

TOP SHIPS INC.  
Form 20-F  
June 18, 2010

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

FORM 20-F

(Mark One)

REPORT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission file number 000-50859

TOP SHIPS INC.

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(Exact name of Registrant as specified in its charter)

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(Translation of Registrant's name into English)

Republic of the Marshall Islands

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(Jurisdiction of incorporation or organization)

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1 Vas. Sofias and Meg. Alexandrou Str, 15124 Maroussi, Greece

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(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of

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Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this report may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

TOP SHIPS INC. desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This report and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. When used in this report, the words "anticipate," "believe," "expect," "intend," "estimate," "forecast," "project," "plan," "potential," "may," "should," and similar expressions identify forward-looking statements.

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these assumptions and matters discussed elsewhere herein and in the documents incorporated by reference herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including fluctuations in charterhire rates and vessel values, changes in demand in the shipping market, including the effect of changes in OPEC's petroleum production levels and worldwide oil consumption and storage, changes in regulatory requirements affecting vessel operating including requirements for double hull tankers, changes in TOP SHIPS INC.'s operating expenses, including bunker prices, dry-docking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, changes in the price of our capital investments, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents, political events or acts by terrorists, and other important factors described from time to time in the reports filed by us with the Securities and Exchange Commission, or the SEC.



PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Unless the context otherwise requires, as used in this report, the terms "Company," "we," "us," and "our" refer to TOP SHIPS INC. and all of its subsidiaries, and "TOP SHIPS INC." refers only to TOP SHIPS INC. and not to its subsidiaries. We use the term deadweight ton or dwt, in describing the size of vessels. Dwt, expressed in metric tons each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry.

## A. Selected Financial Data

The following table sets forth the selected historical consolidated financial data and other operating data of TOP SHIPS INC. for the years ended December 31, 2005, 2006, 2007, 2008 and 2009. The following information should be read in conjunction with Item 5 "Operating and Financial Review and Prospects" and the consolidated financial statements and related notes included herein. The following selected historical consolidated financial data of TOP SHIPS INC. are derived from our consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, and have been audited for the year ended December 31, 2005 by Ernst & Young (Hellas) Certified Auditors Accountants S.A, or Ernst and Young, and for the years ended December 31, 2006, 2007, 2008 and 2009 by Deloitte, Hadjipavlou, Sofianos & Cambanis S.A., or Deloitte, both independent registered public accounting firms.

## Year Ended December 31,

U.S.Dollars in thousands, except per share data and average daily results

## STATEMENT OF OPERATIONS DATA

	2005	2006	2007	2008	2009
Revenues	\$244,215	\$310,043	\$252,259	\$257,380	\$107,979
Voyage expenses	36,889	55,351	59,414	38,656	3,372
Charter hire expense	7,206	96,302	94,118	53,684	10,827
Amortization of deferred gain on sale and leaseback of vessels and write-off of seller's credit	(837 )	(8,110 )	(15,610 )	(18,707 )	(7,799 )
Lease termination expense					15,391
Vessel operating expenses	47,315	66,082	67,914	67,114	23,739
Dry-docking costs	10,478	39,333	25,094	10,036	4,602
General and administrative expenses	23,750	23,271	25,000	31,388	23,835
Gain on sale of vessels	(10,831 )	(12,667 )	(1,961 )	(19,178 )	-
Vessel Depreciation	47,055	35,266	27,408	32,664	31,585
Impairment on vessels	-	-	-	-	36,638
Total operating expenses	161,025	294,828	281,377	195,657	142,190
Operating income (loss)	83,190	15,215	(29,118 )	61,723	(34,211 )
Interest and finance costs	(19,430 )	(27,030 )	(19,518 )	(25,764 )	(13,969 )
Loss on financial instruments	(747 )	(2,145 )	(3,704 )	(12,024 )	(2,081 )
Interest income	1,774	3,022	3,248	1,831	235
Other income (expense), net	134	(67 )	16	(127 )	(170 )
Net income (loss)	\$64,921	\$(11,005 )	\$(49,076 )	\$25,639	\$(50,196 )
Earnings (loss) per share, basic and diluted	\$6.96	\$(1.16 )	\$(4.09 )	\$0.97	\$(1.78 )
Weighted average common shares outstanding, basic	9,308,923	10,183,424	11,986,857	25,445,031	28,230,585
Weighted average common shares outstanding, diluted	9,310,670	10,183,424	11,986,857	25,445,031	28,230,585
Dividends declared per share	\$2.64	\$23.13	-	-	-

On January 1, 2009 the Company adopted ASC 260-10-45-61A "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (formerly known as FSP FASB 03-6-1). Upon adoption of the new guidance, unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities and, thus, should be included in the two-class method of computing earnings per share (EPS). This standard was applied retroactively to all periods presented and reduced basic EPS by \$0.01 and \$0.04 for the twelve months ended December 31, 2005 and 2008, respectively. When it was retroactively applied to the years ended December 31, 2006 and 2007, EPS data was not affected due to the fact that the Company incurred a net loss and non-vested shares do not participate in losses.

Year Ended December 31,

U.S. Dollars in thousands, except per share data and average daily results

	2005	2006	2007	2008	2009
<b>BALANCE SHEET DATA</b>					
Current assets	\$67,574	\$72,799	\$102,161	\$57,088	\$3,787
Total assets	970,386	490,885	776,917	698,375	675,149
Current liabilities, including current portion of long-term debt	76,143	45,416	153,290	386,934	427,953
Total long-term debt, including current portion	564,103	218,052	438,884	342,479	399,087
Common Stock	280	108	205	283	311
Stockholders' equity	359,147	161,198	211,408	292,051	247,196
<b>FLEET DATA</b>					
Total number of vessels at end of period	27.0	24.0	23.0	12.0	13.0
Average number of vessels(1)	21.7	26.7	22.4	18.8	13.7
Total calendar days for fleet(2)	7,905	9,747	8,176	6,875	5,008
Total available days for fleet(3)	7,635	8,837	7,562	6,610	4,813
Total operating days for fleet(4)	7,436	8,634	7,032	6,099	4,775
Total time charter days for fleet	5,567	6,223	4,720	4,729	2,841
Total bareboat charter days for fleet	-	-	-	335	1,934
Total spot market days for fleet	1,869	2,411	2,312	1,035	-
Fleet utilization(5)	97.4	% 97.7	% 93.0	% 92.3	% 99.2
<b>AVERAGE DAILY RESULTS</b>					
Time charter equivalent(6)	\$27,881	\$29,499	\$27,424	\$35,862	21,907
Vessel operating expenses(7)	5,985	6,780	8,307	9,762	4,740
General and administrative expenses(8)	3,004	2,388	3,058	4,566	4,759

- (1) Average number of vessels is the number of vessels that constituted our fleet (including leased vessels) for the relevant period, as measured by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in that period.
- (2) Calendar days are the total days the vessels were in our possession for the relevant period. Calendar days are an indicator of the size of our fleet over the relevant period and affect both the amount of revenues and expenses that we record during that period.
- (3) Available days are the number of calendar days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or scheduled guarantee inspections in the case of newbuildings, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels. Companies in the shipping industry generally use available days to measure the number of days in a period during which vessels should be capable of generating revenues. We determined to use available days as a performance metric, for the first time, in the second quarter and first half of 2009. We have determined to adjust the calculation method of utilization to include available days in order to be comparable with shipping companies that calculate utilization using operating days divided by available days.



- (4) Operating days are the number of available days in a period less the aggregate number of days that our vessels are off-hire due to unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which the vessels actually generate revenue.
- (5) Fleet utilization is calculated by dividing the number of operating days during a period by the number of available days during that period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the number of days that its vessels are off-hire for reasons other than scheduled repairs or scheduled guarantee inspections in the case of newbuildings, vessel upgrades, special or intermediate surveys and vessel positioning. We used a new calculation method for fleet utilization, for the first time, in the second quarter and first half of 2009. In all prior filings and reports, utilization was calculated by dividing operating days by calendar days. We have determined to adjust the calculation method in order to be comparable with most shipping companies, which calculate utilization using operating days divided by available days.
- (6) Time charter equivalent rate, or TCE rate, is a measure of the average daily revenue performance of a vessel on a per voyage basis. Our method of calculating TCE rate is consistent with industry standards and is determined by dividing time charter equivalent revenues or TCE revenues by operating days for the relevant time period. TCE revenues are revenues minus voyage expenses. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by the charterer under a time charter contract, as well as commissions. TCE revenues and TCE rate, which are non-GAAP measures, provide additional meaningful information in conjunction with shipping revenues, the most directly comparable GAAP measure, because it assists the Company's management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance.
- (7) Daily vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs are calculated by dividing vessel operating expenses by fleet calendar days for the relevant time period.
- (8) Daily general and administrative expenses are calculated by dividing general and administrative expenses by fleet calendar days for the relevant time period.

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The following table reflects reconciliation of TCE revenues to revenues as reflected in the consolidated statements of operations and calculation of the TCE rate (all amounts are expressed in thousands of U.S. Dollars, except for Average Daily Time Charter Equivalent amounts and Total Operating Days):

	2005	2006	2007	2008	2009
On a consolidated basis					
Revenues	\$244,215	\$310,043	\$252,259	\$257,380	\$107,979
Less:					
Voyage expenses	(36,889 )	(55,351 )	(59,414 )	(38,656 )	(3,372 )
Time charter equivalent revenues	\$207,326	\$254,692	\$192,845	\$218,724	\$104,607
Total Operating days	7,436	8,634	7,032	6,099	4,775
Average Daily Time Charter Equivalent	\$27,881	\$29,499	\$27,424	\$35,862	\$21,907

	2005	2006	2007	2008	2009
Tanker Fleet					
Revenues	\$244,215	\$310,043	\$248,944	\$163,995	\$47,353
Less:					
Voyage expenses	(36,889 )	(55,351 )	(59,253 )	(34,215 )	(1,118 )
Time charter equivalent revenues	\$207,326	\$254,692	\$189,691	\$129,780	\$46,235
Total Operating days	7,436	8,634	6,991	4,357	2,989
Average Daily Time Charter Equivalent	\$27,881	\$29,499	\$27,134	\$29,786	\$15,468

	2007	2008	2009
Drybulk Fleet			
Revenues	\$1,902	\$71,590	\$56,715
Less:			
Voyage expenses	(161 )	(4,441 )	(2,254 )
Time charter equivalent revenues	\$1,741	\$67,149	\$54,461
Total Operating days	41	1,742	1,786
Average Daily Time Charter Equivalent	\$42,463	\$38,547	\$30,493

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.





D. Risk Factors

The following risks relate principally to the industries in which we operate and our business in general. Any of the risk factors could materially and adversely affect our business, financial condition or operating results and the trading price of our common stock.

Risks Related to Our Industries

Disruptions in world financial markets and the resulting governmental action in the United States and other parts of the world could have a material adverse impact on our ability to obtain financing, our results of operations, financial condition and cash flows and could cause the market price of our common shares to decline.

Although the world economy is currently recovering from the second-worst downturn in the last 100 years, the future of this recovery still remains fragile. The effects of the downturn are still lingering as credit remains tight, demand for goods and services has not yet fully recovered and unemployment is high. Most major economies have been backing up this recovery via fiscal stimulus packages, liquidity injections and by decreasing interest rates. The credit markets in the United States and worldwide have experienced significant contraction, de-leveraging and reduced liquidity, and the United States federal government, state governments and foreign governments have implemented a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The Commission, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect further changes in law or interpretations of existing laws.

A number of financial institutions have experienced financial difficulties and, in some cases, have entered bankruptcy proceedings or are in regulatory enforcement actions. The uncertainty surrounding the recovery of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide that is especially evident in our industry, the banking institutions of which have recently been forced to record heavy losses from troubled shipping loans. These difficulties may adversely affect the financial institutions that provide our credit facilities and may impair their ability to continue to perform under their financing obligations to us, which could have an impact on our ability to fund current and future obligations.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in certain securities markets, among other factors. Major market disruptions and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business. The current market conditions may last longer than we anticipate. These recent and developing economic and governmental factors may have a material adverse effect on our results of operations, financial condition or cash flows and could cause the price of our common shares to further decline.

The international tanker and drybulk industries are both cyclical and volatile and this may lead to reductions and volatility in our charter rates when we re-charter our vessels, vessel values and our results of operations.

The international tanker and drybulk industries in which we operate are cyclical with attendant volatility in charter hire rates, vessel values and industry profitability. For both tankers and drybulk vessels, the degree of charter rate volatility among different types of vessels has varied widely. If we enter into a charter when charter rates are low, our revenues and earnings will be adversely affected. In addition, a decline in charter hire rates likely will cause the value of our vessels to decline. In the case of two of our tanker vessels, following the expiration of their charters in 2010 we anticipated that future hires would be at lower rates due to the adverse market conditions that have been prevailing in the product tanker market for most of 2009 and the first quarter of 2010. More specifically in March 2010, one of these vessels commenced a new two-year time charter agreement at a lower gross daily rate. We do not anticipate an improvement in product tanker hire rates in the immediate future and to this end we concluded that there was a need to write down the carrying value of these two vessels to their fair values. See "Item 5 – Operating and Financial Review and Prospects – Critical Accounting Policies-Impairment of long-lived assets" for more information on impairment.

Our current fleet deployment consists mainly of long term time charters and long term bareboat charters which significantly limits our exposure to charter rate volatility and its effect on our result of operations. Additionally, changes in spot rates in the tanker sector and the drybulk sector can affect the value of respective vessels at any given time despite the existence of long term employment contracts. Our ability to re-charter our vessels on the expiration or termination of their current time and bareboat charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in the tanker and drybulk market.

The factors affecting the supply and demand for our vessels are outside our control and are unpredictable. The nature, timing, direction and degree of changes in tanker and drybulk industry conditions are also unpredictable. Factors that influence demand for tanker and drybulk vessel capacity include:

- demand for refined petroleum products and crude oil for tankers and drybulk commodities for drybulk vessels;
- changes in crude oil production and refining capacity as well as drybulk commodity production and resulting shifts in trade flows for crude oil, petroleum product and drybulk commodities;
- the location of regional and global crude oil refining facilities and drybulk commodities markets that affect the distance refined petroleum products and crude oil or drybulk commodities are to be moved by sea;
- global and regional economic and political conditions;
- the location of regional and global crude oil refining facilities and drybulk commodities markets that affect the distance refined petroleum products and crude oil or drybulk commodities are to be moved by sea;
- environmental and other regulatory developments;
- currency exchange rates; and
- weather.



The factors that influence the supply of oceangoing vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- the price of steel;
- vessel casualties;
- potential conversion of vessels to alternative use;
- changes in environmental and other regulations that may limit the useful lives of vessels;
- port or canal congestion;
- the number of vessels that are out of service at a given time; and
- changes in global crude oil and drybulk commodity production.

The international tanker and drybulk shipping industries have experienced drastic downturns after experiencing historically high charter rates and vessel values in the recent past, and a continued downturn in these markets may have an adverse effect on our earnings, impair the carrying value of our vessels and affect compliance with our loan covenants.

The Baltic Drybulk Index, or BDI, a U.S. Dollar daily average of charter rates issued by the London-based Baltic Exchange (an organization providing maritime market information for the trading and settlement of physical and derivative contracts) that takes into account input from brokers around the world regarding fixtures for various routes, dry cargoes and various drybulk vessel sizes, steeply declined in 2008 but then rebounded in 2009, although not to pre-crisis levels. The BDI declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94%, but has since risen to 3,933 as of June 3, 2010. The decline in charter rates was due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which resulted in falling iron ore prices and increased stockpiles in Chinese ports. The decline in charter rates in the drybulk market also affected the value of our drybulk vessels, which followed the trends of drybulk charter rates, and earnings on our charters, and similarly, affected our cash flows, liquidity and compliance with the covenants contained in our loan agreements. During 2009 and the beginning of 2010, the abovementioned factors affecting the BDI partially subsided, allowing for the recovery of rates and a recovery in drybulk vessel values.

The Baltic Dirty Tanker Index, a U.S. Dollar daily average of charter rates issued by the London based Baltic Exchange that takes into account input from brokers around the world regarding crude oil fixtures for various routes various tanker vessel sizes, after a steep decline that started in mid-2008 and lasted until the end of the third quarter 2009, has rebounded in the fourth quarter of 2009, although not to pre-crisis levels. The Baltic Dirty Tanker Index declined from a high of 2,347 in July 2008 to a low of 453 in mid-April 2009, which represents a decline of 80%, but has since risen to 911 as of June 3, 2010.

The Baltic Clean Tanker Index fell from 1,509 points as of June 19, 2008, to 345 points as of April 4, 2009, but has rebounded to 644 points as of June 3, 2010. The dramatic decline in charter rates was due to various factors, including the significant fall in demand for crude oil and petroleum products, the consequent rising inventories of crude oil and petroleum products in the United States and in other industrialized nations and the corresponding reduction in oil refining, the dramatic fall in the price of oil in 2008, and the restrictions on crude oil production that the Organization of Petroleum Exporting Countries (OPEC) and other non-OPEC oil producing countries have imposed in an effort to stabilize the price of oil. During 2009, the abovementioned factors affecting the Baltic Dirty and Clean Tanker Indices partially subsided, allowing for the recovery of rates and a stabilization of tanker vessel values.

If the charter rates in the tanker and drybulk market decline from their current levels, our future earnings may be adversely affected and we may have to record impairment adjustments to the carrying values of our fleet, and we may not be able to maintain compliance with the financial covenants in our loan agreements. We realized impairment charges of \$36.6 million during the fourth quarter of 2009. See "Item 5 – Operating and Financial Review and Prospects – Critical Accounting Policies – Impairment of long-lived assets". We are currently in discussions with our lenders in relation to covenant breaches. Our lenders' interests may be different from ours, and we may not be able to obtain our lenders' permission or waivers when needed. This may limit our ability to continue to conduct our operations, finance our future operations, make acquisitions or pursue business opportunities. A decline in charter rates could have a material adverse effect on our business, financial condition and results of operations. See "Item 5 – Operating and Financial Review and Prospects - Tabular Disclosure of Contractual Obligations – Long term debt" for relevant discussion of debt and respective covenants.

Rising fuel prices may adversely affect our business.

Fuel is a significant, if not the largest, operating expense for many of our shipping operations when our vessels are not under period charter. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail. Currently, all of our vessels are under period employment whereby the fuel cost is taken up by the charterer except for periods when the vessel is off-hire.

Compliance with environmental laws or regulations may adversely affect our operations.

The shipping industry in general and our business and the operation of tankers and drybulk vessels in particular, are affected by a variety of governmental regulations in the form of numerous international conventions, national, state and local laws and international, national and local regulations in force in the jurisdictions in which such tankers and drybulk vessels operate, as well as in the country or countries in which such tankers and drybulk vessels are registered. These regulations include:

- the United States Oil Pollution Act of 1990, or OPA, which imposes strict liability for the discharge of oil into the 200-mile United States exclusive economic zone, the obligation to obtain certificates of financial responsibility for vessels trading in United States waters and the requirement that newly constructed tankers that trade in United States waters be constructed with double-hulls;

- the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended in 2000, or the CLC, entered into by many countries (other than the United States) relating to strict liability for pollution damage caused by the discharge of oil;

- the International Maritime Organization, or IMO (the United Nations agency for maritime safety and the prevention of pollution by ships), International Convention for the Prevention of Pollution from Ships, 1973, as modified by the related Protocol of 1978 relating thereto, or the MARPOL Convention, which has been updated through various amendments, with respect to strict technical and operational requirements for tankers;

- the IMO International Convention for the Safety of Life at Sea, or SOLAS Convention, with respect to crew and passenger safety;

- the International Convention on Load Lines, 1966, or LL Convention, with respect to the safeguarding of life and property through limitations on load capability for vessels on international voyages;

the United States Marine Transportation Security Act of 2002, or MTSA; and

The European Union Directive 1999/32/EC of 1999 as amended by Directive 2005/33/EC of 2005, regarding reductions in emissions of sulphur dioxide resulting from the combustion of petroleum-derived liquid fuels within Member States' territory, territorial seas and exclusive economic zones or pollution control zones.

Additional laws and regulations may also be adopted that could limit our ability to do business or increase the cost of our doing business and that could have a material adverse effect on our operations. In addition, we are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates and financial assurances with respect to our vessel operations. In the event of war or national emergency, our tankers and drybulk vessels may be subject to requisition by the government of the flag flown by the tanker or drybulk vessel without any guarantee of compensation for lost profits. We believe our vessels are maintained in good condition in compliance with present regulatory requirements, are operated in compliance with applicable safety/environmental laws and regulations and are insured against usual risks for such amounts as our management deems appropriate. In relation to EU and US low-sulphur requirements our vessels are currently in the process of being in full compliance. Our vessels' operating certificates and licenses are renewed periodically during each vessel's required annual survey. However, government regulation of tankers and drybulk vessels, particularly in the areas of safety and environmental impact, may change in the future and require us to incur significant capital expenditures on our ships to keep them in compliance.

Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, natural resource damages and third-party claims for personal injury or property damages, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our current or historic operations. We could also incur substantial penalties, fines and other civil or criminal sanctions, including in certain instances seizure or detention of our vessels, as a result of violations of or liabilities under environmental laws, regulations and other requirements.

For example, OPA affects all vessel owners shipping oil to, from or within the United States. OPA allows for potentially unlimited liability for owners, operators and bareboat charterers of vessels without regard to fault for oil pollution in United States waters. Similarly, the CLC, which has been adopted by most countries outside of the United States, imposes liability for oil pollution in international waters. OPA expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution incidents occurring within their boundaries. Coastal states in the United States have enacted pollution prevention liability and response laws, many providing for unlimited liability.

Future accidents may be expected in the shipping industry, and such accidents or other events may be expected to result in the adoption of even stricter laws and regulations, which could limit our operations or our ability to do business and which could have a material adverse effect on our business and financial results.

We are subject to international safety regulations and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports.

The operation of our vessels is affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires shipowners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. As of the date of this Annual Report, each of our vessels is ISM code-certified.





Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention. Our vessels are currently enrolled with Lloyd's Register of Shipping, Det Norske Veritas and Bureau Veritas each of which is a member of the International Association of Classification Societies.

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection.

Most vessels are also dry-docked every 30 to 36 months for inspection of the underwater parts and for repairs related to such inspections. If any defects are found, the classification surveyor will issue a "recommendation" which must be rectified by the ship owner within prescribed time limits.

If a vessel does not maintain its class and/or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable, which will negatively impact our revenues and results from operations.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries and the IMO have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures may include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. In addition, although the emissions of greenhouse gases from international shipping currently are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which required adopting countries to implement national programs to reduce emissions of certain gases, a new treaty may be adopted in the future that includes restrictions on shipping emissions. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil and gas industry relating to climate change, including growing public concern about the environmental impact of climate change, may also adversely affect demand for our services. For example, increased regulation of greenhouse gases or other concerns relating to climate change may reduce the demand for oil and gas in the future or create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

Our vessels may suffer damage due to the inherent operational risks of the seaborne transportation industry and we may experience unexpected dry-docking costs, which may adversely affect our business and financial condition.

Our vessels and their cargoes will be at risk of being damaged or lost because of events such as marine disasters, bad weather, business interruptions caused by mechanical failures, grounding, fire, explosions and collisions, human error, war, terrorism, piracy and other circumstances or events. These hazards may result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to our customer relationships, delay or rerouting. If our vessels suffer damage, they may need to be repaired at a dry-docking facility. The costs of dry-dock repairs are unpredictable and may be substantial. We may have to pay dry-docking costs that our insurance does not cover in full. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at dry-docking facilities is sometimes limited and not all dry-docking facilities are conveniently located. We may be unable to find space at a suitable dry-docking facility or our vessels may be forced to travel to a dry-docking facility that is not conveniently located to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to steam to more distant dry-docking facilities would decrease our earnings.

Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels or we may be required to write down their carrying value, which will adversely affect our earnings.

Current market conditions have caused a decrease in the fair market value of our vessels. The fair market value of our vessels may increase and decrease depending on the following factors:

- general economic and market conditions affecting the international tanker and drybulk shipping industries;
- prevailing level of charter rates;
- competition from other shipping companies;
- types, sizes and ages of vessels;
- other modes of transportation;
- cost of newbuildings;
- price of steel;
- governmental or other regulations; and
- technological advances.

If we sell vessels at a time when vessel prices have fallen, the sale may be at less than the vessel's carrying amount in our financial statements in which case we will realize a loss. Vessel prices can fluctuate significantly, and in the case where the market value falls below the carrying amount we evaluate the asset for a potential impairment and may be required to write down the carrying amount of the vessels on our financial statements and incur a loss and a reduction in earnings, if the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount. Such was the case for our two oldest tankers, which resulted in an impairment charge of \$36.6 million during the fourth quarter of 2009. See "Item 5 – Operating and Financial Review and Prospects - Critical Accounting Policies" for relevant discussion and analysis.



An over-supply of drybulk carrier and/or tanker capacity may lead to reductions in charter hire rates and profitability.

The market supply of drybulk carriers has been increasing, and the number of drybulk carriers on order is near historic highs. These newbuildings were delivered in significant numbers starting at the beginning of 2006 and continuing through 2010. As of December 31, 2009, newbuilding orders had been placed for an aggregate of approximately 57% of the existing global drybulk fleet, with deliveries expected during the next 36 months.

The market supply of tankers is affected by a number of factors such as demand for energy resources, oil and petroleum products, as well as strong overall economic growth in part of the world economy, including Asia. As of December 31, 2009, newbuilding orders have been placed for an aggregate of approximately 30% of the existing global tanker fleet.

An over-supply of drybulk carrier and/or tanker capacity may result in a reduction of charter hire rates. If such a reduction occurs, we may only be able to re-charter our vessels at reduced or unprofitable rates or we may not be able to charter these vessels at all upon the expiration or termination of our vessels' current charters.

Operating results from our tankers are subject to seasonal fluctuations, which may adversely affect our operating results.

Eight of the vessels in our combined fleet are tankers. We operate our tankers in markets that have historically exhibited seasonal variations in demand and, therefore, charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The tanker sector is typically stronger in the fall and winter months in anticipation of increased consumption of oil and petroleum products in the northern hemisphere during the winter months. As a result, our revenues from our tankers may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, revenues may be stronger in fiscal quarters ended December 31 and March 31. This seasonality could materially affect our results of operations.

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

Given current market conditions, we seek to deploy our vessels on time and bareboat charters in a manner that will help us achieve a steady flow of earnings. As of the date of this annual report, two of our tanker vessels and four of our drybulk vessels were contractually committed to time charters, and six of our tanker vessels and one of our drybulk vessels were contractually committed to bareboat charters. Although these period charters provide relatively steady streams of revenue as well as a portion of the revenues generated by the charterer's deployment of the vessels in the spot market or otherwise, our vessels committed to period charters may not be available for spot voyages during an upturn in the tanker or drybulk industry cycle, as the case may be, when spot voyages might be more profitable. The spot market is highly competitive, and spot market charter rates may fluctuate dramatically based on the supply and demand for the major commodities carried internationally by water as well as other factors. As of the date of this annual report, we did not have any vessels that were trading in the spot market. If we cannot continue to employ our vessels on profitable time charters or trade them in the spot market profitably, our results of operations and operating cash flow may suffer if rates achieved are not sufficient to cover respective vessel operating and financial expenses.

World events could adversely affect our results of operations and financial condition.

Terrorist attacks such as the attacks on the United States on September 11, 2001, the bombings in Spain on March 11, 2004 and in London on July 7, 2005 and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks in the United States or elsewhere, continue to cause uncertainty in the world financial markets and may affect our business, operating results and financial condition. The continuing conflict in Afghanistan may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain any additional financing or, if we are able to obtain additional financing, to do so on terms unfavorable to us. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Any of these occurrences could have a material adverse impact on our business, financial condition and results of operations.

Acts of piracy on oceangoing vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected oceangoing vessels trading in regions of the world such as the South China Sea and the Gulf of Aden off the coast of Somalia. Throughout 2008, 2009 and 2010, the frequency of piracy incidents against commercial shipping vessels increased significantly, particularly in the Gulf of Aden. Since the beginning of 2009, numerous tanker and drybulk vessels have fallen victim to piracy attacks off the coast of Somalia. For example, on December 28, 2009, the M/V Navios Apollon, a drybulk vessel not affiliated with us, was seized by pirates while transporting fertilizers 800 miles off the Somali coast.

If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones, as the Gulf of Aden has been since May 2008, or Joint War Committee "war and strikes" listed areas, premiums payable for such insurance coverage could increase significantly and such insurance coverage may be more difficult to obtain. Crew costs, including those due to employing onboard security guards, could increase in such circumstances. In addition, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not "on-hire" for a certain number of days and it is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five-year plans, or State Plans, are adopted by the Chinese government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through State Plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken, with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition

based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform the level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could, adversely affect our business, operating results and financial condition.

A further economic slowdown in the Asia Pacific region could exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations.

We anticipate a significant number of the port calls made mainly by our drybulk vessels will continue to involve the loading or discharging of drybulk commodities in ports in the Asia Pacific region. As a result, negative changes in economic conditions in any Asia Pacific country, particularly in China, may exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial position and results of operations, as well as our future prospects.

Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The economic crisis affected China as well, though to a much lesser extent, as was evidenced by the slowdown in GDP growth in the last quarter of 2008 and the first half of 2009. In 2009, the successful implementation of a \$586.0 billion stimulus package aimed in part at increasing investment and consumer spending and maintaining export growth helped propel China to pre-crisis levels of growth, as was evidenced by the fourth quarter GDP growth of 10.7% that helped raise the annual GDP growth for 2009 to 8.7%. However, fears of an overheated economy led the Chinese government to adopt restraining monetary measures, increasing the required deposits for commercial banks, in an effort to deflate a potential asset bubble. If the Chinese government keeps pursuing such restraining measures, that could impact the demand for shipping services and slow down the world recovery from the economic crisis. Our business, financial condition and, results of operations as well as our future prospects, will likely be materially and adversely affected by a further economic downturn in any of these countries.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of, delay in the loading, offloading or delivery of, the contents of our vessels or the levying of customs duties, fines or other penalties against us. It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, financial condition, and results of operations.

If our vessels call on ports located in countries that are subject to restrictions imposed by the U.S. government, that could adversely affect our reputation and the market for our common stock.

From time to time, vessels in our fleet may call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and countries identified by the U.S. government as state sponsors of terrorism. Although these sanctions and embargoes do not prevent our vessels from making calls to ports in these countries, potential investors could view such port calls negatively, which could adversely affect our reputation and the market for our common stock. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in or to divest our common shares may adversely affect the price at which our common shares trade. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.





## Risks Related to Our Company

We are in breach of certain loan covenants contained in our loan agreements. If we are not successful in obtaining waivers and amendments with respect to covenants breached, our lenders may declare an event of default and accelerate our outstanding indebtedness under the relevant agreement, which would impair our ability to continue to conduct our business.

Our loan agreements require that we comply with certain financial and other covenants. As a result of the significant drop of drybulk asset values beginning in the fourth quarter of 2008 and the continuous fall of tanker asset values during 2009, especially product tankers, we were not in compliance with covenants relating to vessel values such as asset cover ratio for our product tankers, adjusted net worth and net asset value covenants as of December 31, 2009. In addition, we were in breach of EBITDA and minimum liquidity covenants with certain banks. A violation of these covenants constitutes an event of default under our credit facilities, which would, unless waived by our lenders, provide our lenders with the right to require us to post additional collateral, enhance our equity and liquidity, increase our interest payments, pay down our indebtedness to a level where we are in compliance with our loan covenants, sell vessels in our fleet, reclassify our indebtedness as current liabilities and accelerate our indebtedness and foreclose their liens on our vessels, which impairs our ability to continue to conduct our business. As a result of these breaches, our total indebtedness of \$404.3 million (excluding unamortized deferred financing fees of \$5.2 million) and financial instruments of \$13.8 million are presented within current liabilities in the accompanying December 31, 2009 consolidated balance sheet. The amounts of long term debt and financial instruments that have been reclassified and presented together with current liabilities amount to \$351.2 million and \$9.9 million, respectively.

As of the date of this annual report, we have no waivers for any of these covenant breaches. We are currently in discussion with our banks in relation to these covenant breaches. For more details on loans and relevant breaches see "Item 5 – Operating and Financial Review and Prospects – Tabular Disclosure of Contractual Obligations – Long term debt".

Breach of our loan covenants, without applicable waiver, entitles our lenders to accelerate our debt. If our indebtedness is accelerated, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our vessels if our lenders foreclose their liens.

Our inability to comply with loan covenants under our loan agreements raises substantial doubt about our ability to continue as a going concern.

As discussed above, we are in breach of certain loan covenants contained in our loan agreements. As a result of these loan covenant breaches, our lenders may choose to accelerate our indebtedness. We believe that as long as we are able to meet our obligations as they fall due, our lenders will not accelerate our indebtedness.

Therefore, our ability to continue as a going concern is dependent on management's ability to successfully generate revenue to meet our obligations as they become due and have the continued support of our lenders. Our independent registered public accounting firm has issued its opinion, similar to its opinion included in our 2008 annual report, with an explanatory paragraph emphasizing that we have prepared our financial statements under the going concern assumption despite our covenants breaches and working capital deficit. Our financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of our inability to continue as a going concern. However, there is a material uncertainty related to events or conditions which raises significant doubt on our ability to continue as a going concern and, therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business.



If we need to receive waivers and/or amendments to our loan agreements in the future, our lenders may impose additional operating and financial restrictions on us and/or modify the terms of our existing loan agreements.

In connection with future waivers or amendments with our lenders, we may agree to additional restrictions on us. See "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Breach of Loan Covenants." Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we may not be able to obtain our lender's permission when needed, which could prevent us from pursuing a course of action that we deem necessary. In addition to the above restrictions, our lenders may require the payment of additional fees, require additional increase in margins, require prepayment of a portion of our indebtedness to them, or impose other conditions on the issuance of waivers, which could adversely affect our financial results and hinder our ability to raise capital.

Servicing current and future debt will limit funds available for other purposes and impair our ability to react to changes in our business.

To finance our fleet expansion program, we incurred secured indebtedness. We must dedicate a portion of our cash flow from operations to pay the principal and interest on our indebtedness. These payments limit funds otherwise available for working capital, capital expenditures and other purposes. As of December 31, 2009, we had total indebtedness of \$404.3 million (excluding unamortized deferred financing fees of \$5.2 million), and a ratio of indebtedness to total capital of approximately 62%. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of, our indebtedness. Our substantial debt could also have other significant consequences. For example, it could:

- increase our vulnerability to general economic downturns and adverse competitive and industry conditions;
- require us to dedicate a substantial portion, if not all, of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to competitors that have less debt or better access to capital;
- limit our ability to raise additional financing on satisfactory terms or at all; and
- adversely impact our ability to comply with the financial and other restrictive covenants in the indenture governing the notes and the credit agreements governing the debts of our subsidiaries, which could result in an event of default under such agreements.

Furthermore, our interest expense could increase if interest rates increase because most of our debt and all the debt under the credit facilities of our subsidiaries is variable rate debt. If we do not have sufficient earnings, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or sell more securities, none of which we can guarantee we will be able to do.

Our loan agreements contain restrictive covenants that may limit our liquidity and corporate activities.

Our loan agreements impose operating and financial restrictions on us. These restrictions may limit our ability to:

- incur additional indebtedness;
- create liens on our assets;
- sell capital stock of our subsidiaries;
- engage in mergers or acquisitions;
- pay dividends;
- make capital expenditures or other investments;
- charter our vessels;
- change the management of our vessels or terminate or materially amend the management agreement relating to each vessel; and;
- sell our vessels.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. This may prevent us from taking actions that are in our best interest.

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

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

- our ability to generate excess cash flow so that we can invest without jeopardizing our ability to cover current and foreseeable working capital needs (including debt service);
- obtaining required financing;
- locating and acquiring suitable vessels;
- identifying and consummating acquisitions or joint ventures;
- integrating any acquired business successfully with our existing operations;
- enhancing our customer base; and
- managing expansion.

Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty in obtaining additional qualified personnel, managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. We may not be successful in executing our growth plans and we may incur significant additional expenses and losses in connection therewith.



The derivative contracts we have entered into to hedge our exposure to fluctuations in interest rates could result in higher-than-market interest rates and charges against our income.

As of December 31, 2009, we have twelve interest rate swaps for purposes of managing our exposure to fluctuations in interest rates applicable to indebtedness under our credit facilities. Our hedging strategies, however, may not be effective and we may incur substantial losses if interest rates move materially differently from our expectations. Since our existing interest rate swaps do not, and future derivative contracts may not, qualify for treatment as hedges for accounting purposes, we recognize fluctuations in the fair value of such contracts in our statement of operations. In addition, our financial condition could be materially adversely affected to the extent we do not fully hedge our exposure to interest rate fluctuations under our financing arrangements.

Any hedging activities we engage in may not effectively manage our interest rate exposure or have the desired impact on our financial conditions or results of operations. During the year ended December 31, 2009, the change in fair value of our interest rate swaps was an unrealized gain of \$2.6 million. See Note 21 to our December 31, 2009 consolidated financial statements included herein.

Due to the decline in interest rates since December 31, 2009, the fair value of our interest rate swaps as of March 31, 2010, which is the most recent date for which the Company has received a fair value estimate, was an unrealized gain of \$0.04 million.

Our ability to obtain additional debt financing may be dependent on the performance of our then existing charters and the creditworthiness of our charterers.

The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional capital resources that we will require to purchase additional vessels or may significantly increase our costs of obtaining such capital. Our inability to obtain additional financing at all or at a higher than anticipated cost may materially affect our results of operation and our ability to implement our business strategy.

We may not be able to renew our time charters when they expire.

We might not be able to renew our existing time charters or, if renewed, they might not be at favorable rates. If, upon expiration of the existing time charters, we are unable to obtain time charters or voyage charters at desirable rates, our profitability may be adversely affected.

In the case of two of our tanker vessels, we anticipated that future hires would be at lower rates following the expiration of their charters in 2010, due to the adverse market conditions that have been prevailing in the product tanker market for most of 2009 and the first quarter of 2010. More specifically, in March 2010, one of these vessels commenced a new two-year time charter agreement, at a lower gross daily rate. We do not anticipate an improvement in product tanker hire rates in the immediate future and to this end we concluded that there was a need to write down the carrying value of these two vessels to their fair values. See "Item 5 – Operating and Financial Review and Prospects – Critical Accounting Policies – Impairment of long-lived assets" for more information on impairment.

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

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. The operation of tanker and drybulk vessels and the transportation of cargoes shipped in these vessels, as well as the shipping industry in general, is extremely competitive. Competition arises primarily from other vessel owners, including major oil companies as well as independent tanker and drybulk shipping companies, some of whom have substantially greater resources than we do. Competition for the transportation of oil and refined petroleum products and drybulk cargoes can be intense and depends on price, location, size, age, condition and the acceptability of the vessel and its operators to the charterers. Due in part to the highly fragmented market, competitors with greater resources could enter and operate larger fleets through consolidations or acquisitions that may be able to offer better prices and fleets than us.

We depend upon a few significant customers for a large part of our revenues. The loss of one or more of these customers could adversely affect our financial performance.

We have historically derived a significant part of our revenue from a small number of charterers. In 2008, approximately 26% of our revenue was derived from two charterers. These two charterers, Glencore and PDVSA, respectively provided 17% and 9% of our revenues in 2008. In 2009, approximately 54% of our revenue was derived from three charterers. These three charterers, Glencore, Hanjin and Cosco, provided 22%, 18% and 14% of our revenues in 2009, respectively. If one or more of these customers is unable to perform under one or more charters with us and we are not able to find a replacement charter, or if a customer exercises certain rights to terminate the charter, we could suffer a loss of revenues that could materially adversely affect our business, financial condition and results of operations.

We could lose a customer or the benefits of a charter if, among other things:

- the customer fails to make charter payments because of its financial inability, disagreements with us or otherwise;
- the customer terminates the charter because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or if we are otherwise in default under the charter; or
- the customer terminates the charter because the vessel has been subject to seizure for more than a specified number of days.

If we lose a key customer, we may be unable to obtain charters on comparable terms or may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. The charters on which we deploy 10 of our vessels as of May 21, 2010, provide for charter rates that are significantly above current market rates, particularly spot market rates that most directly reflect the current levels of the drybulk and product tanker charter markets. If it were necessary to secure substitute employment, in the spot market or on charters, for any of these vessels due to the loss of a customer in these market conditions, such employment would be at a significantly lower charter rate than currently generated by such vessel, resulting in a significant reduction in revenues. The loss of any of our customers, charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition.



We may be unable to attract and retain key management personnel and other employees in the international tanker and drybulk shipping industries, which may negatively impact the effectiveness of our management and our results of operations.

Our success depends to a significant extent upon the abilities and efforts of our management team. We have entered into employment contracts with our President, Chief Executive Officer, and Director, Evangelos Pistiolis, our Chief Financial Officer and Director, Alexandros Tsirikos, our Executive Vice President, Chairman and Director, Vangelis Ikonomidou and our Vice President Demetris Souroullas. Our success will depend upon our ability to hire and retain key members of our management team. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining personnel could adversely affect our results of operations. We do not maintain "key man" life insurance on any of our officers.

As we expand our business, we will need to improve our operations and financial systems and staff; if we cannot improve these systems or recruit suitable employees, our performance may be adversely affected.

Our current operating and financial systems may not be adequate as we implement our plan to expand the size of our fleet, and our attempts to improve those systems may be ineffective. If we are unable to operate our financial and operations systems effectively or to recruit suitable employees as we expand our fleet, our performance may be adversely affected.

Risks involved with operating oceangoing vessels could affect our business and reputation, which would adversely affect our revenues and stock price.

The operation of an oceangoing vessel carries inherent risks. These risks include the possibility of:

• marine disaster;

• piracy;

• environmental accidents;

• cargo and property losses or damage; and

• mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

Any of these circumstances or events could result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to our customer relationships, delay or rerouting, and could increase our costs or lower our revenues. The involvement of our vessels in an oil spill or other environmental disaster may harm our reputation as a safe and reliable vessel operator. If one of our vessels were involved in an accident with the potential risk of environmental contamination, the resulting media coverage could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Our vessels may suffer damage and we may face unexpected dry-docking costs, which could affect our cash flow and financial condition.

If our vessels suffer damage, they may need to be repaired at a dry-docking facility, resulting in vessel downtime. The costs of dry-dock repairs are unpredictable and can be substantial. We may have to pay dry-docking costs that our insurance does not cover. The inactivity of these vessels while they are being repaired and repositioned, as well as the

actual cost of these repairs, would decrease our earnings. In addition, space at dry-docking facilities is sometimes limited and not all dry-docking facilities are conveniently located. We may be unable to find space at a suitable dry-docking facility or we may be forced to move to a dry-docking facility that is not conveniently located to our vessels' positions. The loss of earnings while our vessels are forced to wait for space or the cost to relocate the vessel to dry-docking facilities that are farther away from the routes on which our vessels trade would have a negative effect on our results of operations.

The operation of drybulk carriers and tankers each involve certain unique operational risks.

The operation of drybulk carriers has certain unique operational risks. With a drybulk carrier, the cargo itself and its interaction with the ship can be a risk factor. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold), and small bulldozers. This treatment may cause damage to the drybulk carrier. Drybulk carriers damaged due to treatment during unloading procedures may be more susceptible to a breach to the sea. Hull breaches in drybulk carriers may lead to the flooding of their holds. If a drybulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the drybulk carrier's bulkheads leading to the loss of the drybulk carrier.

The operation of tankers has unique operational risks associated with the transportation of oil. An oil spill may cause significant environmental damage, and a catastrophic spill could exceed the insurance coverage available. Compared to other types of vessels, tankers are exposed to a higher risk of damage and loss by fire, whether ignited by a terrorist attack, collision, or other cause, due to the high flammability and high volume of the oil transported in tankers.

If we are unable to adequately maintain or safeguard our vessels we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, results of operations and financial condition. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

A drop in spot charter rates may provide an incentive for some charterers to default on their charters, which could affect our cash flow and financial condition.

During August 2009, we announced that the bareboat charterer of the M/V Papillon (ex VOC Gallant) had notified us of its intention to pay a reduced charterhire rate of \$18,000 per day for the month of August rather than \$24,000 per day on a bareboat basis as is set forth in the charterparty. The dispute was resolved and the charterer has paid the full amount of charterhire as required under the charter agreements.

On January 11, 2010, we announced that we had received from the bareboat charterer of the M/T Ionian Wave and the M/T Tyrrhenian Wave a reduced charter hire rate of \$10,000 per day rather than the \$14,300 per day on a bareboat basis that is set forth in the charter agreement. We have been examining this unilateral reduction and intend to take all necessary steps to recover the amounts owed since the said charterer is considered to be in breach of the charter. We may not be able to recover these amounts, which would result in lower-than-expected cash flows.

When we enter into a time or bareboat charter, charter rates under that charter are fixed for the term of the charter. If the spot charter rates in the tanker or drybulk shipping industry, as applicable, become significantly lower than the time charter equivalent rates that some of our charterers are obligated to pay us under our existing charters, the charterers may have incentive to default under that charter or attempt to renegotiate the charter. If our charterers fail to pay their obligations, we would have to attempt to re-charter our vessels at lower charter rates, and as a result we could sustain significant losses which could have a material adverse effect on our cash flow and financial condition, which would affect our ability to meet our loan repayment obligations in which case our lenders could choose to accelerate our indebtedness and foreclose their liens, and we could be required to sell vessels in our fleet and our ability to continue to conduct our business would be impaired.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Our current operating fleet has an average age of approximately five years. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, including environmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which our vessels may engage. As our vessels age, market conditions might not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

Unless we set aside reserves or are able to borrow funds for vessel replacement, at the end of a vessel's useful life our revenue will decline, which would adversely affect our business, results of operations and financial condition.

Unless we maintain reserves or are able to borrow or raise funds for vessel replacement we will be unable to replace the vessels in our fleet upon the expiration of their remaining useful lives, which we estimate to be 25 years from the date of initial delivery from the shipyard. Our cash flows and income are dependent on the revenues earned by the chartering of our vessels to customers. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our business, results of operations and financial condition will be materially and adversely affected.

Purchasing and operating previously owned, or secondhand, vessels may result in increased operating costs and vessels off-hire, which could adversely affect our earnings.

While we rigorously inspect previously owned, or secondhand vessels prior to purchase, this does not normally provide us with the same knowledge about their condition and cost of any required (or anticipated) repairs that we would have had if these vessels had been built for and operated exclusively by us. Also, we do not receive the benefit of warranties from the builders if the vessels we buy are older than one year. In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel.

We may not have adequate insurance to compensate us if we lose our vessels.

We procure insurance for our fleet against those types of risks commonly insured against by vessel owners and operators. These insurances include hull and machinery insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance coverage, war risk insurance and insurance against loss of hire, which covers business interruptions that result in the loss of use of a vessel. In addition, we currently have loss of hire insurance that covers, subject to annual coverage limits, vessels M/V Cyclades, M/V Pepito, M/T Ioannis P, M/T Ionian Wave and M/T Hongbo. In the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. The insurers may not pay particular claims. Our insurance policies contain deductibles for which we will be responsible as well as, limitations and exclusions which may nevertheless increase our costs or lower our revenue.

We may be subject to calls because we obtain some of our insurance through protection and indemnity associations.

We may be subject to increased premium payments, or calls, in amounts based on our claim records and the claim records of our fleet managers as well as the claim records of other members of the protection and indemnity associations through which we receive insurance coverage for tort liability, including pollution-related liability. In addition, our protection and indemnity associations may not have enough resources to cover claims made against them. Our payment of these calls could result in significant expense to us, which could have a material adverse effect on our business, results of operations and financial condition.

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of money to have the arrest lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our ships.

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

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes her owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could negatively impact our revenues should we not receive adequate compensation.

Certain existing stockholders, who hold approximately 32.38% of our common stock, may have the power to exert control over us, which may limit your ability to influence our actions.

As of June 15, 2010, Sovereign Holdings Inc., or Sovereign Holdings, a company that is wholly owned by our President, Chief Executive Officer and Director, Evangelos J. Pistiolis, and Kingdom Holdings Inc., or Kingdom Holdings, a company owned primarily by adult relatives of Mr. Pistiolis, own, directly or indirectly, approximately 13.34% of the outstanding shares of our common stock. In addition, Sphinx Investment Corp., Maryport Navigation Corp. and Mr. George Economou through Sphinx Investment Corp. and Maryport Navigation Corp. beneficially owns 12.56% of the outstanding shares of our common stock. QVT Financial LP, QVT Financial GP LLC and QVT Associates GP LLC own 6.48% of the outstanding shares of our common stock. Sphinx Investment Corp., Maryport Navigation Corp., QVT Financial LP, QVT Financial GP LLC and QVT Associates GP LLC are entities owned and controlled by unaffiliated third parties. Together, these existing shareholders own 32.38% of our common stock. While these shareholders have no agreement, arrangement or understanding relating to the voting of their shares of common stock, due to the number of shares of our common stock they own, they have the power to exert considerable influence over our actions.

Our President, Chief Executive Officer, and Director, Mr. Evangelos Pistiolis, has affiliations with a private shipping company which could create conflicts of interest.

The family of our President, Chief Executive Officer, and Director, Mr. Evangelos Pistiolis, owns a private shipping company. This relationship could create conflicts of interest between us, on the one hand, and this private shipping company, on the other hand. These conflicts may arise in connection with the chartering, purchase, sale and operations of the vessels in our fleet versus tankers and drybulk vessels managed by this private shipping company. For example, Mr. Pistiolis may give preferential treatment to vessels that are beneficially owned by this private shipping company because Mr. Pistiolis and members of his family may receive greater economic benefits.

We may have to pay tax on U.S. source income, which would reduce our earnings.

Under the U.S. Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not begin and end, in the U.S. is characterized as United States source shipping income and such income is subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code. We expect that we and each of our subsidiaries will qualify for this statutory tax exemption and we have taken this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby become subject to U.S. federal income tax on our U.S. source income. Therefore, we can give no assurances on our tax-exempt status or that of any of our subsidiaries. If we or our subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our U.S. source shipping income. The imposition of this taxation could have a negative effect on our business.

We are likely to be treated as a "passive foreign investment company," which could have adverse U.S. federal income tax consequences to U.S. holders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business; income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC are subject to a disadvantageous United States federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

In general, income derived from the bareboat charter of a vessel will be treated as "passive income" for this purpose and such vessels will be treated as assets which produce "passive income." On the other hand, income derived from the time charter of a vessel will not be treated as "passive income" for this purpose, but rather will be treated as services income; likewise, time chartered vessels will generally not be treated as assets which produce "passive income."

For our 2009 taxable year, we believe that at least 50% of the average value of our assets consisted of vessels which are bareboat chartered. Therefore, we expect to be treated as a PFIC for our 2009 taxable year. We intend to take necessary steps in order to avoid being classified as a PFIC for 2010 and future taxable years, such as expanding our

fleet through the purchase of non-passive income producing assets. However, there can be no assurance that such remedial measures will be effective to avoid PFIC status for 2010 or any future taxable year.

Our U.S. shareholders may face adverse U.S. federal income tax consequences and certain information reporting obligations as a result of us being treated as a PFIC. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Taxation— U.S. Federal Income Taxation – U.S. Federal Income Taxation of U.S. Holders"), such shareholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of their common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of the common shares. See "Taxation – U.S. Federal Income Taxation – U.S. Federal Income Taxation of U.S. Holders" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders as a result of our status as a PFIC. In addition, as a result of being treated as a PFIC for the 2009 taxable year, any dividends paid by us during 2009 and 2010 will not be eligible to be treated as "qualified dividend income," which may otherwise be eligible for preferential tax rates in the hands of non-corporate U.S. shareholders.

Because we generate all of our revenues in U.S. Dollars but incur a portion of our expenses in other currencies, exchange rate fluctuations could hurt our results of operations.

We generate all of our revenues in U.S. Dollars but incur certain expenses in currencies other than U.S. Dollars, mainly Euros. During 2009, approximately 2% of our expenses were in other currencies and 19% were in Euros. This difference could lead to fluctuations in net income due to changes in the value of the U.S. Dollar relative to the other currencies, in particular, the Euro. Should the Euro further appreciate relative to the U.S. Dollar in future periods, our expenses will increase in U.S. Dollar terms, thereby decreasing our net income. Specifically, during 2009, the average exchange rate was 1.3912 U.S. Dollars to 1 Euro. We have not hedged these risks. Our operating results could suffer as a result.

#### Risks Relating to Our Common Shares

Our share price may continue to be highly volatile, which could lead to a further loss of all or part of an investor's investment.

The market price of our common shares has fluctuated widely since our common shares began trading in July of 2004 on the Nasdaq National Market, now the Nasdaq Global Select Market. Over the last year and a half, the stock market has experienced extreme price and volume fluctuations. This volatility has sometimes been unrelated to the operating performance of particular companies. During 2009, the closing price of our common shares experienced a high of \$3.52 and a low of \$0.77. In addition, because the market price of our common shares has dropped below \$5.00 per share, brokers generally prohibit shareholders from using such shares as collateral for borrowing in margin accounts. This inability to continue to use our common shares as collateral may lead to sales of such shares creating downward pressure on and increased volatility in the market price of our common shares. Furthermore, if the volatility in the market continues or worsens, it could have a further adverse affect on the market price of our common shares, regardless of our operating performance.

The market price of our common shares is due to a variety of factors, including:

- fluctuations in interest rates;
- fluctuations in the availability or the price of oil;
- fluctuations in foreign currency exchange rates;



announcements by us or our competitors;

changes in our relationships with customers or suppliers;

- actual or anticipated fluctuations in our quarterly and annual results and those of other public companies in our industry;
- changes in United States or foreign tax laws;
- actual or anticipated fluctuations in our operating results from period to period;
- shortfalls in our operating results from levels forecast by securities analysts;
- market conditions in the drybulk shipping industry and the general state of the securities markets;
- mergers and strategic alliances in the drybulk shipping industry;
- changes in government regulation;
- a general or industry-specific decline in the demand for, and price of, shares of our common stock resulting from capital market conditions independent of our operating performance;
- the loss of any of our key management personnel; and
- our failure to successfully implement our business plan.

There may not be a continuing public market for you to resell our common shares.

Our common shares and warrants began trading in July of 2004 on the Nasdaq National Market, now the Nasdaq Global Select Market. An active and liquid public market for our common shares may not continue. You may not be able to sell your common shares in the future at the price that you paid for them or at all. In addition, if the price of our common shares remains below \$1.00 for a period of 30 consecutive business days and we are unable to comply with the minimum bid price requirements of the Nasdaq Global Select Market, including any applicable cure period, we may be involuntarily delisted from the Nasdaq Global Select Market.

Investors may experience significant dilution as a result of the offering pursuant to our Standby Equity Distribution Agreement, or SEDA, future offerings and any other future issuances of shares if sold at prices significantly below the price at which they invested.

On July 1, 2009, we entered into the SEDA with Yorkville Advisors Master SPV Ltd, or YA Global. Pursuant to the SEDA, we may offer and sell such number of common shares the proceeds of which equal to \$200 million. See also Note 15 to our consolidated financial statements included herein. On July 1, 2009, we filed a shelf registration statement on Form F-3, which was declared effective on August 13, 2009. Under this registration statement, we registered 57,949,900 shares for resale by YA Global as part of the SEDA limited by our then authorized share capital. As of the date of this Annual Report, we have issued and sold an aggregate of 2,230,000 common shares pursuant to the SEDA resulting in net proceeds of \$2.9 million. The last share sales under the SEDA took place on October 21, 2009. If we sell the remaining U.S. Dollar amount of our common shares offered pursuant to the SEDA of \$197.1 million at an average price equal to \$1.11 per share, which was the last reported closing sale price for our common shares on The Nasdaq Global Select Market on June 3, 2010, we would have approximately 88,613,930 million common shares outstanding, which would represent an increase of 169.39% in our issued and outstanding common shares from December 31, 2009.

Under our registration statement filed on Form F-3, we may also sell up to \$500 million of an undeterminable number of common shares, preferred shares and warrants; provided that we meet all eligibility requirements for sales of securities pursuant to the Form F-3 registration statement. Due to the fact that sales pursuant to related prospectus supplements will be made at market prices or prices related to such market prices, the prices at which we sell these shares will vary and these variations may be significant. Purchasers of the shares we sell, as well as our existing shareholders, will experience significant dilution if we sell shares at prices significantly below the price at which they invested. We may have to attempt to sell additional shares in the future in order to satisfy our capital needs. Lenders may be unwilling to provide future financing or will provide future financing at significantly increased rates. If we are able to sell shares in the future, the prices at which we sell these future shares will vary, and these variations may be significant.

In addition, we may issue additional shares pursuant to our loan facility with DVB. On July 31, 2009, we entered into a bridge loan facility of \$12.5 million with DVB in order to take delivery of our last newbuilding vessel, the M/T Hongbo. In connection with this loan, we issued 12,512,400 common shares to Hongbo Shipping Company Limited, our wholly owned subsidiary, who pledged these shares in favor of DVB as security in case our subsidiary is not able to repay the bridge loan as of the due date of July 31, 2010. This pledge must remain in an amount equal to 180% of the outstanding bridge loan, which amount will be tested at the end of each quarter. We also agreed to file a registration statement for the resale of such shares and use our best efforts to keep the registration statement effective during the security period under the loan documentation. As of the date of this annual report, and based on fair value of our common stock and outstanding balance of the loan measured at March 31, 2010, we are required to issue and pledge 9,756,488 additional shares of common stock. If our subsidiary is not able to repay the bridge loan to DVB bank, the lender may enforce its right to take possession of the pledged shares.

Furthermore, we may issue additional shares pursuant to our equity incentive plan. As of the date of this annual report, we have issued a total of 4,135,604 common shares under our equity incentive plan out of a total of 12,000,000 reserved for issuance thereunder.

Our existing shareholders will experience significant dilution if we issue shares in the future, including the potential issuances described above, at prices significantly below the price at which previous shareholders invested.

Future sales of our common shares could cause the market price of our common shares to decline.

Sales of a substantial number of our common shares in the public market, or the perception that these sales could occur, may depress the market price for our common shares. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.

Lack of volume in our stock may affect investors' ability to sell their shares.

Our common shares have been experiencing low daily trading volumes in the market. As a result, an investor may be unable to sell all of such investor's shares in the desired time period, or may only be able to sell such shares at a significant discount to the previous closing price.

We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law and as a result, shareholders may have fewer rights and protections under Marshall Islands law than under a typical jurisdiction in the United States.

Our corporate affairs are governed by our Amended and Restated Articles of Incorporation and By-laws and by the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public shareholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction.

It may not be possible for investors to enforce U.S. judgments against us.

We and all of our subsidiaries are incorporated in jurisdictions outside the U.S. and substantially all of our assets and those of our subsidiaries are located outside the U.S. In addition, most of our directors and officers are non-residents of the U.S., and all or a substantial portion of the assets of these non-residents are located outside the U.S. As a result, it may be difficult or impossible for U.S. investors to serve process within the U.S. upon us, our subsidiaries or our directors and officers or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we or our subsidiaries are incorporated or where our assets or the assets of our subsidiaries are located (1) would enforce judgments of U.S. courts obtained in actions against us or our subsidiaries based upon the civil liability provisions of applicable U.S. federal and state securities laws or (2) would enforce, in original actions, liabilities against us or our subsidiaries based on those laws.

We may be subject to litigation that, if not resolved in our favor and not sufficiently insured against, could have a material adverse effect on us.

We may be, from time to time, involved in various litigation matters. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment matters, governmental claims for taxes or duties, and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or effect of any claim or other litigation matter, and the ultimate outcome of any litigation or the potential costs to resolve them may have a material adverse effect on us. Insurance may not be applicable or sufficient in all cases and/or insurers may not remain solvent which may have a material adverse effect on our financial condition.

A small number of our stockholders effectively control the outcome of matters on which our stockholders are entitled to vote.

Entities affiliated with Mr. Evangelos Pistiolis, our Chief Executive Officer, currently own, directly or indirectly, approximately 10.11% of our outstanding common stock as of June 15, 2010. In addition, entities affiliated with Mr. George Economou currently own, directly or indirectly, approximately 12.56% of our outstanding common stock as of June 15, 2010. While, as far as we are aware, those stockholders have no agreement, arrangement or understanding relating to the voting of their shares of our common stock, they will effectively control the outcome of matters on which our stockholders are entitled to vote, including the election of directors and other significant corporate actions. The interests of these stockholders may be different from your interests.

Anti-takeover provisions in our organizational documents could have the effect of discouraging, delaying or preventing a merger, amalgamation or acquisition, which could reduce the market price of our common shares.

Several provisions of our Amended and Restated Articles of Incorporation and our Amended and Restated Bylaws could make it difficult for our shareholders to change the composition of our Board of Directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

These provisions include:

- authorizing our Board of Directors to issue "blank check" preferred stock without shareholder approval;

providing for a classified Board of Directors with staggered, three-year terms;

prohibiting cumulative voting in the election of directors;

authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of at least 80% of the outstanding shares of our capital stock entitled to vote for the directors;

prohibiting shareholder action by written consent unless the written consent is signed by all shareholders entitled to vote on the action;

limiting the persons who may call special meetings of shareholders; and

establishing advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

In addition, we have entered into a Stockholder Rights Agreement that will make it more difficult for a third party to acquire us without the support of our Board of Directors and principal shareholders. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control and, as a result, may reduce the market price of our common stock and your ability to realize any potential change of control premium.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our predecessor, Ocean Holdings Inc., was formed as a corporation in January 2000 under the laws of the Republic of the Marshall Islands and renamed TOP TANKERS INC. in May 2004. In December 2007, TOP TANKERS INC. was renamed TOP SHIPS INC. Our common stock is currently listed on the NASDAQ Global Select Market under the symbol "TOPS". The current address of our principal executive office is 1 Vas. Sofias and Meg. Alexandrou Str, 15124 Maroussi, Greece. The telephone number of our registered office is +30 210 812 8000.

On July 23, 2004, we completed our initial public offering. The net proceeds of our initial public offering, approximately \$124.6 million, were primarily used to finance the acquisition of 10 vessels, comprising of eight Ice-class double-hull Handymax tankers and two double-hull Suezmax tankers. The total cost of the acquisition was approximately \$251.3 million.

On November 5, 2004, we completed a follow-on offering of our common stock. The net proceeds of our follow-on offering, approximately \$139.5 million, were used primarily to finance the acquisition of five double-hull Suezmax tankers. The total cost of the acquisition was approximately \$249.3 million.

During 2005, we acquired five double-hull Handymax and four double-hull Suezmax tankers at a total cost of \$453.4 million and sold one double-hull Handymax and our last single-hull Handysize tanker. We sold and leased-back five double-hull Handymax tankers for a period of seven years.

From April 2006, until July 2006, we issued through a "controlled equity offering" 1,302,454 shares of common stock, par value \$0.01. The net proceeds totaled \$26.9 million.

During 2006, we sold and leased-back on a fixed charter basis four double-hull Handymax, four double-hull Suezmax and five double-hull Suezmax tankers for periods of five years, five years and seven years, respectively. Additionally, we sold three double-hull Handymax tankers, and we entered into an agreement with SPP Shipbuilding Co., Ltd. of the Republic of Korea, or SPP, for the construction of six product/chemical tankers.

In May 2007, we re-acquired four Suezmax tankers that we sold in 2006 in an earlier sale and leaseback transaction and terminated the respective bareboat charters. The re-acquisition price was \$208.0 million and was partially financed by the early redemption of the seller's credit of \$20.6 million associated with the 2006 sales and leaseback transactions, along with secured debt financing and cash from operations.

From June 2007 until July 2007, we issued through a "controlled equity offering" 1,435,874 shares of common stock, par value \$0.01. The net proceeds totaled \$29.4 million.

During July and August 2007, we agreed to acquire one Supramax, one Handymax and four Panamax drybulk vessels at a total cost of \$370.1 million. The Handymax and two of the four Panamax drybulk vessels were delivered to us during the fourth quarter of 2007. The Supramax and the remaining two Panamax drybulk vessels were delivered to us during the first two quarters of 2008.

In December 2007, we completed a follow-on offering of our common stock. The net proceeds of this follow-on offering, approximately \$68.9 million, were used primarily to repay outstanding secured debt and to partially finance the acquisition of the six drybulk vessels mentioned above, one of which we have since sold.





During 2007 we sold one Suezmax tanker, we agreed to sell one Suezmax tanker that we later delivered in January 2008 to its new owners, and we terminated the bareboat charters on three Handymax tankers that we sold in 2006 in sale and leaseback transactions, due to the sale of the vessels by their owners to third parties.

During 2008, we took delivery of one Supramax drybulk vessel and two Panamax drybulk vessels, which we had agreed to acquire in 2007 as mentioned above. Additionally, during 2008, we sold seven owned Suezmax tankers and one Panamax drybulk vessel and we arranged the sale of six chartered-in vessels, under bareboat charters, and terminated the respective charters.

On March 20, 2008, we effected a three-for-one reverse stock split of our common stock. There was no change in the number of authorized common shares. As a result of the reverse stock split, the number of outstanding shares as of March 20, 2008 decreased to 20,705,380, while the par value of our common shares remained unchanged at \$0.01 per share.

In April 2008, we privately placed with various investors 7.3 million unregistered shares of common stock, par value \$0.01, for aggregate proceeds of approximately \$51.0 million. The 7.3 million shares were sold for \$7.00 per share, which represents a discount of 15.5 percent based on the closing share price of \$8.28 on April 23, 2008. In July 2008, we filed a registration statement on Form F-3, with respect to these 7.3 million shares.

During the fourth quarter of 2008, the Board of Directors authorized a share repurchase program up to \$20 million for a share price of not more than \$2.50 per share for the duration of one year. We began the share repurchases during the fourth quarter of 2008 and the transactions were made in the open market on NASDAQ under Rule 10b-18 of the Exchange Act. As at December 31, 2008, we repurchased and cancelled an amount of 396,949 shares from the open market. We continued our repurchase program until February 3, 2009. During the first two months of 2009, we repurchased an amount of 358,601 shares from the open market. All the outstanding shares that have been repurchased under this program were held initially as treasury stock and were subsequently cancelled. Consequently, the outstanding amount of 358,601 shares was cancelled effective as of February 25, 2009.

In February 2009, we took delivery of M/T Miss Marilena and M/T Lichtenstein from SPP. M/T Miss Marilena and M/T Lichtenstein are two out of six 50,000 dwt product / chemical tankers delivered in 2009. M/T Miss Marilena and M/T Lichtenstein entered into bareboat time-charter employment for a period of 10 years at a daily rate of \$14,400 and \$14,550, respectively.

In March 2009, we took delivery of M/T Ionian Wave and M/T Tyrrhenian Wave from SPP. M/T Ionian Wave and M/T Tyrrhenian Wave are the third and fourth out of the six 50,000 dwt product / chemical tankers discussed above. M/T Ionian Wave and M/T Tyrrhenian Wave entered into bareboat time-charter employment for a period of seven years at a daily rate of \$14,300, with three successive one-year options at a higher daily rate.

In April 2009, we agreed with the owners of the M/T Relentless to terminate the bareboat charter initially entered into as part of the sale and leaseback deal in 2005. Under this agreement, we redelivered the vessel to its owners and paid a termination fee of \$2.5 million during the third quarter of 2009. The bareboat charter would have expired in 2012.

On May 22, 2009, we took delivery of M/T Britto from SPP. M/T Britto is the fifth out of the six 50,000 dwt newbuilding product / chemical tankers delivered in 2009. M/T Britto entered into bareboat time-charter employment for a period of ten years at a daily rate of \$14,550.

On June 24, 2009, we terminated the bareboat charters, initially entered into as part of the sale and leaseback deal in 2006, and redelivered the vessels M/T Faithful, the M/T Doubtless, the M/T Spotless and the M/T Vanguard to their owners after paying \$11.8 million in termination fees and expenses. In addition to the termination fees and expenses, we forfeited our right to receive the seller's credit of \$10.0 million from the initial sale of the vessels, which would have been received upon the expiration of the bareboat charters, and we paid for the dry-dock of the M/T Spotless which was completed during July 2009. The bareboat charters were set to expire in 2011. We remained the managers of M/T Faithful until April 30, 2010, which was shortly after the expiration of its time charter, and we were reimbursed by the owners for all expenses incurred.

On July 3, 2009, we redelivered the M/T Relentless to its owners and paid the termination fee of \$2.5 million as part of a termination agreement signed in April 2009 to terminate the bareboat charter initially entered into as part of the sale and leaseback deal in 2005. In addition to the termination fee, we had undertaken to perform certain works on the vessel prior to its redelivery which involved additional costs. From the date of the agreement until the date of redelivery, the bareboat hire had been set at \$7,000 per day. This was the last leased vessel in our fleet.

On July 1, 2009, we entered into a Standby Equity Distribution Agreement, or the SEDA, with YA Global Master SPV LTD., or YA Global, pursuant to which we may offer and sell up to \$200 million worth of our common shares to YA Global. The SEDA has a duration of three years. We made initial sales under the SEDA on August 13, 2009 and as of December 31, 2009, 2,230,000 shares had been sold with net proceeds amounting to approximately \$2.9 million. During the period from October 21, 2009 to the date of this report, no shares have been sold to YA Global under the SEDA.

On August 3, 2009, we took delivery of M/T Hongbo from SSP. M/T Hongbo is the last out of the six 50,000 dwt newbuilding product / chemical tankers delivered in 2009. M/T Hongbo entered into bareboat time-charter employment for a period of ten years at a daily rate of \$14,550.

As of December 31, 2009, our fleet consisted of thirteen owned vessels – eight Handymax tankers, one Supramax drybulk vessel, one Handymax drybulk vessel, and three Panamax drybulk vessels, with total carrying capacity of 0.7 million dwt, as compared to twelve vessels, with total carrying capacity of 0.7 million dwt (including five tankers sold and leased back), as of December 31, 2008.

## B. Business Overview

### Business Strategy

We are a provider of international seaborne transportation services, carrying petroleum products, crude oil for the oil industry and drybulk commodities for the steel, electric utility, construction and agriculture-food industries. As of the date of this annual report, our fleet consists of thirteen owned vessels (eight tankers and five drybulk vessels).

Two of our tankers and four of our drybulk vessels are currently employed on time charters and six of our tankers and one of our drybulk vessels are employed on bareboat charters. We actively manage the deployment of our fleet between time charters and bareboat charters, which last from several months to several years. 63% of our fleet by dwt are sister ships, which enhances the revenue generating potential of our fleet by providing us with operational and scheduling flexibility. Sister ships also increase our operating efficiencies because technical knowledge can be applied to all vessels in a series and create cost efficiencies and economies of scale when ordering spare parts, supplying and crewing these vessels.

During 2006, we ordered six newbuilding product tankers in the SPP shipyard in the Republic of Korea in order to modernize our tanker fleet. All of these tankers were delivered to us during 2009.



In addition, during 2007 we diversified our fleet portfolio by acquiring drybulk vessels, beginning with the acquisition of six drybulk vessels, one of which we subsequently sold.

We intend to continue to review the market for tanker and drybulk vessels to continue our program of acquiring suitable vessels on accretive terms.

We believe we have established a reputation in the international ocean transport industry for operating and maintaining our fleet with high standards of performance, reliability and safety. We have assembled a management team comprised of executives who have extensive experience operating large and diversified fleets of tankers and drybulk vessels, and who have strong ties to a number of national, regional and international oil companies, charterers and traders.

#### Our Fleet

The following table presents our fleet list and employment as of the date of this annual report:

	Dwt	Year Built	Charter Type	Expiry	Daily Base Rate	Profit Sharing Above Base Rate (2009)
Eight Tanker Vessels						
Dauntless	46,168	1999	Time Charter	Q1-2/2012	\$10,500	50%
Ioannis P	46,346	2003	Time Charter	Q4/2010	\$18,000	100% first \$1,000 + 50% thereafter
Miss Marilena	50,000	2009	Bareboat Charter	Q1-2/2019	\$14,400	None
Lichtenstein	50,000	2009	Bareboat Charter	Q1-2/2019	\$14,550	None
Ionian Wave	50,000	2009	Bareboat Charter	Q1-2/2016	\$14,300A	None
Thyrrhenian Wave	50,000	2009	Bareboat Charter	Q1-2/2016	\$14,300A	None
Britto	50,000	2009	Bareboat Charter	Q1-2/2019	\$14,550	None
Hongbo	50,000	2009	Bareboat Charter	Q1-2/2019	\$14,550	None
Total Tanker dwt	392,514					
Five Drybulk Vessels						
Cyclades	75,681	2000	Time Charter	Q2/2011	\$54,250	None
Amalfi	45,526	2000	Time Charter	Q4/2011-Q1/2012	\$14,000	None
Papillon (ex Voc Gallant))	51,200	2002	Bareboat Charter	Q1-3/2012	\$24,000	None
Pepito	75,928	2001	Time Charter	Q1-2/2013	\$41,000	None
Astrale	75,933	2000	Time Charter	Q3-4/2011	\$18,000	None
Total Drybulk dwt	324,268					
TOTAL DWT	716,782					

A. On January 11, 2010, we announced that we received from the bareboat charterer of the M/T Ionian Wave and the M/T Tyrrhenian Wave, a reduced charter hire rate of \$10,000 per day rather than the \$14,300 per day on a bareboat basis that is set forth in the charter agreement. We are currently examining this unilateral reduction and intend to take all necessary steps to recover the amounts owed since the said charterer is considered to be in breach of the charter.

## Management of the Fleet

Since July 1, 2004, TOP Tanker Management Inc., or TOP Tanker Management, our wholly-owned subsidiary, has been responsible for all of the chartering, operational and technical management of our fleet, including crewing, maintenance, repair, capital expenditures, dry-docking, vessel taxes, maintaining insurance and vessel operating expenses under management agreements with our vessel owning subsidiaries. TOP Tanker Management has built a management team with significant experience in operating large and diversified fleets of tankers and drybulk vessels and has expertise in all aspects of commercial, technical, management and financial areas of our business. Prior to July 1, 2004, the operations of our fleet were managed by Primal Tankers Inc., which was wholly-owned by the father of our Chief Executive Officer.

From January 1, 2009 to December 31, 2009, TOP Tanker Management subcontracted the technical management and crewing of one Handymax tanker and the crewing of another Handymax tanker to V. Ships Management Limited, or V. Ships, for monthly fees of \$12,400 and \$3,550, respectively. For the period from January 2010 to the date of this annual report, the monthly fee to V. Ships for the technical management and crewing of the one Handymax tanker increased to \$12,900. In January 2010, we transferred the crewing of the other Handymax tanker to Interorient Maritime Enterprises Inc., or Interorient, for a fee of \$1,700 per month.

From January 1, 2009 to December 31, 2009, TOP Tanker Management subcontracted the crewing of four drybulk carriers to Interorient for a monthly fee of \$1,700 per vessel.

On April 6, 2010, we provided V. Ships approximately two months' notice of termination of our agreement with it for the technical management and crewing of the one Handymax tanker. The change of both crew and technical Management is to take place during the last week of June 2010, always subject to the vessel's schedule.

On May 12, 2010, our Board of Directors agreed to outsource all of the commercial and technical management of the Company's vessels to Central Mare Inc., or Central Mare, a related party controlled by the family of the Company's Chief Executive Officer, on a timeline to be determined by its executive officers in consideration of the vessels' schedule.

## Crewing and Employees

During 2007, 2008 and 2009, TOP SHIPS INC. had four employees, while our wholly-owned subsidiary, TOP Tanker Management, employed on average 82, 88 and 55 employees respectively, all of whom are shore-based. During 2009, V. Ships Management Limited and Interorient Maritime Enterprises Inc, were responsible for the crewing of the fleet. Such responsibilities include training, transportation, compensation and insurance of the crew.

TOP Tanker Management ensures that all seamen have the qualifications and licenses required to comply with international regulations and shipping conventions, and that our vessels employ experienced and competent personnel.

All of the employees of TOP Tanker Management are subject to a general collective bargaining agreement covering employees of shipping agents in Greece. These agreements set industry-wide minimum standards. We have not had any labor problems with our employees under this collective bargaining agreement and consider our workplace and labor union relations to be good.

## The Industry - Tankers

The international tanker industry represents, we believe, the most efficient and safest method of transporting large volumes of crude oil and refined petroleum products such as gasoline, diesel, fuel oil, gas oil and jet fuel, as well as edible oils and chemicals.

Freight rates in the tanker shipping industry are determined by the supply of product tankers and the demand for crude oil and refined petroleum products transportation. Factors that affect the supply of product tankers and the demand for transportation of crude oil and refined petroleum products include:

### Demand

• general economic conditions, including increases and decreases in industrial production and transportation, in which China has played a significant role since it joined the World Trade Organization.

• oil prices;

• environmental issues or concerns;

• climate;

• competition from alternative energy sources; and

• regulatory environment.

### Supply

• the number of combined carriers, or vessels capable of carrying oil or drybulk cargoes, carrying oil cargoes;

• the number of newbuildings on order and being delivered;

• the number of tankers in lay-up, which refers to vessels that are in storage, dry-docked, awaiting repairs or otherwise not available or out of commission; and

• the number of tankers scrapped for obsolescence or subject to casualties;

• prevailing and expected future charterhire rates;

• costs of bunkers, fuel oil, and other operating costs;

• the efficiency and age of the world tanker fleet;

• current shipyard capacity; and

• government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations.





## Developments in the International Tanker Market

The Baltic Dirty Tanker Index, a U.S. Dollar daily average of charter rates issued by the London based Baltic Exchange (an organization providing maritime market information for the trading and settlement of physical and derivative contracts) which takes into account input from brokers around the world regarding crude oil fixtures for various routes various tanker vessel sizes, after a steep decline that started in mid-2008 and lasted until the end of the third quarter of 2009, has rebounded in the fourth quarter of 2009, although not to pre-crisis levels. The Baltic Dirty Tanker Index declined from a high of 2,347 in July 2008 to a low of 453 in mid-April 2009, which represents a decline of 80%, but has since rebounded to 911 as of June 3, 2010. The Baltic Clean Tanker Index fell from 1,509 points as of June 19, 2008, to 345 points as of April 4, 2009, but has rebounded to 644 points as of June 3, 2010. The dramatic decline in charter rates was due to various factors, including the significant fall in demand for crude oil and petroleum products, the consequent rising inventories of crude oil and petroleum products in the United States and in other industrialized nations and the corresponding reduction in oil refining, the dramatic fall in the price of oil in 2008, and the restrictions on crude oil production that the Organization of Petroleum Exporting Countries (OPEC) and other non-OPEC oil producing countries have imposed in an effort to stabilize the price of oil. During 2009, the above factors affecting the Baltic Dirty and Clean Tanker Indices have partially subsided, allowing for the recovery of rates and a stabilization of tanker vessel values.

The price of crude oil after reaching historical highs in the summer of 2008 declined sharply as a result of the deterioration in the world economy, the collapse of financial markets, declining oil demand and bearish market sentiment. In 2009, oil prices started rising again amidst a growing demand for oil leading to a price of approximately \$72.88 per barrel as of June 3, 2010.

## The Industry – Drybulk Vessels

Drybulk cargo is cargo that is shipped in quantities and can be easily stowed in a single hold with little risk of cargo damage. The demand for drybulk vessel capacity is determined by the underlying demand for commodities transported in drybulk vessels, which in turn is influenced by trends in the global economy. Between 2000 and 2009, trade in all drybulk commodities increased from 2.3 billion tons to 3.03 billion tons, representing a CAGR (compound average growth rate) of 4.7 %. One of the main reasons for that increase in drybulk trade was the growth in imports by China of iron ore, coal and steel products since 2000. Chinese imports of iron ore alone increased from 92.2 million tons in 2001 to approximately 630 million tons in 2009.

The supply of drybulk vessels is dependent on the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or loss. The orderbook of new drybulk vessels scheduled to be delivered until 2012 represents approximately 57% of the world drybulk fleet. The level of scrapping activity is generally a function of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs. Drybulk vessels at or over 25 years old are considered to be scrapping candidate vessels.

## Developments in the International Drybulk Shipping Industry

The Baltic Drybulk Index, or BDI, a U.S. Dollar daily average of charter rates issued by the London based Baltic Exchange which takes into account input from brokers around the world regarding fixtures for various routes, dry cargoes and various drybulk vessel sizes, declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94%, but has since risen to 3,933 as of June 3, 2010. The decline in charter rates was due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which has resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which has resulted in falling iron ore prices and increased stockpiles in Chinese ports. The decline in charter rates in the drybulk market also affected the value of our drybulk vessels, which followed the trends of drybulk charter rates, and earnings on our

charters, and similarly, affected our cash flows, liquidity and compliance with the covenants contained in our loan agreements. During 2009, the abovementioned factors affecting the BDI have partially subsided, allowing for the recovery of rates and a recovery in drybulk vessel values.

## Environmental and Other Regulations

Government regulations and laws significantly affect the ownership and operation of our vessels. We are subject to international conventions, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered and compliance with such laws, regulations and other requirements may entail significant expense.

Our vessels are subject to both scheduled and unscheduled inspections by a variety of government, quasi-governmental and private organizations including the local port authorities, national authorities, harbor masters or equivalent, classification societies, flag state administrations (countries of registry) and charterers. Our failure to maintain permits, licenses, certificates or other approvals required by some of these entities could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to stricter environmental standards.

We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, additional legislation or regulation applicable to the operation of our vessels that may be implemented in the future could negatively affect our profitability.

## International Maritime Organization

The International Maritime Organization, or the IMO, the United Nations agency for maritime safety and the prevention of pollution by ships, has adopted several international conventions that regulate the international shipping industry, including the International Convention on Civil Liability for Oil Pollution Damage, the International Convention on Civil Liability for Bunker Oil Pollution Damage, and the International Convention for the Prevention of Pollution from Ships, or the MARPOL Convention. The MARPOL Convention establishes environmental standards relating to oil leakage or spilling, garbage management, sewage, air emissions, handling and disposal of noxious liquids and the handling of harmful substances in packaged form.

In September 1997, the IMO adopted Annex VI to MARPOL to address air pollution from ships. Annex VI came into force on May 19, 2005. It sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Annex VI has been ratified by some, but not all IMO member states. In October 2008, the Marine Environment Protection Committee, or MEPC, of the IMO approved amendments to Annex VI regarding particulate matter, nitrogen oxide and sulfur oxide emissions standards. These amendments will enter into force in July 2010. They seek to reduce air pollution from vessels by establishing a series of progressive standards to further limit the sulfur content in fuel oil, which would be phased in by 2020, and by establishing new tiers of nitrogen oxide emission standards for new marine diesel engines, depending on their date of installation. Additionally, more stringent emission standards could apply in coastal areas designated as Emission Control Areas ("ECAs"). Please see "United States – the U.S. Clean Air Act" below for information on the ECA designated in North America and the Hawaiian Islands. We

have obtained International Air Pollution Prevention certificates evidencing compliance with Annex VI requirements for all of our vessels.

Although the United States is not a party, many countries have ratified the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended in 2000, or the CLC. Under this convention and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject under certain circumstances to certain defenses and limitations. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

The IMO also has adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, which imposes strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel and requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime.

The operation of our vessels is also affected by the requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO under the International Convention for the Safety of Life at Sea, or SOLAS. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We intend to rely upon the safety management system that our appointed ship managers have developed.

Noncompliance with the ISM Code or with other IMO regulations may subject a shipowner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports including United States and European Union ports.

#### United States

The U.S. Oil Pollution Act of 1990 and the Comprehensive Environmental Response, Compensation and Liability Act

The U.S. Oil Pollution Act of 1990, or OPA, is an extensive regulatory and liability regime for environmental protection and cleanup of oil spills. OPA affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, imposes liability for cleanup and natural resource damage from the release of hazardous substances (other than oil) whether on land or at sea. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners, operators and bareboat charterers are responsible parties who are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from oil spills from their vessels. OPA limits the liability of responsible parties with respect to tankers over 3,000 gross tons to the greater of \$3,200 per gross tons or \$23,496,000 per single hull tanker, \$2,000 per gross ton or \$17,088,000 per double hull tanker, and \$1,000 per gross ton or \$854,400 for any non-tank vessel respectively, and permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries. Some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters, however, in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5.0 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$0.5 million for any other vessel.

These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. These limits also do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law. We believe that we are in substantial compliance with OPA, CERCLA and all applicable state regulations in the ports where our vessels call.

OPA also requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the act. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA regulations, an owner or operator of more than one tanker is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum strict liability under OPA and CERCLA. We have provided such evidence and received certificates of financial responsibility from the U.S. Coast Guard for each of our vessels required to have one.

OPA specifically permits individual U.S. coastal states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills.

#### The U.S. Clean Water Act

The U.S. Clean Water Act of 1972, or CWA, prohibits the discharge of oil, hazardous substances, and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The United States Environmental Protection Agency, or EPA, has enacted rules requiring a permit regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters under the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP. To be covered by the VGP, owners of certain vessels must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in United States waters. Compliance with the VGP could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other disposal arrangements, and/or

otherwise restrict our vessels from entering United States waters. In addition, certain states have enacted more stringent discharge standards as conditions to their required certification of the VGP. We have submitted NOIs for our vessels where required and do not believe that the costs associated with obtaining and complying with the VGP will have a material impact on our operations.

## The U.S. Clean Air Act

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas and emission standards for so-called "Category 3" marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are currently limited to new engines beginning with the 2004 model year. On December 22, 2009, the EPA announced final emission standards for Category 3 marine diesel engines equivalent to those adopted in the amendments to Annex VI to MARPOL. The emission standards apply in two stages: near-term standards for newly-built engines will apply from 2011, and long-term standards requiring an 80% reduction in nitrogen dioxides (NOx) will apply from 2016. Compliance with these standards may cause us to incur costs to install control equipment on our vessels.

The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Several SIPs regulate emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements. Vessels sailing within 24 miles of the California coastline whose itineraries call for them to enter any California ports, terminal facilities, or internal or estuarine waters must use marine gas oil at or below 1.5% sulfur and marine diesel oil at or below 0.5% sulfur and, effective January 1, 2012, marine fuels with a sulfur content at or below 0.1% (1,000 ppm) sulfur.

The MEPC has designated the area extending 200 miles from the territorial sea baseline adjacent to the Atlantic/Gulf and Pacific coasts and the eight main Hawaiian Islands as an ECA under the Annex VI amendments. The new ECA will enter into force in August 2012, whereupon fuel used by all vessels operating in the ECA cannot exceed 1.0% sulfur, dropping to 0.1% sulfur in 2015. From 2016, NOx after-treatment requirements will also apply. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

## European Union

The European Union has adopted legislation that would: (1) ban manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six month period) from European waters and create an obligation of port states to inspect vessels posing a high risk to maritime safety or the marine environment; and (2) provide the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. In addition, European Union regulations enacted in 2003 now prohibit all single hull tankers from entering into its ports or offshore terminals.

In October 2009, the European Union amended a previously adopted Directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.



The European Union has also adopted a Directive to limit the sulphur content of marine fuels in order to reduce sulphur dioxide emissions from ships.

The sinking of the oil tanker Prestige in 2002 has led to the adoption of other environmental regulations by certain European Union Member States. It is difficult to predict what legislation or additional regulations, if any, may be promulgated by the European Union in the future.

#### Other Environmental Initiatives

U.S. Coast Guard regulations adopted and proposed for adoption under the U.S. National Invasive Species Act, or NISA, impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters, which could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures, and/or otherwise restrict our vessels from entering U.S. waters.

At the international level, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004 (the "BWM Convention"). The Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. As of April 30, 2010 the BWM Convention has been adopted by 24 states, representing 23.29% of world tonnage.

If mid-ocean ballast exchange is made mandatory throughout the United States or at the international level, or if ballast water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our operations.

#### Greenhouse Gas Regulation

The IMO is evaluating mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessel. In the United States, the EPA has issued a proposed finding that greenhouse gases threaten the public health and safety. In addition, climate change initiatives are being considered in the U.S. Congress. Any passage of climate control legislation or other regulatory initiatives by the IMO, EU, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures that we cannot predict with certainty at this time.

#### Vessel Security Regulations

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

Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;

• on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;

• the development of vessel security plans;

• ship identification number to be permanently marked on a vessel's hull;

• a continuous synopsis record kept onboard showing a vessel's history including, the name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and

• compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid International Ship Security Certificate attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code, and our fleet is in compliance with applicable security requirements.

#### Inspection by Classification Societies

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

The classification society also undertakes or requests other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

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

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

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

At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most vessels are also dry-docked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a "recommendation" which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies. All our vessels are certified as being "in class" by the American Bureau of Shipping, Lloyd's Register of Shipping or Det Norske Veritas. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard contracts and memorandum of agreement. If the vessel is not certified on the date of closing, we have no obligation to take delivery of the vessel.

#### Risk of Loss and Liability Insurance Generally

The operation of any cargo vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market. While we carry loss of hire insurance to cover 100% of our fleet, we may not be able to maintain this level of coverage. Furthermore, while we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

#### Hull and Machinery Insurance

We have obtained marine hull and machinery, marine interests and war risk insurance, which includes the risk of actual or constructive total loss, general average, particular average, salvage, salvage charges, sue and labor, damage received in collision or contact with fixed or floating objects for all of the vessels in our fleet. In 2009, the vessels in our fleet were each covered up to at least fair market value, with deductibles of \$100,000 per vessel per incident, for

the non-bareboat vessels in our fleet. In 2010, deductibles changed to include an additional machinery deductible of \$100,000 per vessel per incident for the non-bareboat vessels in our fleet. For the vessels that are under bareboat charters, the charterer is responsible for arranging and paying the hull and machinery insurance. We have also arranged increased value coverage for one of our bareboat chartered vessels, M/V Papillon, in order to conform with relevant loan covenants. Under this increased value coverage, in the event of total loss of a vessel, we will recover for amounts not recoverable under the hull and machinery policy by reason of any under-insurance by the charterers, in relation to values dictated by loan covenants.

### Loss of Hire Insurance

During 2009, we obtained Loss of Hire Insurance to cover the loss of hire of each non-bareboat vessel and two of the bareboat chartered vessels, M/T Ionian Wave and M/T Hongbo, as required by the relevant loan agreements, for 90 days in excess of 30 days in case of an incident that is coverable by our Hull and Machinery policy. In 2010, we have obtained Loss of Hire Insurance to cover the loss of hire for M/V Cyclades, M/V Pepito, M/T Ioannis P, M/T Ionian Wave and M/T Hongbo for 90 days in excess of 30 days in case of an incident that is coverable by our Hull and Machinery policy.

### Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which covers our third party liabilities in connection with our shipping activities. This includes third party liability and other related expenses of injury or death of crew, passengers and other third parties, loss or damage to cargo, claims arising from collisions with other vessels, damage to other third party property, pollution arising from oil or other substances, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "clubs." Subject to the "capping" discussed below, our coverage, except for pollution, is unlimited.

Our current protection and indemnity insurance coverage for pollution remains at \$1.0 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. Each P&I Association has capped its exposure to this pooling agreement at approximately \$5.5 billion. As a member of a P&I Association, which is a member of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations, and members of the pool of P&I Associations comprising the International Group.

### Competition

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an operator. We arrange our time charters, bareboat charters and voyage charters in the spot market through the use of brokers, who negotiate the terms of the charters based on market conditions. We compete primarily with owners of tankers in the Handymax class sizes and also with owners of drybulk vessels in the Handymax, Supramax and Panamax class sizes. Ownership of tankers is highly fragmented and is divided among major oil companies and independent vessel owners. The drybulk market is less fragmented with more small operators.

### Seasonality

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, therefore, charter rates. This seasonality may affect operating results.

## C. Organizational Structure

The following are the wholly-owned subsidiaries of TOP SHIPS INC. as of December 31, 2009.

	Shipowning Companies with vessels in operations at December 31, 2009	Date of Incorporation	Country of Incorporation	Vessel
1	Lefka Shipping Company Limited ("Lefka")	March 2005	Marshall Islands	Dauntless (acquired March 2005)
2	Ilisos Shipping Company Limited ("Ilisos")	April 2005	Marshall Islands	Ioannis P (acquired November 2005)
3	Amalfi Shipping Company Limited ("Amalfi")	July 2007	Marshall Islands	Amalfi (acquired December 2007)
4	Jeke Shipping Company Limited ("Jeke")	July 2007	Liberia	Voc Gallant (acquired February 2008)
5	Japan I Shipping Company Limited ("Japan I")	August 2007	Liberia	Pepito (acquired March 2008)
6	Japan II Shipping Company Limited ("Japan II")	August 2007	Liberia	Astrale (acquired May 2008)
7	Japan III Shipping Company Limited ("Japan III")	August 2007	Liberia	Cyclades (acquired December 2007)
8	Warhol Shipping Company Limited ("Warhol")	July 2008	Liberia	Miss Marilena (delivered February 2009)
9	Lichtenstein Shipping Company Limited ("Lichtenstein")	July 2008	Liberia	Lichtenstein (delivered February 2009)
10	Banksy Shipping Company Limited ("Banksy")	July 2008	Liberia	Ionian Wave (delivered March 2009)
11	Indiana R Shipping Company Limited ("Indiana R")	July 2008	Liberia	Tyrrhenian Wave (delivered March 2009)
12	Britto Shipping Company Limited ("Britto")	July 2008	Liberia	Britto (delivered May 2009)
13	Hongbo Shipping Company Limited ("Hongbo")	July 2008	Liberia	Hongbo (delivered August 2009)
<b>Other Companies</b>				
14	Top Tankers (U.K.) Limited	January 2005	England and Wales	Representative office in London
15	Top Bulker Management Inc.	April 2005	Marshall Islands	Inactive Management

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			Company
16	TOP Tanker Management Inc. ((the "Manager"))	May 2004	Marshall Islands Management Company
17	Ierissos Shipping Inc.	November 2008	Marshall Islands Cash Manager



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It should be noted that Ierissos Shipping Inc was dissolved in April 2010.

	Shipowning Companies with vessels sold	Date of Incorporation	Country of Incorporation	Vessel
18	Olympos Shipping Company Limited	December 1999	British Cayman Islands	Med Prologue (sold to "Olympos Shipping Company Limited")
19	Vermio Shipping Company Limited ("Faithful")	December 2001	Marshall Islands	Faithful (sold to "Gramos Shipping Company Inc" July 2003)
20	Kalidromo Shipping Company Limited ("Kalidromo")	May 2003	Marshall Islands	Tireless (sold September 2004)
21	Olympos Shipping Company Limited ("Olympos")	May 2003	Marshall Islands	Med Prologue (sold December 2004)
22	Rupel Shipping Company Inc. ("Rupel")	January 2003	Marshall Islands	Fearless (sold July 2005)
23	Helidona Shipping Company Limited ("Helidona")	May 2003	Marshall Islands	Yapi (sold September 2005)
24	Mytikas Shipping Company Limited ("Mytikas")	February 2004	Marshall Islands	Limitless (sold September 2008)
25	Litochoro Shipping Company Limited ("Litochoro")	March 2004	Marshall Islands	Endless (sold September 2008)
26	Vardousia Shipping Company Limited ("Vardousia")	July 2004	Cyprus	Invincible (sold by its new owners July 2007)
27	Psiloritis Shipping Company Limited ("Psiloritis")	July 2004	Liberia	Victorious (sold by its new owners August 2007)
28	Menalo Shipping Company Limited ("Menalo")	July 2004	Cyprus	Restless (sold by its new owners September 2007)
29	Pintos Shipping Company Limited ("Pintos")	July 2004	Cyprus	Sovereign (sold by its new owners August 2008)
30	Pylio Shipping Company Limited ("Pylio")	July 2004	Liberia	Flawless (sold by its new owners September 2008)
31	Taygetus Shipping Company Limited ("Taygetus")	July 2004	Liberia	Timeless (sold by its new owners September 2008)
32	Imitos Shipping Company Limited ("Imitos")	November 2004	Marshall Islands	Noiseless (sold January 2008)
33	Parnis Shipping Company Limited ("Parnis")	November 2004	Marshall Islands	Stainless (sold January 2008)

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34	Parnasos Shipping Company Limited ("Parnasos")	November 2004	Liberia	Faultless (sold by its new owners March 2008)
35	Vitsi Shipping Company Limited ("Vitsi")	November 2004	Liberia	Stopless (sold by its new owners September 2008)
36	Kisavos Shipping Company Limited ("Kisavos")	November 2004	Marshall Islands	Priceless (sold by its new owners September 2008)
37	Agion Oros Shipping Company Limited ("Agion Oros")	February 2005	Marshall Islands	Topless (sold December 2006)

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	Shipowning Companies with vessels sold	Date of Incorporation	Country of Incorporation	Vessel
38	Giona Shipping Company Limited ("Giona")	March 2005	Marshall Islands	Tainless (sold November 2006)
39	Agrafa Shipping Company Limited ("Agrafa")	March 2005	Marshall Islands	Soundless (sold November 2006)
40	Ardas Shipping Company Limited ("Ardas")	April 2005	Marshall Islands	Errorless (sold April 2007)
41	Nedas Shipping Company Limited ("Nedas")	April 2005	Marshall Islands	Stormless (sold June 2008)
42	Kifisos Shipping Company Limited ("Kifisos")	April 2005	Marshall Islands	Edgeless (sold July 2008)
43	Sperhios Shipping Company Limited ("Sperhios")	April 2005	Marshall Islands	Ellen P (sold September 2008)
44	Noir Shipping S.A. ("Noir")	June 2007	Marshall Islands	Bertram (sold April 2008)
45	Gramos Shipping Company Inc. ("Gramos")	January 2003	Marshall Islands	Faithful (sold and leased back March 2006)
46	Falakro Shipping Company Limited ("Falakro")	July 2004	Liberia	Doubtless (sold and leased back March 2006)
47	Pageon Shipping Company Limited ("Pageon")	July 2004	Cyprus	Vanguard (sold and leased back March 2006)
48	Idi Shipping Company Limited ("Idi")	July 2004	Liberia	Spotless (sold and leased back March 2006)
49	Parnon Shipping Company Limited ("Parnon")	July 2004	Cyprus	Relentless (sold and leased back September 2005)

#### D. Properties, Plants and Equipment

For a list of our fleet see "Business Overview – Our Fleet" above.

In January 2006, we entered into an agreement with an unrelated party to lease office space in Athens, Greece. The office is located at 1, Vasilisis Sofias & Megalou Alexandrou Street, 151 24 Maroussi, Athens, Greece. The agreement is for a duration of 12 years beginning May 2006 with a lessee's option for an extension of 10 years. The current monthly rental is \$0.2 million (based on the U.S. Dollar/Euro exchange rate as of December 31, 2009) adjusted annually for inflation increase plus 1.0%.

In addition, our subsidiary TOP TANKERS (U.K.) LIMITED, a representative office in London, leases office space in London from an unrelated third party. The agreement is valid from June 2007 and shall continue until either party shall give to the other one calendar month written notice. The annual lease is \$0.03 million (based on the U.S. Dollar/GBP exchange rate as of December 31, 2009) payable quarterly in advance.

In November 2009, TOP SHIPS INC. entered into a lease agreement for office space in London. The agreement is for a duration of one year from and including November 15, 2009 to and including November 14, 2010. The current monthly rent is \$0.04 million (based on the U.S. Dollar/GBP exchange rate as of December 31, 2009).

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following management's discussion and analysis is intended to discuss our financial condition, changes in financial condition and results of operations, and should be read in conjunction with our historical consolidated financial statements and their notes included in this report.

This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" and elsewhere in this report.

### A. Operating results

#### Overview

We are an international provider of seaborne transportation services, carrying petroleum products, crude oil and drybulk commodities for the steel, electric utility, construction and agriculture-food industries.

As of December 31, 2009, our fleet consisted of thirteen owned vessels (five drybulk vessels and eight tankers), with total carrying capacity of approximately 0.7 million dwt as compared to twelve vessels (five drybulk vessels and seven tankers), with total carrying capacity of approximately 0.7 million dwt (including seven owned and five vessels sold and leased back for a period of five to seven years) on December 31, 2008.

#### Segments

Since the acquisition of drybulk vessels in the fourth quarter of 2007, we have been analyzing and reporting our results of operations in two segments: tanker segment and drybulk segment.

**Tanker segment:** For the year ended December 31, 2009, revenues for this segment were \$47.4 million and operating loss was \$56.2 million.

**Drybulk segment:** For the year ended December 31, 2009, revenues for this segment were \$56.7 million and operating income was \$18.2 million.

#### Factors affecting our results of operations – all segments

We believe that the important measures for analyzing trends in the results of our operations for both tankers and drybulk vessels consist of the following:

- **Calendar days.** We define calendar days as the total number of days the vessels were in our possession for the relevant period. Calendar days are an indicator of the size of our fleet during the relevant period and affect both the amount of revenues and expenses that we record during that period.
- **Available days.** We define available days as the number of calendar days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or scheduled guarantee inspections in the case of newbuildings, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels. Companies in the shipping industry generally use available days to measure the number of days in a period during which vessels should be capable of generating revenues. We determined to use available days as a performance metric for the first time, in

the second quarter and first half of 2009. We have determined to adjust the calculation method of utilization to include available days in order to be comparable with shipping companies that calculate utilization using operating days divided by available days.

- **Operating days.** We define operating days as the number of available days in a period less the aggregate number of days that our vessels are off-hire due to unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which the vessels actually generate revenues.
- **Fleet utilization.** We calculate fleet utilization by dividing the number of operating days during a period by the number of available days during that period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the number of days that its vessels are off-hire for reasons other than scheduled repairs or scheduled guarantee inspections in the case of newbuildings, vessel upgrades, special or intermediate surveys and vessel positioning. We used a new calculation method for fleet utilization for the first time, in the second quarter and first half of 2009. In all prior filings and reports, utilization was calculated by dividing operating days by calendar days. We have determined to adjust the calculation method in order to be comparable with most shipping companies, which calculate utilization using operating days divided by available days.
- **Spot Charter Rates.** Spot charter rates are volatile and fluctuate on a seasonal and year-to-year basis. Fluctuations derive from imbalances in the availability of cargoes for shipment and the number of vessels available at any given time to transport these cargoes.
- **Bareboat Charter Rates.** Under a bareboat charter party, all operating costs, voyage costs and cargo-related costs are covered by the charterer, who takes both the operational and the shipping market risk.
- **TCE Revenues / TCE Rates.** We define TCE revenues as revenues minus voyage expenses. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by a charterer under a time charter, as well as commissions. We believe that presenting revenues net of voyage expenses neutralizes the variability created by unique costs associated with particular voyages or the deployment of vessels on the spot market and facilitates comparisons between periods on a consistent basis. We calculate daily TCE rates by dividing TCE revenues by operating days for the relevant time period. TCE revenues include demurrage revenue, which represents fees charged to charterers associated with our spot market voyages when the charterer exceeds the agreed upon time required to load or discharge a cargo. We calculate daily direct vessel operating expenses and daily general and administrative expenses for the relevant period by dividing the total expenses by the aggregate number of calendar days that we owned each vessel for the period.

In accordance with GAAP measures, we report revenues in our income statements and include voyage expenses among our expenses. However, in the shipping industry the economic decisions are based on vessels' deployment upon anticipated TCE rates, and industry analysts typically measure shipping freight rates in terms of TCE rates. This is because under time-charter and bareboat contracts the customer usually pays the voyage expenses, while under voyage charters the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Consistent with industry practice, management uses TCE as it provides a means of comparison between different types of vessel employment and, therefore, assists decision making process.

## Voyage Revenues

### Tanker segment

Our voyage revenues are driven primarily by the number of vessels in our fleet, the number of operating days during which our vessels generate revenues and the amount of daily charterhire that our vessels earn under charters, which, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and disposals, the

amount of time that we spend positioning our vessels, the amount of time that our vessels spend in dry-dock undergoing repairs, maintenance and upgrade work, the duration of the charter, the age, condition and specifications of our vessels, levels of supply and demand in the global transportation market for oil products or bulk cargo and other factors affecting spot market charter rates such as vessel supply and demand imbalances.



Vessels operating on period charters, time charters or bareboat charters, provide more predictable cash flows, but can yield lower profit margins than vessels operating in the short-term, or spot, charter market during periods characterized by favorable market conditions. Vessels operating in the spot charter market generate revenues that are less predictable, but may enable us to capture increased profit margins during periods of improvements in charter rates, although we are exposed to the risk of declining charter rates, which may have a materially adverse impact on our financial performance. If we employ vessels on period charters, future spot market rates may be higher or lower than the rates at which we have employed our vessels on period time charters.

Under a time charter, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter.

Under a bareboat charter, the vessel is chartered for a stipulated period of time which gives the charterer possession and control of the vessel, including the right to appoint the master and the crew. Under bareboat charters all voyage and operating costs are paid by the charterer. During 2009, we took delivery of six newbuilding product tankers all of which are on bareboat charters for a period between 7 and 10 years.

During 2007 and 2008, we also employed vessels in the spot market and we may do so again in the future depending on prevailing market conditions at the time our period charters expire. Such might be the case for one of our tankers, the time charter of which expires during 2010. Given the market conditions prevailing in the product tanker market as of the date of this annual report, we intend to seek to enter into period charters for periods ranging from one to three years at market rates. Nevertheless, if we are not able to secure such employment we might need to operate these vessels in the spot market.

In 2007, approximately 33% of our revenues in the tanker segment were derived from two charterers. These two charterers, Glencore and PDVSA, provided 23% and 10%, respectively, of our revenues in 2007. In 2008 and 2009, approximately 17% and 22%, respectively, of our total revenues was derived from one charterer, Glencore.

#### Drybulk segment

The factors affecting voyage revenues discussed also apply to the drybulk segment with the only difference being the different economics that apply in the global markets for oil versus the global market for dry products shipped in bulk.

As of the date of this annual report, four of our drybulk vessels were operating under time charters and one under a bareboat charter.

Revenues related to drybulk vessels include amortization of fair value of below market acquired time charter liability. However, relevant revenues are considered unallocated for the purposes of analyzing and reporting our results of operations in two segments: tanker segment and drybulk segment. Specifically, when vessels are acquired with period charters attached and the rates on such charters are below market on the acquisition date, we allocate the total cost between the vessel and the fair value of below market time charter based on the relative fair values of the vessel and the liability acquired. The fair value of the attached period charter is computed as the present value of the difference between the contractual amount to be received over the term of the period charter and management's estimates of the market period charter rate at the time of acquisition. The fair value of below market period charter is amortized over the remaining period of the period charter as an increase to revenues.

In November and December 2007 and February 2008, we acquired the drybulk vessels M/V Bertram, M/V Amalfi and M/V Papillon (ex Voc Gallant), respectively, with attached time charter contracts. As a result, the purchase price of the vessels was allocated between vessel cost and the fair value of the time charter contracts, totaling in aggregate \$43.3 million. Following the sale of the M/V Bertram, on April 16, 2008, the then unamortized fair value of its below market time charter of \$16.1 million was written-off to the loss from the sale of the vessel. For the years ended December 31, 2008 and 2009, the amortization of the fair value of the time charter contracts totaled \$21.8 million and \$3.9 million, respectively. The fair value of the time charter contracts was fully amortized up to the second quarter of 2009.

In 2009, approximately 32% of our revenues in the drybulk segment were derived from two charterers. These two charterers, Hanjin and Cosco provided 18% and 14%, respectively, of our total revenues in 2009.

#### Voyage Expenses

##### Tanker segment

Voyage expenses primarily consist of port charges, including canal dues, bunkers (fuel costs) and commissions. All these expenses, except commissions, are paid by the charterer under a time charter or bareboat charter contract. The amount of voyage expenses are mainly driven by the routes that the vessels travel, the amount of ports called on, the canals crossed and the price of bunker fuels paid. This category was less significant in 2009 when compared to 2008 since all our tanker vessels were either on time charters or bareboat charters, as compared to 2008 when up to 11 vessels operated in the spot market.

##### Drybulk segment

Our drybulk vessels are operating under time charter or bareboat charter contracts and hence voyage expenses primarily consist of commissions on the time charters.

#### Charter Hire Expenses

##### Tanker segment

Charter hire expenses consist of lease payments for vessels sold and leased-back during 2005 and 2006 for periods between five to seven years. After the termination of the last five lease agreements, during 2009, we are no longer obligated to pay lease payments (see "Item 4-Information on the Company-History and Development of the Company").

##### Drybulk segment

Not applicable.

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## Vessel Operating Expenses

### Tanker and Drybulk segment

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses for vessels that we own and vessels that we lease under our operating leases. Our vessel operating expenses, which generally represent fixed costs, have historically increased as a result of the increase in the size of our fleet. We analyze vessel operating expenses on a U.S. Dollar / per day basis. Additionally, vessel operating expenses can fluctuate due to factors beyond our control, such as unplanned repairs and maintenance which can be attributed to damages, regulatory compliance or market forces and can be quite significant, or factors which may affect the shipping industry in general, such as developments relating to insurance premiums, or developments relating to the availability of crew, may also cause these expenses to increase.

### Dry-docking Costs

#### Tanker segment

Dry-docking costs relate to the regularly scheduled intermediate survey or special survey dry-docking necessary to preserve the quality of our vessels as well as to comply with international shipping standards and environmental laws and regulations. Dry-docking costs can vary according to the age of the vessel, the location where the dry-dock takes place, shipyard availability, local availability of manpower and material, the billing currency of the yard, the days the vessel is off hire in order to complete its survey and the diversion necessary in order to get from the last port of employment to the yard and back to a position for the next employment. Please see "Item 18 – Financial Statements: Note 2 – Significant Accounting Policies." In the case of tankers, dry-docking costs may also be affected by new rules and regulations (see "Item 4 – Information on the Company – B. Business Overview – Environmental Regulations").

#### Drybulk segment

The above discussion for the Tanker Segment also applies to the drybulk segment. The effect of new rules and regulations on cost is lower in the drybulk segment due to the lower pollution risk this segment has as compared to tankers.

## General and Administrative Expenses

### Tanker and Drybulk segments

General and administrative expenses include the salaries and other related costs of senior management, directors and other on-shore employees, our office rent, legal and auditing costs, regulatory compliance costs, other miscellaneous office expenses, long-term compensation costs, non cash stock compensation, corporate overhead and sub-manager fees. General and administrative expenses are Euro denominated except for some legal fees and are therefore affected by the conversion rate of the U.S. Dollar versus the Euro.

General and administrative expenses are allocated to different segments based on calendar days of vessels operated.

## Interest and Finance Costs

### Tanker and Drybulk segments

We have historically incurred interest expense and financing costs in connection with vessel-specific debt. Interest expense is directly related with the repayment schedule of our loans, the prevailing LIBOR and the relevant margin.

Since the fourth quarter of 2008, however, lenders have required provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate which in all cases is higher than LIBOR. Additionally, as part of our discussions with banks with regards to loan covenant breaches, we have agreed to increase the margins to certain of our loans (see " – B. Liquidity and Capital Resources").

## Inflation

### Tanker and Drybulk segments

Inflation has not had a material effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing costs.

In evaluating our financial condition, we focus on the above measures to assess our historical operating performance and we use future estimates of the same measures to assess our future financial performance. In assessing the future performance of our fleet, the greatest uncertainty relates to future charter rates which affect those of our vessels that come out from their present period employment whether under a time charter or a bareboat charter. Decisions about future purchases and sales of vessels are based on the availability of excess internal funds, the availability of financing, the financial and operational evaluation of such actions and depend on the overall state of the drybulk and tanker markets, the availability of relevant purchase candidates, and our general assessment of the prospects for the segments that we operate in.

### Lack of Historical Operating Data for Vessels Before Their Acquisition

Although vessels are generally acquired free of charter, we have acquired (and may in the future acquire) some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is usually delivered to the buyer free of charter. It is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer entering into a separate direct agreement (a "novation agreement") with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter because it is a separate service agreement between the vessel owner and the charterer.

Where we identify any intangible assets or liabilities associated with the acquisition of a vessel, we allocate the purchase price to identified tangible and intangible assets or liabilities based on their relative fair values. Fair value is determined by reference to market data and the discounted amount of expected future cash flows. Where we have assumed an existing charter obligation or entered into a time charter with the existing charterer in connection with the purchase of a vessel at charter rates that are less than market charter rates, we record a liability, based on the difference between the assumed charter rate and the market charter rate for an equivalent vessel. Conversely, where we assume an existing charter obligation or enter into a time charter with the existing charterer in connection with the purchase of a vessel at charter rates that are above market charter rates, we record an asset, based on the difference between the market charter rate for an equivalent vessel and the contracted charter rate. This determination is made at the time the vessel is delivered to us, and such assets and liabilities are amortized as a reduction or increase to revenue over the remaining period of the charter.

In November and December 2007 and February 2008, we acquired the drybulk vessels M/V Bertram, M/V Amalfi and M/V Papillon (ex Voc Gallant), respectively, with attached time charter contracts. As a result, the purchase price of the vessels was allocated between vessel cost and the fair value of the time charter contracts, totaling in aggregate \$43.3 million. The fair value of the time charter contracts was fully amortized up to the second quarter of 2009.

During 2009, we did not acquire any vessels with existing period charter arrangements.



When we purchase a vessel and assume or renegotiate a related time charter, we must take the following steps before the vessel will be ready to commence operations:

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- in some cases, obtain the charterer's consent to a new flag for the vessel;
- arrange for a new crew for the vessel, and where the vessel is on charter, in some cases, the crew must be approved by the charterer;
- replace all hired equipment on board, such as gas cylinders and communication equipment;
- negotiate and enter into new insurance contracts for the vessel through our own insurance brokers; and
- register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state.

The following discussion is intended to help you understand how acquisitions of vessels affect our business and results of operations. Our business is comprised of the following main elements:

- employment and operation of our tanker and drybulk vessels; and
- management of the financial, general and administrative elements involved in the conduct of our business and ownership of our tanker and drybulk vessels.

The employment and operation of our vessels require the following main components:

- vessel maintenance and repair;
- crew selection and training;
- vessel spares and stores supply;
- contingency response planning;
- onboard safety procedures auditing;
- accounting;
- vessel insurance arrangement;
- vessel chartering;
- vessel security training and security response plans (ISPS);
- obtain ISM certification and audit for each vessel within the six months of taking over a vessel;



- vessel hire management;
- vessel surveying; and
- vessel performance monitoring.

The management of financial, general and administrative elements involved in the conduct of our business and ownership of our vessels requires the following main components:

- management of our financial resources, including banking relationships, i.e., administration of bank loans and bank accounts;
- management of our accounting system and records and financial reporting;
- administration of the legal and regulatory requirements affecting our business and assets; and
- management of the relationships with our service providers and customers.

The principal factors that affect our profitability, cash flows and shareholders' return on investment include:

- Charter rates and periods of charter hire for our tanker and drybulk vessels;
- Utilization of our tanker and drybulk vessels (earnings efficiency);
- levels of our tanker and drybulk vessels' operating expenses and dry-docking costs;
- depreciation and amortization expenses;
- financing costs; and
- fluctuations in foreign exchange rates.

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Results of operations for the fiscal years ended December 31, 2007, 2008 and 2009

The following table depicts changes in the results of operations for 2009 compared to 2008 and 2008 compared to 2007.

	Year Ended December 31,					change	
	2007	2008	2009	YEO8 v YEO7		YEO9 v YEO8	
	(\$ in thousands)			\$	%	\$	%
Voyage Revenues	252,259	257,380	107,979	5,121	2.0 %	(149,401 )	-58.0 %
Voyage expenses	59,414	38,656	3,372	(20,758 )	-34.9 %	(35,284 )	-91.3 %
Charter hire expense	94,118	53,684	10,827	(40,434 )	-43.0 %	(42,857 )	-79.8 %
Amortization of deferred gain on sale and leaseback of vessels and write-off of seller's credit	(15,610 )	(18,707 )	(7,799 )	(3,097 )	19.8 %	10,908	-58.3 %
Lease termination Expense	-	-	15,391	-	-	15,391	-
Vessel operating expenses	67,914	67,114	23,739	(800 )	-1.2 %	(43,375 )	-64.6 %
Dry-docking costs	25,094	10,036	4,602	(15,058 )	-60.0 %	(5,434 )	-54.1 %
Depreciation	27,408	32,664	31,585	5,256	19.2 %	(1,079 )	-3.3 %
General and administrative expenses	25,000	31,388	23,835	6,388	25.6 %	(7,553 )	-24.1 %
Gain on sale of vessels	(1,961 )	(19,178 )	-	(17,217 )	878.0 %	19,178	-100.0 %
Impairment on vessels	-	-	36,638	-	-	36,638	-
Expenses	281,377	195,657	142,190	(85,720 )	-30.5 %	(53,467 )	-27.3 %
Operating (loss) income	(29,118 )	61,723	(34,211 )	90,841	-312.0 %	(95,934 )	-155.4 %
Interest and finance costs	(19,518 )	(25,764 )	(13,969 )	(6,246 )	32.0 %		