing business in the foreseeable future. Inflation has a moderate impact on operating expenses, drydocking expenses and corporate overhead.

### **Off-Balance Sheet Arrangements**

Charter hire payments to third parties for certain chartered-in vessels are accounted for as operating leases. Navios is also committed to make rental payments under operating leases for its office premises. The future minimum rental payments under Navios's non-cancellable operating leases are disclosed below in Tabular Disclosure of Contractual Obligations.

As of December 31, 2004, Navios was contingently liable for letters of guarantee and letters of credit amounting to \$.745 million in 2004 as compared to \$.784 million in 2003 issued by various banks in favor of various organizations. These are collateralized by cash deposits which are included as a component of restricted cash. Navios issued guarantees to third parties amounting to \$71,000 at December 31, 2004 as compared to \$0 at December 31, 2003, pursuant to which Navios irrevocably and unconditionally guarantees its subsidiaries' obligations under the dry bulk shipping FFAs. The guarantees remain in effect for a period of 6 months following the last trade date, which was December 23, 2004.

### **Recently Issued Accounting Standards**

The Financial Accounting Standards Board, or FASB, recently issued Statements of Financial Accounting Standards, or SFAS, which are summarized as follows:

In December 2004, FASB issued Statement 123(R), *Share Based Payment*, that requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the fair value of the equity or liability instruments issued as of the granting date. In addition, liability awards will be remeasured each reporting period. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. Statement 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. This statement, as adjusted by the Securities and Exchange Commission rule dated April 14, 2005, is effective for public entities (other than those filing as small business issuers) at the beginning of their next fiscal year that begins after June 15, 2005. The adoption of this standard will not have an effect on the Navios's statement of financial position or results of operations.

In December 2004, FASB issued Statement 153, *Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29*. This statement was a result of a joint effort by FASB and IASB to improve financial reporting by eliminating certain narrow differences between their existing accounting standards. One such difference is the exception from fair value measurement in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, for nonmonetary exchanges of similar productive assets. Statement 153 replaces this exception with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement shall be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this standard will not have an effect on the Navios's statement of financial position or results of operations.



SFAS 151, *Inventory Costs*, clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this standard will not have an effect on the Navios' statement of financial position or results of operations.

## **Table of Contents**

SFAS 132R, *Employers' Disclosures about Pensions and Other Post-retirement Benefits*, provides required disclosures for pensions and other post-retirement benefit plans and is designed to improve disclosure transparency in financial statements. The revised standard replaces existing pension disclosure requirements. All new disclosure requirements for the domestic plans of publicly traded entities are effective for years ending after December 15, 2003. Estimated future benefit payments and all other new disclosure requirements for foreign plans are effective for years ending after June 15, 2004. Navios has adopted the disclosure requirements of SFAS 132R.

## **Critical Accounting Policies**

The discussion and analysis of Navios' financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States, or US GAAP. The preparation of those financial statements requires Navios to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of its financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially result in materially different results under different assumptions and conditions. Navios has described below what it believes are its most critical accounting policies that involve a high degree of judgment and the methods of their application. For a description of all of Navios' significant accounting policies, see Note 2 to its consolidated financial statements.

*Accounting for derivatives.* Navios actively engages in assessing risk associated with fluctuating future freight rates, fuel prices and foreign exchange and, where appropriate, actively hedges identified economic risk with appropriate derivative instruments. Such economic hedges do not always qualify for accounting hedge treatment, and, as such, the usage of such derivatives could lead to material fluctuations in Navios' reported results from operations on a period-to-period basis. In addition, Navios engages in certain FFA trading activity. All FFA's are marked to fair value at each balance sheet date and can lead to substantial volatility in earnings.

*Impairment of long-lived assets.* Navios evaluates the carrying amounts and periods over which long-lived assets are depreciated to determine whether events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, Navios reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. Navios determines undiscounted projected net operating cash flows for each vessel and compares it to the vessel carrying value. In the event that impairment occurred, Navios would determine the fair value of the related asset and records a charge to operations calculated by comparing the asset's carrying value to the estimated fair market value. Navios estimates fair market value primarily through the use of third party valuations performed on an individual vessel basis.

*Depreciation.* Navios records the value of its vessels at their cost (which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. Navios depreciates its vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from date of initial delivery from the shipyard. Navios believes that a 25-year depreciable life is consistent with that used by other ship owners. Depreciation is based on cost less the estimated residual scrap value. An increase in the useful life of a vessel or in its residual value would have the effect of decreasing the annual depreciation charge and extending it into later periods. A decrease in the useful life of a vessel or in its residual value would have the effect of increasing the annual depreciation charge.

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*Deferred drydock costs.* Approximately every 30 to 60 months, Navios' s vessels are required to be drydocked for major repairs and maintenance that cannot be performed while a vessel is operating. Navios capitalizes the costs associated with drydocking as they occur and amortizes these costs on a straight line basis over the period between such drydocking. Costs capitalized as part of the drydocking include: actual costs

## **Table of Contents**

incurred at the yard; cost of fuel consumed between a vessel's last discharge port prior to the drydocking and the time such vessel leaves the yard; cost of hiring riding crews to effect repairs on a vessel and parts used in making such repairs that are reasonably made in anticipation of reducing the duration or cost of the drydocking; cost of travel, lodging and subsistence of its personnel sent to the drydocking site to supervise; and the cost of hiring a third party to oversee a drydocking. Navios believes that these criteria are consistent with US GAAP guidelines and industry practice, and that its policy of capitalization reflects the economics and market value of its vessels.

## **Related Party Transactions**

Navios owns 50% of the common stock of Acropolis Chartering and Shipping Inc., or Acropolis. Navios also uses Acropolis as a broker and paid commissions to Acropolis during the years ended December 31, 2004 and 2003 of \$877,000, and \$597,000, respectively. During the years ended December 31, 2004 and 2003, Navios received dividends of \$699,000 and \$78,000, respectively. As of December 31, 2004, \$147,000 was due to Acropolis.

During 2003 and 2002, Navios used Levant Maritime Company Ltd., or Levant, as an agent. Agency fees paid to Levant amounted to \$1,003,000 and \$846,000 respectively. Levant was managed by a former director and shareholder of Navios, and Navios ceased using Levant's services as of December 31, 2003.

In November 2002, a predecessor company to Navios issued a promissory note for \$367,000 to Kastella Trading, Inc., or Kastella, a Marshall Islands Corporation. Interest accrued at 4.6% per year and was payable at the note's due date. Kastella was wholly-owned by one of the predecessor company's executives. This loan was repaid in full in 2004.

In August 2004, Navios advanced to one of its shareholders and executive officers the amount of \$50,000. The loan was repaid in full during the year. No interest was calculated for the duration of this loan.

**Table of Contents**

**INFORMATION ABOUT ISE**

**Business of ISE**

**General**

ISE was incorporated in Delaware on September 17, 2004, as a blank check company formed to serve as a vehicle for the acquisition of one or more vessels or an operating business in the dry bulk sector of the shipping industry. Pursuant to its corporate charter, ISE's initial business combination must be with a target whose fair market value is at least equal to 80% of its net assets at the time of such acquisition.

A registration statement for ISE's initial public offering was declared effective on December 10, 2004. On December 16, 2004, ISE sold 32,775,000 units in the offering, which included all of the 4,275,000 units subject to the underwriters' overallotment option. Each of its units consists of one share of ISE's common stock, \$0.0001 par value per share, and two redeemable common stock purchase warrants, which units started to trade separately as of the opening of trading on January 5, 2005. Each warrant entitles the holder to purchase from ISE one share of common stock at an exercise price of \$5.00. ISE received net proceeds of approximately \$182,621,000 from its initial public offering.

**Effecting a Business Combination**

*Search for a target business*

Subject to the limitations that a target business have a fair market value of at least 80% of ISE's net assets at the time of the acquisition, as described below in more detail, ISE has had virtually unrestricted flexibility in identifying and selecting prospective acquisition candidates. To the extent ISE successfully effects a business combination with Navios, it may be affected by numerous risks inherent in the business and operations of Navios or the operation of the vessels, including certain of the risks set forth in this proxy statement/prospectus under "Risk Factors." Although ISE's management will endeavor to evaluate the risks of acquiring Navios, ISE cannot assure you that it will properly ascertain or assess all significant risk factors.

*Selection of a target business and structuring of a business combination*

Subject to the requirement that ISE's initial business combination must be with a target business with a fair market value that is at least 80% of its net assets at the time of such acquisition, ISE's management has had virtually unrestricted flexibility in identifying and selecting a prospective target business. In evaluating Navios, ISE's management has considered, among other factors, the following:

financial condition and results of operation;

growth potential;

experience and skill of management and availability of additional personnel;

capital requirements;

competitive position;

barriers to entry into other industries; and

costs associated with effecting the acquisition.

These criteria are not intended to be exhaustive. Any evaluation relating to the merits of the acquisition of Navios have been based, to the extent relevant, on the above factors as well as other considerations deemed relevant by ISE's management in effecting a business combination consistent with its business objective. In evaluating Navios, ISE has conducted an extensive due diligence review which has encompassed, among other things, meetings with incumbent management and inspection of facilities, as well as the review of financial and other information that has been made available to ISE.

## **Table of Contents**

### *Fair Market Value of Target Business*

The initial target business that ISE acquires must have a fair market value equal to at least 80% of its net assets at the time of such acquisition, which fair market value of Navios has been determined by ISE's financial advisors and has been confirmed to ISE's board of directors by Capitalink, L.C. in its fairness opinion. The fairness of the proposed transaction to the stockholders of ISE has been determined by ISE's board of directors in reliance upon the fairness opinion issued by Capitalink, L.C. and based upon standards generally accepted by the financial community, such as actual and potential sales, earnings and cash flow, and book value.

### *Probable lack of business diversification*

While ISE may seek to effect business combinations with more than one target business, its initial business combination must be with a target business which satisfies the minimum valuation standard at the time of such acquisition, as discussed above. Given the terms of the Navios acquisition, it is probable that ISE will have the ability to effect only the Navios acquisition. Accordingly, the prospects for its success entirely depend upon the future performance of Navios. Unlike other entities which may have the resources to complete several business combinations of entities operating in multiple industries or multiple areas of a single industry, it is probable that ISE will not have the resources to diversify its operations or benefit from the possible spreading of risks or offsetting of losses. By consummating a business combination only with Navios, ISE's lack of diversification may, subject it to numerous economic, competitive, and regulatory developments, any or all of which may have a substantial adverse impact upon Navios's industry result in its dependency upon the development or market acceptance of a single or limited number of processes or services.

### *Ability to evaluate the target business's management*

Although ISE expects most of its management and other key personnel, particularly its chairman of the board, chief executive officer, and president, to remain associated with ISE following the acquisition, it intends to employ other personnel following the acquisition. Although ISE intends to closely scrutinize such individuals, it cannot assure you that its assessment will prove to be correct. In addition, ISE cannot assure you that new members that join its management following the acquisition will have the necessary skills, qualifications or abilities to help manage a public company.

### *Opportunity for stockholder approval of business combination*

ISE will proceed with the Navios acquisition only if a majority of the IPO shares, as defined below, present in person or by proxy and entitled to vote at the meeting, are voted in favor of the acquisition. In connection with the required vote, all of ISE's initial stockholders, including all of its officers and directors, have agreed to vote their respective shares of common stock owned by them immediately prior to ISE's initial public offering in accordance with the majority of the shares of common stock voted by the public stockholders. This voting arrangement shall not apply to shares included in units purchased by initial stockholders, officers or directors in ISE's initial public offering or purchased following its initial public offering in the open market. ISE will proceed with the acquisition only if a majority of the IPO Shares (defined below) cast at a meeting to approve the acquisition are voted in favor of the acquisition and stockholders owning not more than 20% of the IPO Shares exercise their conversion rights.

### *Conversion rights*

Each holder of shares of common stock sold in ISE's initial public offering, or the IPO Shares, has the right to have such holder's IPO Shares converted to cash if the stockholder votes against the acquisition of Navios and the acquisition is approved and completed. Such conversion right shall be subject to the requisite approval and completion of the acquisition. The actual per-share conversion price will be equal to the amount in the trust fund, inclusive of any interest (calculated as of two business days prior to the consummation of the proposed



## **Table of Contents**

acquisition), divided by the total number of IPO Shares. Without taking into any account interest earned on the trust fund, the initial per-share conversion price would be \$5.51, or \$0.49 less than the per-unit offering price of \$6.00. An eligible stockholder may request conversion at any time after the mailing to ISE's stockholders of this proxy statement/prospectus and prior to the vote taken with respect to the acquisition at the special meeting, but the request will not be granted unless the stockholder votes against the acquisition and the acquisition is approved and completed. Any request for conversion, once made, may be withdrawn at any time up to the date of the meeting. It is anticipated that the funds to be distributed to stockholders entitled to convert their shares and who elect conversion will be distributed promptly after completion of the acquisition. Stockholders who convert their stock into their share of the trust fund still have the right to exercise the warrants received as part of the units. ISE will not complete the acquisition if stockholders owning 20% or more of the IPO Shares exercise their conversion rights.

### *Liquidation if no business combination*

If ISE was to expend all of the net proceeds of its initial public offering, other than the proceeds deposited in the trust fund, and without taking into account interest, if any, earned on the trust fund, the initial per-share liquidation price would be \$5.51, or \$0.49 less than the per-unit offering price of \$6.00. The proceeds deposited in the trust fund could, however, become subject to the claims of ISE's creditors which could have priority over the claims of its holders of IPO Shares. ISE cannot assure you that the actual per-share liquidation price will not be less than \$5.51, plus interest, due to claims of creditors. Angeliki Frangou, ISE's chairman of the board, chief executive officer, and president, has agreed pursuant to agreements with ISE and Sunrise Capital Corp., the lead underwriter of the initial public offering, that, if ISE distributes the proceeds held in trust to the holders of IPO Shares, she will be personally liable to pay debts and obligations to vendors or other entities that are owed money by ISE for services rendered or products sold to ISE in excess of the net proceeds of its initial public offering not held in the trust account. ISE cannot assure you, however, that Ms. Frangou would be able to satisfy those obligations.

If the Navios acquisition is not consummated, ISE will continue to search for a business combination in the dry bulk sector of the shipping industry. However, ISE will be liquidated if it does not consummate a business combination by December 16, 2005 (12 months after the consummation of our initial public offering) or, if a letter of intent, agreement in principle or definitive agreement is executed, but not consummated, by December 16, 2005, then by June 16, 2006. If ISE is unable to consummate a business combination by the expiration of the 18-month period from the consummation of its initial public offering, it will then liquidate. Upon notice from ISE, the trustee of the trust fund will commence liquidating the investments constituting the trust fund and will turn over the proceeds to ISE's transfer agent for distribution to ISE's public stockholders. ISE anticipates that its instruction to the trustee would be given promptly after the expiration of the 18-month period. ISE will be dissolved and will distribute to all holders of IPO Shares, in proportion to their respective IPO Shares, an aggregate sum equal to the amount in the trust fund, inclusive of any interest, plus any remaining net assets. ISE's stockholders, prior to ISE's initial public offering, waived their rights to participate in any liquidation distribution with respect to shares of common stock owned by them immediately prior to ISE's initial public offering; thus, there will be no distribution from the trust fund with respect to such shares. There will also be no distribution from the trust fund with respect to ISE's warrants.

Holders of IPO Shares shall be entitled to receive funds from the trust fund only in the event of ISE's liquidation or if holders of IPO Shares seek to convert their respective shares into cash upon the acquisition if the stockholder voted against such acquisition and such acquisition is actually completed by ISE. In no other circumstances shall a stockholder have any right or interest of any kind to or in the trust fund.

## **Competition**

If the acquisition of Navios is completed, ISE will become subject to competition from competitors of Navios. See [Business of Navios](#) Competition.



## **Table of Contents**

### **Facilities**

ISE maintains its executive offices at 1225 Franklin Avenue, Suite 325, Garden City, New York. The cost for this space provided by SCORY LLC d/b/a The Intelligent Office is approximately \$1,500 per month and includes certain other additional services provided by SCORY LLC and is included in the total \$5,500 per-month fee ISE may pay for general and administrative services. ISE considers its current office space adequate for its current purposes. Upon consummation of the acquisition, ISE will no longer make use of these facilities and will operate from Navios's current facilities.

### **Employees**

ISE currently has two officers who are also members of ISE's board of directors. These individuals are not obligated to contribute any specific number of hours per week and intend to devote only as much time as they deem necessary to our affairs. The amount of time they have devoted in any time period has varied based on the availability of suitable target businesses to investigate, although Ms. Frangou, ISE's chairman of the board, chief executive officer, and president, has devoted at least ten hours per week to ISE's business. ISE does not intend to have any other full time employees prior to the consummation of the acquisition.

### **Periodic Reporting and Audited Financial Statements**

ISE has registered its securities under the Securities Exchange Act of 1934 and has reporting obligations, including the requirement to file annual and quarterly reports with the Securities and Exchange Commission. In accordance with the requirements of the Securities Exchange Act of 1934, ISE's annual reports will contain financial statements audited and reported on by ISE independent accountants. ISE has filed a form 10-K, as amended, with the Securities and Exchange Commission covering the fiscal year ended December 31, 2004.

### **Legal Proceedings**

ISE is not involved in any legal proceedings which may have, or have had a significant effect on its business, financial position, results of operations or liquidity, nor is ISE aware of any proceedings that are pending or threatened which may have a significant effect on such business, financial position, results of operations or liquidity.

### **Management's Discussion and Analysis of Financial Condition and Results of Operations of ISE**

The following discussion should be read in conjunction with ISE's Financial Statements and related Notes thereto included elsewhere in this proxy statement/prospectus.

## Edgar Filing: INTERNATIONAL SHIPPING ENTERPRISES, INC. - Form S-4/A

ISE was formed on September 17, 2004, to serve as a vehicle to acquire one or more vessels or an operating business in the dry bulk sector of the shipping industry through a merger, capital stock exchange, asset acquisition or other similar business combination. ISE intends to utilize a combination of cash and debt financing (as described below), in effecting the acquisition of Navios.

ISE has neither engaged in any operations nor generated any revenues nor incurred any debt or expenses during the period ended December 31, 2004, other than in connection with its initial public offering and, thereafter, certain minor legal and other expenses related to pursuing acquisitions of target businesses. ISE's entire activity since inception has been to prepare for and consummate its initial public offering and to identify and investigate target businesses for a business combination.

The net proceeds from the sale of the units in ISE's initial public offering, after deducting offering expenses of approximately \$2,230,000, including \$1,710,000 evidencing the underwriters' non-accountable expense allowance of 1% of the gross proceeds (excluding the proceeds from the underwriters' over-allotment), and underwriting discounts of approximately \$11,799,000, were approximately \$182,621,000. Of this amount,

**Table of Contents**

\$180,576,000, is being held in trust and the remaining \$2,045,000 is not being held in trust. ISE intends to use all of the net proceeds of its offering in connection with the acquisition of Navios.

As of December 16, 2004, Ms. Frangou had advanced a total of approximately \$350,000 to ISE, on a non-interest bearing basis, for payment of offering expenses on ISE's behalf. These loans were paid without interest on December 21, 2004. Substantially all of these loans were repaid out of the proceeds of ISE's initial public offering not placed in trust. In addition, Ms. Frangou has agreed to loan ISE funds to cover its transaction expenses in connection with the acquisition of Navios that exceed the funds held outside the trust, which loan shall be repaid, without interest, at the closing of the acquisition or upon demand thereafter. As of May 26, 2005, she had advanced approximately \$4,522,037. Ms. Frangou will not be repaid if the acquisition of Navios is not consummated.

Prior to the consummation of the acquisition of Navios, ISE will enter into a senior secured credit facility with HSH Nordbank AG. Pursuant to the credit facility, ISE will be able to borrow up to \$520.0 million to be used for the acquisition of Navios and for general corporate and working capital purposes after the acquisition and reincorporation. The interest rate under the facility, depending upon the tranche being borrowed, will be LIBOR or applicable interest rate swap rate, plus the costs of complying with any applicable regulatory requirements and a margin ranging from 1.5% to 2.75% per annum. The amounts under the facility will be secured by the assets of Navios, which upon acquisition of the outstanding securities of Navios by ISE and upon reincorporation by ISE, will be the assets of Navios Maritime Holdings Inc., the reincorporated company. Of the \$520.0 million, (i) \$140.0 million matures eight (8) years from the closing of the acquisition of Navios and is to be repaid in quarterly amounts during such term, and (ii) \$380.0 million matures over six (6) years from the closing of the acquisition of Navios and is to be repaid in quarterly amounts during such term. Outstanding amounts under the facility may be prepaid without penalty in multiples of \$1.0 million upon 10 days' written notice. The facility requires mandatory prepayment of amounts outstanding under the facility in the event of sale or loss of the assets of Navios.

In connection with the acquisition of Navios, it is currently anticipated that ISE will be retaining PricewaterhouseCoopers, the current independent auditors of Navios, as the public company's independent auditors on a going forward basis since Navios's historical operations will represent the operations of ISE on a going forward basis upon the acquisition of Navios. The retention of PricewaterhouseCoopers will not be effectuated until the closing of the acquisition of Navios and ISE has not previously retained or worked with PricewaterhouseCoopers. All applicable securities filings of ISE in connection with this anticipated change of auditors will be made at such time as they are required.

**Table of Contents**

**UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed balance sheet combines the historical balance sheets of Navios Maritime Holdings Inc. and Subsidiaries ( Navios ) and International Shipping Enterprises, Inc. ( ISE ) as of March 31, 2005, giving effect to the transaction described in the Stock Purchase Agreement dated February 28, 2005 (the Transaction ) as if it had occurred on March 31, 2005.

The following unaudited pro forma condensed statements of operations combine (i) the historical statements of operations of Navios and ISE for the three month period ended March 31, 2005 and (ii) the historical statements of operations of Navios for the year ended December 31, 2004, and ISE for the period from September 17, 2004 (inception) to December 31, 2004, giving effect to the Transaction as if it had occurred on January 1, 2004.

The unaudited pro forma condensed balance sheet at March 31, 2005 and the statement of operations for the periods ended March 31, 2005 and December 31, 2004 have been prepared using two different levels of approval of the Transaction by the ISE stockholders, as follows:

Assuming Maximum Approval: This presentation assumes that 100% of ISE stockholders approve the Transaction; and

Assuming Minimum Approval: This presentation assumes that only 80.1% of ISE stockholders approve the Transaction.

We are providing this information to aid you in your analysis of the financial aspects of the Transaction. The unaudited pro forma condensed financial statements described above should be read in conjunction with the historical financial statements of Navios and ISE and the related notes thereto. The unaudited pro forma information is not necessarily indicative of the financial position or results of operations that may have actually occurred had the Transaction taken place on the dates noted, or the future financial position or operating results of the combined company.

**Table of Contents****UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS****PRO FORMA ADJUSTMENTS****(dollars in thousands)**

- (a) To record the release of funds held in trust by ISE
- (b) To record repayment of Navios bank loans by Navios immediately prior to the Transaction, including the write-off of related deferred financing costs
- (c) To record the payment of the \$607,500 purchase price for all the outstanding shares of Navios, the payment of \$12,035 of costs in connection related to the Transaction and the allocation of the purchase price to the assets acquired and liabilities assumed as follows:

<b>Calculation of Allocable Purchase Price:</b>	
Cash	\$ 607,500
Allocable Transaction costs	12,035
	<hr/>
<b>Total allocable purchase price</b>	<b>\$ 619,535</b>
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<b>Estimated allocation of purchase price:</b>	
Navios net assets acquired (at book value)	\$ 187,755
<b>Fair value adjustments to assets acquired:</b>	
Reverse goodwill	(226)
Reverse deferred finance costs	(412)
Vessels	96,805
Port (included in other fixed assets)	48,769
Tradename	98,018
Allocation to favorable leases/purchase terms	128,069
	<hr/>
<b>Fair value of assets acquired</b>	<b>558,778</b>
Goodwill	60,757
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<b>Total allocable purchase price</b>	<b>\$ 619,535</b>
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Of the \$607,500 acquisition price, \$3,000 has been advanced as a deposit. The allocable transaction costs of \$12,035 includes a deferred portion of \$999 that has already been paid.

Fair value of the intangible assets identified (Tradename and leases), was determined through a reliance upon generally accepted valuation methodologies. The Tradename was valued using a method of the Income Approach known as the Relief From Royalties method. The Favorable Leases were valued using a method of the Market