

ADC TELECOMMUNICATIONS INC

Form S-3ASR

December 22, 2008

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**As filed with the Securities and Exchange Commission on December 19, 2008**

**Registration No. 333-\_\_\_\_\_**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM S-3  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**ADC Telecommunications, Inc.**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of  
incorporation or organization)

**41-0743912**

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

**13625 Technology Drive  
Eden Prairie, Minnesota 55344  
(952) 938-8080**

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

**Jeffrey D. Pflaum, Esq.**

**Vice President, General Counsel and Corporate  
Secretary**

**ADC Telecommunications, Inc.  
13625 Technology Drive  
Eden Prairie, Minnesota 55344  
(952) 938-8080**

(Name, address, including zip code, and telephone  
number, including area code, of agent for service)

**Copy to:**

**Jay L. Swanson, Esq.  
Amy L. Schneider, Esq.  
Dorsey & Whitney LLP  
Suite 1500  
50 South Sixth Street  
Minneapolis, MN 55402  
(612) 340-2600**

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, 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, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a smaller reporting company)

**CALCULATION OF REGISTRATION FEE**

<b>Title of securities to be registered</b>	<b>Amount to be registered(1)</b>	<b>Proposed maximum offering price per share (2)</b>	<b>Proposed maximum aggregate offering price (2)</b>	<b>Amount of registration fee</b>
Common Stock, \$0.20 par value per share	100,000 shares	\$ 5.03	\$ 503,000	\$20

(1) Pursuant to Rule 416 under the Securities Act of 1933, this registration statement also covers any additional shares that may be offered or issued to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(2) Estimated in accordance with Rule 457(c) solely for the purpose of calculating the registration fee based upon the average of the high and low sales prices of ADC Telecommunications, Inc. common stock on December 17, 2008, as reported on the NASDAQ Global Select Market.



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**PROSPECTUS**

**ADC TELECOMMUNICATIONS, INC.  
ADCInvestDirect  
A direct stock purchase plan for ADC  
100,000 Shares of Common Stock**

Our Direct Stock Purchase Plan provides you with a convenient and economical way of purchasing shares of ADC common stock without a broker at low transaction costs.

You may also transfer shares easily or sell your shares at low cost.

The Plan may purchase ADC common stock directly from ADC or on the open market, as periodically determined by ADC. The purchase price for shares purchased in the open market will be the weighted average price at which the shares are actually purchased by the Plan Administrator. The purchase price of shares purchased from ADC will be the average of the high and low sale prices quoted on the NASDAQ Global Select Market on the date of purchase.

Our common stock is traded on the NASDAQ Global Select Market under the symbol ADCT. On December 17, 2008, the last sale price of our common stock as reported on the NASDAQ Global Select Market was \$5.18 per share.

A summary of important Plan features is contained on page 1 of this prospectus. A complete description of the Plan begins on page 14 of this prospectus.

**Please read this prospectus carefully before investing and  
retain it for your future reference.**

**Investment in our securities involves a number of risks. See section titled Risk Factors beginning on page 2 to read about certain factors you should consider before buying our securities.**

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

**ADC Telecommunications, Inc.  
13625 Technology Drive  
Eden Prairie, Minnesota 55344-2252  
(952) 938-8080**

The date of this prospectus is December 19, 2008.

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**You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not offering to sell the common shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus or any document incorporated by reference is accurate only as of the date on the front cover of the applicable document. Our business, financial condition, results of operations and prospects may have changed since those dates.**



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**A SUMMARY OF IMPORTANT PLAN FEATURES**

***Current Shareowners*** - If you are a registered holder of ADC common stock, you may participate in the Plan by completing and returning a Plan Enrollment Form. If you own ADC common stock, but your shares are held by a bank or broker in its name (*i.e.*, street name), you will need to either withdraw your shares from your brokerage account and register them in your own name or enroll in the Plan in the same manner as a new shareowner.

***Open to Non-shareowners*** - If you currently do not own shares of ADC common stock, you may enroll in the Plan by completing and returning an Initial Enrollment Form, and either making an initial investment of at least \$500 or authorizing automatic monthly cash investments of at least \$50. A \$10 account set-up fee will be deducted from your initial investment.

***Investments*** - You may make investments in common stock of a minimum of \$50 per investment up to an aggregate of \$250,000 per year. Investments may be made by automatic monthly electronic funds transfer or by check at weekly or less frequent intervals, whichever you prefer.

***Full Investment of Plan Funds*** - Funds invested in the Plan are fully invested through the purchase of fractional shares, as well as full shares.

***Fees*** - There are certain enrollment, transaction and service fees associated with the Plan, which we describe further in this prospectus.

***Account Statements*** - Account statements detailing your Plan activities are mailed to you following each Plan transaction.

***Plan Administrator*** - The Plan Administrator is:

Computershare Trust Company, N.A.

Attention: **ADCInvestDirect**

P.O. Box 43081

Providence, RI 02940-3081

**OUR BUSINESS**

We are a leading global provider of broadband communications network infrastructure products and related services. Our products offer comprehensive solutions enabling the delivery of high-speed Internet, data, video and voice communications over wireline, wireless, cable, enterprise and broadcast networks. These products include fiber-optic, copper and coaxial based frames, cabinets, cables, connectors and cards, wireless capacity and coverage solutions, network access devices and other physical infrastructure components for communication networks. Our products are used primarily in the last mile/kilometer of a communications network, which links Internet, data, video and voice traffic from the serving office of the communications service provider to the end-user of communication services.

We also provide professional services to our customers. These services help our customers plan, deploy and maintain Internet, data, video and voice communication networks. We also assist our customers in integrating broadband communications equipment used in wireline, wireless, cable and enterprise networks. By providing these services, we have additional opportunities to sell our hardware products to these customers.

Our customers consist primarily of long-distance and local communications service providers and private enterprises that operate their own communication networks. In addition, our customers include cable television operators, wireless service providers, new competitive telephone service providers, broadcasters, government agencies, system integrators and communications equipment manufacturers and distributors.



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We offer broadband connectivity products, wireless capacity and coverage optimization products, wireline access products and professional services to our customers through the following three reportable business segments:

Connectivity

Network Solutions

Professional Services

Our *Connectivity* products connect wireline, wireless, cable, enterprise and broadcast communications networks over copper (twisted pair), coaxial, fiber-optic and wireless media. These products provide the physical interconnections between network components and access points into networks.

Our *Network Solutions* products help improve coverage and capacity for wireless networks and broadband access for wireline networks. These products improve signal quality, increase coverage and capacity into expanded geographic areas, enhance the delivery and capacity of networks, and help reduce the capital and operating costs of delivering wireline and wireless services. Applications for these products include in-building solutions, outdoor coverage solutions, mobile network solutions and wireline solutions.

Our *Professional Services* business provides integration services for broadband and multiservice communications over wireline, wireless, cable and enterprise networks. Our Professional Services business unit helps customers plan, deploy and maintain communications networks that deliver Internet, data, video and voice services.

ADC was incorporated in Minnesota in 1953 as Magnetic Controls Company. We adopted our current name in 1985. Our world corporate headquarters are located at 13625 Technology Drive, Eden Prairie, Minnesota 55344-2252, and our telephone number is (952) 938-8080. The address of our web site is [www.adc.com](http://www.adc.com).

**RISK FACTORS**

*Our business faces many risks, all of which may not be described below. Additional risks of which we are currently unaware or believe to be immaterial may also result in events that could impair our business operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations may suffer, and the trading price of our common stock could decline.*

**Risks Related to Our Business**

***Our industry is highly competitive, and our product and services sales are subject to significant downward pricing and volume pressure.***

Competition in the broadband network infrastructure equipment and services industry is intense. Overall spending for communications infrastructure products has not increased significantly in recent years and is not expected to increase significantly in the next several years. In fiscal 2009, we expect customer spending to decline due to the current global macro-economic conditions, although we do expect spending on infrastructure equipment for next-generation networks such as FTTX products and wireless coverage and capacity solutions to increase over the longer term. Our continued ability to compete with other manufacturers of communications equipment depends in large part on whether we can continue to develop and effectively market next-generation infrastructure products.

We believe our ability to compete with other manufacturers of communications equipment products and providers of related services depends primarily on our engineering, manufacturing and marketing skills; the price, quality and reliability of our products; our delivery and service capabilities; and our control of operating expenses.

We have experienced, and anticipate continuing to experience, greater pricing pressures from our customers as well as our competitors. In part, this pressure exists because our industry currently is characterized by many vendors pursuing relatively few large customers. As a result, our customers have the ability to exert significant pressure on us with respect to product pricing and other contractual terms. In recent years, a number of our large

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customers have engaged in business combination transactions. Accordingly, we have fewer large-scale customers, and these customers have even greater scale and buying power.

***Our sales and operations may be impacted adversely by the current global economic conditions.***

For the last several months, financial markets globally have experienced extreme disruption, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, ratings downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address extreme market conditions that, among other concerns, include severely restricted credit. Largely as a result of these disruptions in financial markets, most analysts believe the global economy has entered a potentially prolonged recession. These economic developments may adversely affect businesses like ours in a number of ways, such as:

Restricted credit markets may limit the ability of some of our customers and suppliers to obtain financing for significant purchases and operations, including potential significant telecommunications infrastructure projects. If customers are unable to finance operations or infrastructure projects, we may experience a slowdown in demand for our product and services. Further, these conditions could disrupt the availability of raw materials and supplies we use as well as our use of contract manufacturers and other vendors. Our ability to find suitable replacement sources or vendors cannot be assured nor can we be certain the prices and terms associated with retaining such replacements would be favorable to us.

Demand for the goods and services our customers provide to their clients may slow, and this, in turn, may cause our customers to spend less on the products and services we sell.

Competition to complete sales among our competitors may heighten and create pressure to sell products and services at lower prices or on terms that are less advantageous than we have experienced historically.

The severity and length of the present disruptions in the financial markets and the global economy are unknown. There can be no assurance that there will not be a further deterioration in financial markets and in business conditions generally.

***Our gross margins may vary over time, and our level of gross margin may not be sustainable.***

Gross margins among our product groups vary and are subject to fluctuation from quarter to quarter. Many of our newer product offerings, such as our FTTX products, typically have lower gross margins than our legacy products. As these new products increasingly account for a larger percentage of our sales, our gross margins are likely to be impacted negatively. This and other factors that may impact our gross margins adversely are numerous and include:

Changes in customer, geographic, or product mix, including the mix of configurations within each product group;

Introduction of new products, including products with price-performance advantages;

Our ability to reduce product costs;

Increases in material or labor costs;

Expediting costs incurred to meet customer delivery requirements;

Excess inventory and inventory carrying charges;

Obsolescence charges;

Changes in shipment volume;

Changes in component pricing;

Increased price competition;

Changes in distribution channels;

Increased warranty cost;

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Liquidated damages costs relating to customer contractual terms; and

Our ability to manage the impact of foreign currency exchange rate fluctuations.

***We are becoming increasingly dependent on specific network expansion projects undertaken by our customers, which are subject to intense competition and result in sales volatility.***

Our business increasingly is focused on the sale of products, including our FTTX products and wireless coverage and capacity solutions, to support customer initiatives to expand broadband and coverage capabilities in their networks. These products increasingly have been deployed by our customers outside their central offices in connection with specific capital projects to increase network capabilities.

Because of these project-specific purchases by our customers, the short-term demand for our products can fluctuate significantly and our ability to forecast sales accurately from quarter to quarter has diminished substantially. This fluctuation can be further affected by the long sales cycles necessary to obtain contracts to supply equipment for these projects. These long sales cycles may result in significant effort expended with no resulting sales or sales that are not made in the anticipated quarter.

In addition, competition among suppliers with respect to these capital projects can be intense, particularly because these projects often utilize new products that were not previously used in customers' networks. We cannot give any assurance that these capital projects will continue or that our products will be selected for these equipment deployments.

***Our cost-reduction initiatives may not result in anticipated savings or more efficient operations.***

Over the past several years, we have implemented, and are continuing to implement, significant cost-reduction measures. These measures have been taken in an effort to improve our levels of profitability. We have incurred significant restructuring and impairment charges in connection with these cost-reduction efforts. If these measures are not fully completed or are not completed in a timely fashion, we may not realize their full potential benefit.

In addition, the efforts to cut costs may not generate the savings and improvements in our operating margins and profitability we anticipate and such efforts may be disruptive to our operations. For example, cost savings measures may yield unanticipated consequences, such as attrition beyond planned reductions in force or increased difficulties in our day-to-day operations, and may adversely affect employee morale. Although we believe it is necessary to reduce the cost of our operations to improve our performance, these initiatives may preclude us from making potentially significant expenditures that could improve our product offerings and competitiveness over the longer term.

***Further consolidation among our customers may result in the loss of some customers and may reduce revenue during the pendency of business combinations and related integration activities.***

We believe consolidation among our customers in the future will continue in order for them to increase market share and achieve greater economies of scale. Consolidation has impacted our business as our customers focus on completing business combinations and integrating their operations. In certain instances, customers integrating large-scale acquisitions have reduced their purchases of network equipment during the integration period. For example, following the merger of SBC Communications with AT&T and the merger of AT&T with BellSouth, the combined companies initially deferred spending on certain network equipment purchases, which resulted in lower product sales by ADC to these companies.

The impact of significant mergers among our customers on our business is likely to be unclear until sometime after such transactions are completed. After a consolidation occurs, a customer may choose to reduce the number of vendors from which it purchases equipment and may choose one of our competitors as its preferred vendor. There can be no assurance that we will continue to supply equipment to the surviving communications service provider after a business combination is completed.

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***Our profitability could be impacted negatively if one or more of our key customers substantially reduces orders for our products and/or transitions their purchases towards lower gross margin products .***

Our customer base is relatively concentrated, with our top ten customers accounting for 42.5%, 45.5% and 44.0% of net sales for fiscal 2008, 2007 and 2006, respectively. In addition, our largest customer, Verizon, accounted for 16.5%, 17.8% and 16.0% of our net sales in fiscal 2008, 2007 and 2006, respectively. The merger of AT&T and BellSouth in our fiscal 2007 created another large customer for us. In fiscal 2008 and 2007, this combined company accounted for approximately 16.0% and 15.4% of our sales, respectively.

If we lose a significant customer for any reason, including consolidation among our major customers, our sales and gross profit will be impacted negatively. Also, in the case of products for which we believe potential revenue growth is the greatest, our sales remain highly concentrated with the major communications service providers. For example, we rely on Verizon for a large percentage of our sales of FTTX products. The loss of sales due to a decrease in orders from a key customer could require us to exit a particular business or product line or record impairment or restructuring charges.

Gross margins vary among our product groups and a shift in our customers' purchases toward a product mix (*i.e.*, the amount of each type of product we sell in a particular period) with lower margin products could result in a reduction in our profitability.

***Our Professional Services business is exposed to risks associated with a highly concentrated customer base.***

Most of our Professional Services are provided to customers in the United States. As a result of the merger of SBC Communications with AT&T and the merger of AT&T and BellSouth, our Professional Services business in the United States is heavily dependent upon sales to the combined company resulting from these mergers. If, over the long-term, AT&T reduces the demand for services we provide to it, we may not be successful in finding new customers to replace the lost sales for a period of time. Therefore, sales by our Professional Services business could decline substantially and have an adverse effect on our business and operating results.

***Our market is subject to rapid technological change and, to compete effectively, we must continually introduce new products that achieve market acceptance.***

The communications equipment industry is characterized by rapid technological changes, evolving industry standards, changing market conditions and frequent new product and service introductions and enhancements. The introduction of products using new technologies or the adoption of new industry standards can make our existing products, or products under development, obsolete or unmarketable. For example, FTTX product sales initiatives may impact sales of our non-fiber products negatively. In order to remain competitive and increase sales, we will need to adapt to these rapidly changing technologies, enhance our existing products and introduce new products to address the changing demands of our customers.

We may not predict technological trends or the success of new products in the communications equipment market accurately. New product development often requires long-term forecasting of market trends, development and implementation of new technologies and processes and substantial capital commitments. For example, during fiscal 2006 and fiscal 2007, we invested significant resources in the development and marketing of a new line of automated copper cross-connect products. During the third quarter of fiscal 2007, following a review of the market potential of these products, we curtailed all development and marketing activities relating to this product line. This resulted in inventory and fixed asset write-offs. We do not know whether other new products and services we develop will gain market acceptance or result in profitable sales.

Many of our competitors have greater engineering and product development resources than we have. Although we expect to continue to invest substantial resources in product development activities, our efforts to achieve and maintain profitability will require us to be selective and focused with our research and development expenditures. If we fail to anticipate or respond in a cost-effective and timely manner to technological developments, changes in industry standards or customer requirements, or if we experience any significant delays in product development or introduction, our business, operating results and financial condition could be affected adversely.

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***We may not successfully close strategic acquisitions and, if these acquisitions are completed, we may have difficulty integrating the acquired businesses with our existing operations.***

We acquired LGC and Century Man in the first quarter of fiscal 2008. In the future, we intend to acquire other companies and/or product lines that we believe are aligned with our strategic focus. We cannot provide assurances that we will be able to find appropriate candidates for acquisitions, reach agreement to acquire them, have the cash or other resources necessary to acquire them, or obtain requisite shareholder or regulatory approvals needed to close strategic acquisitions. The significant effort and management attention invested in a strategic acquisition may not result in a completed transaction.

The impact of future acquisitions on our business, operating results and financial condition are not known at this time. In the case of businesses we may acquire in the future, we may have difficulty assimilating these businesses and their products, services, technologies and personnel into our operations. These difficulties could disrupt our ongoing business, distract our management and workforce, increase our expenses and materially adversely affect our operating results and financial condition. Also, we may not be able to retain key management and other critical employees after an acquisition. We may also acquire unanticipated liabilities. In addition to these risks, we may not realize all of the anticipated benefits of these acquisitions.

***Access to our existing line of credit requires that we meet several covenants, which could be more challenging in a difficult operating environment. Moreover, if we need to utilize our existing line of credit, our operational flexibility may be impaired. If we seek to secure other financing, we may not be able to obtain it on acceptable terms.***

We currently have a \$200.0 million line of credit that has not been utilized. The line of credit contains numerous restrictive covenants and conditions regarding the state of our business that could limit or cease our ability to utilize the line of credit, limit our operating flexibility, impair our ability to undertake strategic acquisitions or other transactions, or, if we have drawn funds on the line of credit, accelerate repayment terms on borrowed amounts. Further, if we utilize the line of credit our earnings per share could be diluted.

Based on current business operations and economic conditions, and expected cash flows from operations, we currently anticipate that our available cash resources (which include existing cash, cash equivalents and our line of credit), will be sufficient to meet our anticipated needs for working capital and capital expenditures to execute our near-term business plan. If our estimates are incorrect and we are unable to generate sufficient cash flows from operations, we may need to utilize our existing line of credit or raise additional funds. In addition, if the cost of one or more of our strategic acquisition opportunities exceeds our existing resources, we may be required to seek additional capital.

If we determine it is necessary to seek other additional funding for any reason, we may not be able to obtain such funding or, if funding is available, obtain it on acceptable terms.

***We have recorded significant impairment charges to reduce the carrying value of certain auction-rate securities we hold, and additional impairment charges with respect to auction-rate securities may occur in the future.***

Credit concerns in the capital markets have all but eliminated our ability to liquidate auction-rate securities that we classify as long-term available-for-sale securities on our balance sheet. These securities represent interests in collateralized debt obligations, a portion of which are collateralized by pools of residential and commercial mortgages, interest-bearing debt obligations, and dividend-yielding preferred stock. Some of the underlying collateral for the auction-rate securities we hold consists of sub-prime mortgages. Starting in the fourth quarter of fiscal 2007, we began recording other-than-temporary impairment charges on these securities. We estimated the fair value of the auction-rate securities with the assistance of a valuation specialist. In fiscal 2008, we recorded other-than-temporary impairment charges of \$100.6 million. As such, the estimated fair value and current carrying value of these holdings as of October 31, 2008 was \$40.4 million. The estimated fair value of these securities could continue to decrease unless a market develops for them, something we do not anticipate happening in the foreseeable future. As such, the estimated fair value of these securities may further decrease substantially.

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***We may complete transactions, undertake restructuring initiatives or face other circumstances in the future that will result in restructuring or impairment charges, including, but not limited to, significant goodwill impairment charges.***

From time to time we have undertaken actions that have resulted in restructuring charges. We may take such actions in the future either in response to slowdowns or shifts in market demand for our products and services or in connection with other initiatives to improve our operating efficiency.

In addition, if the fair value of any of our long-lived assets decreases as a result of an economic slowdown, a downturn in the markets where we sell products and services or a downturn in our financial performance and/or future outlook, we may be required to take an impairment charge on such assets, including goodwill.

We are required to test goodwill and other intangible assets with indefinite life periods for potential impairment on the same date each year and on an interim basis if there are indicators of a potential impairment. We also are required to evaluate amortizable intangible assets and fixed assets for impairment if there are indicators of a possible impairment. One potential indicator of impairment is the value of our market capitalization compared to our net book value. Significant declines in our market capitalization could require us to record material goodwill and other impairment charges.

Restructuring and impairment charges could have a negative impact on our results of operations and financial position.

***Possible consolidation among our competitors could result in a loss of sales.***

Recently, a number of our competitors have engaged in business combination transactions, and we expect to see continued consolidation among communication equipment vendors. These business combinations may result in our competitors becoming financially stronger and obtaining broader product portfolios than us. As a result, consolidation could increase the resources of our competitors and negatively impact our product sales and our profitability.

***Our operating results fluctuate significantly from quarter to quarter.***

Our operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Fluctuations in our quarterly operating results may be caused by many factors, including the following:

the volume and timing of orders from and shipments to our customers;

the overall level of capital expenditures by our customers;

work stoppages and other developments affecting the operations of our customers;

the timing of and our ability to obtain new customer contracts and the timing of revenue recognition;

the timing of new product and service announcements;

the availability of products and services;

market acceptance of new and enhanced versions of our products and services;

variations in the mix of products and services we sell;

the location and utilization of our production capacity and employees; and

the availability and cost of key components of our products.

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Our expense levels are based in part on expectations of future revenues. If revenue levels in a particular quarter are lower than expected, our operating results will be affected adversely.

### ***The regulatory environment in which we and our customers operate is changing.***

Although our business is not subject to significant direct governmental regulation, the communications services provider industry in which our customers operate is subject to significant and changing federal and state regulation in the United States and regulation in other countries.

The U.S. Telecommunications Act of 1996 (the Telecommunications Act ) lifted certain restrictions on the ability of communications services providers and other ADC customers to compete with one another. The Telecommunications Act also made other significant changes in the regulation of the telecommunications industry. These changes generally increased our opportunities to provide communications network infrastructure products to providers of Internet, data, video and voice networks. However, some of the changes resulting from the Telecommunications Act have diminished the return on additional investments by our customers in their networks, which has reduced demand for some of our products.

In a 2003 ruling, the Federal Communications Commission ( FCC ) terminated its line-sharing requirements, with the result that major telephone companies are no longer legally required to lease space to resellers of digital subscriber lines. The FCC ruling also allowed telephone companies to maintain sole ownership of newly-built networks that often use our FTTX products. While we believe that the ruling will generally have a positive effect on our business, there can be no assurance that the ruling will result in a long-term material increase in the sales of our products.

The regulatory environment for communication services providers is also changing in other countries. In many countries, regulators are considering whether service providers should be required to provide access to their networks by competitors. For example, this issue is currently being debated in Germany and Australia. As a result, our FTTX initiatives in these countries have been delayed.

Additional regulatory changes affecting the communications industry have occurred and are anticipated both in the United States and internationally. For example, a European Union directive relating to the restriction of hazardous substances ( RoHS ) in electrical and electronic equipment and a directive relating to waste electrical and electronic equipment ( WEEE ) have been and are being implemented in EU member states. In addition a new regulation regarding the registration, authorization, and restriction of chemical substances in industrial products ("REACH") became effective in the EU in 2007. Over time this regulation, among other items, may require us to substitute certain chemicals contained in our products with substances the EU considers less dangerous. Among other things, the RoHS directive restricts the use of certain hazardous substances in the manufacture of electrical and electronic equipment and the WEEE directive requires producers of electrical goods to be responsible for the collection, recycling, treatment and disposal of these goods. In addition, similar laws to RoHS and WEEE were passed in China in February 2006, as well as in South Korea in April 2007. The Chinese law became effective in March 2007. We understand governments in other countries are considering implementing similar laws or regulations. Our inability or failure to comply with the REACH RoHS and WEEE directives, or similar laws and regulations that have been and may be implemented in other countries, could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, monetary penalties and other sanctions. In addition, the costs associated with complying with the REACH RoHS and WEEE directives, or similar laws and regulations, may be material and adversely affect our business and results of operation.

New regulatory changes could alter demand for our products. In addition, recently announced or future regulatory changes could come under legal challenge and be altered, which could reverse the effect of such changes and their anticipated impact. Competition in our markets may intensify as the result of changes to existing or new regulations. Accordingly, changes in the regulatory environment could adversely affect our business and results of operations.

### ***Conditions in global markets could affect our operations.***

Our sales outside the United States accounted for approximately 40.8%, 37.0% and 39.1% of our net sales in fiscal 2008, 2007 and 2006, respectively. We expect sales outside the United States to remain a significant percentage of net sales in the future. In addition to sales and distribution activities in numerous countries, we conduct manufacturing or other operations in the following countries: Australia, Austria, Belgium, Brazil, Canada, Chile, China, Czech Republic, France, Germany, Hong Kong, Hungary, India, Indonesia, Italy, Japan, Malaysia,





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Mexico, New Zealand, Philippines, Puerto Rico, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Thailand, the United Arab Emirates, the United Kingdom, the United States, Venezuela and Vietnam.

Due to our sales and other operations outside the United States, we are subject to the risks of conducting business globally. These risks include the following:

local economic and market conditions;

political and economic instability;

unexpected changes in or impositions of legislative or regulatory requirements;

compliance with the Foreign Corrupt Practices Act and various laws in countries in which we are doing business;

fluctuations in foreign currency exchange rates;

requirements to consult with or obtain the approval of works councils or other labor organizations to complete business initiatives;

tariffs and other barriers and restrictions;

longer payment cycles;

difficulties in enforcing intellectual property and contract rights;

greater difficulty in accounts receivable collection;

potentially adverse taxes and export and import requirements; and

the burdens of complying with a variety of non-U.S. laws and telecommunications standards.

Our business is also subject to general geopolitical and environmental risks, such as terrorism, political and economic instability, changes in the costs of key resources such as crude oil, changes in diplomatic or trade relationships, natural disasters and other possible disruptive events such as pandemic illnesses.

Economic conditions in many of the markets outside the United States in which we do business represent significant risks to us. Instability in our non-U.S. markets, such as the Middle East, Asia and Latin America, could have a negative impact on our sales and business operations in these markets, and we cannot predict whether these unstable conditions will have a material adverse effect on our business and results of operations. The wars in Afghanistan and Iraq and other turmoil in the Middle East and the global war on terror also may have negative effects on our business operations. In addition to the effect of global economic instability on sales to customers outside the United States, sales to United States customers could be negatively impacted by these conditions.

***We are subject to special risks relating to doing business in China.***

Our operations in China are subject to significant political, economic and legal uncertainties. Changes in laws and regulations or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our operations of China. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. However, there can be no assurance that the government will continue to pursue these policies, especially in the event of a change in leadership, social, political or economic disruption or other circumstances affecting China's social, political and economic environment.



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Although not permitted under Chinese law, corruption, extortion, bribery, payoffs and other fraudulent practices occur from time to time in China. We must comply with U.S. laws prohibiting corrupt business practices outside the United States. Foreign companies, including some of our competitors, are not subject to these laws. If our competitors in China engage in these practices, we may be at a competitive disadvantage. We maintain a business conduct program to prevent, deter and detect violations of law in the conduct of business throughout the world. We conduct periodic reviews of our business practices in China and train our personnel in China on appropriate ethical and legal business standards. However, a risk remains that our employees will engage in activities that violate laws or our corporate policies. This is particularly true in instances in which new employees we hire or the employees of a company we may acquire may not previously have been accustomed to operating under similar standards. In the event an employee violates applicable laws pertaining to sales practices, accounting standards, facility operations or other business or operational requirements, we may face substantial penalties, and our business in China could be affected adversely.

***Our intellectual property rights may not be adequate to protect our business.***

Our future success depends in part upon our proprietary technology. Although we attempt to protect our proprietary technology through patents, trademarks, copyrights and trade secrets, these protections are limited. Accordingly, we cannot predict whether these protections will be adequate, or whether our competitors will develop similar technology independently, without violating our proprietary rights. Rights that may be granted under any patent application in the future may not provide competitive advantages to us. Intellectual property protection in foreign jurisdictions may be limited or unavailable.

Many of our competitors have substantially larger portfolios of patents and other intellectual property rights than we do. As competition in the communications network equipment industry has intensified and the functionality of products has continued to overlap, we believe that network equipment manufacturers increasingly are becoming subject to infringement claims. We have received, and expect to continue to receive, notices from third parties (including some of our competitors) claiming that we are infringing their patents or other proprietary rights. We also have asserted patent claims against certain third parties.

We cannot predict whether we will prevail in any patent litigation brought against us by third-parties, or that we will be able to license any valid and infringed patents on commercially reasonable terms. Unfavorable resolution of such litigation could have a material adverse effect on our business, results of operations or financial condition. In addition, any of these claims, whether with or without merit, could result in costly litigation, divert our management's time and attention, delay our product shipments or require us to enter into expensive royalty or licensing agreements.

A third party may not be willing to enter into a royalty or licensing agreement on acceptable terms, if at all. If a claim of product infringement against us is successful and we fail to obtain a license, or develop or license non-infringing technology, our business, operating results and financial condition could be adversely affected.

***We are dependent upon our senior management and other critical employees.***

Like all communications technology companies, our success is dependent on the efforts and abilities of our senior management personnel and other critical employees, including those in customer service and product development functions. Our ability to attract, retain and motivate these employees is critical to our success. In addition, because we may acquire one or more businesses in the future, our success will depend, in part, upon our ability to retain and integrate our own personnel with personnel from acquired entities that are necessary to the continued success or the successful integration of the acquired businesses.

Our continuing initiatives to streamline operations as well as the challenging business environment in which we operate may cause uncertainty in our employee base about whether they will have future employment with us. This uncertainty may have an adverse effect on our ability to retain and attract key personnel.

***Managing our inventory is complex and may include write-downs of excess or obsolete inventory.***

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Managing our inventory of components and finished products is complicated by a number of factors, including the need to maintain a significant inventory of components that are not easy to obtain, that must be purchased in bulk to obtain favorable pricing or that require long lead times. These issues may cause us to purchase and maintain significant amounts of inventory. If this inventory is not used as expected based on anticipated production requirements, it may become excess or obsolete. The existence of excess or obsolete inventory can result in sales price reductions and/or inventory write-downs, which could adversely affect our business and results of operations.

***Compliance with internal control requirements is expensive and poses certain risks.***

We expect to incur significant continuing costs, including accounting fees and staffing costs, in order to maintain compliance with the internal control requirements of the Sarbanes-Oxley Act of 2002. Expansion of our business, particularly in international geographies, will necessitate ongoing changes to our internal control systems, processes and information systems. In addition, if we complete acquisitions in the future, our ability to integrate operations of the acquired company could impact our compliance with Section 404 of the Sarbanes-Oxley Act. We cannot be certain that as our business changes, our current design for internal control over financial reporting will be sufficient to enable management or our independent registered public accounting firm to determine that our internal controls are effective for any period, or on an ongoing basis.

In the future, if we fail to complete the annual Section 404 evaluation in a timely manner, or if our independent registered public accounting firm cannot attest in a timely manner to the effectiveness of our internal controls, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

***Product defects or the failure of our products to meet specifications could cause us to lose customers and revenue or to incur unexpected expenses.***

If our products do not meet our customers' performance requirements, our customer relationships may suffer. Also, our products may contain defects or fail to meet product specifications. Any failure or poor performance of our products could result in:

delayed market acceptance of our products;

delayed product shipments;

unexpected expenses and diversion of resources to replace defective products or identify and correct the source of errors;

damage to our reputation and our customer relationships;

delayed recognition of sales or reduced sales; and

product liability claims or other claims for damages that may be caused by any product defects or performance failures.

Our products are often critical to the performance of communications systems. Many of our supply agreements contain limited warranty provisions. If these contractual limitations are unenforceable in a particular jurisdiction or if we are exposed to product liability claims that are not covered by insurance, a claim could harm our business.

***We may encounter difficulties obtaining raw materials and supplies needed to make our products, and the prices of these materials and supplies are subject to fluctuation.***

Our ability to manufacture our products is dependent upon the availability of certain raw materials and supplies. In some instances these materials or supplies may be available from only one or a limited number of sources. The availability of these raw materials and supplies is subject to market forces beyond our control. From time to time, there may not be sufficient quantities of raw materials and supplies in the marketplace to meet customer demand for

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our products. The costs to obtain these raw materials and supplies are subject to price fluctuations, which may be substantial, because of global market demands. Many companies utilize the same raw materials and supplies in the production of their products as we use in our products. Companies with more resources than us may have a competitive advantage in obtaining raw materials and supplies due to greater purchasing power. Some raw materials or supplies may be subject to regulatory actions, which may affect available supplies. Furthermore, due to general economic conditions in the United States and globally, our suppliers may experience financial difficulties, which could result in increased delays, additional costs, or loss of a supplier.

Reduced supply and higher prices of raw materials and supplies as well as potential delays in obtaining materials or supplies may affect our business, operating results and financial condition adversely. We cannot guarantee that sufficient quantities or quality of raw materials and supplies will be as readily available in the future, that they will be available at acceptable prices, or how the prices at which we sell our products will be impacted by the prices at which we, or any contract manufacturers we utilize, obtain raw materials or supplies. Our ability to pass increases in the prices of raw materials and supplies along to our customers is uncertain. Delays in implementing price increases we are able to make or a failure to achieve market acceptance of future price increases could have a material adverse impact on our results of operations. Further, in an environment of falling commodities prices, we may be unable to sell higher-cost inventory before implementing price decreases, which could have a material adverse impact on our results of operations.

***If our manufacturing operations suffer production or shipping delays or if we do not have sufficient manufacturing capabilities, we may experience difficulty in meeting customer demands.***

We internally produce or rely on contract manufacturers to produce a wide range of finished products as well as components used in our finished products at various locations around the world. We also periodically realign our manufacturing capacities among various manufacturing facilities in an effort to improve efficiencies and our competitive position. Disruption of our ability to produce or distribute from any of these facilities due to mechanical failures, fires, electrical outages, shipping interruptions, labor issues, natural disasters or other reasons could adversely impact our ability to produce our products in a cost-effective and timely manner. In addition, there are risks associated with actions we may take to realign manufacturing capacities among facilities such as: potential disruptions in production capacity necessary to meet customer demand; decreases in production quality; disruptions in the availability of raw materials and supplies; delays in the movement of necessary tools and equipment among facilities; and adequate personnel to meet production demands caused by planned production shifts. In the event of any of these disruptions, we could lose sales, suffer increased operating costs and suffer customer relations problems, which may adversely affect our business and results of operations.

In addition, it is possible from time to time that we may not have sufficient production capacity to meet customer demand whether through our internal facilities or through contract manufacturers we utilize. In such an event we may lose sales opportunities and suffer customer relations problems, which may adversely affect our business and results of operations.

***We may encounter litigation that has a material impact on our business.***

We are a party to various lawsuits, proceedings and claims arising in the ordinary course of business or otherwise. Many of these disputes may be resolved without formal litigation. The amount of monetary liability resulting from the ultimate resolution of these matters cannot be determined at this time.

As of October 31, 2008, we had recorded approximately \$10.8 million in loss reserves for certain of these matters. In light of the reserves we have recorded, at this time we believe the ultimate resolution of these lawsuits, proceedings and claims will not have a material adverse impact on our business, results of operations or financial condition. Because of the uncertainty inherent in litigation, it is possible that unfavorable resolutions of these lawsuits, proceedings and claims could exceed the amount currently reserved and could have a material adverse effect on our business, results of operations or financial condition.

***We are subject to risks associated with changes in commodity prices, interest rates, security prices, and foreign currency exchange rates.***

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We face market risks from changes in certain commodity prices, security prices and interest rates. Market fluctuations could affect our results of operations and financial condition adversely. We may reduce these risks through the use of derivative financial instruments.

Additionally, we have exposure to foreign denominated revenues and operating expenses through our operations in various countries. As of October 31, 2008, we mitigated a certain portion of exposure to Mexican peso operating expenses throughout fiscal 2009 by purchasing forward contracts, enabling us to purchase Mexican pesos over the next twelve months at specified rates.

We also are exposed to foreign currency exchange risk as a result of changes in intercompany balance sheet accounts and other balance sheet items. At October 31, 2008, these balance sheet exposures were mitigated through the use of foreign exchange forward contracts with maturities of approximately one month. The principal currency exposures being mitigated were the Australian dollar, British pound, Chinese renminbi, Czech koruna, euro, Mexican peso, and Singapore dollar.

***Our ability to operate our business and report financial results is dependent on maintaining effective information management systems.***

We rely on our information management systems to support critical business operations such as processing sales orders and invoicing, inventory control, purchasing and supply chain management, payroll and human resources, and financial reporting. We periodically implement upgrades to such systems or migrate one or more of our affiliates, facilities or operations from one system to another. In addition, when we acquire other companies we often take actions to migrate their information management systems to the systems we use. If we are unable to adequately maintain these systems to support our developing business requirements or effectively manage any upgrade or migration, we could encounter difficulties that could have a material adverse impact on our business, internal controls over financial reporting, financial results, or our ability to report such results timely and accurately.

### **Risks Related to Our Common Stock**

***Our stock price has been volatile historically and may continue to be volatile. The price of our common stock may fluctuate significantly.***

The trading price of our common stock has been and may continue to be subject to wide fluctuations. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and new reports relating to trends in our markets or general economic conditions.

In addition, the stock market in general, and prices for companies in our industry in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our common stock, regardless of our operating performance.

Furthermore, components of the compensation of many of our key employees are dependent on the price of our common stock. Lack of positive performance in our stock price may affect our ability to retain key employees.

***Anti-takeover provisions in our charter documents, our shareholder rights agreement and Minnesota law could prevent or delay a change in control of our company.***

Provisions of our articles of incorporation and bylaws, our shareholder rights agreement (also known as a "poison pill") and Minnesota law may discourage, delay or prevent a merger or acquisition that a shareholder may consider favorable, and could limit the price that investors are willing to pay for our common stock. These provisions include the following:

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advance notice requirements for shareholder proposals;

authorization for our board of directors to issue preferred stock without shareholder approval;

authorization for our board of directors to issue preferred stock purchase rights upon a third party's acquisition of 15% or more of our outstanding shares of common stock; and

limitations on business combinations with interested shareholders.

Some of these provisions may discourage a future acquisition of our company even though our shareholders would receive an attractive value for their shares, or a significant number of our shareholders believe such a proposed transaction would be in their best interest.

**DESCRIPTION OF THE PLAN**

**Purposes**

ADCInvestDirect, a direct stock purchase plan for ADC, provides you with a convenient and economical method of systematically increasing your ownership interest in ADC through purchases of ADC common stock. We may use the Plan to raise capital for general corporate purposes through the sale to you of authorized but unissued common stock.

**Considerations**

You should consider the following before you decide to participate in the Plan:

**Transaction Fees** - You pay \$0.05 for each share of common stock purchased for your Plan account in open market transactions. You pay \$0.15 for each share of common stock sold under the Plan. We expect that generally all Plan purchases and sales will be affected in open market transactions.

**Service Fees** - You also pay a service fee as described in this prospectus for some Plan transactions, whether or not the transactions are effected in open market transactions.

**Investment Timing; Price Risks** - Because the prices at which Plan shares are purchased are determined as of specified dates or as of dates otherwise beyond your control, you may lose certain advantages otherwise available to you in being able to select the timing of your investments. For example, because the price charged to you for shares purchased in the open market or in negotiated transactions is the weighted average price at which the shares are actually purchased over a period of up to five days following an investment, you may pay a higher price for shares purchased under the Plan than for shares purchased on the investment date outside of the Plan.

**No Interest Paid** - No interest is paid on your cash investments pending their investment in common stock.



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### **Administration**

As of the date of this prospectus, Computershare Trust Company, N.A. administers the Plan. As Plan Administrator, Computershare is responsible for the clerical and ministerial administration of the Plan, including receiving your investments, forwarding funds received from you or on your behalf to a registered broker/dealer for purchases of common stock, issuing statements of Plan account activities and performing certain other administrative duties related to the Plan. You may contact the Plan Administrator by writing to:

Computershare Trust Company, N.A.

Attention: **ADCInvestDirect**

P.O. Box 43081

Providence, RI 02940-3081

or by calling the Plan Administrator toll free at 1-800-929-6782 or 1-312-360-5209 between 8:30 a.m. and 5:00 p.m., central time, on any business day. The Plan Administrator's website is [www.computershare.com](http://www.computershare.com). You may access your account online to view your share balance, track the estimated value of your holdings, sell shares, duplicate statements, and obtain online forms and other information about your account. Online account information is housed on the Plan Administrator's website at [www.computershare.com](http://www.computershare.com) through *Investor Centre*.

The Plan Administrator is responsible for purchasing and selling shares of common stock for your Plan account, including the selection of the broker or dealer through which Plan purchases and sales are made. ADC has no control over the times or prices at which the Plan Administrator purchases shares in the open market or the selection of the broker or dealer used by the Plan Administrator for the purchases.

### **Eligibility**

Any person or entity, whether or not currently a registered holder of ADC common stock, may participate in the Plan by enrolling in accordance with the procedures described in **Enrollment and Participation** below. We reserve the right to deny, modify, suspend or terminate participation by any person or entity. See **Other Information** **Denial or Termination of Participation**.

### **Enrollment and Participation**

**Shareowners.** If you are a registered holder of ADC common stock, you may become a participant in the Plan by either:

completing the Enrollment Form included with this prospectus and returning it to the Plan Administrator at the address shown on the form; or

enrolling online through the Plan Administrator's website at [www.computershare.com](http://www.computershare.com) and following the instructions provided.

**Beneficial Owners.** If you are a beneficial owner of ADC common stock whose shares are registered in a nominee name (such as in the name of a bank, broker or other nominee) and wish to participate in the Plan you may either:

become a shareowner of record by having some or all of the shares registered in your name. Once you become a registered shareowner, you may enroll in the Plan as shown above for shareowners; or

become a shareowner of record by enrolling in the Plan in the same manner as a non-shareowner as shown below.

**Non-shareowners.** If you are not a registered holder of ADC common stock, you may enroll through the internet at [www.computershare.com](http://www.computershare.com) and follow the instructions provided for opening a ADC shareowner account. You will be asked to complete an online enrollment form and to submit an initial investment. To make your initial investment, you may (a) authorize a one-time deduction from your U.S. bank account for at least \$500 up to a

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maximum of \$250,000, or (b) establish an automatic monthly deduction from your U.S. bank account for a minimum of \$50 for at least 10 consecutive months.

**Investments**

**Initial Investment.** If you are not a registered owner of common stock, you must include an initial cash investment of at least \$500 with your completed Initial Enrollment Form or authorize automatic monthly cash investments by electronic funds transfer of at least \$50 with a completed Direct Debit Authorization Form. In either case, a one-time account set-up fee of \$10 will be deducted from your initial investment. Initial investments made by check must be payable to Computershare in U.S. funds. You may also open an account online at [www.computershare.com](http://www.computershare.com) and follow the instructions provided for opening an ADC shareowner account. You will be asked to complete an online enrollment form and to submit an initial investment. To make your initial investment, you may (a) authorize a one-time deduction from your U.S. bank account for at least \$500 up to a maximum of \$250,000, or (b) establish an automatic monthly deduction from your U.S. bank account for a minimum of \$50 for at least 10 consecutive months.

**Additional Investstyle="BORDER-BOTTOM: black 2px solid">**

**Three Months ended**

**March 31, 2007**

Three Months ended

March 1, 2008

## Revenues

Voyage revenue

14,183,320 34,470,703

Commissions

8 (636,671) (1,648,768)

Net revenue

13,546,649 32,821,935

Operating expenses

Voyage expenses

146,615 1,215,291

Vessel operating expenses

2,927,011 6,310,840

Amortization of dry-docking and special survey expense and vessel depreciation

4, 5 2,691,026 7,969,697

Management fees

8 668,207 1,311,180

Other general and administrative expenses

249,636 1,041,249

Net gain on sale of vessel

4 (3,411,397) -

Total operating expenses

3,271,098 17,848,257

Operating income

10,275,551 14,973,678

Other income/(expenses)

Interest and other financing costs

(1,193,097) (1,022,994)

Interest income		
	392,256	1,136,797
Dividend income		
	- 90,151	
Unrealized gain on trading securities		
	- 17,042	
Foreign exchange gain/(loss)		
	598	(21,826)
Other income (expenses), net		
	(800,243)	199,170
Net income		
	9,475,308	15,172,848
Earnings per share - basic		
	11 0.58	0.50
Weighted average number of shares outstanding during the period, basic		
	11 16,453,483	30,321,553
Earnings per share - diluted		
	11 0.58	0.50
Weighted average number of shares outstanding during the period, diluted		
	11 16,453,483	30,379,994

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

## Euroseas Ltd. and Subsidiaries

## Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity

For the three month period ended March 31, 2008

(All amounts, except share data, expressed in U.S. Dollars)

	Comprehensive Income	Number of Shares	Common Stock Amount	Paid – in Capital	Retained Earnings	Total
Balance, December 31, 2007		30,261,113	907,834	231,147,700	39,734,814	271,790,348
Net income	15,172,848				15,172,848	15,172,848
Issuance of shares for warrants exercised		166,667	5,000	1,795,003	-	1,800,003
Share-based compensation		-	-	367,740	-	367,740
Dividends (Dividends declared per common share \$0.30)	-	-	-	-	(9,193,584)	(9,193,584)
Balance, March 31, 2008		30,427,780	912,834	233,310,443	45,714,078	279,937,355

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

Euroseas Ltd. and Subsidiaries  
 Unaudited Condensed Consolidated Statements of Cash Flows  
 (All amounts expressed in U.S. Dollars)

	Three Months ended March 31,	
	2007	2008
<b>Cash flows from operating activities:</b>		
Net income	9,475,308	15,172,848
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation of vessels	2,465,887	7,275,364
Amortization of deferred charges	247,259	716,869
Amortization of fair value of time charters	612,411	(2,111,646)
Gain on sale of vessels	(3,411,397)	-
Share-based compensation	-	367,740
Purchase of trading securities	-	(265,182)
Unrealized gain on trading securities	-	(17,042)
<b>Changes in operating assets and liabilities:</b>		
<b>(Increase)/decrease in:</b>		
Trade accounts receivable	(87,488)	211,151
Prepaid expenses	(199,191)	(118,032)
Other receivables	(125,871)	40,123
Inventories	(97,724)	89,447
Due from related company	320,722	2,903,151
<b>Increase/(decrease) in:</b>		
Trade accounts payable	446,111	(752,493)
Accrued expenses	(241,703)	(643,701)
Deferred revenue	58,232	1,803,764
Dry-docking expenses paid	(617,698)	(1,917,808)
Net cash provided by operating activities	8,844,858	22,754,553
<b>Cash flows from investing activities:</b>		
Purchase of vessel	(13,165,027)	-
Advances for vessel acquisitions	(1,953,426)	-
Change in restricted cash	(399,620)	(854,029)
Proceeds from sale of a vessel	5,223,521	-
Net cash used in investing activities	(10,294,552)	(854,029)
<b>Cash flows from financing activities:</b>		
Issuance of share capital	172,500	5,000
Net proceeds from shares issued	44,181,563	1,795,003
Dividends paid	(2,776,433)	(9,128,334)
Offering expenses paid	(650,521)	(110,339)
Repayment of long-term debts	(4,410,000)	(5,870,000)
Net cash provided by (used in) financing activities	36,517,109	(13,308,670)

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Net increase in cash and cash equivalents	35,067,415	8,591,854
Cash and cash equivalents at beginning of the period	2,791,107	104,135,320
Cash and cash equivalents at end of the period	37,858,522	112,727,174

(Condensed consolidated statements of cash flows continues in the next page)

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Euroseas Ltd. and Subsidiaries  
 Unaudited Condensed Consolidated Statements of Cash Flows  
 (All amounts expressed in U.S. Dollars)

(Continued)

	Three Months ended March 31,	
	2007	2008
Cash paid for interest	1,107,824	1,285,710
Non cash items:		
Change in accrued dry-docking expenses	365,962	-
Change in payables due to dry-docking expenses	-	300,000
Change in accrued offering expenses	(101,048)	-

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

Euroseas Ltd. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2007 and 2008

(All amounts expressed in U.S. Dollars)

1. Basis of Presentation and General Information

Euroseas Ltd. (the “Company”) was formed on May 5, 2005 under the laws of the Republic of the Marshall Islands to consolidate the beneficial owners of the ship owning companies in existence at that time (see list below). On June 28, 2005, the beneficial owners exchanged all their shares in the ship-owning companies for shares in Friends Investment Company Inc., a newly formed Marshall Islands company. On June 29, 2005, Friends Investment Company Inc. then exchanged all the shares in the ship-owning companies for shares in Euroseas Ltd., thus becoming the sole shareholder of Euroseas Ltd. The transaction described above constitutes a reorganization of companies under common control, and has been accounted for in a manner similar to a pooling of interests, as each ship-owning company was under the common control of the Pittas family prior to the transfer of ownership of the companies to Euroseas Ltd. All share counts are adjusted for the Company’s 1-for-3 reverse common stock split effected on October 6, 2006.

On August 25, 2005, Euroseas Ltd. sold 2,342,331 common shares at \$9.00 per share in an institutional private placement, together with 0.25 of detachable warrants for each common share to acquire up to 585,589 common shares. The total proceeds, net of issuance costs of \$3,500,309, amounted to \$17,510,400. The warrants allow their holders to acquire one share of Euroseas Ltd. stock at a price of \$10.80 per share and are exercisable for a period of five years from the issue of the warrant.

On August 25, 2005, as a condition to the institutional private placement described above, the Company and Cove Apparel, Inc. (Cove, an unrelated party and public shell corporation) signed an Agreement and Plan of Merger (the “Merger Agreement”). The Merger Agreement provided for the merger of Cove and Euroseas Acquisition Company Inc., a Delaware corporation and a wholly-owned subsidiary of Euroseas Ltd. formed on June 21, 2005, with the current stockholders of Cove receiving 0.0034323 shares of Euroseas Ltd. common shares for each share of Cove common stock they presently own. Euroseas Ltd., as part of the merger, filed a registration statement with the Securities and Exchange Commission (SEC) to register the shares issued in the merger to the Cove stockholders.

The SEC declared effective on February 3, 2006 the Company’s registration statement on Form F-4 that registered the Euroseas Ltd. common shares issued to Cove shareholders. The SEC also declared effective on February 3, 2006 the Company’s registration statement on Form F-1 that registered the re-sale of the 2,342,331 Euroseas Ltd. common shares and 585,589 Euroseas Ltd. common shares issuable upon the exercise of the warrants issued in connection with the institutional private placement as well as 272,868 Euroseas Ltd. common shares that were issued to certain Cove’s shareholders as part of the merger with Cove.



Euroseas Ltd. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2007 and 2008

(All amounts expressed in U.S. Dollars)

1. Basis of Presentation and General Information - continued

On March 27, 2006, Euroseas Ltd. consummated the merger with Cove and, as a result, Cove merged into Euroseas Acquisition Company Inc., and the separate corporate existence of Cove ceased. The Cove stockholders received Euroseas Ltd. common shares and received dividends totaling to \$140,334 related to dividends previously declared by Euroseas Ltd. Euroseas Acquisition Company Inc. changed its name to Cove Apparel, Inc. Also, following the completion of the merger, the common stock of Cove has been de-listed and no longer trades on the OTC Bulletin Board. On the date of the merger, Cove had cash of \$10,000, had no other assets and had no liabilities.

Euroseas Ltd. common share was approved to trade on March 2, 2006 and started trading on the OTC Bulletin Board on May 5, 2006. On October 6, 2006, the Company effected a 1-for-3 reverse split of its common stock. On January 31, 2007 upon the pricing of the Company's follow-on common stock offering of 5,750,000 shares the Euroseas Ltd. common share started trading on the NASDAQ Global Market. The total proceeds of the follow-on common stock offering, net of issuance costs of \$4,122,289, amounted to \$43,315,220. On June 29, 2007 the Company priced, and, on July 5, 2007 completed an additional follow-on offering of 5,750,000 shares of common stock. The total proceeds of this follow-on offering, net of issuance costs of \$4,609,428, amounted to \$73,015,572. On November 6, 2007 the Company priced, and, on November 9, 2007 completed an additional follow-on offering of 5,825,000 shares of common stock. The total proceeds of this follow-on offering, net of issuance costs of \$5,468,812, amounted to \$93,556,187.

The operations of the vessels are managed by Eurobulk Ltd. (the "manager"), a corporation controlled by members of the Pittas family. The Pittas family is the controlling shareholders of Friends Investment Company Inc. which owns 32.3% of the Company's shares as of March 31, 2008.

The manager has an office in Greece located at 40 Ag. Konstantinou Ave, Maroussi, Athens, Greece. The manager provides the Company with a wide range of shipping services such as technical support and maintenance, insurance consulting, chartering, financial and accounting services, as well as executive management services, in consideration for fixed and variable fees (see Note 8).

The Company is engaged in the ocean transportation of dry bulk and containers through ownership and operation of dry bulk and container carriers owned by the following ship-owning companies:

- Searoute Maritime Ltd. incorporated in Cyprus on May 20, 1992, owner of the Cyprus flag 33,712 DWT bulk carrier motor vessel (M/V) "Ariel", which was built in 1977 and acquired on March 5, 1993. M/V "Ariel" was sold on February 22, 2007.
- Oceanopera Shipping Ltd. incorporated in Cyprus on June 26, 1995, owner of the Cyprus flag 34,750 DWT bulk carrier M/V "Nikolaos P", which was built in 1984 and acquired on July 22, 1996.
- Oceanpride Shipping Ltd. incorporated in Cyprus on March 7, 1998, owner of the Cyprus flag 26,354 DWT bulk carrier M/V "John P", which was built in 1981 and acquired on March 7, 1998. M/V "John P" was sold on July 5, 2006.



Euroseas Ltd. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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1. Basis of Presentation and General Information - continued

- Alcinoe Shipping Ltd. incorporated in Cyprus on March 20, 1997, owner of the Cyprus flag 26,354 DWT bulk carrier M/V “Pantelis P”, which was built in 1981 and acquired on June 4, 1997. M/V “Pantelis P” was sold on May 31, 2006. On February 22, 2007, Alcinoe Shipping Ltd. acquired the 38,691 DWT Cyprus flag drybulk carrier M/V “Gregos”, which was built in 1984. On June 13, 2007, M/V Gregos was transferred to Gregos Shipping Limited incorporated in the Marshall Islands and its flag was changed to the flag of the Marshall Islands.
- Allendale Investment S.A. incorporated in Panama on January 22, 2002, owner of the Panama flag 18,154 DWT container carrier M/V “Kuo Hsiung”, which was built in 1993 and acquired on May 13, 2002.
- Alterwall Business Inc. incorporated in Panama on January 15, 2001, owner of the Panama flag 18,253 DWT container carrier M/V “Ninos” (previously named M/V “Qingdao I”) which was built in 1990 and acquired on February 16, 2001.
- Diana Trading Ltd. incorporated in the Marshall Islands on September 25, 2002, owner of the Marshall Islands flag 69,734 DWT bulk carrier M/V “Irimi”, which was built in 1988 and acquired on October 15, 2002.
- Salina Shipholding Corp., incorporated in the Marshall Islands on October 20, 2005, owner of the Marshall Islands flag 29,693 DWT container carrier M/V “Artemis”, which was built in 1987 and acquired on November 25, 2005.
- Xenia International Corp., incorporated in the Marshall Islands on April 6, 2006, owner of the Marshall Islands flag 22,568 DWT / 950 TEU multipurpose M/V “Tasman Trader”, which was built in 1990 and acquired on April 27, 2006.
- Prospero Maritime Inc., incorporated in the Marshall Islands on July 21, 2006, owner of the Marshall Islands flag 69,268 DWT dry bulk M/V “Aristides N.P.”, which was built in 1993 and acquired on September 4, 2006.
- Xingang Shipping Ltd., incorporated in Liberia on October 16, 2006, owner of the Liberian flag 23,596 DWT container carrier M/V “YM Xingang I” , which was built in February 1993 and acquired on November 15, 2006.
- Manolis Shipping Ltd., incorporated in the Marshall Islands on March 16, 2007, owner of the Marshall Islands flag 20,346 DWT / 1,452 TEU container carrier M/V “Manolis P”, which was built in 1995 and acquired on April 12, 2007.
- Eternity Shipping Company, incorporated in the Marshall Islands on May 17, 2007, owner of the Marshall Islands flag 30,007 DWT / 1,742 TEU container carrier M/V “Clan Gladiator”, which was built in 1992 and acquired on June 13, 2007. On May 9, 2008, M/V “Clan Gladiator” was renamed M/V “OEL Transworld”.

Euroseas Ltd. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

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1. Basis of Presentation and General Information - continued

- Emmentaly Business Inc., incorporated in Panama on July 4, 2007, owner of the Panamanian flag 33,667 DWT / 1,932 TEU container carrier M/V “Jonathan P”, which was built in 1990 and acquired on August 7, 2007. On April 16, 2008, M/V “Jonathan P” was renamed M/V “OEL Integrity”.
- Pilory Associates Corp., incorporated in Panama on July 4, 2007, owner of the Panamanian flag 33,667 DWT / 1,932 TEU container carrier M/V “Despina P”, which was built in 1990 and acquired on August 13, 2007.
- Tiger Navigation Corp., incorporated in Marshall Islands on August 29, 2007, owner of the Marshall Islands flag 31,627 DWT / 2,228 TEU container carrier M/V “Tiger Bridge”, which was built in 1990 and acquired on October 4, 2007.
- Trust Navigation Corp., incorporated in Liberia on October 1, 2007, owner of the Liberian flag 64,873 DWT bulk carrier M/V “Ioanna P”, which was built in 1984 and acquired on November 1, 2007.

2. Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial information. Accordingly, they do not include all the information and notes required by US GAAP for complete financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Operating results for the three month period ended March 31, 2008 are not necessarily indicative of the results that might be expected for the fiscal year ending December 31, 2008.

The unaudited condensed consolidated financial statements as of and for the three month periods ended March 31, 2008 and 2007 should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 as filed with the SEC on Form 20-F.

3. Inventories

This consisted of the following:

	December 31, 2007	March 31, 2008
Lubricants	1,232,341	1,317,333
Victualling	145,767	139,413
Bunkers	525,570	357,485
Total	1,903,678	1,814,231



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4. Vessels, net

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

	Costs	Accumulated Depreciation	Net Book Value
Balance, January 1, 2008	272,708,509	(34,459,525)	238,248,984
-Depreciation for the period		(7,275,364)	(7,275,364)
Balance, March 31, 2008	272,708,509	(41,734,889)	230,973,620

There were no vessels sales or purchases in the three month period ended March 31, 2008.

5. Deferred Charges, net

This consisted of:

	March 31, 2007	March 31, 2008
Balance, beginning of the period	1,291,844	5,529,870
Additions	983,659	2,217,809
Amortization of dry-docking and special survey expenses	(225,139)	(694,333)
Amortization of loan arrangement fees	(22,120)	(22,536)
Unamortized portion of dry-docking and special survey expenses written-off upon sale of M/V Ariel	(29,284)	-
Balance, end of the period	1,998,960	7,030,810

The additions in three month period ended March 31, 2007 consisted of dry-docking expenses of \$808,604 for M/V "Tasman Trader" and \$175,055 for M/V "Artemis" that were paid by March 31, 2007. M/V "Artemis" started its dry-docking in March 2007 and finished it in April 2007. For the three month period ended March 31, 2008, additions of \$2,217,809 reflect dry-docking expenses for M/V "Aristides NP" and M/V "YM Xingang I".

Euroseas Ltd. and Subsidiaries  
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6. Accrued Expenses

The accrued expenses account consisted of:

	December 31, 2007	March 31, 2008
Accrued follow-on offering expenses	193,919	19,851
Accrued payroll expenses	152,843	246,025
Accrued interest	498,317	235,601
Accrued general and administrative expenses	503,560	285,682
Other accrued expenses	694,946	502,385
Total	2,043,585	1,289,544

7. Fair Value of Above or Below Market Time Charters Acquired

M/V “Tasman Trader” was acquired on April 27, 2006 with an outstanding time charter terminating on December 17, 2008 with a charter rate of \$8,850 per day. This charter rate was below the market rate for equivalent time charter prevailing at the time the foregoing vessel was acquired. The present value of the below the market charter was estimated by the Company at \$1,237,072 and was recorded as liability in the consolidated balance sheets. Net voyage revenues included \$115,255 and \$116,856 as amortization of the below market rate charters for the three month periods ended March 31, 2007 and 2008, respectively. The unamortized fair value of the below market rate charter for M/V “Tasman Trader” was \$452,697 and \$335,841 as of December 31, 2007 and March 31, 2008, respectively, and is recorded as a long-term liability in the consolidated balance sheets.

M/V “YM Xingang I” was acquired on November 15, 2006 with an outstanding time charter terminating on July 21, 2009 with a charter rate of \$26,650 per day. This charter rate was above the market rates for equivalent time charters prevailing at the time. The present value of the above the market charter was estimated by the Company at \$7,923,480, and was recorded as an asset in the consolidated balance sheets. Net voyage revenues included a reduction of \$727,666 and \$737,773 as amortization of the above market rate charter for M/V “YM Xingang I” for the three month periods ended March 31, 2007 and 2008, respectively. The remaining unamortized above market rate charter was \$4,604,514 and \$3,866,741 as of December 31, 2007 and March 31, 2008, respectively, and is recorded as a long term asset in the consolidated balance sheets.

M/V “Tiger Bridge” was acquired on October 4, 2007 with an outstanding time charter terminating on August 4, 2009 with a charter rate of \$16,500 per day. This charter rate was below the market rates for equivalent time charters prevailing at the time. The present value of the below-market charter was estimated by the Company at \$2,263,924, and was recorded as a liability in the consolidated balance sheets. Net voyage revenues included \$0 and \$306,503 as amortization of the below-market rate charter for M/V “Tiger Bridge” for the three month periods ended March 31, 2007 and 2008, respectively. The remaining unamortized above market rate charter was \$1,964,977 and \$1,658,474 as of December 31, 2007 and March 31, 2008, respectively, and is recorded as a long-term liability in the consolidated balance sheets.





Euroseas Ltd. and Subsidiaries

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7. Fair Value of Above or Below Market Time Charters Acquired - Continued

M/V “Ioanna P” was acquired on November 1, 2007 with an outstanding time charter terminating on August 4, 2008 with a charter rate of \$35,500 per day. This charter rate was below the market rates for equivalent time charters prevailing at the time. The present value of the below-market charter was estimated by the Company at \$7,441,558 and was recorded as a liability in the consolidated balance sheets. Net voyage revenues included \$0 and \$2,426,060 as amortization of the below-market rate charter for M/V “Ioanna P” for the three month periods ended March 31, 2007 and 2008, respectively. The remaining unamortized above market rate charter was \$5,785,298 and \$3,359,238 as of December 31, 2007 and March 31, 2008, respectively, and is recorded as a long-term liability in the consolidated balance sheets.

8. Related Party Transactions

The Company’s vessel owning companies are parties to management agreements with Eurobulk Ltd. (“Management Company”), which is controlled by members of the Pittas family, whereby the Management Company provides technical and commercial vessel management for a fixed daily fee of Euro 623.3 and Euro 630 per vessel in the three month period ended March 31, 2007 and 2008, respectively, under our Master Management Agreement (see below). Vessel management fees paid to the Management Company amounted to \$668,207 and \$1,311,180 in the three month periods ended March 31, 2007 and 2008, respectively. These agreements were renewed on January 31, 2005 and amended in August and October 2006 and February 2008 with an initial term of five years and will automatically be extended after the initial term until terminated by the parties. Termination is not effective until two months following notice having been delivered in writing by either party after the expiration of the initial five-year period. An annual adjustment of the management fee due to inflation as provided under the management agreement took effect on the annual anniversary of the agreement on January 31, 2007 increasing the management fee by Euro 20 per vessel per day to Euro 630 per vessel per day; the Management Company agreed to forgo the inflation adjustment for 2008. According to the Master Management Agreement as amended in February 2008, the management fee will be adjusted for Greek inflation on January 1, 2009.

Our Master Management Agreement with Eurobulk as amended is effective as of January 1, 2008 and has an initial term of five years until December 31, 2012. In addition to the vessel management services, Eurobulk provides us with management services for our needs as a public company. In the three month periods ended March 31, 2007 and 2008, compensation for such services to us as a public company was \$129,375 and \$275,000, respectively, incremental to the management fee. The compensation for executive services is adjusted annually for inflation every January 1st.

Amounts due to or from related parties represent net disbursements and collections made on behalf of the vessel-owning companies by the Management Company during the normal course of operations for which a right of off-set exists. As of December 31, 2007 and March 31, 2008, the amount due from related companies was \$5,291,197 and \$2,388,045, respectively. Based on the master management agreement between Euroseas Ltd. and Euroseas’ shipowning subsidiaries and Eurobulk Ltd. an estimate of the quarter’s operating expenses, expected drydock expenses, vessel management fee and fee for management executive services is to be advanced in the beginning of quarter to Eurobulk Ltd. For the fleet as of December 31, 2007 and March 31, 2008, this advance is estimated between \$7,500,000 and \$9,000,000 excluding any advances needed for drydock expenses and is paid in advance

around the beginning of each quarter. Interest earned on funds deposited in related party accounts is credited to the account of the ship-owning companies or Euroseas Ltd.

## Euroseas Ltd. and Subsidiaries

## Notes to Unaudited Condensed Consolidated Financial Statements

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## 8. Related Party Transactions - Continued

The Company uses brokers for various services, as is industry practice. Eurochart S.A., a company controlled by certain members of the Pittas family, provides vessel sale and purchase services, and chartering services to the Company whereby the Company pays commission of 1% of the vessel sales price and 1.25% of charter revenues. Commission expenses for the three month period ended March 31, 2007 of \$53,500 were incurred for the sale of M/V "Ariel". There were no sales or purchases of vessels in same period in 2008. Commissions for chartering services were \$177,719 and \$381,378 in the three month period ended on March 31, 2007 and 2008, respectively.

Certain members of the Pittas family, together with another unrelated ship management company, have formed a joint venture with the insurance broker Sentinel Maritime Services Inc., and with a crewing agent More Maritime Agencies Inc. The shareholders' percentage participation in these joint ventures was 78% and 81.25% in the three month period ended on March 31, 2007 and 2008, respectively. Sentinel Maritime Services Inc. is paid a commission on premium not exceeding 5%; More Maritime Agencies Inc. is paid a fee of \$50 per crew member per month. Total fees charged by Sentinel Marine Services Inc. and More Maritime Agencies Inc. the three month period ended on March 31, 2007 and 2008 were \$20,960 and \$40,096, respectively to More, and \$13,904 and \$35,270, respectively to Sentinel. These amounts are recorded in "Vessel operating expenses" under "Operating expenses".

## 9. Long-Term Debt

This consisted of bank loans of the ship-owning companies are as follows:

Borrower		December31, 2007	March 31, 2008
Diana Trading Limited	(a)	\$ 2,100,000	\$ 1,580,000
Alcinoe Shipping Limited (2006)/ Oceanpride Shipping Limited/ Searoute Maritime Ltd/ Oceanopera Shipping Ltd	(b)	2,600,000	2,300,000
Alterwall Business Inc./ Allendale Investments S.A	(c)	7,950,000	7,175,000
Salina Shipholding Corp.	(d)	8,500,000	8,500,000
Xenia International Corp	(e)	6,660,000	6,395,000
Prospero Maritime Inc.	(f)	13,100,000	12,100,000
Xingang Shipping Ltd. / Alcinoe Shipping Ltd	(g)	16,000,000	15,000,000
Manolis Shipping Ltd.	(h)	9,680,000	9,520,000
Trust Navigation Corp.	(i)	15,000,000	13,150,000
		81,590,000	75,720,000
Less: Current portion		(25,575,000)	(22,905,000)
Long-term portion		\$ 56,015,000	\$ 52,815,000



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9. Long-Term Debt - continued

The future annual loan repayments are as follows:

To March 31:	
2009	22,905,000
2010	11,750,000
2011	13,900,000
2012	7,955,000
2013	3,290,000
Thereafter	15,920,000
Total	\$ 75,720,000

(a) This consisted of a loan amounting to \$4,900,000 and \$1,000,000 drawn in 2002. The loan is payable in twenty-four consecutive quarterly installments of \$220,000 each, and a balloon payment of \$620,000 payable together with the final quarterly installment due in October 2008. The interest is based on LIBOR plus 1.6% per annum.

An additional loan of \$4,200,000 was drawn on May 9, 2005. The loan is payable in twelve consecutive quarterly installments consisting of four installments of \$450,000 each, and eight installments of \$300,000 each with the final installment due in May 2008. The interest is based on LIBOR plus 1.25% per annum.

(b) Alcinoe Shipping Ltd., Oceanpride Shipping Ltd., Searoute Maritime Ltd. and Oceanopera Shipping Ltd. drew, in 2005, \$13,500,000 against a loan facility for which they are jointly and severally liable. The loan is payable in twelve consecutive quarterly installments consisting of two installments of \$2,000,000 each, one installment of \$1,500,000, nine installments of \$600,000 each and a balloon payment of \$2,600,000 payable with the final installment due in May 2008. The interest is based on LIBOR plus 1.5% per annum.

The Company made two additional early repayments for a total of \$3,000,000 from the sales proceeds of M/V "John P" and M/V "Pantelis P" in June 2006 and July 2006. The Company also negotiated a revised repayment schedule starting July 1, 2006, which provides for payment of \$300,000 per quarter and a balloon payment of \$2,000,000 payable with the final installment due in the second quarter of 2008. After the sale of the above mentioned vessels in 2006 and the sale of M/V "Ariel" in February 2007, Oceanopera Shipping Ltd., the owner of M/V "Nikolaos P" remains the sole liable entity for this loan facility.

(c) Allendale Investments S.A. and Alterwall Business Inc. drew \$20,000,000 on May 26, 2005 against a loan facility for which they are jointly and severally liable. The loan is payable in twenty-four unequal consecutive quarterly installments of \$1,500,000 each in the first year, \$1,125,000 each in the second year, \$775,000 each in the third year, \$450,000 each in the fourth through sixth years and a balloon payment of \$1,000,000 payable with the final installment due in May 2011. The interest is based on LIBOR plus 1.25% per annum as long as the outstanding loan amount remains below 60% of the fair market value (FMV) of M/V "Ninos" and M/V "Kuo Hsiung" and plus 1.375% if the outstanding loan amount is above 60% of the FMV of such vessels.



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9. Long-Term Debt - continued

- (d) This is a \$15,500,000 loan drawn by Salina Shipholding Corp. on December 30, 2005. The loan is payable in ten consecutive semi-annual installments consisting of six installments of \$1,750,000 each and four installments of \$650,000 each and a balloon payment of \$2,400,000 payable with the final installment due in January 2011. The interest is based on LIBOR plus a margin that ranges between 0.9%-1.1%, depending on the asset cover ratio. The loan is secured with the following: (i) first priority mortgage over M/V "Artemis", (ii) first assignment of earnings and insurance of M/V "Artemis", (iii) a corporate guarantee of Euroseas Ltd., (iv) a minimum cash balance equal to an amount of no less than \$300,000 in an account Salina Shipholding Corp. maintains with the bank, and, (v) overall liquidity (cash and cash equivalents) of \$300,000 for each of the Company's vessels throughout the life of the facility.
- (e) This is an \$8,250,000 loan drawn by Xenia International Corp. on June 30, 2006. The loan is payable in twenty three consecutive quarterly installments consisting of \$265,000 each and a balloon payment of \$2,155,000 payable with the final quarterly installment due in March 2012. The interest is based on LIBOR plus a margin of 0.95%. The loan is secured with the following: (i) first priority mortgage over M/V "Tasman Trader", (ii) first assignment of earnings and insurance of M/V "Tasman Trader", (iii) a corporate guarantee of Euroseas Ltd., and, (iv) overall liquidity (cash and cash equivalents) of \$300,000 for each of the Company's vessels throughout the life of the facility.
- (f) This is a \$15,500,000 loan drawn by Prospero Maritime Inc. on September 4, 2006. The loan is payable in fourteen consecutive semi-annual installments consisting of two installments of \$1,200,000 each, one installment of \$1,000,000 each and eleven installments of \$825,000 each and a balloon payment of \$3,025,000 payable with the final semi-annual installment due in September 2013. The interest is based on LIBOR plus a margin that ranges between 0.9%-0.95%, depending on the asset cover ratio. The loan is secured with the following: (i) first priority mortgage over M/V "Aristides N.P.", (ii) first assignment of earnings and insurance of M/V "Aristides N.P.", (iii) a corporate guarantee of Euroseas Ltd., (iv) a minimum cash balance equal to an amount of no less than \$300,000 in an account Prospero Maritime Inc. maintains with the bank, and, (v) overall liquidity (cash and cash equivalents) of \$300,000 for each of the Company's vessels throughout the life of the facility.
- (g) This is a \$20,000,000 loan drawn by Xingang Shipping Ltd. on November 15, 2006; Alcinoe Shipping Ltd. up to June 13, 2007 and Gregos Shipping Limited since then, successive owners of the M/V "Gregos", became guarantors to the loan starting in March 2007. The loan is payable in eight consecutive quarterly installments of \$1.0 million each, the first of which is due in February 2007, followed by four consecutive quarterly installments of \$750,000 each, followed by sixteen consecutive installments of \$250,000 each and a balloon payment of \$5.0 million payable with the final quarterly instalment due in November 2013. The interest was based on LIBOR plus a margin of 0.935% initially; after Alcinoe Shipping Ltd. became a guarantor the rate became 0.90%. The loan is secured with the following: (i) first priority mortgage over M/V "YM Xingang I", (ii) first assignment of earnings and insurance, (iii) a corporate guarantee of Euroseas Ltd. and (iv) a third mortgage on M/V "Irimi" also financed by the same bank.





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9. Long-Term Debt - continued

(h) This is a \$10,000,000 loan drawn by Manolis Shipping Ltd. on June 11, 2007. The loan is payable in thirty-two consecutive quarterly instalments of \$160,000 each, the first of which is due in September 2007, plus a balloon payment of \$4,880,000 payable with the final quarterly instalment in June 2015. The interest is based on LIBOR plus a margin of 0.80% if the ratio of the outstanding loan to the vessel value is below 55%, otherwise the margin is 0.90%. The loan is secured with the following: (i) first priority mortgage over M/V "Manolis P", (ii) first assignment of earnings and insurance, (iii) a corporate guarantee of Euroseas Ltd. and (iv) a minimum cash balance equal to an amount of no less than \$300,000 in an account Manolis Shipping Ltd. maintains with the bank. Other covenants and guarantees are similar to the rest of the loans of the Company.

(i) This is a \$15,000,000 loan drawn by Trust Navigation Corp. on November 1, 2007. The loan is payable in four consecutive quarterly instalments of \$1,850,000 each, the first of which is due in February 2008, followed by four consecutive quarterly instalments of \$750,000 each, followed by four consecutive quarterly instalments of \$550,000 each, plus a balloon payment of \$2,400,000 payable with the final quarterly instalment in November 2010. The interest is based on LIBOR plus a margin of 0.90%. The loan is secured with the following: (i) first priority mortgage over M/V "Ioanna P", (ii) first assignment of earnings and insurance, (iii) a corporate guarantee of Euroseas Ltd. and (iv) a minimum cash balance equal to an amount of no less than \$300,000 in an account Trust Navigation Corp. maintains with the bank. Other covenants and guarantees are similar to the rest of the loans of the Company.

In addition to the terms specific to each loan described above, all the above loans are secured with one or more of the following:

- first priority mortgage over the respective vessels on a joint and several basis.
- first assignment of earnings and insurance.
- a personal guarantee of one shareholder.
- a corporate guarantee of Euroseas Ltd.
- a pledge of all the issued shares of each borrower.

The loan agreements contain covenants such as restrictions as to changes in management and ownership of the vessel shipowning companies, distribution of profits or assets, additional indebtedness and mortgage of vessels without the lender's prior consent, sale of vessels, maximum fleet leverage, sale of capital stock of our subsidiaries, ability to make investments and other capital expenditures, entering in mergers or acquisitions, minimum requirements regarding the hull ratio cover, minimum cash balance requirements and minimum cash retention accounts (restricted cash). The loans agreements also require the Company to make deposits in retention accounts with certain banks that can only be used to pay the current loan instalments. Minimum cash balance requirements are in addition to cash held in retention accounts. These cash deposits amounted to \$6,239,879 and \$7,093,908 as of December 31, 2007 and March 31, 2008, respectively, and are shown as "Restricted cash" under "Current Assets" and "Long-Term Assets" in the consolidated balance sheets. The Company is not in default of any of the foregoing covenants.

Interest expense, including amortization of loan arrangement fees, for the three month periods ended March 31, 2007 and 2008 amounted to \$1,193,097 and \$1,022,994 respectively. At March 31, 2008 LIBOR for the Company's loans was on average approximately 4.2% and the average interest rate on our debt was approximately 5.2%.



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## 10. Commitments and Contingencies

There are no material legal proceedings to which the Company is a party or to which any of its properties are subject, other than routine litigation incidental to the Company's business. In the opinion of the management, the disposition of these lawsuits should not have a material impact on the consolidated results of operations, financial position and cash flows.

The distribution of the net earnings by one of the chartering pools which has one of the Company's vessels in its pool has not yet been finalized for the three month period ended March 31, 2008. The effect on the Company's income resulting from any future reallocation of pool income cannot be reasonably estimated, however, the effect on the results for the period is not expected to be significant.

## 11. Earnings Per Share

Basic and diluted earnings per common share are computed as follows:

	Three months ended, March 31, 2007	Three months ended, March 31, 2008
Income:		
Net income	9,475,308	15,172,848
Basic earnings per share:		
Weighted average common shares – Outstanding	16,453,483	30,321,553
Basic earnings per share	0.58	0.50
Effect of dilutive securities		
Warrants (Note 1)	-	23,338
Incentive stock awards (Note 12)	-	35,103
Weighted average common shares – Outstanding	16,453,483	30,379,994
Diluted earnings per share	0.58	0.50

During the three month period ended March 31, 2008, 166,667 warrants were exercised for gross proceeds of \$1,800,004. As of March 31, 2008, the Company has outstanding warrants that entitle their holders to purchase 170,459 shares of common stock at an exercise price of \$10.80 per share. The exercise price of then outstanding 585,589 warrants was above the average market price of the Company's shares during the three month period ended March 31, 2007. Consequently, the Company's warrants were anti-dilutive and not included in the computation of diluted earnings per share for the three month period ended March 31, 2007.



Euroseas Ltd. and subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

For the three month periods ended March 31, 2007 and 2008

(All amounts expressed in U.S. Dollars)

## 12. Stock Incentive Plan

Under the Company's 2007 Stock Incentive Plan, the Board awarded 135,000 unvested restricted shares to twelve key persons on December 18, 2007 of which 50% vested on December 20, 2007, and, the remaining will vest on December 15, 2008 subject to continuous employment with the Company. Awards to officers and directors amounted to 80,000 shares; the remaining 55,000 shares were awarded to employees of Eurobulk, which are treated as non-employees for share-based compensation accounting purposes. An additional award of 150,000 unvested restricted shares was made to the same twelve key persons on February 7, 2008 of which 50% will vest on August 7, 2008 and 50% on August 7, 2009; awards to officers and directors amounted to 95,000 shares and the remaining 55,000 shares were awarded to employees of Eurobulk.

All unvested restricted shares are conditional upon the grantee's continued service as an employee of the Company, Eurobulk or as a director until the applicable vesting date. The grantee does not have the right to vote such unvested restricted shares until they vest or exercise any right as a shareholder of these shares, however, the unvested shares will accrue dividends as declared and paid, which will be retained by the Company until the shares vest at which time they are payable to the grantee. As of March 31, 2008, the unvested restricted shares accrued \$65,250 dividends. As unvested restricted share grantees accrue dividends on awards that are expected to vest, such dividends are charged to retained earnings.

The Company estimates the forfeitures of unvested restricted shares to be immaterial. The Company will, however, re-evaluate the reasonableness of its assumption at each reporting period.

The compensation cost that has been charged against income for those plans was \$0 and \$367,740 for the three month periods ended March 31, 2007 and 2008 respectively.

A summary of the status of the Company's unvested shares as of March 31, 2008 is presented below:

Unvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2008	67,500	\$ 801,225
Granted	150,000	\$ 1,650,000
Vested	-	-
Forfeited	-	-
Unvested at March 31, 2008	217,500	\$ 2,451,225

As of March 31, 2008, there was a total of \$2,116,211 of unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Plan to employees, directors and non-employees (the valuation of the non-employee portion is based on the closing stock price of \$12.00 on March 31, 2008 as awards granted to non-employees are measured at its then-current fair value as of the financial reporting dates until

non-employees complete the service). That cost is expected to be recognized over a weighted-average period of 0.719 years.

Euroseas Ltd. and subsidiaries  
Notes to Unaudited Condensed Consolidated Financial Statements  
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13. Subsequent Events

- a) On May 8, 2008, the Board of Directors declared a cash dividend of \$0.31 per Euroseas Ltd. common share. Such cash dividend was paid on or about June 18, 2008 to the holders of record of Euroseas Ltd. common shares as of June 6, 2008.
- b) Noumea Shipping Ltd, a subsidiary of the Company, on May 12, 2008, entered into an agreement to purchase the 2,556 TEU container vessel M/V “Maersk Noumea” built in 2001 in South Korea, for \$43.5 million. The vessel was delivered to the Company on May 22, 2008. The Company financed the acquisition with cash reserves from its Balance Sheet.

EUROSEAS LTD. AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements  
for the Three Month Periods Ended  
March 31, 2007 and 2008

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SIGNATURES

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

EUROSEAS LTD.  
(registrant)

Dated July 2, 2008  
By: /s/ Aristides J. Pittas  
Aristides J. Pittas  
President

