

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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT 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, 2012**

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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Sofias and Meg. Alexandrou Str, 15124 Maroussi, Greece

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

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange  
on which registered

Common Stock par value \$0.01 per share

Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**NONE**

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**NONE**

(Title of class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2012, 17,147,534 shares of Common Stock, par value \$0.01 per share, were outstanding.

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes \_\_\_\_\_ No X

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes \_\_\_\_\_ No X

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Yes X \_\_\_\_\_ No \_\_\_\_\_

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 Regulation S-T (Sec.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 X \_\_\_\_\_ 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 [X]

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 our 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.

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**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." refer 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. Throughout this annual report, the conversion from Euros to U.S. dollars is based on the U.S. dollar/Euro exchange rate of 1.3197 as of December 31, 2012, unless otherwise specified.*

**A. Selected Financial Data**

The following table sets forth our selected historical consolidated financial data and other operating data for the years ended December 31, 2008, 2009, 2010, 2011 and 2012. 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 is 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 by Deloitte, Hadjipavlou, Sofianos & Cambanis S.A., or Deloitte, an independent registered public accounting firm.

As of December 31, 2012, we declassified the M/V Evian as held for sale and reclassified it as held for use and determined not to discontinue our drybulk operations. Since tankers and dry bulk carriers have similar economic characteristics, we determined that in 2012 our vessels operated under one segment. Hence the revenues and expenses for all drybulk vessels have been reclassified to continuing operations for all years presented in the consolidated financial statements.

	<b>Year Ended December 31,</b>				
<i>U.S. Dollars in thousands, except per share data</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>STATEMENT OF COMPREHENSIVE INCOME/ (LOSS)</b>					
Revenues	257,380	107,979	90,875	79,723	31,428
Other Income	-	-	-	872	-
Voyage expenses	38,656	3,372	2,468	7,743	1,023
Charter hire expense	53,684	10,827	480	2,380	-
Amortization of deferred gain on sale and leaseback of vessels and write-off of seller's credit	(18,707)	(7,799)	-	-	-
Lease termination expense	-	15,391	-	5,750	-
Vessel operating expenses	67,114	23,739	12,853	10,368	814
Dry-docking costs	10,036	4,602	4,103	1,327	-
Management fees-third parties	1,159	419	159	439	-
Management fees-related parties	-	-	3,131	5,730	2,345
General and administrative expenses	30,229	23,416	18,142	15,364	7,078
(Loss)/Gain on sale of vessels	(19,178)	-	(5,101)	62,543	-
Vessel Depreciation	32,664	31,585	32,376	25,327	11,458
Impairment on vessels	-	36,638	-	114,674	61,484
<b>Operating income (loss)</b>	<b>61,723</b>	<b>(34,211)</b>	<b>22,264</b>	<b>(171,050)</b>	<b>(52,774)</b>
Interest and finance costs	(25,764)	(13,969)	(14,776)	(16,283)	(9,345)
Loss on financial instruments	(12,024)	(2,081)	(5,057)	(1,793)	(447)
Interest income	1,831	235	136	95	175
Other (expense) income, net	(127)	(170)	(54)	(81)	(1,593)
<b>Net (loss) income</b>	<b>25,639</b>	<b>(50,196)</b>	<b>2,513</b>	<b>(189,112)</b>	<b>(63,984)</b>
Other Comprehensive income / (loss)	20	64	(51)	-	-
<b>Comprehensive income / (loss)</b>	<b>25,659</b>	<b>(50,132)</b>	<b>2,462</b>	<b>(189,112)</b>	<b>(63,984)</b>
(Loss) earnings per share, basic and diluted	\$ 10.08	\$ (17.78)	\$ 0.82	\$ (29.99)	\$ (3.77)
Weighted average common shares outstanding, basic	2,544,503	2,823,059	3,075,278	6,304,679	16,989,585
Weighted average common shares outstanding, diluted	2,544,503	2,823,059	3,077,741	6,304,679	16,989,585

**Year Ended December 31,**

U.S. dollars in thousands, except fleet data and average daily results

	2008	2009	2010	2011	2012
<b>BALANCE SHEET DATA</b>					
Current assets	57,088	3,787	3,420	14,866	26,735
Total assets	698,375	675,149	622,091	296,373	211,415
Current liabilities, including current portion of long-term debt	386,934	427,953	366,609	219,690	193,630
Total debt	342,479	399,087	337,377	193,749	172,619
Common Stock	283	311	322	171	172
Stockholders' equity	292,051	247,196	255,482	76,684	13,079
<b>FLEET DATA</b>					
Total number of vessels at end of period	12.0	13.0	13.0	7.0	7.0
Average number of vessels(1)	18.8	13.7	13.1	11.7	7.0
Total calendar days for fleet(2)	6,875	5,008	4,781	4,281	2,562
Total available days for fleet(3)	6,610	4,813	4,686	4,218	2,546
Total operating days for fleet(4)	6,099	4,775	4,676	4,180	2,544
Total time charter days for fleet	4,729	2,841	2,076	1,109	124
Total bareboat charter days for fleet	335	1,934	2,555	2,551	2,420
Total spot market days for fleet	1,035	-	45	520	0
Fleet utilization(5)	92.30%	99.20%	99.80%	99.1%	99.92%
<b>AVERAGE DAILY RESULTS</b>					
Time charter equivalent(6)	\$ 35,862	\$ 21,907	\$ 18,907	\$ 17,220	\$ 11,951
Vessel operating expenses(7)	\$ 9,762	\$ 4,740	\$ 2,688	\$ 2,422	\$ 318
General and administrative expenses(8)	\$ 4,397	\$ 4,676	\$ 3,795	\$ 3,589	\$ 2,763

- (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 or intermediate 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 adjusted 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 that our 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 adjusted 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 our management in making decisions regarding the deployment and use of our vessels and in evaluating their financial performance. The table below reflects the reconciliation of TCE revenues to revenues as reflected in the consolidated statements of operations and our calculation of TCE rates for the periods presented.



- (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.

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 total operating days and average daily time charter equivalent amounts).

*U.S. dollars in thousands, except for total operating days and average daily time charter equivalent*

<i>On a consolidated basis</i>	2008	2009	2010	2011	2012
Revenues	\$ 257,380	\$ 107,979	\$ 90,875	\$ 79,723	\$ 31,428
Less:					
Voyage expenses	(38,656)	(3,372)	(2,468)	(7,743)	(1,023)
Time charter equivalent revenues	\$ 218,724	\$ 104,607	\$ 88,407	\$ 71,980	\$ 30,405
Total operating days	6,099	4,775	4,676	4,180	2,544
<b>Average Daily Time Charter Equivalent (TCE)</b>	\$ 35,862	\$ 21,907	\$ 18,907	\$ 17,220	\$ 11,951

**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 these 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 INDUSTRY**

*The international tanker and drybulk shipping industries have experienced drastic downturns after experiencing historically high charter rates and vessel values in early 2008, 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, is a U.S. dollar daily average of charter rates that takes into account input from brokers around the world regarding fixtures for various routes, dry cargoes and various drybulk vessel sizes and is issued by the London-based Baltic Exchange (an organization providing maritime market information for the trading and settlement of physical and derivative contracts). The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and has remained volatile since then. The BDI recorded a 25-year record low of 647 in 2012. 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 and vessel oversupply. The decline in charter rates in the drybulk market affected the earnings, the value and, following periodic impairment reviews, the carrying value of our drybulk vessels. As a result, this decline negatively affected asset values, cash flows and liquidity and hence compliance with the covenants contained in our loan agreements. While the BDI has since increased to 885 as of April 18, 2013, there can be no assurance that the drybulk charter market will increase further, and the market could decline.

The Baltic Dirty Tanker Index, a U.S. dollar daily average of charter rates issued by the Baltic Exchange that takes into account input from brokers around the world regarding crude oil fixtures for various routes and tanker vessel sizes, 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%. The index rose to 1,216 on January 15, 2010, but has since dropped again to 632 as of April 18, 2012. The Baltic Clean Tanker Index fell from 1,509 points as of June 19, 2008, to 345 points as of April 4, 2009. The index rose to 908 as of December 23, 2011, but has since dropped again to 623 as of April 18, 2012. 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 OPEC and other non-OPEC oil producing countries have imposed in an effort to stabilize the price of oil. During 2009 and 2010, the above-mentioned factors affecting the Baltic Dirty and Clean Tanker Indices partially subsided, allowing for the modest recovery of rates and a stabilization of tanker vessel values; however, tanker vessel oversupply has suppressed any increase in rates or values due to increases in crude oil or oil product demand.

A further decline in charter rates could have a material adverse effect on our business, financial condition and results of operations. If the charter rates in the tanker and drybulk market decline from their current levels, our future earnings may be adversely affected, we may have to record impairment adjustments to the carrying values of our fleet and we may not be able to comply with the financial covenants in our loan agreements.

***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, our 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.

We currently employ our tankers and drybulk carrier on long-term bareboat charters. As a result, we are not exposed to charter rate volatility.

Changes in spot rates and time charters can not only affect the revenues we receive from operations, but can also affect the value of our vessels, even if they are employed under long-term time charters. 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.

Fluctuations in charter rates and vessel values result from changes in the supply and demand for vessels. Factors affecting the supply and demand for our vessels are outside of 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:

- supply and demand for (i) refined petroleum products and crude oil for tankers and (ii) drybulk commodities for drybulk vessels;
- changes in (i) crude oil production and refining capacity and (ii) drybulk commodity production and resulting shifts in trade flows for crude oil and petroleum products and trade flows of drybulk commodities;
- the location of regional and global crude oil refining facilities and drybulk commodities markets that affect the distance commodities are to be moved by sea;
- global and regional economic and political conditions, including developments in international trade, fluctuations in industrial and agricultural production, and armed conflicts, terrorist activities and strikes;
- environmental and other legal and regulatory developments;
- currency exchange rates;
- weather, natural disasters and other acts of God, including hurricanes and typhoons;
- competition from alternative sources of energy and for other shipping companies and other modes of transportation; and
- international sanctions, embargoes, import and export restrictions, nationalizations, piracy and wars.

The factors that influence the supply of ocean-going vessel capacity include:

- the number of newbuilding deliveries;
- current and expected purchase orders for vessels;
- the scrapping rate of older vessels;
- vessel freight rates;
- the price of steel and vessel equipment;
- technological advances in the design and capacity of vessels;
- 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 instability of the euro or the inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.***

As a result of the credit crisis in Europe, in particular in Greece, Cyprus, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism, or the ESM, which was established on September 27, 2012 to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for oil and for drybulk cargoes and consequently for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

***If economic conditions throughout the world do not improve, it will impede our operations.***

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. In addition, the world economy continues to face a number of new challenges, including uncertainty related to continuing discussions in the United States regarding the federal debt ceiling and recent turmoil and hostilities in the Middle East, North Africa and other geographic areas and countries and continuing economic weakness in the European Union. The deterioration in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods and, thus, shipping. We cannot predict how long the current market conditions will last. However, recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, have had a material adverse effect on our results of operations, financial condition and cash flows, have caused the price of our common shares to decline and could cause the price of our common shares to decline further.

The economies of the United States, the European Union and other parts of the world continue to experience relatively slow growth or remain in recession and exhibit weak economic trends. The credit markets in the United States and Europe have experienced significant contraction, deleveraging and reduced liquidity, and the U.S. federal government and state governments and European authorities continue to implement a broad variety of governmental action and/or new regulation of the financial markets. Global financial markets and economic conditions have been, and continue to be, severely disrupted and volatile. Since 2008, lending by financial institutions worldwide has remained at very low levels compared to the period proceeding 2008.

Continued economic slowdown in the Asia Pacific region, especially in Japan and China, may exacerbate the effect on us of the recent slowdown in the rest of the world. As a result, continued economic slowdown in the Asia Pacific region, especially in Japan and China, 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 growth rate of China's GDP decreased to approximately 7.8% for the year ended December 31, 2012, as compared to approximately 9.2% for the year ended December 31, 2011, and continues to remain below pre-2008 levels. China has imposed measures to restrain lending, which may further contribute to a slowdown in its economic growth. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our financial condition and results of operations, as well as our future prospectus, would likely be impeded by a continuing or worsening economic downturn in any of these countries.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations and may cause the price of our common stock to decline.

***The current state of the global financial markets and current economic conditions may adversely impact our ability to obtain financing on acceptable terms and otherwise negatively impact our business.***

Global financial markets and economic conditions have been, and continue to be, volatile. Recently, operating businesses in the global economy have faced tightening credit, weakening demand for goods and services, deteriorating international liquidity conditions, and declining markets. There has been a general decline in the willingness by banks and other financial institutions to extend credit, particularly in the shipping industry, due to the historically volatile asset values of vessels. As the shipping industry is highly dependent on the availability of credit to finance and expand operations, it has been negatively affected by this decline.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that financing will be available if needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

If the current global economic environment persists or worsens, we may be negatively affected in the following ways:

- we may not be able to employ our vessels at charter rates as favorable to us as historical rates or at all or operate our vessels profitably; and
- the market value of our vessels could decrease, which may cause us to recognize losses if any of our vessels are sold or if their values are impaired.

The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

***We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.***

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These regulations include, but are not limited to the International Convention for the Prevention of Pollution from Ships, or MARPOL, the International Convention on Load Lines of 1966, the International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage, or Bunker Convention, the International Convention for the Safety of Life at Sea of 1974, or SOLAS, the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, the U.S. Oil Pollution Act of 1990, or OPA, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the U.S. Clean Water Act, the U.S. Clean Air Act, the U.S. Outer Continental Shelf Lands Act, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, and European Union regulations. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions, the management of ballast waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations.

Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. Furthermore, the 2010 explosion of the *Deepwater Horizon* and the subsequent release of oil into the Gulf of Mexico, or other events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although insurance covers certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to pay dividends, if any, in the future.

***We are subject to international safety regulations and requirements imposed by classification societies 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 United Nations' International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires ship owners, 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. Currently, all of our vessels are ISM Code-certified and we expect that any vessels that we acquire in the future will be ISM Code-certified when delivered to us. 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, including United States and European Union ports.

In addition, 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. 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, 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.***

The operation of an ocean-going vessel carries inherent risks. Our vessels and their cargoes will be at risk of being damaged or lost because of events such as marine disasters, bad weather and other acts of God, 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, the payment of ransoms, environmental damage, higher insurance rates, damage to our customer relationships or delay or re-routing, which may also subject us to litigation. 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.

In the case of bareboat chartered vessels drydocking risks, expenses and loss of hire or freight revenue affect the bareboat charterer and not the shipowner, for the duration of the bareboat charter.

***The market value of our vessels, and those we may acquire in the future, may fluctuate significantly, which could cause us to incur losses if we decide to sell them following a decline in their market values or we may be required to write down their carrying value, which will adversely affect our earnings.***

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;
- supply and demand for vessels;
- cost of newbuildings;
- price of steel;
- governmental or other regulations; and
- technological advances.

If we sell any vessel 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 adjustment and may be required to write down the carrying amount of the vessel in 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. See "Item 5. Operating and Financial Review and Prospects—Critical Accounting Policies—Impairment of Vessels."

***Increasing self-sufficiency in energy by the United States could lead to a decrease in imports of oil to that country, which to date has been one of the largest importers of oil worldwide.***

The United States is expected to overtake Saudi Arabia as the world's top oil producer by 2017, according to an annual long-term report by the International Energy Agency ("IEA"). The steep rise in shale oil and gas production is expected to push the country toward self-sufficiency in energy. According to the IEA report a continued fall in U.S. oil imports is expected with North America becoming a net oil exporter by around 2030. In recent years, the share of total U.S. consumption met by total liquid fuel net imports, including both crude oil and products, has been decreasing since peaking at over 60% in 2005 and is expected to fall to around 39% in 2013 as a result of lower consumption and the substantial increase in domestic crude oil production. A slowdown in oil imports to the United States, one of the most important oil trading nations worldwide, may result in decreased demand for our vessels and lower charter rates, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to make cash distributions.

***A number of third party owners have ordered so-called "eco type" vessel designs, which offer substantial bunkers savings as compared to older designs. Increased demand for and supply of eco-type vessels could reduce demand for our tankers and expose us to lower vessel utilization and/or decreased charter rates and vessel values.***

The product tanker newbuilding order book as of December 2012 is estimated at 215 vessels or 11.6% of the current product tanker fleet, according to industry sources. The majority of these orders are based on new vessel designs, which purport to offer between 15-30% in bunker savings compared to older designs, which include our vessels. Such savings could result in a substantial reduction of bunker cost for charterers compared to our vessels. As the supply of such "eco type" vessel increases and if charterers prefer such vessels over our vessels, this may reduce demand for our vessels, reduce the value of our vessels, impair our ability to recharter our vessels at competitive rates when their current charters expire and have a material adverse effect on our cash flows and operations.

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

The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels. The market supply of drybulk carriers has been increasing, and the number of drybulk carriers on order as of December 31, 2012, was estimated by market sources to be approximately 20% of the existing global drybulk fleet, with the majority of deliveries expected during 2013 to 2014, although available data with regard to cancellations of existing newbuilding orders or delays of newbuilding deliveries are not always accurate.

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, 2012, newbuilding orders have been placed for an aggregate of approximately 12% of the existing global tanker fleet with the bulk of deliveries expected during 2013 to 2014.

An over-supply of drybulk carrier and/or tanker capacity has already resulted in a reduction of charter hire rates. If further 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. The occurrence of these events could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay dividends.

***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, all our vessels are 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. 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.

***Our vessels may call on ports located in countries that are subject to restrictions imposed by the U.S. or other governments, which could adversely affect our business, reputation and the market for our common stock.***

From time to time on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the U.S. government as state sponsors of terrorism, including Cuba, Iran, Sudan and Syria. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to companies such as ours and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, in 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

Due to the nature of our business and the evolving nature of the foregoing sanctions and embargo laws and regulations, there can be no assurance that we will be in compliance at all times in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines, penalties or other sanctions that could severely impact our ability to access U.S. capital markets and conduct our business, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us. 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 from, our common stock may adversely affect the price at which our common stock trades. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. In addition, our reputation and the market for our securities may be adversely affected if we engage in certain other activities, such as entering into charters with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. 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.

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

The continuing conflicts and recent developments in Korea, the Middle East, including Egypt, and North Africa, including Libya, and the presence of the United States and other armed forces in Iraq and 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 ocean-going vessels could adversely affect our business.***

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased during 2012 to its lowest level since 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea, with drybulk vessels and tankers particularly vulnerable to such attacks. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones by insurers or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ onboard security guards, could increase in such circumstances. 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, results of operations, cash flows, financial condition and ability to pay dividends and may result in loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

***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 respects such 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 which could adversely affect our business, operating results and financial condition.

***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, off-loading 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.



***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. Currently fuel prices are near historical highs, however fuel may become even more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail. Currently, all our vessels are under period employment whereby the fuel cost is borne by the charterer.

**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, which raises substantial doubt about our ability to continue as a going concern.***

Our loan agreements require that we comply with certain financial and other covenants. As a result of the drop in our drybulk and tanker asset values, as of December 31, 2012, we were in breach of covenants relating to vessel values such as asset cover ratio, adjusted net worth, net asset value and with covenants relating to book equity, EBITDA and overall cash position (minimum liquidity covenants) with certain banks. As a result of these covenant breaches and due to cross default provisions contained in all our bank facilities, we were in breach of all of our loan facilities. We are currently in discussions with our banks in relation to these covenant breaches.

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, increase our interest payments and/or pay down our indebtedness to a level where we are in compliance with our loan covenants. Furthermore, our lenders may accelerate our indebtedness and foreclose their liens on our vessels, in which case our vessels may be auctioned or otherwise transferred which would impair our ability to continue to conduct our business. As a result of these breaches, our total indebtedness of \$172.6 million, which after excluding unamortized financing fees of \$2.4 million amounts to \$175.0 million, and financial instruments of \$5.8 million are presented within current liabilities in the accompanying December 31, 2012 consolidated balance sheet. The amounts of long-term debt and financial instruments that have been reclassified and presented together with current liabilities amount to \$152.0 million and \$3.1 million, respectively.

As of the date of this annual report, our payments of loan installments and interest are current with all of our lenders.

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 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 substantial 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.

Please see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources."

***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, 2012, we had total indebtedness of \$172.6 million, which after excluding unamortized financing fees of \$2.4 million amounts to \$175.0 million, and a ratio of indebtedness to total capital of approximately 93.0%. 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, and our lenders may impose additional operating and financial restrictions on us in connection with waivers or amendments to our loan agreements.***

Our loan agreements impose operating and financial restrictions on us, and our lenders may impose additional restrictions on us in connection with waivers or amendments to our loan agreements. 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 future growth will primarily 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);
- raise equity and obtain required financing for our existing and new operations;
- locate and acquire suitable vessels;
- identify and consummate acquisitions or joint ventures;
- integrate any acquired business successfully with our existing operations;

- hire, train and retain qualified personnel and crew to manage and operate our growing business and fleet;
- enhance our customer base; and
- manage 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, 2012, we have five interest rate swaps for purposes of managing our exposure to fluctuations in interest rates applicable to indebtedness under our credit facilities. During the year ended December 31, 2012, the change in fair value of our interest rate swaps was an unrealized gain of \$2.7 million. Our hedging strategies, however, may not always be effective and we may incur substantial losses if interest rates move materially differently from our expectations.

***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.

***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.

***A limited number of financial institutions hold our cash including financial institutions located in Greece.***

A limited number of financial institutions, including institutions located in Greece, hold all of our cash. Our bank accounts have been deposited from time to time with banks in Germany, United Kingdom and Greece amongst others. Of the financial institutions located in Greece, some are subsidiaries of international banks and others are Greek financial institutions. These balances are not covered by insurance in the event of default by these financial institutions. The occurrence of such a default could have a material adverse effect on our business, financial condition, results of operations and cash flows, and we may lose part or all of our cash that we deposit with such banks.

***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 2012, approximately 89% of our revenue derived from three charterers. These three charterers, Daelim H&L Co. Ltd, United Arab Chemical Carriers, Ltd and Perseveranza Di Navigazione S.p.a provided 51%, 21% and 17% of our revenues in 2012, 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.

Additionally, 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. As of the date of this annual report, four of our vessels are employed on charters at charter rates significantly above current market charter rates and significantly above spot market rates, which most directly reflect the current levels of the drybulk and product tanker charter markets. If it were necessary to secure substitute employment for any of these vessels due to the loss of a customer under current market conditions, such employment would be at a significantly lower charter rate, resulting in a significant reduction in revenues. The loss of any of our customers, or charters, 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 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, securities litigation, 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.

***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. All of our executive officers are employees of Central Mare Inc., or Central Mare which we refer to as our Fleet Manager, a related party controlled by the family of our Chief Executive Officer, and we have entered into agreements with our Fleet Manager for the provision of 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 Ikonomou, and our Chief Technical Officer, Demetris Souroullas. 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.

***If labor interruptions are not resolved in a timely manner, they could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash.***

Our Fleet Manager employs 6 people, all of whom are shore-based. In addition, our Fleet Manager is responsible for recruiting, mainly through a crewing agent, the senior officers and all other crew members for our vessels. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out as we expect and could have a material adverse effect on our business, results of operations, cash flows, financial condition and available cash.

***If 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 if we implement a 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.

***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.***

When we enter into a time charter or bareboat charter, charter rates under that charter are fixed throughout 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.

In April 2013, we received a notice from the charterer of the M/T Miss Marilena that it has unilaterally reduced the daily rate payable to us from \$14,400 to \$10,000 for one year, beginning in April 2013, in violation of our charter agreement. We are examining our options for recovery of the amounts contractually owed to us. Although we intend to enforce our right to payment under the charter, we may not be able to recover these amounts, which would have an adverse effect on our cash flows.

***An increase in operating costs would decrease earnings and available cash.***

Our vessel operating costs include the costs of crew, fuel (for spot chartered vessels), provisions, deck and engine stores, insurance and maintenance and repairs, which depend on a variety of factors, many of which are beyond our control. Some of these costs, primarily relating to insurance and enhanced security measures, have been increasing. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydocking repairs are unpredictable and can be substantial. Increases in any of these expenses would decrease earnings and available cash.

In the case of bareboat chartered vessels, operating expenses and loss of hire or freight revenue due to repairs or damages affect the bareboat charterer and not the shipowner, for the duration of the bareboat charter.

***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 4.7 years. As our fleet ages, operating and other costs will increase. In the case of bareboat charters, operating costs are borne by the bareboat charterer. Due to improvements in engine technology, 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, our revenue will decline at the end of a vessel's useful life, 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.***

We may expand our fleet through the acquisition of previously owned vessels. 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. Accordingly, we may not discover defects or other problems with such vessels prior to purchase. Any such hidden defects or problems, when detected, may be expensive to repair, and if not detected, may result in accidents or other incidents for which we may become liable to third parties. Also, when purchasing previously owned vessels, 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 and type of the vessel. In the case of chartered-in vessels, we run the same risks.

Governmental 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 the vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

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

We carry 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 and war risk insurance. Reasonable insurance rates can best be obtained when the size and the age/trading profile of the fleet is attractive. As a result, rates become less competitive as a fleet downsizes.

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 increased premium payments, or 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" or "attaching" a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could result in a significant loss of earnings for the related off-hired period. In addition, in jurisdictions where the "sister ship" theory of liability applies, a claimant may arrest 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. In countries with "sister ship" liability laws, claims might be asserted against us or any of our vessels for liabilities of other vessels that we own.

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

A government could requisition one or more of our vessels for title or hire. Requisition for title occurs when a government takes control of a vessel and becomes the owner. A government could also requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the 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.

***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 U.S. 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. Although we have qualified for this statutory exemption in previous taxable years and have taken this position for U.S. federal income tax return reporting purposes and we expect to qualify for the 2012 taxable year, there are factual circumstances beyond our control that could cause us to lose the benefit of the exemption and thereby become subject to U.S. federal income tax on our U.S. source shipping income. For example, we would fail to qualify for exemption under Section 883 of the Code for a particular tax year if shareholders, each of whom owned, actually or under applicable constructive ownership rules, a 5% or greater interest in the vote and value of our common stock, owned in the aggregate 50% or more of the vote and value of such stock, and "qualified shareholders" as defined by the Treasury regulation under Section 883 of the Code did not own, directly or under applicable constructive ownership rules, sufficient shares in our closely-held block of common stock to preclude the shares in that closely-held block that are not so owned from representing 50% or more of the value of our common stock for more than half of the number of days during the taxable year. Establishing such ownership by qualified shareholders will depend upon the status of certain of our direct or indirect shareholders as residents of qualifying jurisdictions and whether those shareholders own their shares through bearer share arrangements. In addition, such shareholders will also be required to comply with ownership certification procedures attesting that they are residents of qualifying jurisdictions, and each intermediary or other person in the chain of ownership between us and such shareholders must undertake similar compliance procedures. Due to the factual nature of the issues involved, we may not qualify for exemption under Section 883 of the Code for any future taxable year.

***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. shareholders.***

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, 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" for this purpose. U.S. shareholders of a PFIC are subject to a disadvantageous U.S. 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 should be treated as "passive income" for purposes of determining whether a foreign corporation is a PFIC, and such vessel should be treated as an asset which produces or is held for the production of "passive income." On the other hand, income derived from the time charter of a vessel should not be treated as "passive income" for such purpose, but rather will be treated as services income; likewise, a time chartered vessel should generally not be treated as an asset which produces or is held for the production of "passive income."

For our 2012 taxable year, we believe that at least 50% of the average value of our assets consisted of vessels which are bareboat chartered and at least 75% of our gross income was derived from vessels on bareboat charter. Therefore, we expect to be treated as a PFIC for our 2012 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 Consequences—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 Consequences—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 2012 taxable year, any dividends paid by us during 2012 and 2013 will not be eligible to be treated as "qualified dividend income," which would otherwise be eligible for preferential tax rates in the hands of non-corporate U.S. shareholders.

***Fluctuations in exchange rates could affect our results of operations because we generate a portion of our expenses in currencies other than U.S. dollars.***

We generate all of our revenues in U.S. dollars but incur certain expenses in currencies other than U.S. dollars, mainly Euros. During 2012, approximately 22% of our expenses were in Euros and approximately 2% were in currencies other than the U.S. dollar or Euro. 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 appreciate relative to the U.S. dollar in future periods, our expenses will increase in U.S. dollar terms, thereby decreasing our net income. We have not hedged these risks and therefore our operating results could suffer as a result.

***Because the Public Company Accounting Oversight Board is not currently permitted to inspect our independent accounting firm, you may not benefit from such inspections.***

Auditors of U.S. public companies are required by law to undergo periodic Public Company Accounting Oversight Board, or PCAOB, inspections that assess their compliance with U.S. law and professional standards in connection with performance of audits of financial statements filed with the SEC. Certain European Union countries, including Greece, do not currently permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries, even if they are part of major international firms. The PCAOB conducted inspections in Greece in 2008 and evaluated our auditor's performance of audits of SEC registrants and our auditor's quality controls. The PCAOB issued its report which can be found on the PCAOB website. Currently, however, the PCAOB is unable to conduct inspections in Greece until a cooperation agreement between the PCAOB and the Greek Accounting & Auditing Standards Oversight Board is reached. Accordingly, unlike for most U.S. public companies, should the PCAOB again wish to conduct an inspection it is currently prevented from evaluating our auditor's performance of audits and its quality control procedures, and, unlike shareholders of most U.S. public companies, our shareholders would be deprived of the possible benefits of such inspections.

## **RISKS RELATED TO OUR COMMON SHARES**

***Our share price may continue to be highly volatile, which could lead to a loss of all or part of a shareholder'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, which we refer to as Nasdaq. Over the last few years, the stock market has experienced price and volume fluctuations. This volatility has sometimes been unrelated to the operating performance of particular companies. During 2012, the closing price of our common shares experienced a high of \$3.84 on February 22, 2012 and a low of \$0.88 on December 11, 2012. On August 21, 2012, we received a notification of deficiency from Nasdaq stating that market value of our publicly-held shares fell below certain minimum requirements for listing on the Nasdaq Global Select Market, with a grace period of 180 calendar days to regain compliance. Nasdaq has since notified us that we regained compliance within the applicable grace period. 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 semi-annual 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 shipping industry and the general state of the securities markets;
- mergers and strategic alliances in the 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, and our common shares currently trade on the Nasdaq Global Select Market; however, an active and liquid public market for our common shares may not continue and you may not be able to sell your common shares in the future at the price that you paid for them or at all. As noted above, on August 21, 2012, we received a notification of deficiency from Nasdaq stating that market value of our publicly-held shares fell below certain minimum requirements for listing on the Nasdaq Global Select Market, with a grace period of 180 calendar days to regain compliance. Nasdaq has since notified us that we regained compliance within the applicable grace period.

Further, lack of trading 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.



***Certain existing stockholders, who hold approximately 58.3% of our common stock, may have the power to exert control over us, which may limit your ability to influence our actions.***

As of the day of this report, Sovereign Holdings Inc., or Sovereign, a company that is wholly owned by our President, Chief Executive Officer and Director, Evangelos J. Pistiolis, owns, directly or indirectly, approximately 58.3% of the outstanding shares of our common stock. Due to the number of shares it owns, Sovereign has the power to exert considerable influence over our actions and to effectively control the outcome of matters on which our shareholders are entitled to vote, including the election of our directors and other significant corporate actions. The interests of this stockholder may be different from your interests.

***Shareholders may experience significant dilution as a result of future equity offerings or issuance if shares are sold at prices significantly below the price at which shareholders invested.***

We may issue additional shares of common stock or other equity securities of equal or senior rank in the future in connection with, among other things, future vessel acquisitions, repayment of outstanding indebtedness, or our equity incentive plan, without shareholder approval, in a number of circumstances. Our existing shareholders may experience significant dilution if we issue shares in the future at prices significantly below the price at which previous shareholders invested.

Our issuance of additional shares of common stock or other equity securities of equal or senior rank would have the following effects:

- our existing shareholders' proportionate ownership interest in us will decrease;
- the amount of cash available for dividends payable on the shares of our common stock may decrease;
- the relative voting strength of each previously outstanding common share may be diminished; and
- the market price of the shares of our common stock may decline.

***Future issuances or sales, or the potential for future issuances or sales, of our common shares may cause the trading price of our securities to decline and could impair our ability to raise capital through subsequent equity offerings.***

We have issued a significant number of our common shares and we anticipate that we will continue to do so in the future. Shares to be issued in relation to a future follow-on offering could cause the market price of our common shares to decline, and could have an adverse effect on our earnings per share if and when we become profitable. In addition, future sales of our common shares or other securities in the public markets, or the perception that these sales may occur, could cause the market price of our common shares to decline, and could materially impair our ability to raise capital through the sale of additional securities.

***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 serve process on or 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.

*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 Stockholders 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.

#### **RISKS RELATED TO OUR RELATIONSHIP WITH OUR FLEET MANAGER AND ITS AFFILIATES**

*We are dependent on our Fleet Manager to perform the day-to-day management of our fleet.*

Our executive management team consists of our President and Chief Executive Officer, Evangelos Pistiolis, our Chief Financial Officer, Alexandros Tsirikos, our Executive Vice President, Vangelis Ikonou, and our Chief Technical Officer, Demetris Souroullas. We subcontract the day-to-day vessel management of our fleet, including crewing, maintenance and repair to our Fleet Manager. Our Fleet Manager is a related party controlled by the family of our Chief Executive Officer. We are dependent on our Fleet Manager for the technical and commercial operation of our fleet and the loss of our Fleet Manager's services or its failure to perform obligations to us could materially and adversely affect the results of our operations. If our Fleet Manager suffers material damage to its reputation or relationships it may harm our ability to:

- continue to operate our vessels and service our customers;
- renew existing charters upon their expiration;
- obtain new charters;
- obtain financing on commercially acceptable terms;
- obtain insurance on commercially acceptable terms;
- maintain satisfactory relationships with our customers and suppliers; and
- successfully execute our growth strategy.

*Our Fleet Manager is a privately held company and there may be limited or no publicly available information about it.*

Our Fleet Manager is a privately held company. The ability of our Fleet Manager to continue providing services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair our Fleet Manager's financial strength, and there may be limited publicly available information about its financial strength. As a result, an investor in our common shares might have little advance warning of problems affecting our Fleet Manager, even though these problems could have a material adverse effect on us.

***Our Fleet Manager may have conflicts of interest between us and its other clients.***

We have subcontracted the day-to-day technical and commercial management of our fleet, including crewing, maintenance, supply provisioning and repair to our Fleet Manager. Our contracts with our Fleet Manager have an initial term of five years, after which they will continue to be in effect until terminated by either party subject to a twelve-month advance notice of termination. Our Fleet Manager will provide similar services for vessels owned by other shipping companies, and it may provide similar services to companies with which our Fleet Manager is affiliated. These responsibilities and relationships could create conflicts of interest between our Fleet Manager's performance of its obligations to us, on the one hand, and our Fleet Manager's performance of its obligations to its other clients, on the other hand. These conflicts may arise in connection with the crewing, supply provisioning and operations of the vessels in our fleet versus vessels owned by other clients of our Fleet Manager. In particular, our Fleet Manager may give preferential treatment to vessels owned by other clients whose arrangements provide for greater economic benefit to our Fleet Manager. These conflicts of interest may have an adverse effect on our results of operations.

**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.

**Business Development**

On November 5, 2010, we sold the M/T Dauntless for \$20.1 million, resulting in a gain of \$5.1 million.

On July 26, 2011, we sold the M/V Astrale, which resulted in a loss of approximately \$40 million.

On August 31, 2011, we sold the M/V Amalfi, which resulted in a loss of approximately \$29.5 million.

On November 1, 2011, we entered into an agreement to sell the M/V Cyclades, which resulted in a loss of approximately \$40 million.

On November 21, 2011, we sold the M/T Ioannis P, which resulted in a gain of approximately \$2.6 million.

On December 29, 2011, we sold the M/V Pepito, which resulted in a loss of approximately \$25.2 million.

On January 3, 2012, the bareboat charter party of the M/V Papillon expired and the vessel was subsequently redelivered to us. Following its redelivery, the vessel was renamed the M/V Evian.

On February 15, 2012, three of our directors, Roy Gibbs, Marios Hamboullas, and Yiannakis C. Economou resigned from our Board of Directors following a decision by the board to reduce administrative costs. Following such resignation, our Board of Directors resolved to reduce its size from seven to four members.

On May 23, 2012, we entered into a bareboat agreement to charter out the M/V Evian through December 15, 2014 at a daily rate of \$7,000.

On August 21, 2012, we received a notification from Nasdaq stating that because the market value of our publicly held shares for the previous 30 consecutive business days was below the minimum \$5 million requirement for continued listing on the Nasdaq Global Select Market, we were not in compliance with Nasdaq Listing Rule 5450(b)(1)(C). The applicable grace period to regain compliance was 180 calendar days from the date of the notice. Nasdaq has since notified us that we regained compliance within the applicable grace period.

As of December 31, 2012 and December 31, 2011, our fleet consisted of seven owned vessels, including six Handymax tankers and one Supramax drybulk vessel, with total carrying capacity of 0.35 million dwt.

On January 1, 2013 we entered into an agreement with the owner of M/T Delos by which the termination fee outstanding as of December 31, 2012 is divided into two tranches; "Tranche A" (\$4.5 million) that will bear interest of 3% plus Libor and "Tranche B" (\$0.8 million) that will not bear interest. This agreement provides for the repayment of Tranche A and Tranche B up to 2017.

On March 27, 2013, we entered into an agreement with an unrelated third party to sell the M/T UACC Sila for a contracted price of \$26 million. The vessel was delivered to its new owners on April 30, 2013 and its respective debt was fully repaid.

On April 15, 2013, we received a notice from the charterer of the M/T Miss Marilena that it has unilaterally reduced the daily rate payable to us from \$14,400 to \$10,000 for one year, beginning in April 2013, in violation of our charter agreement. We are examining our options for recovery of the amounts contractually owed to us and intend to enforce our right to payment under the charter.

## B. Business Overview

### Business Strategy

We are a provider of international seaborne transportation services, carrying petroleum products and 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 seven owned vessels, including six tankers and one drybulk vessel.

Our vessels are currently employed on bareboat charters. Of our fleet, 85% 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/chemical tankers from SPP Shipbuilding Co., Ltd. in the Republic of Korea in order to modernize our tanker fleet. All of these tankers were delivered to us during 2009.

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

We intend to continue to review the market in order to identify potential acquisition targets 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:

	<u>Dwt</u>	<u>Year Built</u>	<u>Charter Type</u>	<u>Expiry</u>	<u>Daily Base Rate</u>
<b>Tanker Vessels</b>					
Miss Marilena	50,000	2009	Bareboat Charter	Q1-2/2019	\$ 14,400
Lichtenstein	50,000	2009	Bareboat Charter	Q1-2/2019	\$ 14,550
UACC Sila*	50,000	2009	Bareboat Charter	Q1-2/2018	\$ 9,000
UACC Shams	50,000	2009	Bareboat Charter	Q1-2/2018	\$ 9,000
Britto	50,000	2009	Bareboat Charter	Q1-2/2019	\$ 14,550
Hongbo	50,000	2009	Bareboat Charter	Q1-2/2019	\$ 14,550
<b>Total Tanker dwt</b>	<b>300,000</b>				
<b>Drybulk Vessel</b>					
Evian (ex Papillon)	51,200	2002	Bareboat Charter	Q4/2014	\$ 7,000
<b>Total Drybulk dwt</b>	<b>51,200</b>				
<b>TOTAL DWT</b>	<b>351,200</b>				

\*As of December 31, 2012 we have classified the M/T UACC Sila as held for sale

## Management of the Fleet

Our Fleet Manager, Central Mare, a related party controlled by the family of our Chief Executive Officer, performs all of our operational, technical and commercial functions relating to the chartering and operation of our vessels, pursuant to management agreements concluded between Central Mare and Top Ships, as well as between Central Mare and our vessel-owning subsidiaries.

### Central Mare—Letter Agreement and Management Agreements

Pursuant to a letter agreement concluded between Central Mare and Top Ships, or the Letter Agreement, as well as management agreements concluded between Central Mare and our vessel-owning subsidiaries, we pay a management fee of Euro 689.6 or approximately \$910 per day per vessel that is employed under a time or voyage charter and a management fee of Euro 265.2 or approximately \$350 per day per vessel that is employed under a bareboat charter. In addition, the management agreements provide for payment to Central Mare of: (i) a fee of Euro 106.1 or approximately \$140 per day per vessel for services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002; (ii) Euro 530.5 or approximately \$700 per day for superintendent visits; (iii) a chartering commission of 0.75% on all existing (as of July 1, 2010) freight, hire and demurrage revenues; (iv) a chartering commission of 1.25% on all new (concluded after July 1, 2010) freight, hire and demurrage revenues; (v) a commission of 1.00% of all gross sale proceeds or the purchase price paid for vessels; (vi) a quarterly fee of Euro 100,000 or approximately \$131,970 for the services rendered in relation to our maintenance of proper books and records; (vii) a quarterly fee of Euro 25,000 or \$32,993 for services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations; (viii) a commission of 0.2% on derivative agreements and loan financing or refinancing; (ix) a newbuilding supervision fee of Euro 424,360 or approximately \$560,028 per newbuilding vessel and (x) an annual fee of Euro 10,609 or approximately \$14,001 per vessel, for the provision of information-system related services.

Central Mare also provides commercial operations and freight collection services in exchange for a fee of Euro 95.5 or approximately \$126 per day per vessel. Central Mare provides insurance services and obtains insurance policies for the vessels for a fee of 5.00% of the total insurance premiums. Furthermore, if required, Central Mare will also handle and settle all claims arising out of its duties under the management agreements (other than insurance and salvage claims) in exchange for a fee of Euro 159.7 or approximately \$211 per person per eight-hour day. Finally legal fees for claims and general corporate services incurred by Central Mare on our behalf will be reimbursed to Central Mare at cost.

These agreements have an initial term of five years, after which they will continue to be in effect until terminated by either party subject to a twelve-month advance notice of termination.

Pursuant to the terms of the management agreements, all fees payable to Central Mare are adjusted upwards 3% per annum on each anniversary date of the agreement. Transactions with the Manager in Euros are settled on the basis of the EUR/USD on the invoice date.

The Letter Agreement was amended on January 1, 2012 to reduce management fees paid by us to Central Mare by approximately 35% for the services rendered in relation to our maintenance of proper books and records and for services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations. The letter agreement was amended again on January 1, 2013 resulting in a decrease in the variable management fees to \$250 per vessel per day that will include operational, technical and commercial functions, services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to our maintenance of proper books and records, services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations, the provision of information-system related services, commercial operations and freight collection services, with all other terms remaining unchanged.

### Crewing and Employees

As of the date of this annual report, our employees include our executive officers and one administrative employee whose services are provided by an agreement through Central Mare. In addition, Central Mare is responsible for recruiting, mainly through a crewing agent, the senior officers and all other crew members for our vessels. We believe the streamlining of crewing arrangements will ensure that all our vessels will be crewed with experienced seamen that have the qualifications and licenses required by international regulations and shipping conventions.

### The International Shipping Industry

The seaborne transportation industry is a vital link in international trade, with ocean going vessels representing the most efficient and often the only method of transporting large volumes of basic commodities and finished products. Demand for oil tankers is dictated by world oil demand and trade, which is influenced by many factors, including international economic activity; geographic changes in oil production, processing, and consumption; oil price levels; inventory policies of the major oil and oil trading companies; and strategic inventory policies of countries such as the United States, China and India. The drybulk trade is influenced by the underlying demand for the drybulk commodities, which, in turn, is influenced by the level of worldwide economic activity. Generally, growth in gross domestic product, or GDP, and industrial production correlate with peaks in demand for marine drybulk transportation services.

Shipping demand, measured in tonne-miles, is a product of (a) the amount of cargo transported in ocean going vessels, multiplied by (b) the distance over which this cargo is transported. The distance is the more variable element of the tonne-mile demand equation and is determined by seaborne trading patterns, which are principally influenced by the locations of production and consumption. Seaborne trading patterns are also periodically influenced by geopolitical events that divert vessels from normal trading patterns, as well as by inter-regional trading activity created by commodity supply and demand imbalances. Tonnage of oil shipped is primarily a function of global oil consumption, which is driven by economic activity as well as the long-term impact of oil prices on the location and related volume of oil production. Tonnage of oil shipped is also influenced by transportation alternatives (such as pipelines) and the output of refineries.

Demand for tankers and tonnage of oil shipped is primarily a function of global oil consumption, which is driven by economic activity as well as the long-term impact of oil prices on the location and related volume of oil production. The Baltic Dirty Tanker Index has modestly risen, after a steep decline that started in mid-2008, and high volatility throughout 2009, 2010 and 2011. 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 modestly risen to 632 as of April 18, 2013. The Baltic Clean Tanker Index fell from 1,509 as of June 19, 2008, to 345 as of April 4, 2009, but has modestly risen to 623 as of April 18, 2013. 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 OPEC, and other non-OPEC oil producing countries have imposed in an effort to stabilize the price of oil. During 2010, 2011 and 2012, the above factors affecting the Baltic Dirty and Clean Tanker Indices subsided, allowing for the mild recovery of charter rates. According to the International Energy Agency, or the IEA, demand for oil and petroleum products was stronger in 2012, with the global oil product demand rising to 89.8 million barrels per day, compared to 88.9 million barrels per day in 2011.

The IEA expects 2013 oil demand to grow by 0.9% to 906 million barrels per day. However, throughout 2012, vessel oversupply has put pressure on charter rates and the respective Baltic Tanker indices.

The price of crude oil reached historical highs in the summer of 2008 but declined sharply thereafter as a result of the deterioration in the world economy, the collapse of financial markets, declining oil demand and bearish market sentiment. During 2009, 2010, 2011 and 2012, oil prices started rising again amidst a growing demand for oil, leading to a price of approximately \$88.40 per barrel as of April 18, 2013.

### **Environmental and Other Regulations**

Governmental laws and regulations significantly affect the ownership and operation of our vessels. We are subject to various international conventions, laws and regulations in force in the countries in which our vessels may operate or are registered. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modification and implementation costs.

A variety of government, quasi-governmental, and private organizations subject our vessels to both scheduled and unscheduled inspections. These organizations include the local port authorities, national authorities, harbor masters or equivalent entities, classification societies, relevant flag state (country of registry) and charterers, particularly terminal operators and oil companies. Some of these entities require us to obtain permits, licenses, certificates and approvals for the operation of our vessels. Our failure to maintain necessary permits, licenses, certificates or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet, or lead to the invalidation or reduction of our insurance coverage.

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 tankers that conform to stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with applicable local, national and international environmental laws and regulations. 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 strict 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, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico, could result in additional legislation or regulation that could negatively affect our profitability.

## International Maritime Organization

The International Maritime Organization, or the IMO, is the United Nations agency for maritime safety and the prevention of pollution by ships. The IMO has adopted several international conventions that regulate the international shipping industry, including but not limited to, the International Convention on Civil Liability for Oil Pollution Damage of 1969, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage, and the International Convention for the Prevention of Pollution from Ships of 1973, or the MARPOL Convention. The MARPOL Convention is broken into six Annexes, each of which establishes environmental standards relating to different sources of pollution: Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, adopted by the IMO in September of 1997, relates to air emissions.

### *Air Emissions*

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits "deliberate emissions" of "ozone depleting substances," defined to include certain halons and chlorofluorocarbons. "Deliberate emissions" are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship's repair and maintenance. Emissions of "volatile organic compounds" from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil (see below).

Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulfur contained in any fuel oil used on board ships. As of January 1, 2012, the amended Annex VI requires that fuel oil contain no more than 3.50% sulfur. By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Sulfur content standards are even stricter within certain "Emission Control Areas" ("ECAs"). As of July 1, 2010, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 1.0% (from 1.50%), which will be further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea and the North Sea have been so designated. On August 1, 2012, certain coastal areas of North America were designated ECAs as will the applicable areas of United States Caribbean Sea, effective January 1, 2014. 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.

As of January 1, 2013, MARPOL made mandatory certain measures relating to energy efficiency for new ships. It makes the Energy Efficiency Design Index (EEDI) apply to all new ships, and the Ship Energy Efficiency Management Plan (SEEMP) apply to all ships.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The U.S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009. As a result of these designations or similar future designations, we may be required to incur additional operating or other costs.

### *Safety Management System Requirements*

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or LL, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL standards. The Convention on Limitation for Maritime Claims (LLMC) was recently amended and the amendments are expected to go into effect on June 8, 2015. The amendments alter the limits of liability for a loss of life or personal injury claim and a property claim against ship owners.

Our operations are also subject to environmental standards and 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 Chapter IX of SOLAS. The ISM Code requires the owner of a vessel, or any person who has taken responsibility for operation 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 rely upon the safety management system that has been developed for our vessels for compliance with the ISM Code.

The ISM Code requires that vessel operators also obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. We have obtained documents of compliance for its offices and safety management certificates for all of our vessels for which the certificates are required by the ISM Code. These documents of compliance and safety management certificates are renewed as required.

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

#### *Pollution Control and Liability Requirements*

IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatory nations to such conventions. For example, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended by different Protocol in 1976, 1984, and 1992, and amended in 2000, or the CLC. Under the CLC 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 to certain exceptions. The 1992 Protocol changed certain limits on liability, expressed using the International Monetary Fund currency unit of Special Drawing Rights. The limits on liability have since been amended so that compensation limits on liability were raised. The right to limit liability is forfeited under the CLC where the spill is caused by the shipowner's actual fault and under the 1992 Protocol where the spill is caused by the shipowner's intentional or reckless act or omission where the shipowner knew pollution damage would probably result. The CLC requires ships covered by it to maintain insurance covering the liability of the owner in a sum equivalent to an owner's liability for a single incident. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by the IMO.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on shipowners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention 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 (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In addition, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM 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 become effective 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. To date, there has not been sufficient adoption of this standard for it to take force. However, Panama may adopt this standard in the relatively near future, which would be sufficient for it to take force. Upon entry into force of the BWM Convention, mid-ocean ballast exchange would be mandatory. Vessels would be required to be equipped with a ballast water treatment system that meets mandatory concentration limits not later than the first intermediate or renewal survey, whichever occurs first, after the anniversary date of delivery of the vessel in 2014, for vessels with ballast water capacity of 1500-5000 cubic meters, or after such date in 2016, for vessels with ballast water capacity of greater than 5000 cubic meters. If mid-ocean ballast exchange or ballast water treatment requirements become mandatory, 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.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

#### **U.S. Regulations**

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade in the United States, its territories and possessions or whose vessels operate in U.S. waters, which includes the U.S. territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define "owner and operator" in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Accordingly, both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:



- injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;
- injury to, or economic losses resulting from, the destruction of real and personal property;
- net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;
- loss of subsistence use of natural resources that are injured, destroyed or lost;
- lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and
- net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability to the greater of \$2,000 per gross ton or \$17.088 million for any double-hull tanker that is over 3,000 gross tons (subject to periodic adjustment for inflation), and our fleet is entirely composed of vessels of this size class. These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee. We have provided such evidence and received certificates of financial responsibility from the U.S. Coast Guard's for each of our vessels as required to have one.

OPA permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA. 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.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. For example, on August 15, 2012, the U.S. Bureau of Safety and Environmental Enforcement (BSEE) issued a final drilling safety rule for offshore oil and gas operations that strengthens the requirements for safety equipment, well control systems, and blowout prevention practices. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes.

Through our P&I Club membership, we expect to maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The U.S. Clean Water Act, 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, many 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. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in United States waters. The EPA has proposed a draft 2013 VGP to replace the current VGP upon its expiration on December 19, 2013. The VGP focuses on authorizing discharges incidental to operations of commercial vessels and the new VGP is expected to contain numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

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. In 2009, the Coast Guard proposed new ballast water management standards and practices, including limits regarding ballast water releases. As of June 21, 2012, the U.S. Coast Guard implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships into U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004.

Compliance with the EPA and the U.S. Coast Guard regulations 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 at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters.

### **European Union Regulations**

In October 2009, the European Union amended a 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. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

### **Greenhouse Gas Regulation**

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. On January 1, 2013 two new sets of mandatory requirements to address greenhouse gas emissions from ships, which were adopted by MEPC in July 2011, entered into force. Currently operating ships will be required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is also planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. 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 vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, 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 which we cannot predict with certainty at this time.

### **International Labour Organization**

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world's tonnage have ratified it. On August 20, 2012, the required number of countries was met and MLC 2006 is expected to come into force on August 20, 2013. MLC 2006 will require us to develop new procedures to ensure full compliance with its requirements.

## **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. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. Amendments to SOLAS Chapter VII, made mandatory in 2004, apply to vessels transporting dangerous goods and require those vessels be in compliance with the International Maritime Dangerous Goods Code ("IMDG Code").

To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, 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, 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.

Ships operating without a valid certificate, may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels provided such vessels have on board a valid ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by 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 on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case 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, within three months before or after each anniversary date of 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 are to be carried out at or between 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 vessel owner 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 Det Norske Veritas or the Korean Register of Shipping. 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 for oil pollution accidents in the United States Exclusive Economic Zone, has made liability insurance more expensive for ship owners and operators trading in the United States market. While we maintain hull and machinery insurance, war risks insurance, protection and indemnity cover and freight, demurrage and defense cover for our operating fleet in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. 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. In 2011, the Hull and Machinery deductibles were adjusted to \$100,000 per vessel per incident and remain so to this date. For the vessels that are under bareboat charters, the charterer is responsible for arranging and paying for all insurances that may be required.

## **Loss of Hire Insurance**

We did not opt to cover any vessel for loss of hire for 2011 and 2012 and the mortgagee bank for the bareboat chartered-out vessels M/T UACC Sila and M/T Hongbo agreed to waive their mortgage covenant to have Loss of Hire Insurance renewed for these vessels.

## **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, collision liabilities, damage to other third-party property, pollution arising from oil or other substances and wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "P&I Clubs." Cover is subject to the current statutory limits of liability and the applicable deductibles per category of claim. Our current protection and indemnity insurance coverage for pollution stands at \$1.0 billion for any one event.

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.

## **Customers**

Our customers include national, regional and international companies. We have historically derived a significant part of our revenue from a small number of charterers. In 2012, approximately 89% of our revenue derived from three charterers, Daelim H&L Co. Ltd., United Arab Chemical Carriers, Ltd and Perseveranza Di Navigazione S.p.a, which respectively provided 51%, 21% and 17% of our revenues. In 2011, approximately 57.5% of our revenue derived from four charterers, Cosco Qingdao, Daelim H&L Co. Ltd., Daeyang Shipping and Harren & Partner Maritime Services GmbH, which respectively provided 12.3%, 20.2%, 13.4% and 11.6% of our revenues. We strategically monitor developments in the tanker and drybulk shipping industry on a regular basis and, subject to market demand, seek to adjust the charter hire periods for our vessels according to prevailing market conditions.

## **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 Supramax class size. 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**

We are a Marshall Islands corporation with principal executive offices located at 1 Vas. Sofias and Meg. Alexandrou Str, 15124 Maroussi, Greece. We own our vessels through wholly-owned subsidiaries that are incorporated in the Marshall Islands or other jurisdictions generally acceptable to lenders in the shipping industry. Our significant wholly-owned subsidiaries as of December 31, 2012 are listed in Exhibit 8.1 to this Annual Report on Form 20-F.

### **D. Property, Plants and Equipment**

For a list of our fleet, please see "Item 4. Information on the Company—B. Business Overview —Our Fleet" above.

We do not own any real property.

We lease office space in Athens, Greece, located at 1, Vasilisis Sofias & Megalou Alexandrou Street, 151 24 Maroussi, Athens, Greece at a yearly rent of \$0.04 million. The amounts of yearly rent stated in this paragraph are based on the relevant exchange rate on December 31, 2012.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following presentation of 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 "Item 3. Key Information—Risk Factors" and elsewhere in this report.

##### **A. Operating Results**

###### **Segments and Continuing Operations**

Following the acquisition of five drybulk vessels in 2007, we reported our income in two segments, the tanker segment and the drybulk segment. In 2011, we sold four of our drybulk vessels and held the fifth drybulk vessel for sale, the M/V Evian. As a result, we determined that as of December 31, 2011, our drybulk segment should be reflected as discontinued operations. During 2012, we entered into a bareboat agreement to charter-out the M/V Evian through December 15, 2014 at a rate of \$7,000 per day and decided to change the plan of sale of the M/V Evian. As of December 31, 2012, we reclassified the M/V Evian as held for use. As a result, the Dry bulk business was reclassified to continuing operations for all periods presented. In evaluating the ongoing business operations, the Company determined that since tankers and dry bulk carriers have similar economic characteristics and since there is only one dry bulk vessel left, and as the chief operating decision maker reviews operating results solely by revenue per day and operating results of the fleet, we concluded that in 2012 we operated under one segment.

###### **Factors Affecting our Results of Operations**

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 or intermediate 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 adjusted 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 that our 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 adjusted 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 the decision-making process.

### **Voyage Revenues**

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, either directly or through a pool arrangement, 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 Central Mare, 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 seven and eight years. Furthermore in May 2012 we entered into a bareboat charter for our drybulk carrier for a period of 2.5 years.

As of the date of this annual report all our vessels are on bareboat charters. We may in the future operate vessels in the spot market until the vessels have been chartered under appropriate medium to long-term charters.

### **Voyage Expenses**

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 primarily driven by the routes that the vessels travel, the amount of ports called on, the canals crossed and the price of bunker fuels paid.

### **Charter Hire Expenses**

Charter hire expenses include lease payments for vessels we charter-in. In October 2010, we entered into a bareboat charter-in agreement for the M/T Delos that required us to make lease payments through September 2015, however, in October 15, 2011, we terminated the bareboat charter for the M/T Delos and redelivered the vessel to its owners.

### **Vessel Operating Expenses**

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 value added tax, or VAT, and other miscellaneous expenses for vessels that we own or lease under our operating leases. We analyze vessel operating expenses on a U.S. dollar/day basis. Additionally, vessel operating expenses can fluctuate due to factors beyond our control, such as unplanned repairs and maintenance attributable to damages or regulatory compliance and factors which may affect the shipping industry in general, such as developments relating to insurance premiums, or developments relating to the availability of crew.

### **Dry-docking Costs**

Dry-docking costs relate to 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 number of days the vessel is off-hire 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. For further information please see "Item 4. Information on the Company—B. Business Overview—Environmental Regulations."

### **Management Fees—Third Parties**

These costs relate to management fees to non-related parties.

### **Management Fees—Related Parties**

Since July 1, 2010, Central Mare, a related party controlled by the family of our Chief Executive Officer, has been performing all of our operational, technical and commercial functions relating to the chartering and operation of our vessels, except for the M/T Delos, pursuant to a Letter Agreement concluded between Central Mare and us as well as management agreements concluded between Central Mare and our vessel-owning subsidiaries. In 2010, we outsourced technical management and crewing of the M/T Delos to TMS Tankers and outsourced operational monitoring of the vessel to Central Mare, a related party, under agreements effective from October 1, 2010. In June 1, 2011, we transferred the full management of the M/T Delos to International Ship Management, a related party, up to the date of the vessel's lease termination on October 15, 2011. For further information please see "Item 4. Information on the Company—B. Business Overview—Management of the Fleet."

### **General and Administrative Expenses**

Our general and administrative expenses include executive compensation paid to Central Mare, a related party controlled by the family of our Chief Executive Officer, for the provision of our executive officers, office rent, legal and auditing costs, regulatory compliance costs, other miscellaneous office expenses, non-cash stock compensation, and corporate overhead. Central Mare provides the services of the individuals who serve in the position of Chief Executive Officer, Chief Financial Officer, Executive Vice President and Chief Technical Officer as well as certain administrative employees. For further information please see "Item 18. Financial Statements—Note 5—Transactions with Related Parties."

General and administrative expenses are mainly Euro denominated, except for some legal fees and share-based compensation related expenses and are therefore affected by the conversion rate of the U.S. dollar versus the Euro.

### **Interest and Finance Costs**

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 regard to loan covenant breaches, we have agreed to increase the relevant interest margin on certain of our loans. For further information please see "—B. Liquidity and Capital Resources."



## **Inflation**

Inflation has not had a material effect on our expenses. 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 at the expiration of a vessel's 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 and the financial and operational evaluation of such actions and depend on the overall state of the shipping market and the availability of relevant purchase candidates.

## **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 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.

During 2010, 2011 and 2012, we did not acquire any vessels with existing time 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.

RESULTS OF OPERATIONS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

The following table depicts changes in the results of operations for 2012 compared to 2011 and 2011 compared to 2010.

	Year Ended December 31,			Change			
	2010	2011	2012	YE11 v YE10		YE12 v YE11	
	(\$ in thousands)			\$	%	\$	%
<b>Voyage Revenues</b>	<b>90,875</b>	<b>79,723</b>	<b>31,428</b>	<b>(11,152)</b>	<b>-12.3 %</b>	<b>(50,460)</b>	<b>-63.3 %</b>
Other Income	-	872	-	872	-	(872)	-100.0 %
Voyage expenses	2,468	7,743	1,023	5,275	213.7 %	(6,720)	-86.8 %
Charter hire expense	480	2,380	-	1,900	395.8 %	(2,380)	-100.0 %
Lease termination expense	-	5,750	-	5,750	-	(5,750)	-100.0 %
Vessel operating expenses	12,853	10,368	814	(2,485)	-19.3 %	(9,554)	-92.1 %
Dry-docking costs	4,103	1,327	-	(2,776)	-67.7 %	(1,327)	-100.0 %
Depreciation	32,376	25,327	11,458	(7,049)	-21.8 %	(13,869)	-54.8 %
Management fees-third parties	159	439	-	280	176.1 %	(439)	-100.0 %
Management fees-related parties	3,131	5,730	2,345	2,599	83.0 %	(3,385)	-59.1 %
General and administrative expenses	18,142	15,364	7,078	(2,778)	-15.3 %	(8,286)	-53.9 %
(Loss)/Gain on sale of vessels	(5,101)	62,543	-	67,644	-1326.1 %	(62,543)	-100.0 %
Impairment on vessels	-	114,674	61,484	114,674	100 %	(53,190)	-46.4 %
<b>Expenses</b>	<b>68,611</b>	<b>251,645</b>	<b>84,202</b>	<b>183,034</b>	<b>266.8 %</b>	<b>(167,443)</b>	<b>-66.5 %</b>
<b>Operating income (loss)</b>	<b>22,264</b>	<b>(171,050)</b>	<b>(52,774)</b>	<b>(193,314)</b>	<b>-868.3 %</b>	<b>116,111</b>	<b>-67.9 %</b>
Interest and finance costs	(14,776)	(16,283)	(9,345)	(1,507)	10.2 %	6,938	-42.6 %
Loss on financial instruments	(5,057)	(1,793)	(447)	3,264	-64.5 %	1,346	-75.1 %
Interest income	136	95	175	(41)	-30.1 %	80	84.2 %
Other, net	(54)	(81)	(1,593)	(27)	50.0 %	653	-806.2 %
<b>Total other expenses, net</b>	<b>(19,751)</b>	<b>(18,062)</b>	<b>(11,210)</b>	<b>1,689</b>	<b>-8.6 %</b>	<b>9,017</b>	<b>-49.9 %</b>
<b>Net income (loss)</b>	<b>2,513</b>	<b>(189,112)</b>	<b>(63,984)</b>	<b>(191,625)</b>	<b>-7625.3 %</b>	<b>125,128</b>	<b>-66.2 %</b>

The table below presents the key measures for each of the years 2010, 2011 and 2012. Please see "Item 3. Key Information—A. Selected Financial Data" for a reconciliation of Average Daily TCE to revenues.

	Year Ended December 31,			Change	
	2010	2011	2012	YE11 v YE10	YE12 v YE11
	(\$ in thousands)			%	%
<b>FLEET**</b>					
Total number of vessels at end of period	13.0	7.0	7.0	-46.2%	0.0%
Average number of vessels	13.1	11.7	7.0	-10.5%	-40.3%
Total operating days for fleet under spot charters	45	520	0	100.0%	-100.0%
Total operating days for fleet under time charters	2,076	1,109	124	-46.6%	-88.8%
Total operating days for fleet under bareboat charters	2,555	2,551	2,420	-0.2%	-5.1%
Average TCE (\$/day)	18,907	17,220	11,951	-8.9%	-30.6%

\*\* Includes a bareboat chartered-in vessel (M/T Delos) from October 2010 to October 2011.

### Year on Year Comparison of Operating Results

#### 1. Voyage Revenues

	Year Ended December 31,			Change			
	2010	2011	2012	YE11 v YE10		YE12 v YE11	
	(\$ in thousands)			\$	%	\$	%
<b>Revenues</b>	90,875	79,723	31,428	(11,152)	-12.3 %	(48,295)	-60.6 %

#### 2012 vs. 2011

During 2012, revenues decreased by \$48.3 million, or 60.6%, compared to 2011. This is due to the absence of revenue from the M/V Amalfi that was sold in August 2011, which contributed to the revenue decrease by \$3.3 million, the absence of revenue from the M/V Astrale that was sold in July 2011, which contributed to the revenue decrease by \$3.5 million, the absence of revenue from the M/V Cyclades that was sold in November 2011, which contributed to the revenue decrease by \$13.4 million, the absence of revenue from the M/T Ioannis P. that was sold in November 2011, which contributed to the revenue decrease by \$8.0 million, the absence of revenue from the M/V Pepito that was sold in December 2011, which contributed to the revenue decrease by \$9.7 million, the absence of revenue from the M/T Delos the charter of which was terminated in October 2011, which contributed to the revenue decrease by \$5.1 million, and due to the absence of revenue from the M/V Evian due to early termination of its charter in January 2012 and the rechartering of the vessel at a significantly lower rate, which contributed to the revenue decrease by \$6.3 million. These decreases in revenue were partially offset by the collection in 2012 of a demurrage related claim of \$0.4 million for the M/T Timeless (the vessel's lease was terminated in 2008) and the fact that the M/T UACC Sila and the M/T UACC Shams were re-chartered in April and May 2011, respectively, with a higher rate that led to an increase of revenue in 2012 of \$0.3 million and \$0.3 million, respectively.

#### 2011 vs. 2010

During 2011, revenues decreased by \$11.2 million, or 12.3%, compared to 2010. This decrease is due to the reduced employment of M/V Amalfi that was sold in August 2011, which contributed to the revenue decrease by \$1.4 million, the reduced employment of the M/V Astrale that was sold in July 2011, which contributed to the revenue decrease by \$2.4 million, the reduced employment of the M/V Cyclades that was sold in November 2011 in conjunction with its re-chartering in April 2011 at a much lower rate, both of which contributed to the revenue decrease by \$4.1 million, the reduction of the hire rate of M/V Pepito from September 2011 up to its sale in December 2011, which contributed to the revenue decrease by \$4.7 million, the absence of revenue from the M/T Dauntless, which was sold in November 2010, which contributed to the revenue decrease by \$3.7 million and finally by the application in 2011 of new reduced daily rates for the M/T UACC Sila and the M/T UACC Shams, which led to a decrease in revenue of \$0.4 million and \$0.4 million, respectively. These decreases in revenue were partially offset by the fact that the M/T Delos was employed for 9.5 months in 2011 compared to three months in 2010, which led to an increase in 2011 revenue of \$4.5 million. Furthermore, the M/T Ioannis P generated \$1.4 million more revenue in 2011 mainly due to an increase in demurrage income of \$1.8 million.

## 2. Other Income

In 2011, we recognized \$0.9 million of other income, relating to income from the sale of lubricants and bunkers to the new charterers of the M/T UACC Sila and M/T UACC Shams.

### Expenses

#### 1. Voyage expenses

	Year Ended December 31,			Change			
	2010	2011	2012	YE11 v YE10		YE12 v YE11	
	(\$ in thousands)			\$	%	\$	%
<b>Voyage Expenses</b>	2,468	7,743	1,023	5,275	213.7 %	(6,720)	-86.8 %

Voyage expenses primarily consist of port charges, including bunkers (fuel costs), canal dues and commissions.

#### 2012 vs. 2011

During 2012, voyage expenses decreased by \$6.7 million, or 86.8%, compared to 2011 mainly as a result of the absence of expenses from the M/T Ioannis P. that was sold in November 2011, which contributed to the voyage expenses decrease by \$4.2 million, and the absence of expenses from the M/T Delos, the charter of which was terminated in October 2011, which contributed to the voyage expenses decrease by \$2.0 million and the absence of expenses from the M/V Cyclades that was sold in November 2011, which contributed to the voyage expenses decrease by \$0.6 million.

#### 2011 vs. 2010

During 2011, voyage expenses increased by \$5.3 million, or 213.7%, compared to 2010 mainly as a result of the employment of the M/T Ioannis P for 10 months in the spot market in 2011 compared to 1.5 months in 2010, resulting in an increase in voyage expenses of \$3.6 million, and the employment of the M/T Delos for 9.5 months in the spot market in 2011 compared to 3 months in 2010, which resulted in an increase in voyage expenses of \$2.0 million. These increases in voyage expenses were partially offset by a gain resulting from the sale of bunkers due to the sale of M/V Astrale in 2011, resulting in a decrease in voyage expenses of \$0.4million.

#### 2. Charter hire expenses

	Year Ended December 31,			Change			
	2010	2011	2012	YE11 v YE10		YE12 v YE11	
	(\$ in thousands)			\$	%	\$	%
<b>Charter Hire</b>	480	2,380	-	1,900	395.8 %	(2,380)	-100 %

#### 2012 vs. 2011

During 2012, we did not charter-in any vessels, and accordingly, we did not have any charter hire expenses.

#### 2011 vs. 2010

During 2011, charter hire expenses increased by \$1.9 million, or 395.8%, compared to 2010. This is due to the fact that we chartered-in the M/T Delos for 9.5 months in 2011 compared to three months in 2010.

#### 3. Lease termination expense

##### 2012 vs. 2011

In 2012, we did not incur any lease termination expenses.

##### 2011 vs. 2010

In 2011, we terminated the bareboat charter for the M/T Delos and redelivered the vessel to its owners. The termination agreement provided for the payment of an early termination fee of \$5.75 million.

#### 4. Vessel operating expenses

	Year Ended December 31,			Change			
	2010	2011	2012	YE11 v YE10		YE12 v YE11	
	(\$ in thousands)			\$	%	\$	%
<b>Vessel Operating Expenses</b>	12,853	10,368	814	(2,485)	-19.3 %	(9,554)	-92.1 %

## 2012 vs. 2011

During 2012, vessel operating expenses decreased by \$9.6 million, or 92.1%, compared to 2011 due to the fact that in 2012 we only had one vessel, the M/V Evian on time charter for five months and all of our other vessels, including the M/V Evian, after May 2012 were on bareboat charter and incurred minimal operating expenses, mainly relating to insurance and inspections.

## 2011 vs. 2010

During 2011, vessel operating expenses decreased by \$2.5 million, or 19.3%, compared to 2010 mainly due to the following factors: (i) the M/T Dautless was sold in November 2010 resulting in a decrease in operating expenses of \$2.6 million, (ii) we had negative operating expenses of \$0.9 million for the M/T Priceless in 2011 due to the collection of an operating expense related claim in our favor from 2008, (iii) the M/V Astrale was sold in July 2011 resulting in a decrease in operating expenses of \$0.6 million, (iv) the M/V Amalfi was sold in August 2011 resulting in a decrease in operating expenses of \$0.5 million, (v) the M/V Cyclades was sold in November 2011 resulting in a decrease in operating expenses of \$0.5 million and (vi) an operating expense related claim against us of \$0.3 million in 2010 for the M/T Vanguard. This was partially offset by an increase in operating expenses of \$1.9 million as a result of the employment of the M/T Delos for 9.5 months in 2011 compared to 3 months in 2010, by an increase in operating expenses of \$0.5 million as a result of a negative charge in operating expenses in 2010 for the M/V Pepito resulting from the collection of an operating expense related claim in our favor from 2009 and by a negative charge of \$0.5 million of operating expenses in 2010 for the M/T Faultless resulting from the collection of an operating expense related claim in our favor from 2007.

### 5. Dry-docking costs

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
		<i>(\$ in thousands)</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>Dry-docking Costs</b>	4,103	1,327	-	(2,776)	-67.7 %	(1,327)	-100.0 %

## 2012 vs. 2011

During 2012, none of our vessels underwent any dry-docking and we did not incur any dry-docking costs.

## 2011 vs. 2010

During 2011, dry-docking costs decreased by \$2.8 million, or 67.7%, compared to 2010 due to the fact that during 2010 M/V Amalfi, M/V Astrale and M/V Cyclades underwent dry-docking, resulting in dry-docking costs of \$1.0 million, \$1.5 million and \$1.6 million, respectively. In 2011 only M/V Pepito underwent dry-docking resulting in dry-docking costs of \$1.3 million.

### 6. Vessel depreciation

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
		<i>(\$ in thousands)</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>Vessel Depreciation</b>	32,376	25,327	11,458	(7,049)	-21.8 %	(13,869)	-54.8 %

2012 vs. 2011

During 2012, vessel depreciation decreased by \$13.9 million, or 54.8%, compared to 2011. This is due to the employment of M/V Amalfi up to its sale in August 2011, which resulted in a depreciation expense of \$1.6 million, the employment of the M/V Astrale up to its sale in July 2011, which resulted in a depreciation expense of \$2.1, the employment of the M/V Cyclades up to its sale in November 2011, which resulted in a depreciation expense of \$2.8 million, the employment of the M/T Ioannis P. up to its sale in November 2011, which resulted in a depreciation expense of \$1.0 million, the employment of the M/V Pepito up to its sale in December 2011, which resulted in a depreciation expense of \$4.0 million and finally due to the fact that M/V Evian was depreciated in 2011 but not in 2012 since it was classified as held for sale resulting in a difference of \$2.4 million.

2011 vs. 2010

During 2011, vessel depreciation decreased by \$7.0 million, or 21.8%, compared to 2010. This is due to the sale of the M/V Amalfi in August 2011, which decreased depreciation expense by \$1.6 million, the sale of the M/V Astrale in July 2011, which decreased depreciation expense by \$2.1, the sale of the M/V Cyclades in November 2011, which decreased depreciation expense by \$1.4 million, the sale of the M/T Ioannis P. in November 2011, which decreased depreciation expense by \$0.2 million, the impairment of M/V Evian in June 2011 that reduced the carrying value of the vessel, resulting in decreased depreciation expense of \$1.0 million and finally the fact that in 2010 we employed M/T Dauntless up to its sale in November, resulting in a depreciation expense of \$0.7 million.

**7. Management fees—third parties**

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
	<i>(\$ in thousands)</i>			<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>Management fees— third parties</b>	159	439	-	280	176.1 %	(439)	-100 %

2012 vs. 2011

During 2012, we did not employ third party sub-managers, and accordingly, we did not incur any sub-manager management fees.

2011 vs. 2010

During 2011, sub-manager fees increased by \$0.3 million, or 176.1%, compared to 2010 due to the reclassification in 2011 of TMS Tankers, the sub-manager of the M/T Delos until June 1, 2011, as an unrelated party manager, while in 2010 TMS Tankers was considered a related party.

**8. Management fees—related parties**

In 2010, our Management fees for related parties included management fees paid to Central Mare and TMS Tankers. In 2011, TMS Tankers was reclassified as an unrelated party due to a decrease in the percentage of shares of our common stock held by affiliates of TMS Tankers. Fees paid to TMS Tankers are not included in Management fees—related parties, while fees paid to International Ship Management for the management of the M/T Delos are included in Management Fees—related parties. Please see "Item 18. Financial Statements—Note 5—Transactions with Related Parties."

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
	<i>(\$ in thousands)</i>			<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>Management fees— related parties</b>	3,131	5,730	2,345	2,599	83.0 %	(3,385)	-59.1 %

## 2012 vs. 2011

During 2012, management fees for related parties decreased by \$3.4 million or 59.1% compared to 2011. This is due to the reduced vessel-related management fees due to the sale of M/V Amalfi in August 2011, which contributed to the management fees decrease by \$0.3 million, the reduced vessel-related management fees due to the sale of M/V Astrale in July 2011, which contributed to the management fees decrease by \$0.3 million, the reduced vessel-related management fees due to the sale of M/V Cyclades in November 2011, which contributed to the management fees decrease by \$0.4 million, the reduced vessel-related management fees due to the sale of M/T Ioannis P. in November 2011, which contributed to the management fees decrease by \$0.4 million, the reduced vessel-related management fees due to the sale of M/V Pepito in December 2011, which contributed to the management fees decrease by \$0.5 million, the reduced vessel-related management fees due to the termination of M/T Delos charter in October 2011, which contributed to the management fees decrease by \$0.3 million, and finally due to the reduction in the non-vessel related accounting and reporting fees in 2011 fixed management fees, which contributed to the management fees decrease by \$1.2 million.

## 2011 vs. 2010

During 2011, management fees for related parties increased by \$2.6 million or 83.0% compared to 2010 mainly due to the fact that our vessels were under Central Mares' management for the entire year in 2011 (except in the case of vessels sold in 2011) as opposed to six months in 2010, resulting in an increase of \$1.6 million for 2011. The same applied to the accounting and reporting fees that accrued for the entire year in 2011 as opposed to six months in 2010 resulting in an increase of \$1.0 million for 2011.

### **9. General and administrative expenses**

General and administrative expenses include executive compensation paid to Central Mare, a related party controlled by the family of our Chief Executive Officer, for the provision of our executive officers, office rent, legal and auditing costs, regulatory compliance costs, other miscellaneous office expenses, non-cash stock compensation, and corporate overhead. Central Mare provides the services of the individuals who serve in the position of Chief Executive Officer, Chief Financial Officer, Executive Vice President and Chief Technical Officer, and certain administrative employees. For further information, please see "Item 18. Financial Statements—Note 5—Transactions with Related Parties."

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE11 v YE10</i>	
	<i>(\$ in thousands)</i>			<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>General and Administrative Expenses</b>	18,142	15,364	7,078	(2,778)	-15.3 %	(8,286)	-53.9 %

## 2012 vs. 2011

During 2012, our general and administrative expenses decreased by \$8.3 million, or 53.9%, compared to 2011. This decrease is mainly due to a reduction in manager and employee related expenses of \$2.3 million as a result of our management's effort to contain costs. Also, during 2012, bonuses decreased by \$1.4 million, stock-based compensation expense decreased by \$1.0 million, mainly due to the fact that most of our award plans granted to our senior management and directors matured and were not renewed. Additionally, travelling expenses decreased by \$0.8 million, depreciation of other fixed assets (non-vessels) decreased by \$0.8 million, due to the acceleration of leasehold improvements depreciation in our Athens office (see F. Tabular Disclosure of Contractual Obligations—Operating Leases), legal and consulting fees decreased by \$0.7, rent expense decreased by \$0.6 million and, other general and administrative expenses decreased by \$0.5 million and audit fees decreased by \$0.2 million.

## 2011 vs. 2010

During 2011, our general and administrative expenses decreased by \$2.8 million, or 15.3%, compared to 2010. This decrease is mainly due to a reduction in manager and employee related expenses of \$1.4 million as a result of our management's effort to contain costs. Also, during 2011, rent expense decreased by \$1.1 million and stock-based compensation expense decreased by \$0.6 million, mainly due to the difference in grant date fair value of awards granted to our senior management and directors. Additionally, bonuses decreased by \$0.4 million, other general and administrative expenses decreased by \$0.3 million, utilities and repairs decreased by \$0.2 million and telecommunication and IT related expenses decreased by \$0.1 and \$0.1 million, respectively. These decreases were offset by increased expenses for legal and consulting fees by \$0.6 million, travelling expenses by \$0.6 million and depreciation of other fixed assets (non-vessels) by \$0.3 million, due to the acceleration of leasehold improvements depreciation in the Athens office (see F. Tabular Disclosure of Contractual Obligations—Operating Leases).



#### 10. (Loss)/ Gain on sale of vessels

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
	<i>(\$ in thousands)</i>			<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>(Loss)/Gain on sale of vessels</b>	(5,101)	62,543	-	67,644	-1326.1 %	(62,543)	-100 %

During 2012, we did not sell any vessels.

During 2011, we recognized a gain of \$2.6 million from the sale of the M/T Ioannis P, a loss of \$40.0 million from the sale of the M/V Cyclades and a loss of \$25.1 million from the sale of the M/V Pepito.

During 2010, we recognized a gain of \$5.1 million from the sale of the M/T Dauntless.

#### 11. Impairment on vessels

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
	<i>(\$ in thousands)</i>			<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>Impairment on vessels</b>	-	114,674	61,484	114,674	100.0 %	(53,190)	-46.4 %

During 2012, we classified the M/T UACC Sila as held for sale and wrote the vessel down to fair value less costs to sell, resulting in an impairment charge of \$17.0 million. Furthermore, in December 2012, we tested the M/T Miss Marilena, M/T Lichtenstein, M/T UACC Shams, M/T Britto and M/T Hongbo for impairment and their probability-weighted undiscounted expected cash flows were determined to be lower than the vessels carrying values. Consequently, we wrote the vessels down to their fair values and recognized an impairment charge of \$46.6. The impairment charge was partially offset by a write-up of \$2.1 million for the M/V Evian, due to our reclassification of the M/V Evian as held for use in December 2012 and our measurement of the vessel at its fair value (see Note 17 to our consolidated financial statements included herein).

During 2011, we sold the M/V Amalfi and the M/V Astrale and recognized an impairment charge of \$29.6 million and \$40.0 million, respectively. Furthermore, in June 2011, we tested the M/V Evian for impairment and we determined that its probability-weighted undiscounted expected cash flows were lower than the vessel's carrying value and consequently we wrote the vessel down to its fair value less costs to sell and recognized an impairment charge of \$32.1 million. Finally, in December 2011 we classified the M/V Evian as held for sale and wrote the vessel down to fair value less costs to sell, resulting in an additional impairment charge of \$13 million.

During 2010, we did not recognize an impairment loss.

#### 12. Interest and Finance Costs

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
	<i>(\$ in thousands)</i>			<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
<b>Interest and finance costs</b>	(14,776)	(16,283)	(9,345)	(1,507)	10.2 %	6,938	-42.6 %

## 2012 vs. 2011

During 2012, interest and finance costs decreased by \$6.9 million, or 42.6% compared to 2011. The decrease is mainly due to a \$3.6 million decrease in amortization of the debt discount relating to convertible loans (in 2012 we terminated the conversion feature of our Laurasia facilities), a \$2.8 million decrease in interest expense mainly due to the reduction of debt outstanding due to the reduction of our fleet in 2011 and a \$0.8 million decrease in amortization of finance fees. This was offset by a \$0.3 million increase in other financing costs.

## 2011 vs. 2010

During 2011, interest and finance costs increased by \$1.5 million, or 10.2% compared to 2010. The increase is mainly due to an increase of \$2.5 million in amortization of the debt discount relating to convertible loans (in 2011 we recognized the largest portion of the \$5.8 million debt discount of the Santa Lucia and Laurasia facilities) and a \$0.3 million increase in amortization of finance fees. This was offset by a \$1.2 million decrease in interest expense mainly due to the reduction of debt outstanding due to the sale of five of our vessels in 2011 and a \$0.1 million reduction in other financing costs.

### 13. Loss on financial instruments

	<i>Year Ended December 31,</i>			<i>Change</i>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<i>YE11 v YE10</i>		<i>YE12 v YE11</i>	
	<i>(\$ in thousands)</i>			<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>
Loss on Financial Instruments	(5,057)	(1,793)	(447)	3,264	-64.5 %	1,346	-75.1 %

## 2012 vs. 2011

During 2012, fair value loss on financial instruments decreased by \$1.3 million, mainly due to the reduction in the time to maturity of all of our swaps and also due to the reduction in our total notional exposure as we terminated one swap with HSH Nordbank AG, or HSH, in August 2011, in connection with the sale of M/V Amalfi, we terminated two swaps with RBS in November 2011, in connection with the sale of M/T Ioannis P., and one DVB swap matured in March 2012.

## 2011 vs. 2010

During 2011, fair value loss on financial instruments decreased by \$3.3 million, due to the improvement in expectations for future LIBOR rates that had a positive effect on our swap valuations, due to the reduction in the time to maturity of all our swaps and also due to the decrease in our total notional exposure, as our three HSH swaps matured in January 2011, we terminated one swap with HSH in August 2011, in connection with the sale of M/V Amalfi and we terminated two swaps with RBS in November 2011, in connection with the sale of M/T Ioannis P. Please see "Item 11—Quantitative and Qualitative Disclosures About Market Risk" for further information.

### B. Liquidity and Capital Resources

Since our formation, our principal source of funds has been equity provided by our shareholders through equity offerings or at the market sales, operating cash flow and long-term borrowing. Our principal use of funds has been capital expenditures to establish and grow our fleet, maintain the quality of our vessels, comply with international shipping standards and environmental laws and regulations, fund working capital requirements and make principal repayments on outstanding loan facilities.

Our business is capital intensive and its future success will depend on our ability to maintain a high-quality fleet through the acquisition of newer vessels and the selective sale of older vessels. Our practice has been to acquire vessels using a combination of funds received from equity investors and bank debt secured by mortgages on our vessels. Future acquisitions are subject to management's expectation of future market conditions, our ability to acquire vessels on favorable terms and our liquidity and capital resources.

During 2011, we raised \$7.0 million of equity capital through a Common Stock Purchase Agreement entered into with Sovereign Holdings Inc., a company controlled by our Chief Executive Officer in order to meet the urgent short-term liquidity needs of the Company, especially debt service obligations (see Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions).

As of December 31, 2012, we had total indebtedness under senior secured and unsecured credit facilities with our lenders of \$172.6 million, which after excluding unamortized financing fees of \$2.4 million, amounts to \$175.0 million, maturing from 2013 through 2019.

As of December 31, 2012, our cash balances amounted to \$5.5 million, all of which is classified as restricted cash. Of this amount, \$4.4 million is inaccessible to the Company as a result of being pledged, blocked or held as cash collateral. The remaining \$1.1 million is restricted solely as a result of our overall cash position not meeting the targets set by the loan covenants and we are permitted to use these funds for working capital purposes.

## Breach of Loan Covenants

As of December 31, 2012, we were in breach of loan covenants relating to vessel values, such as asset cover ratio, adjusted net worth and net asset value, and with covenants relating to book equity, EBITDA and overall cash position (minimum liquidity covenants) with certain banks. As a result of these covenant breaches and due to cross default provisions contained in all our bank facilities, we were in breach of all of our loan facilities and have classified all of our debt and financial instruments as current, as discussed in Note 9 to our consolidated financial statements included in this annual report. See also below under "Working Capital Requirements and Sources of Capital."

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, increase our interest payments and/or pay down our indebtedness to a level where we are in compliance with our loan covenants. Furthermore, the lenders may accelerate our indebtedness and foreclose their liens on our vessels, in which case our vessels may be auctioned or otherwise transferred.

As of the date of this annual report, our payments of loan installments and interest are current with all our lenders. We expect that the lenders will not demand payment of the loans before their maturity, provided that we continue to pay loan installments and accumulated or accrued interest as they fall due.

For details of credit facilities as of December 31, 2012 and discussion regarding waivers see "F. Tabular Disclosure of Contractual Obligations—Debt Facilities."

## Working Capital Requirements and Sources of Capital

As of December 31, 2012, we had a working capital deficit (current assets less current liabilities) of \$166.6 million assuming acceleration of our debt and financial instruments by our lenders. This working capital deficit consisted of the following (figures in millions):

<b>Total current assets</b>	<b>26.7</b>
Current portion of debt	172.6
Other current liabilities	15.2
Current portion of financial instruments	5.8
<b>Total current liabilities (assuming acceleration of our debt and financial instruments by our lenders)</b>	<b>193.6</b>
<b>Working capital deficit</b>	<b>(166.9)</b>
Add other capital requirements for the coming 12 months:	
Termination fee payments for M/T Delos	0.6
Payments under management agreements	0.7
Less:	
Restricted cash	(5.5)
<b>Cash shortfall (Working capital deficit plus other capital requirements assuming acceleration of our debt and financial instruments by our lenders less restricted cash to be used against debt repayment )</b>	<b>(171.1)</b>

We do not believe that our lenders will demand payment of the loans before their respective maturity dates as a result of our covenant breaches. Under this assumption, our material capital requirements in the coming 12 months are expected to be as follows (figures in millions):

Scheduled debt repayments (as of December 31, 2012)	\$	23.1
Interest payments (debt and swaps)	\$	8.7
Termination fee payments for M/T Delos	\$	0.6
Termination fee interest for M/T Delos	\$	0.1
Payments under management agreements	\$	0.7
<b>Total material capital requirements:</b>	<b>\$</b>	<b>33.2</b>

Our operating cash flow for 2013 is expected to increase compared to 2012. We anticipate that the decrease in revenue due to the planned sale of the M/T UACC Sila will be less than the expected decrease in expenses as a result of our initiatives to reduce costs, including the unwinding and reduction of office lease agreements, management fees and fees related to the provision of our executive officers from Central Mare.

Based on our cash flow projections for 2013, cash provided by operating activities will not be sufficient to cover scheduled debt repayments as of December 31, 2012. As of the date of this annual report we are current in our debt and interest payments.

We intend to take certain actions during 2013 in an effort to improve our liquidity. Such actions may include the reduction of expenses, negotiations to defer part of our debt repayments into future years, equity or debt offerings, and/or asset sales. We cannot assure you that we will implement any of these actions, or that if we take such actions, we will be able to successfully complete such initiatives or that our liquidity will improve as a result of our efforts.

### Cash Flow Information

Unrestricted cash and cash equivalents were \$0.0 as of December 31, 2011 and December 31, 2012. All of our cash is restricted due to minimum liquidity covenant requirements and due to covenant breaches.

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities decreased by \$0.7 million, or 4.4%, for 2012 to \$15.1 million, compared to \$15.8 million for 2011. In determining net cash provided by operating activities, net loss is adjusted for the effects of certain non-cash items such as depreciation and amortization, impairment losses, gains and losses from sales of vessels and unrealized gains and losses on financial instruments.

Non-cash adjustments to reconcile net loss to net cash provided by operating activities for the year ended December 31, 2012 totaled \$74 million. This consisted mainly of the following adjustments: \$61.5 million of impairment losses; \$12.5 million of depreciation expenses; \$1.8 million of amortization of deferred finance fees and debt discount; \$0.4 million relating to share-based compensation; \$0.3 million from an increase in provisions for doubtful accounts and \$0.2 million from the loss on sale of other fixed assets. These adjustments were partially offset by a \$2.7 million gain from the valuation of financial instruments. The cash inflow from operations resulted mainly from a \$3.8 million decrease in current assets and a \$1.3 million increase in current liabilities.

Non-cash adjustments to reconcile net loss to net cash provided by operating activities for the year ended December 31, 2011 totaled \$209 million. This consisted mainly of the following adjustments: \$115 million of impairment losses; \$62.5 million of loss on sale of vessels; \$27 million of depreciation expenses; \$6.2 million of amortization of deferred finance fees and debt discount and \$1.4 million relating to share-based compensation. These adjustments were partially offset by a \$2.8 million gain from the valuation of financial instruments and \$0.3 million translation gain of foreign currency denominated loan. The cash outflow from operations resulted mainly from a \$3.2 million increase in current assets and a \$0.9 million decrease in current liabilities.

*Net Cash Provided By Investing Activities.* Net cash provided by investing activities during 2012 was \$6.0 million, consisting primarily from a decrease in restricted cash of \$5.9 million and \$0.1 million from the sale of other fixed assets.

Net cash provided by investing activities during 2011 was \$124.9 million, consisting primarily of \$118.2 million collected from the sale of M/V's Amalfi, Astrale, Cyclades, Pepito and M/T Ioannis P, \$6.2 million from a decrease in restricted cash and \$0.9 million that we collected from the settlement of insurance claims in our favor.

*Net Cash used in Financing Activities.* Net cash used in financing activities for 2012 was \$21.1 million, consisting primarily of \$16.7 million of scheduled debt repayments and \$5.0 million of debt prepayments relating to application of pledged amounts towards the outstanding balances in our loans with HSH and the prepayment of a bridge loan we took for working capital purposes from Shipping Financial Services, a related party ultimately controlled by the family of our Chief Executive Officer, in May 2012 and repaid less than a week later. This cash outflow was offset by \$0.5 million of proceeds from bridge loans from the abovementioned bridge loan.

Net cash used in financing activities for 2011 was \$141 million, consisting primarily of \$27.6 million of scheduled debt repayments, \$124.0 million of debt prepayments relating to the sale of M/Vs Amalfi, Astrale, Cyclades, Pepito and the M/T Ioannis P. This cash outflow was offset by proceeds from the sale of stock via the Sovereign transaction (see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions"), that net of issuance costs amounted to \$6.8 million and \$4.8 million of proceeds from bridge loans (the Laurasia Trading, Shipping Financial Services and Central Mare loans, as described under "Item 5. Operating and Financial Review and Prospects—F. Tabular Disclosure of Contractual Obligations—Debt Facilities").

**C. Research and Development, Patents and Licenses, Etc.**

Not applicable.

**D. Trend Information**

For industry trends, refer to industry disclosure under "Item 4. Information on the Company—B. Business Overview." For company-specific trends, refer to "Item 5. Operating and Financial Review and Prospects—Operating Results."

**E. Off-Balance Sheet Arrangements**

None.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our contractual obligations and their maturity dates as of December 31, 2012, in millions of dollars:

<b>Contractual Obligations:*</b>	<b>Total</b>	<b>Payments due by period</b>			
		<b>Less than 1 year</b>	<b>1-3years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
(1) (i) Long term debt A	\$ 175.0	\$ 175.0	\$ 0.0	\$ 0.0	\$ 0.0
(ii) Interest B	\$ 8.7	\$ 8.7	\$ 0.0	\$ 0.0	\$ 0.0
(2) Operating leases C	\$ 0.5	\$ 0.0	\$ 0.1	\$ 0.1	\$ 0.3
(3) (i) Termination fee payments for M/T Delos D	\$ 5.3	\$ 0.6	\$ 1.6	\$ 3.1	\$ 0.0
(ii) Termination fee interest for M/T Delos E	\$ 0.4	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.0
(4) Vessel Management Fees to Central Mare Inc F	\$ 2.0	\$ 0.7	\$ 1.2	\$ 0.1	\$ 0.0
<b>Total</b>	<b>\$ 191.9</b>	<b>\$ 185.1</b>	<b>\$ 3.1</b>	<b>\$ 3.4</b>	<b>\$ 0.3</b>

A. Relates to the outstanding balance as of December 31, 2012, consisting of 1(a)(i) \$15.8 million, 1(a)(ii) \$77.9 million, 1(b)(ii) \$48.2 million, 1(c)(ii) \$27 million, 1(d) \$3.25 million, 1(e) \$0.46 million, 1(f) \$2.38 million, as described below. Outstanding balances of Euro denominated loans are converted to U.S. Dollars based on the U.S. Dollar/Euro exchange rate as of December 31, 2012.

B. Interest payments are calculated using our average going interest rate of 4.97% as of December 31, 2012, which takes into account additional interest expense from interest rate swaps, applied on the amortized debt as presented in the table above.

C. Relates to the minimum rentals payable for the office space.

D. Relates to the termination fee installments payable to the owners of the M/T Delos (Tranche A and Tranche B) (see F. Tabular Disclosure of Contractual Obligations - Operating Leases).

E. Relates to the interest payments deriving from the M/T Delos termination agreement (see F. Tabular Disclosure of Contractual Obligations - Operating Leases).

F. Relates to our obligation for fees per vessel per day or per annum for seven of our vessels under our management contracts with Central Mare. These fees cover the provision of technical and commercial management, insurance services, information-system related services and services in connection with compliance to the Section 404 of the Sarbanes-Oxley Act of 2002. We have assumed no changes in the number of vessels, an annual increase of 3% as provided by the relative agreements and no changes in the U.S. dollar to Euro exchange rate (assumed at 1.3197 USD/Euro). Each agreement has an initial term of five years after which it will continue to be in effect until terminated by either party subject to twelve months advance notice. For further information, please see "Item 4. Information on the Company—B. Business Overview—Central Mare—Letter Agreement and Management Agreements."

\* All the contractual obligations presented in the table above derive from contracts that do not include any options, contingencies or provisions that would add a degree of uncertainty to our future obligations.

### Supplementary Loan Repayment Schedule (in millions of U.S. Dollars)

As a supplement to our contractual obligations table, the following schedule sets forth our loan repayment obligations as required under our loan facilities as of December 31, 2012. The entire amount of debt shown below has been classified as 'Less than 1 year' in the contractual obligations table to be consistent with the classification of the debt as a current liability within our consolidated financial statements. The debt is classified as a current liability, as the debt may be called for payment by the lender at any time.

Year:	2013	2014	2015	2016	2017	2018	2019
HSH USD Drybulk Facility	1.8	1.8	12.3				
HSH USD Tanker Facility	7.0	7.4	7.6	7.6	7.6	7.6	33.3
DVB USD Tanker Facility	5.1	5.1	4.4	3.7	3.7	3.7	22.5
Alpha Bank USD Facility	3.0	3.0	3.0	3.0	3.0	3.0	9.0
Laurasia Trading Ltd USD Facilities	3.3						
Shipping Financial Services Inc EURO Facility	0.5						
Central Mare Inc EURO Facility	2.4						
<b>Total</b>	<b>23.1</b>	<b>17.3</b>	<b>27.3</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>	<b>64.8</b>

Note: Euro denominated loans are denominated in U.S. dollars using the U.S. Dollar/Euro exchange rate of 1.3197 as of December 31, 2012. For more information, please see "—F. Tabular Disclosure of Contractual Obligations—Debt Facilities."

#### (1) Debt Facilities:

As of December 31, 2012, we had a total indebtedness of \$175 million and financial instruments of \$5.8 million, of which \$171.9 million is secured by the vessels in our fleet, which had a total charter-free fair value of \$172.5 million, representing an asset maintenance/security cover ratio (value over debt) of 100.3%.

#### (a) HSH Credit Facilities:

**(i) Loan of an initial amount of \$95.0 million:** On November 8, 2007, we entered into a \$95.0 million secured term loan facility with HSH to partially finance the acquisition of the M/V Bertram, the M/V Amalfi and M/V Evian (ex Voc Gallant/Papillon). We sold the M/V Bertram in April 2008 and M/V Amalfi in August 2011. As of December 31, 2012, \$15.8 million remained outstanding under the facility.

**M/V Evian (ex Papillon/Voc Gallant):** On February 1, 2008, we drew down \$33.2 million on our \$95.0 million secured term loan with HSH to purchase the M/V Evian. As of December 31, 2012, our outstanding debt under the loan totaled \$15.8 million, payable in 9 consecutive quarterly installments of approximately \$0.4 million, starting in February 2013 and a balloon payment of \$11.8 million payable together with the last installment in February 2015.

The credit facility bears interest at LIBOR plus a margin. Until March 27, 2008, the margin was 100 basis points over LIBOR. From March 28, 2008 until March 24, 2009, the margin was adjusted to 135 basis points over LIBOR as a result of the waiver received for our breach of the EBITDA covenant during 2008. According to the amendment of the loan agreement dated May, 11, 2009, from March 24, 2009 until March 31, 2010, the margin was set at 250 basis points over LIBOR. Since April 1, 2011, the margin has been 312.5 basis points over LIBOR, which is inclusive of a default rate of 200 points due to covenant breaches. On July 26, 2012 we executed a letter agreement that enabled us to apply all HSH pledged funds related to the facility as a prepayment, leading to a prepayment of \$2.2 million in August 2012. The prepayment amount has reduced on a pro-rata basis all future repayments of the facility.

The facility contains, among other things, various financial covenants, including (i) an asset maintenance restriction whereby the fair market value of the mortgaged vessels and of any additional security is required to be greater than or equal to 135%, (ii) market value adjusted net worth is required to be greater than or equal to \$250.0 million and greater than or equal to 35% of total assets, (iii) EBITDA is required to be greater than 120% of fixed charges, and (iv) minimum liquid funds of \$25.0 million or \$0.5 million per group vessel that are free of any security interest.

**(ii) Loan of an initial amount of \$121.3 million:** On October 1, 2008, we entered into a \$121.3 million secured term loan facility with HSH to partially finance the construction costs of the newbuilding product tankers the M/T Miss Marilena, the M/T UACC Shams (ex Tyrrhenian Wave) and the M/T Britto. As of December 31, 2012, we had a secured term loan outstanding of \$77.9 million.

**M/T Miss Marilena:** From October 2008 to February 2009, we drew down a total of \$40.1 million on our \$121.3 million secured term loan facility with HSH to purchase the M/T Miss Marilena. As of December 31, 2012, the outstanding debt under the loan totaled \$29.7 million, payable in 25 consecutive quarterly installments of \$0.7 million starting in February 2013 and a balloon payment of \$11.7 million payable together with the last installment in February 2019.

**M/T UACC Shams (ex Tyrrhenian Wave):** From October 2008 until March 2009, we drew down a total of \$29.3 million on our \$121.3 million secured term loan facility with HSH to purchase the M/T UACC Shams. As of December 31, 2012, our outstanding debt under the loan totaled \$21.5 million, payable in 25 consecutive quarterly installments of \$0.5 million, starting in March, 2013 and a balloon payment of \$8.6 million payable together with the last installment in March 2019.

**M/T Britto:** From October 2008 until May 2009, we drew down a total of \$35.2 million on our \$121.3 million secured term loan facility with HSH to purchase the M/T Britto. As of December 31, 2012, our outstanding debt under the loan totaled \$26.7 million, payable in 26 consecutive quarterly installments of \$0.6 million, starting in February 2013 and a balloon payment of \$10.4 million payable together with the last installment in May 2019.

The credit facility bears interest at LIBOR plus a margin. According to the original loan agreement the margin was set at 175 basis points over LIBOR. Pursuant to an amendment to the loan agreement dated May 11, 2009, the margin was adjusted to 200 basis points over LIBOR where it has remained through to March 31, 2011. Since April 1, 2011, the margin has been 375 basis points over LIBOR, which is inclusive of a default rate of 200 points due to covenant breaches. On July 26, 2012 we executed a letter agreement that enabled us to apply all HSH pledged funds related to the facility as a prepayment, leading to a prepayment of \$1.5 million in August 2012 and a prepayment of \$0.8 million in September 2012. Prepayments were equally allocated to all three vessels of the facility and the prepayment amounts have reduced on a pro-rata basis all future repayments of the facility.

The credit facility contains a provision whereby the bank may chose to use an alternative base interest rate in case it believes that the LIBOR is not representative of its funding cost. The facility also contains various financial covenants, including (i) an asset maintenance restriction whereby the fair market value of the mortgaged vessels and of any additional security is required to be greater than or equal to 120% prior to October 1, 2012 and 125% thereafter of our outstanding loan plus the cost of terminating any interest rate swaps into which we may enter; (ii) an adjusted net worth restriction whereby we are required to maintain an adjusted net worth that is greater than or equal to \$250.0 million and is at least equal to 35% of our total assets; (iii) an EBITDA restriction that requires our EBITDA to be greater than 120% of our fixed charges; and (iv) a minimum liquid funds restriction whereby we are required to maintain cash in hand or short-term investments that equal, at a minimum, the greater of \$25.0 million and \$0.5 million per vessel directly or indirectly owned by or bareboat chartered or leased back to us.



The HSH credit facilities require that the mortgaged vessels be managed by a company that is acceptable to HSH. In addition, both facilities prohibit the borrowers, which are our subsidiaries, from (i) declaring or paying any dividends or making any distributions to us in excess of 70% of their net annual income and (ii) paying dividends or making other distribution of their stock (other than distributions under our stock incentive plan) to us when the ratio of our EBITDA to fixed charges is less than 120% or the fair market value of the mortgaged vessels is less than 140% of the outstanding loan and the cost of terminating any interest rate swap agreement into which such borrowing subsidiaries of ours may enter. The facilities also do not permit any distribution of capital or assets and permit investments relating to any share buy-back or similar actions only up to an amount of \$5.0 million. In the case of the sale of vessels financed by HSH, 100% of the sale proceeds following the debt repayment are to be applied towards full covenant compliance; in the case of the sale of vessels not financed by HSH, following the debt repayment, HSH is to be allocated an amount of the remaining sale proceeds equal to the proportion of total HSH outstanding loans over our total indebtedness; and in the case of a successful equity offering, HSH is to be allocated an amount (on the basis of 50% of the offering proceeds) equal to the proportion of total HSH outstanding loans over our consolidated indebtedness. Finally, the facilities contain a cross-default provision and are cross collateralized.

**Covenant Breaches and Waivers:** As of December 31, 2012, we were not in compliance with the asset maintenance, EBITDA, adjusted net worth or minimum liquidity covenants under the HSH facilities. Both of our HSH facilities provide that a default rate of 2% on top of the initially agreed upon margin may apply for as long as there is an event of default such as a covenant breach. Since April 1, 2011, HSH has been charging us with a default rate of 2% on top of margin, in respect of covenant breaches. As of the date of this annual report we are in discussions with HSH to resolve the covenant breaches and avoid being charged the default rate.

As of December 31, 2012, we had three interest rate swaps with HSH. For a full description of our interest rate swap agreements, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

**(b) DVB Credit Facilities:**

**(i) M/V Astrale:** In April 2008, we drew down the entire \$48.0 million available pursuant to our loan agreement dated April 24, 2008 with DVB Bank America N.V., or DVB, to partially finance the acquisition cost of the drybulk vessel the M/V Astrale. Following the sale of the vessel in July 2011, the facility was repaid in full.

**(ii) Loan of an initial amount of \$80.0 million:** On October 6, 2008, we entered into a loan agreement with DVB for \$80.0 million to partially finance the construction cost of the newbuilding product tankers the M/T UACC Sila (ex Ionian Wave) and the M/T Hongbo, both of which were delivered in 2009. As of December 31, 2012, we had a secured term loan outstanding of \$48.2 million.

**M/T UACC Sila:** From October 2008 until March 2009, we drew down a total of \$33.8 million on our \$80.0 million DVB loan agreement to purchase the M/T UACC Sila. As of December 31, 2012, our outstanding debt on this vessel was \$20 million, payable in 26 consecutive quarterly installments of \$0.4 million, starting in March 2013, and a balloon payment of \$9.6 million payable together with the last installment in June 2019.

**M/T Hongbo:** From October 2008 until July 2009, we drew down a total of \$27.0 million on our \$80.0 million DVB loan agreement to purchase the M/T Hongbo. As of December 31, 2012, our outstanding debt on this sum totaled \$24.7 million, payable in 26 equal consecutive quarterly installments of \$0.5 million, starting in March 2013, and a balloon payment of \$11.0 million payable together with the last installment in June 2019.

**Amended Top Up Loan:** On July 31, 2009, we amended our \$80.0 million loan agreement with DVB in order to draw down \$12.5 million to finance the delivery of the M/T Hongbo, or the Top Up Loan. That amount was due to be repaid on July 30, 2010. On December 1, 2010, we amended our \$80.0 million loan agreement with DVB and agreed to repay part of the Top Up Loan and reschedule part of it so that it becomes an amortizing loan, or the Amended Top Up Loan. As of December 31, 2012, the amount outstanding under the Amended Top Up Loan totaled \$3.5 million, repayable in 10 quarterly consecutive installments of \$0.4 million, starting from March 2013. We are in discussions with DVB in order to cancel 1,251,240 of our common shares that had been issued to Hongbo Shipping Company Limited and pledged to DVB as security at the drawdown of the Top Up Loan.

The portion of the credit facility relating to the Amended Top Up Loan and the M/T UACC Sila, bear interest at LIBOR plus a margin of 225 basis points per annum. The portion of the credit facility relating to the M/T Hongbo bears interest at LIBOR plus a margin of 155 basis points per annum. The credit facility contains a provision whereby the bank may choose to use an alternative base interest rate in case it believes that the LIBOR is not representative of its funding cost. From January 1, 2012 to December 31, 2012, the bank used cost of funds instead of LIBOR.

The facility contains, among other things, various financial covenants, including (i) a minimum required security cover restriction whereby the fair market value of the mortgaged vessels and of any additional security is required to be greater than or equal to 115% for the first five years up to August 2014 and 125% thereafter of the outstanding loan (excluding the amount relating to the Amended Top Up Loan) and the fair value of the outstanding swaps; (ii) a net asset value restriction whereby our net asset value is required to be greater than \$225.0 million, calculated on an annual basis; (iii) book equity required to be greater than \$180.0 million; (iv) minimum cash balances the higher of \$25.0 million or \$0.5 million per vessel (\$0.25 million per vessel as cash in hand may be included); and (v) interest cover ratio of no less than 1.5 times (defined as EBITDAR divided by interest expense plus Lease Obligations).

In addition, the facility prohibits the borrowers, which are our subsidiaries, from declaring or paying any dividends or returning any capital to their equity holder without DVB's consent, and require that the mortgaged vessels be managed by a company acceptable to DVB. Finally, we are not allowed to appoint any Chief Executive Officer other than Mr. Evangelos Pistiolis without the prior written consent of DVB.

**Covenant Breaches and Waivers:** As of December 31, 2012, we were not in compliance with net asset value, book equity and minimum cash balance covenants. As of the date of this annual report, we were in discussions with DVB to resolve the covenant breaches. We have also agreed to enter into an interest rate swap agreement with DVB for a minimum period of three years within a period of six months after the delivery advance drawdown date of the M/T Hongbo (up to January 2010). As of the date of this annual report, we have not yet entered into such an agreement. For a full description of our interest rate swap agreements, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

**(c) Alpha Bank Credit Facilities:**

**(i) M/V Cyclades:** On December 17, 2007, we entered into a \$48.0 million loan agreement with Alpha Bank A.E., or Alpha, and drew down the entire amount available thereunder on the same date to partially finance the acquisition cost of the drybulk vessel M/V Cyclades. Following the sale of the vessel in November 2011, the facility was repaid in full.

**(ii) M/T Lichtenstein:** On August 18, 2008, we entered into a \$39.0 million loan agreement with Alpha and drew down the entire amount available thereunder from August 2008 through February 2009 to partially finance the construction cost of our newbuilding, the M/T Lichtenstein. As of December 31, 2012, the outstanding amount was \$27 million, payable in 25 equal consecutive quarterly installments of \$0.8 million, starting in February 2013 and a balloon payment of \$8.3 million payable together with the last installment in February 2019.

The credit facility bears interest at LIBOR plus a margin of 165 basis points per annum. Under the first supplemental agreement of the loan, dated April 3, 2009, the margin was set at 225 basis points over LIBOR and under the third supplemental agreement of the loan, dated November 25, 2009, on October 26, 2009, the margin was set at 300 basis points over LIBOR until March 31, 2010 and 225 basis points over LIBOR thereafter. Up to February 28, 2013 due to covenant breaches, the margin continued to be 300 basis points over LIBOR. On February 28, 2013 the company entered into a supplemental agreement which fixed the interest margin of the facility to 3% for the duration of the loan. This supplemental agreement also increased the quarterly repayments from \$0.6 to \$0.8, effective from February 2013 onwards, and decreased the balloon accordingly.

The facility contains, among other things, various financial covenants including: (i) an asset maintenance requirement whereby the fair market value of the mortgaged vessel and of any additional security is required to be greater than or equal to 130% of the outstanding loan; (ii) a market value adjusted net worth requirement whereby our adjusted net worth is required to be greater than or equal to \$250.0 million; (iii) a book equity requirement whereby our total assets less our consolidated debt is required to be greater than \$100.0 million; and (iv) minimum cash balances of \$25.0 million.

The credit facility contains a cross-default provision.

**Covenant Breaches and Waivers:** As of December 31, 2012, we were not in compliance with the asset maintenance, adjusted net worth, book equity and minimum liquidity covenants. Pursuant to an amendment to the loan agreement dated October 14, 2011, the covenant breaches relating to asset maintenance, adjusted net worth and minimum liquidity covenants were waived until February 28, 2012. As of the date of this annual report, we were in discussions with Alpha in relation to covenants.

**(d) Laurasia Trading Ltd Credit Facility**

On August 6, 2010, we entered into an unsecured bridge loan financing facility for \$2.0 million with Laurasia Trading Ltd, or Laurasia, an unrelated party. The purpose of this loan was to refinance part of the DVB Top Up Loan which was due to be repaid on July 30, 2010. This loan was due to be repaid by August 17, 2011 in cash or shares or in combination as demanded by the lender. The conversion price per share had been set to \$4.00, meaning that a full repayment by means of shares would result in a transfer of 0.5 million shares to Laurasia. Such a transfer would require the amendment of anti-takeover provisions of our Stockholders Rights Agreement by our Board of Directors to permit Laurasia to hold shares in excess of 15% of our total number of outstanding shares.

Since our stock price was above the debt conversion price of \$4.00 on August 6, 2010, the conversion feature contains a beneficial share settlement option and in accordance with the Financial Accounting Standards Board's, or FASB's, Codifications topic 470-20 "Debt with Conversion and Other Options," we have calculated the value of the beneficial conversion feature to be \$2.0 million at the time of issuance, by multiplying the number of shares into which the debt is convertible by the difference between the conversion price and the market price of our stock at the time of issuance. We recorded this amount as debt discount, to be amortized over the duration of the loan, with a corresponding credit to additional paid in capital.

On February 15, 2011, we entered into an amendment of the initial facility providing for a new repayment date of February 15, 2012, with no other change to the terms of the debt or the conversion feature.

On that same date, we also entered into a new unsecured bridge loan facility for \$2.0 million. We had undertaken to repay the loan by February 15, 2012 in cash or shares or in combination as demanded by the lender. Interest and fees in connection with the facility will be payable in cash at the same date. In case repayment or part repayment is made in shares, the number of shares will be calculated as the dollar amount of the liability as of the repayment date divided by \$4.00. The loan bears interest at a rate of 8.0% per annum.

On January 20, 2012, we entered into an amendment to each of the Laurasia bridge loans pursuant to which each loan is due to be repaid on August 15, 2012 and now bears interest at a rate of 8.0% per annum, with no other change to the terms of the debt or the conversion feature.

On August 15, 2012, we amended both Laurasia loans and consolidated them in one facility without a debt conversion feature. Furthermore we assigned a long-term receivable (see note 19) to Laurasia in return for a \$0.8 reduction in principal outstanding. Finally the Laurasia loan was extended for one more year and is now due on August 15, 2013, with no other changes in the terms.

The total interest expense related to the Laurasia bridge loans in our Consolidated Statement of Operations for the year ended December 31, 2012 was \$0.7 million of which \$0.4 million is non-cash amortization of the debt discount and \$0.3 million is the contractual interest. As of December 31, 2012, the unamortized debt discount was \$0 million.

As of December 31, 2012, the outstanding amount under the Laurasia bridge loans was \$3.25 million.

**(e) Shipping Financial Services Inc Credit Facility**

On July 1, 2011 we entered into an unsecured credit facility with Shipping Financial Services Inc, a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 0.35 million (\$0.46 million) to be used for general working capital purposes. We had undertaken to repay the loan within 12 months of its receipt, however the loan was extended on July 8, 2012 and is now due on July 8, 2013. The loan bears interest at a rate of 8% per annum. As of December 31, 2012, the outstanding amount was Euro 0.35 million (\$0.46 million).

**(f) Central Mare Inc Credit Facility**

On July 16, 2011, we entered into an unsecured credit facility with Central Mare Inc, a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 1.8 million (\$2.38 million) to be used for general working capital purposes. Part of this facility was used to prepay the loan of the M/V Astrale following its sale. We had undertaken to repay the loan within 12 months of its receipt, however the loan was extended on July 21, 2012 and is now due on July 8, 2013. The loan bears interest at a rate of 8%. As of December 31, 2012, the outstanding amount was Euro 1.8 million (\$2.38 million).

**(2) Operating Leases:**

On October 1, 2010, we entered into a bareboat charter agreement to lease the M/T Delos until September 30, 2015 at an average daily rate of \$5,219. The bareboat charter agreement was accounted for as an operating lease. Charterers have certain options by the end of the normal charter period (five years) to purchase the vessel. We terminated this agreement on October 15, 2011 by agreeing to pay a termination fee of \$5.75 million. As of December 31, 2012, the outstanding amount of the termination fee was \$5.31 million. On January 1, 2013, we entered into an agreement with the owner of M/T Delos by which the termination fee outstanding as of December 31, 2012 is divided into two tranches; "Tranche A" (\$4.5 million) that will bear interest of 3% plus Libor and "Tranche B" (\$0.8 million) that will not bear interest. This agreement provides for the repayment of Tranche A and Tranche B according to the following schedule.

<b>Year ending December 31,</b>	<b>Tranche A of the Termination Fee</b>	<b>Tranche B of the Termination Fee</b>
2013	0.6	
2014	0.8	
2015	0.8	
2016	0.8	
2017	1.5	0.8
	<b>4.5</b>	<b>0.8</b>

Finally, according to this agreement we will pay monthly interest payments.

We lease office space at 1, Vassilisis Sofias & Megalou Alexandrou Street, 151 24 Maroussi, Greece from an unrelated party. The agreement is for duration of 12 years beginning May 2006 with a lessee's option for an extension of 10 years. From September 1, 2010 until September 1, 2011, the monthly rental was \$0.06 million and after September 1, 2011, the monthly rental is \$0.01 million. As a result of this agreement, we have made a revision in the useful life of certain assets that would have been amortized over the life of the lease. The revision in useful life of these assets resulted in an accelerated depreciation of \$0.56 million included in general and administrative expenses for 2010 and an accelerated depreciation of \$0.9 million included in general and administrative expenses for 2011. In January 1, 2013, the agreement was amended to reduce the annual rent to \$0.04 million (based on the U.S. Dollar/Euro exchange rate as of December 31, 2012). It was also agreed to revert occupancy in an even larger area of the leased office space. All other terms of the lease remained unchanged. The revision in useful life of these assets resulted in an accelerated depreciation of \$0.62 million included in general and administrative expenses for 2012.

In addition, our subsidiary Top Tankers (U.K.) Limited had entered into a lease agreement with an unrelated party for office space in London, with annual rent of \$0.02 million. This agreement was terminated in September 2012.

In November 2009, we entered into an agreement to lease space in London from an unrelated party, with monthly rent of \$0.04 million. This agreement was terminated in June 2012.

In September 2011, we entered into a lease agreement for one year for office space in Monaco, effective from October 1, 2011, with Central Shipping Monaco SAM, a related party controlled by the family of our Chief Executive Officer and President. The monthly rent was \$0.01 million. This agreement was extended up to December 2012 and then terminated.

#### **Other Contractual Obligations:**

Since July 1, 2010, Central Mare, a related party controlled by the family of our Chief Executive Officer, has been performing all of our operational, technical and commercial functions relating to the chartering and operation of our vessels, pursuant to a letter agreement concluded between Central Mare and Top Ships and management agreements concluded between Central Mare and our vessel-owning subsidiaries. The letter agreement was amended on January 1, 2012 resulting in a decrease in the fixed management fees, with all other terms remaining unchanged. On January 1, 2013 we amended the letter agreement again resulting in a decrease in the variable management fees to \$250 per vessel per day that will include operational, technical and commercial functions, services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to our maintenance of proper books and records, services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations, the provision of information-system related services, commercial operations and freight collection services, with all other terms remaining unchanged.

On September 1, 2010, we entered into separate agreements with Central Mare, a related party controlled by the family of our Chief Executive Officer, pursuant to which Central Mare furnishes our executive officers to us. These agreements were entered into in exchange for terminating prior employment agreements. On March 1, 2011, we entered into an agreement with Central Mare, a related party controlled by the family of our Chief Executive Officer, pursuant to which Central Mare furnishes certain administrative employees. On July 1, 2012 these agreements were amended and the salaries of the executive officers were reduced as was the number of administrative employees provided.

Other major capital expenditures include funding our maintenance program of 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. Although we have some flexibility regarding the timing of this maintenance, the costs are relatively predictable. Management anticipates that the vessels that are younger than 15 years are required to undergo in-water intermediate surveys 2.5 years after a special survey dry-docking and that such vessels are to be dry-docked every five years. Vessels 15 years or older are required to undergo dry-dock intermediate survey every 2.5 years and not use in-water surveys for this purpose. The abovementioned capital expenditures are not borne by us when our vessels are employed on bareboat charters.

## **Our Fleet—Illustrative Comparison of Possible Excess of Carrying Value Over Estimated Charter-Free Market Value of Certain Vessels**

In "—Critical Accounting Policies—Impairment of Vessels," we discuss our policy for impairing the carrying values of our vessels. During the past few years, the market values of vessels have experienced particular volatility, with substantial declines in many vessel classes. As a result, the charter-free market value, or basic market value, of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels' carrying amounts.

The table set forth below indicates (i) the carrying value of each of our vessels as of December 31, 2012 and 2011, (ii) which of our vessels we believe has a basic charter-free market value below its carrying value, and (iii) the aggregate difference between carrying value and basic charter-free market value represented by such vessels. This aggregate difference represents the approximate amount by which we believe we would have to reduce our net income if we sold all of such vessels in the current environment, on industry standard terms, in cash transactions, and to a willing buyer where we are not under any compulsion to sell, and where the buyer is not under any compulsion to buy. For purposes of this calculation, we have assumed that the vessels would be sold at a price that reflects our estimate of their current basic charter-free market values. However, we are not holding our vessels for sale. Our estimates of basic charter-free market value assume that our vessels are all in good and seaworthy condition without need for repair and if inspected would be certified in class without notations of any kind. Our estimates are based on information available from various industry sources, including:

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;
- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of basic charter-free market value are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future basic charter-free market value of our vessels or prices that we could achieve if we were to sell them.

	<b>Carrying Value</b>			
	<b>Dwt</b>	<b>Year Built</b>	<b>2012</b>	<b>2011</b>
<b>Tanker Vessels</b>				
Miss Marilena	50,000	2009	\$33.4 million*	\$43.7 million*
Lichtenstein	50,000	2009	\$35.0 million*	\$43.6 million*
UACC Sila	50,000	2009	\$25.2 million**	\$44.1 million*
UACC Shams	50,000	2009	\$26 million	\$44.1 million*
Britto	50,000	2009	\$35.2 million*	\$44.6 million*
Hongbo	50,000	2009	\$35.3 million*	\$45.0 million*
<b>Total Tanker dwt</b>	<b>300,000</b>			
<b>Drybulk Vessels</b>				
Evian	51,200	2002	\$12.5 million	\$10.4 million
<b>Total Drybulk dwt</b>	<b>51,200</b>			
<b>TOTAL DWT</b>	<b>351,200</b>			

\* Indicates vessels, for which we believe, as of December 31, 2012 and 2011, the basic charter-free market value is lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeds their aggregate basic charter-free market value by approximately \$30.9 million and \$67 million, as of December 31, 2012 and 2011, respectively.

Indicates our tanker that as of December 31, 2012, has an adjusted carrying value to match its charter-free market value, since it is classified as held for sale.

Four of our tanker vessels that are currently employed under long-term, above-market bareboat charters. For more information, see "Business Overview—Our Fleet." We believe that in a sale of these vessels with their charters attached, we would receive a premium over the vessels' charter-free market value.

We refer you to the risk factor entitled "The international tanker and drybulk shipping industries have experienced drastic downturns after experiencing historically high charter rates and vessel values in early 2008, 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" and the discussion herein under the heading "Risks Related to Our Industry."

### ***Critical Accounting Policies:***

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies that involve a higher degree of judgment and the methods of their application. For a description of all of our significant accounting policies, see Note 2 to our consolidated financial statements included herein.

*Vessel depreciation.* We record the value of our vessels at their cost (which includes the contract price, pre-delivery costs incurred during the construction of newbuildings, capitalized interest and any material expenses incurred upon acquisition such as initial repairs, improvements and delivery expenses to prepare the vessel for its initial voyage) less accumulated depreciation. We depreciate our vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from the date of initial delivery from the shipyard. Depreciation is based on cost of the vessel less its residual value which is estimated to be \$160 per light-weight ton. A decrease in the useful life of the vessel or in the residual value would have the effect of increasing the annual depreciation charge.

A decrease in the useful life of the vessel may occur as a result of poor vessel maintenance performed, harsh ocean-going and weather conditions that the vessel is subject to, or poor quality of the shipbuilding yard. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations become effective. Weak freight markets may result in owners scrapping more vessels and scrapping them earlier due to unattractive returns. An increase in the useful life of the vessel may result from superior vessel maintenance performed, favorable ocean-going and weather conditions the vessel is subjected to, superior quality of the shipbuilding yard, or high freight rates which result in owners scrapping the vessels later due to attractive cash flows.

*Impairment of vessels:* We evaluate the carrying amounts and periods over which long-lived assets are depreciated on a semi-annual basis to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, we review certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. We determine undiscounted projected net operating cash flows for each vessel and compare it to the vessel's carrying value. If the carrying value of the related vessel exceeds its undiscounted future net cash flows, the carrying value is reduced to its fair value. We estimate fair market value primarily through the use of third-party valuations performed on an individual vessel basis.

The carrying values of our vessels may not represent their fair market value at any point in time since the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. During the past few years, the market values of vessels have experienced particular volatility, with substantial declines in many vessel classes. As a result, the charter-free market value, or basic market value, of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels' carrying amounts.

Although we believe that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective. There can be no assurance as to how long charter rates and vessel values will remain at their currently low levels or whether they will improve by any significant degree. Charter rates may remain at depressed levels for some time which could adversely affect our revenue and profitability, and future assessments of vessel impairment.

In order to perform the undiscounted cash flow test, we make assumptions about future charter rates, commissions, vessel operating expenses, dry-dock costs, fleet utilization, scrap rates used to calculate estimated proceeds at the end of vessels' useful lives and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. The projected net operating cash flows are determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days (based on a combination of three-year time charter rates for the next three years and the most recent eight-year average of the one-year time charter rates for each vessels' category) over the remaining useful life of each vessel, which we estimate to be 25 years from the date of initial delivery from the shipyard. Expected outflows for scheduled vessels' maintenance and vessel operating expenses are based on historical data, and adjusted annually assuming an average annual inflation derived from the most recent twenty-year average consumer price index. Effective fleet utilization, average commissions, dry-dock costs and scrap values are also based on historical data.



During 2010, fears of vessel oversupply and market disruptions led to high charter rate volatility and to a further decrease in vessel values. These are conditions that we considered to be indicators of potential impairment. We performed the undiscounted cash flow test as of December 31, 2010 and determined that the carrying amounts of our vessels held for use were recoverable.

During 2011, charter rates decreased, resulting in the deterioration of asset values, but the drybulk carriers experienced the steepest drop. We sold all our dry bulk vessels during 2011 with the exception of the M/V Evian, which we had classified as held for sale at December 31, 2011. As a result, we recorded an impairment loss of \$114 million for the year ended December 31, 2011 that is included in the accompanying statement of operations. We did not record an impairment charge for our tanker vessels in 2011 because we determined that the undiscounted cash flows for these vessels exceeded their book values.

During 2012, vessel oversupply decreased charter rates and further decreased vessel values. We considered these conditions as indicators of a potential impairment for our vessels. In December 2012, we tested the M/T Miss Marilena, M/T Lichtenstein, M/T UACC Shams, M/T Britto and M/T Hongbo for impairment and assigned a medium probability to sell them. This assumption, together with the deteriorating charter rates, significantly reduced the probability-weighted undiscounted expected cash flows, which we determined to be lower than the vessels carrying values. Consequently we wrote the vessels down to their fair values and recognized an impairment charge of \$46.6 million.

*Derivatives.* We designate our derivatives based upon the criteria established by the FASB in its accounting guidance for derivatives and hedging activities. The accounting guidance for derivatives requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for the changes in the fair value of the derivative depends on the intended use of the derivative and the resulting designation. For a derivative that does not qualify as a cash flow hedge, the change in fair value is recognized at the end of each accounting period on the income statement. For a derivative that qualifies as a cash flow hedge, the change in fair value is recognized at the end of each reporting period in accumulated other comprehensive income / (loss) (effective portion) until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized in the income statement.

If there is an increase in the 3-month LIBOR or if the 10-year U.S. dollar swap rate exceeds 3.85%, there will be a positive effect on the fair value of our interest rate swap agreements. In contrast, a decrease in the 3-month LIBOR or an increase of over 0.05% in the difference between the 10-year U.S. dollar swap rate and the 2-year U.S. dollar swap rate will have a negative effect on the fair value of our interest rate swap agreements.

We have not applied hedge accounting to our interest rate swaps. Additionally, we have not adjusted the fair value of our derivative liabilities for non-performance risk as we expect to be able to perform under the contractual terms of our derivative agreements, such as making cash payments at periodic net settlement dates or upon termination. Please refer to "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Working Capital Requirements and Sources of Capital" for further information.

*Provision for doubtful accounts.* Revenue is based on contracted voyage and time charter parties and, although our business is with customers who we believe to be of the highest standard, there is always the possibility of a dispute, mainly over terms, calculation and payment of demurrages. In such circumstances, we assess the recoverability of amounts outstanding and we estimate a provision if there is a possibility of non-recoverability, combined with the application of a historical recoverability ratio, for purposes of determining the appropriate provision for doubtful accounts. Although we believe our provisions are based on fair judgment at the time of their creation, it is possible that an amount under dispute is not recovered and that the estimated provision for doubtful recoverability will prove inadequate.

*Convertible debt.* In accordance with FASB's Codifications topic 470-20 "Debt with Conversion and Other Options" we evaluate debt securities (or Debt) for beneficial conversion features. A beneficial conversion feature is present when the conversion price per share is less than the market value of the common stock at the commitment date. The intrinsic value of the feature is then measured as the difference between the conversion price and the market value, or the Spread, multiplied by the number of shares into which the Debt is convertible and is recorded as debt discount with an offsetting amount increasing additional paid-in-capital. The debt discount is accreted to interest expense over the term of the Debt with any unamortized discount recognized as interest expense upon conversion of the Debt. If a debt security contains terms that change upon the occurrence of a future event the incremental intrinsic value is measured as the additional number of issuable shares multiplied by the commitment date market value and is recognized as additional debt discount with an offsetting amount increasing additional paid-in-capital upon the future event occurrence. The total intrinsic value of the feature is limited to the proceeds allocated to the Debt instrument. On August 15, 2012, the conversion feature of our bridge loans with Laurasia was terminated and as of December 31, 2012, we have no convertible short or long term debt.

*New accounting pronouncements:* There are no significant effects from new accounting pronouncements. See "Item 18. Financial Statements—Note 2—Significant Accounting Policies—Recent Accounting Pronouncements."

## G. Safe Harbor

Forward-looking information discussed in Item 5 includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as "forward-looking statements." We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material. Please see "Cautionary Statement Regarding Forward-Looking Statements" in this annual report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors, executive officers and key employees. Members of our Board of Directors are elected annually on a staggered basis and each director elected holds office for a three-year term. On February 15, 2012, three of our directors, Roy Gibbs, Marios Hamboullas, and Yiannakis C. Economou resigned from our Board of Directors following a decision by the board to reduce administrative costs. Following such resignation, our Board of Directors resolved to reduce its size from seven to four members. As a result of the reduction in the size of our board, we now have one independent director serving on our Board of Directors.

Officers are elected from time to time by vote of our Board of Directors and hold office until a successor is elected.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Evangelos J. Pistiolis	40	Director, President, Chief Executive Officer
Vangelis G. Ikonomou	48	Director, Executive Vice President and Chairman of the Board
Alexandros Tsirikos	39	Director, Chief Financial Officer
Michael G. Docherty	53	Director
Demetris P. Souroullas	50	Chief Technical Officer

Biographical information with respect to each of our directors and executives is set forth below.

**Evangelos J. Pistiolis** founded our Company in 2000, is our President and Chief Executive Officer and has served on our Board of Directors since July 2004. Mr. Pistiolis graduated from Southampton Institute of Higher Education in 1999 where he studied shipping operations and from Technical University of Munich in 1994 with a bachelor's degree in mechanical engineering. His career in shipping started in 1992 when he was involved with the day-to-day operations of a small fleet of drybulk vessels. From 1994 through 1995 he worked at Howe Robinson & Co. Ltd., a London shipbroker specializing in container vessels. While studying at the Southampton Institute of Higher Education, Mr. Pistiolis oversaw the daily operations of Compass United Maritime Container Vessels, a ship management company located in Greece.

**Vangelis G. Ikonomou** is our Executive Vice President and Chairman and has served on our Board of Directors since July 2004. Prior to joining the Company, Mr. Ikonomou was the Commercial Director of Primal Tankers Inc. From 2000 to 2002, Mr. Ikonomou worked with George Moundreas & Company S.A. where he was responsible for the purchase and sale of second-hand vessels and initiated and developed a shipping industry research department. Mr. Ikonomou worked, from 1993 to 2000, for Eastern Mediterranean Maritime Ltd., a ship management company in Greece, in the commercial as well as the safety and quality departments. Mr. Ikonomou holds a Masters degree in Shipping Trade and Finance from the City University Business School in London, a Bachelors degree in Business Administration from the University of Athens in Greece and a Navigation Officer Degree from the Higher State Merchant Marine Academy in Greece.

**Alexandros Tsirikos** has served as our Chief Financial Officer since April 1, 2009. Mr. Tsirikos, is a UK qualified Chartered Accountant (ACA) and has been employed with Top Ships Inc. since July 2007 as our Corporate Development Officer. Prior to joining Top Ships Inc., Mr Tsirikos was a manager with PricewaterhouseCoopers, or PwC, where he worked as a member of the PwC Advisory team and the PwC Assurance team thereby drawing experience both from consulting as well as auditing. As a member of the Advisory team, he lead and participated in numerous projects in the public and the private sectors, involving strategic planning and business modeling, investment analysis and appraisal, feasibility studies, costing and project management. As a member of the Assurance team, Mr. Tsirikos was part of the International Financial Reporting Standards, or IFRS, technical team of PwC Greece and lead numerous IFRS conversion projects for listed companies. He holds a Master's of Science in Shipping Trade and Finance from City University of London and a Bachelor's Degree with honors in Business Administration from Boston University in the United States. He speaks English, French and Greek.

**Michael G. Docherty** has served on our Board of Directors since July 2004 and has been member of the Audit Committee since February 2012. Mr. Docherty is a founding partner of Independent Average Adjusters Ltd., an insurance claims adjusting firm located in Athens, Greece, which he co-founded in 1997. Mr. Docherty has 26 years of international experience handling maritime insurance claims.

**Demetris P. Souroullas** is Chief Technical Officer of Top Ships Inc. and has been with our Company since 2007. Prior to joining the Company, and from 2001 onwards, Mr. Souroullas held the positions of Chief Executive Officer for the Fleet of Admibros Shipmanagement Co. Ltd and Technical and General Manager of LMZ Transoil Shipmanagement S.A. Prior to that, Mr. Souroullas worked with the Cyprus Bureau of Shipping where he started in 1988 as a Surveyor and left in 2001 as the Head of Classification. Mr. Souroullas holds a Masters degree in Naval Architecture from the University of Newcastle upon Tyne, and a Bachelors degree in Maritime Technology from the University of Wales Institute of Science and Technology.

## **B. Compensation**

During the fiscal year ended December 31, 2012, we paid to the members of our senior management and to our directors aggregate compensation of \$2.2 million. We do not have a retirement plan for our officers or directors.

On September 1, 2010, we entered into separate agreements with Central Mare, a related party controlled by the family of our Chief Executive Officer, pursuant to which Central Mare furnishes our four executive officers to us as described below. These agreements were entered into in exchange for terminating prior employment agreements.

Under the terms of the agreement for our Chief Executive Officer, we are obligated to pay annual base salary, a minimum cash bonus and stock compensation of 50,000 common shares of the Company to be issued at the end of each calendar year vesting on the grant date. The initial term of the agreement expires on August 31, 2014; however, the agreement shall be automatically extended for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term.

If our Chief Executive Officer's employment is terminated without cause, he is entitled to certain personal and household security costs. If he is removed from the Board of Directors or not re-elected, then his employment terminates automatically without prejudice to Central Mare's rights to pursue damages for such termination. In the event of a change of control, Mr. Pistiolis is entitled to receive a cash payment of Euro 3 million and 147,243 of our common shares. The Agreement also contains death and disability provisions. In addition, Mr. Pistiolis is subject to non-competition and non-solicitation undertakings.

Under the terms of the agreement for our Executive Vice President and Chairman, we are obligated to pay annual base salary and additional incentive compensation as determined by the Board of Directors. The initial term of the agreement expired on August 31, 2011 and is automatically extended for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term.

If our Executive Vice President and Chairman is removed from the Board of Directors or not re-elected, then his employment terminates automatically without prejudice to Central Mare's rights to pursue damages for such termination. In the event of a change of control, he is entitled to receive a cash payment of three years' annual base salary. The Agreement also contains death and disability provisions. In addition, our Executive Vice President and Chairman is subject to non-competition and non-solicitation undertakings.

Under the terms of the agreement for our Chief Financial Officer, we are obligated to pay annual base salary and stock compensation of 20,000 common shares, which were issued on December 21, 2009, of which 10,000 common shares vested on December 21, 2010 and 10,000 common shares vested on December 21, 2011. The initial term of the agreement expired on August 31, 2012, subject to automatic extension for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term.

If our Chief Financial Officer is removed from the Board of Directors or not re-elected, then his employment terminates automatically without prejudice to Central Mare's rights to pursue damages for such termination. In the event of a change of control, our Chief Financial Officer is entitled to receive a cash payment equal to three years' annual base salary and 55,000 of our common shares. The Agreement also contains death and disability provisions. In addition, our Chief Financial Officer is subject to non-competition and non-solicitation undertakings.

Under the terms of our agreement for our Chief Technical Officer, we are obligated to pay annual base salary and stock compensation of 24,999 common shares which were issued on October 29, 2010 and which vest ratably over a period of 15 months beginning in October 2010 and ended in December 2011. The initial term of the agreement expired on August 31, 2011, however the agreement is being automatically extended for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term. In the event of a change of control the Chief Technical Officer is entitled to receive a cash payment equal to three years' annual base salary. In addition, our Chief Technical Officer is subject to non-competition and non-solicitation undertakings.

### **Equity Incentive Plan**

In April 2005, our Board of Directors adopted our 2005 Stock Incentive Plan, which was amended and restated in December 2009, or the Plan, under which our officers, key employees and directors may be granted options to acquire common stock. A total of 33,333 shares of common stock were initially reserved for issuance under the Plan, which is administered by the Board of Directors. The number of shares of common stock reserved for issuance under the Plan is currently 400,000. The Plan also provides for the issuance of stock appreciation rights, dividend equivalent rights, restricted stock, unrestricted stock, restricted stock units, and performance shares at the discretion of our Board of Directors. The Plan expires 10 years from the date of its adoption. Please see "Item 18. Financial Statements—Note 12—Stock Incentive Plan" describing grants provided since the Plan's adoption.

In 2011, we granted 50,000 shares to our Chief Executive Officer which were issued to Sovereign Holdings Inc., a company wholly owned by our Chief Executive Officer.

In February 14, 2013, we granted 50,000 shares to our Chief Executive Officer which were issued to Sovereign Holdings Inc., a company wholly owned by our Chief Executive Officer.

### **C. Board Practices**

On February 15, 2012, three of our directors, Roy Gibbs, Marios Hamboullas, and Yiannakis C. Economou resigned from our Board of Directors following a decision by the board to reduce administrative costs. Following such resignation, our Board of Directors resolved to reduce its size from seven to four members. As a result of the reduction in the size of our board, we now have one independent director serving on our Board of Directors.

Our Board of Directors is divided into three classes. Members of our Board of Directors are elected annually on a staggered basis, and each director elected holds office for a three-year term. The term of our Class I director, Michael G. Docherty, expires at the annual general meeting of shareholders in 2014. The term of our Class II director, Evangelos J. Pistiolis, expires at the annual general meeting of shareholders in 2015. The term of our Class III directors, Alexandros Tsirikos and Vangelis G. Ikonou, expires at the annual general meeting of shareholders in 2013.

## Committees of the Board of Directors

We currently have an audit committee composed of one independent member, which pursuant to a written audit committee charter, is responsible for reviewing our accounting controls and recommending to the Board of Directors, the engagement of our outside auditors. Michael G. Docherty, whose biographical details are included in Item 6 of this Annual Report, is the sole member of the audit committee, and our Board of Directors has determined that he is independent under the corporate governance rules of the Nasdaq Global Select Market. Prior to February 15, 2012, the members of our audit committee were Roy Gibbs, Marios Hamboullas and Yiannakis C. Economou.

In June 2007, we established a compensation committee and a nominating and governance committee. Both committees are currently composed of one member, Michael G. Docherty, who is an independent director. Prior to February 15, 2012, the members of our compensation and nominating and corporate governance committees were Michael G. Docherty, Marios Hamboullas and Yiannakis C. Economou. The compensation committee carries out the Board of Directors's responsibilities relating to compensation of our executive and non-executive officers and provides such other guidance with respect to compensation matters as the Committee deems appropriate. The nominating and governance committee assists the Board of Directors in: (i) identifying, evaluating and making recommendations to the Board of Directors concerning individuals for selections as director nominees for the next annual meeting of stockholders or to otherwise fill vacancies in the Board of Directors; (ii) developing and recommending to the Board of Directors a set of corporate governance guidelines and principles applicable to the Company; and (iii) reviewing the overall corporate governance of the Company and recommending improvements to the Board of Directors from time to time.

As a foreign private issuer we are exempt from certain requirements of the Nasdaq Global Select Market which are applicable to U.S. listed companies. For a listing and further discussion of how our corporate governance practices differ from those required of U.S. companies listed on the Nasdaq Global Select Market, please see Item 16G of this Annual Report.

### D. Employees

As of September 1, 2010, we have no direct employees and our four executive officers and one other administrative employee are furnished to us pursuant to agreements with Central Mare, as described above. During 2010, 2011 and 2012, our wholly-owned subsidiary Top Tanker Management employed on average 23, 16 and 7 employees, respectively, all of whom are shore-based. Our current Fleet Manager, Central Mare, 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. As of December 31, 2010, 2011 and 2012, we also employed 137, 0 and 0 sea going employees, respectively, directly and indirectly through our sub-managers.

### E. Share Ownership

The common shares beneficially owned by our directors and senior managers and/or companies affiliated with these individuals are disclosed in "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions."

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

The following table sets forth the beneficial ownership of our common shares, as of April 18, 2013, held by: (i) each person or entity that we know beneficially owns 5% or more of our common stock; (ii) each of our executive officers, directors and key employees; and (iii) all our executive officers, directors and key employees as a group. All of the shareholders, including the shareholders listed in this table, are entitled to one vote for each share of common stock held.

Name and Address of Beneficial Owner(1)	Number of Shares Owned	Percent of Class
Evangelos Pistiolis (2)	10,050,000	58.4%
Vangelis G. Ikonomou	*	*
Alexandros Tsirikos	*	*
Michael G. Docherty	*	*
Demetris P. Souroullas	*	*
Executive Officers and Directors as a Group	10,061,596	58.5%

\* Less than one percent.

(1) Unless otherwise indicated, the business address of each beneficial owner identified is c/o Top Ships Inc., 1 Vas. Sofias and Meg. Alexandrou Str, 15124 Maroussi, Greece.

(2) Mr. Pistiolis may be deemed to beneficially own these shares through Sovereign Holdings Inc., or Sovereign, a company wholly owned by Mr. Pistiolis. Pursuant to a Common Stock Purchase Agreement dated August 24, 2011, we issued 2,566,406 common shares to Sovereign on September 1, 2011, and 11,111,111 common shares on October 19, 2011. Please see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Sovereign Equity Line Transaction" for further details. On December 4, 2012, Sovereign sold, in three separate private transactions, 765,000 Common Shares at a price of \$1.265 per share, 705,000 Common Shares at a price of \$1.28 per share, and 750,000 Common Shares at a price of \$1.27 per share. On December 6, 2012, Sovereign sold, in four separate private transactions, 454,760 Common Shares at a price of \$1.31 per share, 430,000 Common Shares at a price of \$1.31 per share, 655,413 Common Shares at a price of \$1.30 per share, and 350,000 Common Shares at a price of \$1.27 per share. Sovereign is engaged in negotiations to sell up to 2,500,000 additional Common Shares.

As of April 29, 2013, we had 27 shareholders of record, 15 of which were located in the United States and held an aggregate of 2,999,827 shares of our common stock, representing 16% of our outstanding shares of common stock. However, one of the U.S. shareholders of record is Cede & Co., a nominee of The Depository Trust Company, which held 2,999,405 shares of our common stock as of April 29, 2013. We believe that the shares held by Cede & Co. include shares of common stock beneficially owned by both holders in the United States and non-U.S. beneficial owners. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

**B. Related Party Transactions**

Please see "Item 18. Financial Statements—Note 5—Transactions with Related Parties."

**Central Mare Letter Agreement, Management Agreements, and Other Agreements:**

Since July 1, 2010, Central Mare, a related party controlled by the family of our Chief Executive Officer, has been performing all of our operational, technical and commercial functions relating to the chartering and operation of our vessels, pursuant to a letter agreement concluded between Central Mare and Top Ships, as well as management agreements concluded between Central Mare and our vessel-owning subsidiaries. See "Item 18. Financial Statements—Note 5—Transactions with Related Parties." These agreements have an initial term of five years, after which they will continue to be in effect until terminated by either party subject to a twelve month advance notice of termination.

Pursuant to a letter agreement concluded between Central Mare and Top Ships, or the Letter Agreement, as well as management agreements concluded between Central Mare and our vessel-owning subsidiaries, we pay a management fee of Euro 689.6 or approximately \$910 per day per vessel that is employed under a time or voyage charter and a management fee of Euro 265.2 or approximately \$350 per day per vessel that is employed under a bareboat charter. In addition, the management agreements provide for payment to Central Mare of: (i) a fee of Euro 106.1 or approximately \$140 per day per vessel for services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002; (ii) Euro 530.5 or approximately \$700 per day for superintendent visits; (iii) a chartering commission of 0.75% on all existing (as of July 1, 2010) freight, hire and demurrage revenues; (iv) a chartering commission of 1.25% on all new (concluded after July 1, 2010) freight, hire and demurrage revenues; (v) a commission of 1.00% of all gross sale proceeds or the purchase price paid for vessels; (vi) a quarterly fee of Euro 100,000 or approximately \$131,970 for the services rendered in relation to our maintenance of proper books and records; (vii) a quarterly fee of Euro 25,000 or \$32,993 for services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations; (viii) a commission of 0.2% on derivative agreements and loan financing or refinancing; (ix) a newbuilding supervision fee of Euro 424,360 or approximately \$560,028 per newbuilding vessel and (x) an annual fee of Euro 10,609 or approximately \$14,001 per vessel, for the provision of information-system related services.

Central Mare also provides commercial operations and freight collection services in exchange for a fee of Euro 95.5 or approximately \$126 per day per vessel. Central Mare provides insurance services and obtains insurance policies for the vessels for a fee of 5.00% of the total insurance premiums. Furthermore, if required, Central Mare will also handle and settle all claims arising out of its duties under the management agreements (other than insurance and salvage claims) in exchange for a fee of Euro 159.7 or approximately \$211 per person per eight-hour day. Finally legal fees for claims and general corporate services incurred by Central Mare on our behalf will be reimbursed to Central Mare at cost.

These agreements have an initial term of five years, after which they will continue to be in effect until terminated by either party subject to a twelve-month advance notice of termination.

Pursuant to the terms of the management agreements, all fees payable to Central Mare are adjusted upwards 3% per annum on each anniversary date of the agreement. Transactions with the Manager in Euros are settled on the basis of the EUR/USD on the invoice date.

The Letter Agreement was amended on January 1, 2012 to reduce management fees paid by us to Central Mare by approximately 35% for the services rendered in relation to our maintenance of proper books and records and for services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations. The letter agreement was amended again on January 1, 2013, resulting in a decrease in the variable management fees to \$250 per vessel per day that will include operational, technical and commercial functions, services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to our maintenance of proper books and records, services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations, the provision of information-system related services, commercial operations and freight collection services, with all other terms remaining unchanged.

At December 31, 2012, \$2.2 million is payable to Central Mare, and is reflected in the consolidated balance sheets as due to related parties.

On September 1, 2010, we entered into separate agreements with Central Mare pursuant to which Central Mare furnishes our executive officers to us. These agreements were entered into in exchange for terminating prior employment agreements. See "Item 6—Compensation." On March 1, 2011, we entered into an agreement with Central Mare pursuant to which Central Mare furnishes certain employees to us including Corporate Development Officer and Internal Auditor as well as certain administrative employees. Under the terms of this, we are obligated to pay an annual base salary. See "Item 18. Financial Statements—Note 5—Transactions with Related Parties." On July 1, 2012, these agreements were amended and the salaries of the executive officers were reduced. Pursuant to the amendment of these agreements, Central Mare will no longer furnish us a Corporate Development Officer and the number of the administrative employees has been reduced.

On July 16, 2011, we entered into an unsecured credit facility with Central Mare for Euro 1.8 million (\$2.38 million) to be used for general working capital purposes. We had undertaken to repay the loan within twelve months of its receipt, however it was extended for another twelve months on July 21, 2012. The loan bears interest at a rate of 8% per annum.

#### **Shipping Financial Services Inc Credit Facility**

On July 1, 2011 we entered into an unsecured credit facility with Shipping Financial Services Inc, a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 0.35 million (\$0.46 million) to be used for general working capital purposes. We had undertaken to repay the loan within twelve months of its receipt, however it was extended for another twelve months on July 8, 2012. The loan bears interest at a rate of 8% per annum.

#### **Provision of Office Space in Monaco by Central Shipping Monaco SAM**

In September 2011, we entered into a lease agreement for one year for the provision of office space in Monaco, effective from October 1, 2011 with Central Shipping Monaco SAM, a related party controlled by the family of our Chief Executive Officer and President. This agreement was extended up to December 2012 and then terminated. The monthly rent was \$0.01 million.

#### **Renovation of Office Space in Athens by Pyramis Technical Co. S.A.**

Pyramis Technical Co. S.A., a related party controlled by the father of our Chief Executive Officer and President, has been responsible for the renovation of our office space in Athens, Greece. As of December 31, 2012, the total contracted cost amounted to Euro 3.2 million (\$4.3 million) over a period of approximately seven years.

#### **Sovereign Equity Line Transaction**

On August 24, 2011, we entered into a Common Stock Purchase Agreement with Sovereign. In this transaction, commonly known as an equity line, Sovereign committed to purchase up to \$10,000,000 of our common shares, to be drawn from time to time at our request in multiples of \$500,000 over the following 12 months ("the Sovereign Equity Line Transaction"). Shares purchased under the Common Stock Purchase Agreement are priced at the greater of (i) \$0.45 per share and (ii) a per share price of 35% of the volume weighted average price of our common stock for the previous 12 trading days. Also on August 24, 2011, we entered into a registration rights agreement with Sovereign, pursuant to which Sovereign has been granted certain demand registration rights with respect to the shares issued to Sovereign under the Common Stock Purchase Agreement. In addition, on August 24, 2011, we entered into a lock-up agreement with Sovereign, pursuant to which Sovereign agreed not to sell shares acquired pursuant to the Common Stock Purchase Agreement for a period starting 12 months from each acquisition of such shares.

We entered the Sovereign Equity Line Transaction to meet urgent short-term liquidity needs, especially our debt service obligations. The discount at which our shares are sold under the equity line was evaluated in the context of our urgent liquidity needs, the lack of alternatives available to us to raise capital due to unfavorable market conditions, the flexibility provided by the Sovereign transaction and the 12 month lock-up agreement that accompanied the transaction which made the shares illiquid for Sovereign.

The Board established a special committee composed of independent directors (the "Special Committee") to consider the Sovereign Equity Line Transaction and make a recommendation to the Board. In the course of its deliberations, the Special Committee hired an independent investment bank which had never previously done any work for us or for Sovereign and obtained a fairness opinion from that investment bank. On August 24, 2011, the Special Committee determined that the Sovereign Equity Line Transaction was fair to and in our best interest and the best interests of our shareholders. Upon the recommendation of the Special Committee, the Board approved the Sovereign Equity Line Transaction on August 24, 2011, and we entered into the Common Stock Purchase Agreement on that date.

We drew down \$2.0 million under the Common Stock Purchase Agreement at a price of \$0.7793 per share on September 1, 2011, and on October 19, 2011, we drew down \$5.0 million at a price of \$0.45 per share.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION.**

**A. Consolidated Statements and Other Financial Information**

See "Item 18-Financial Statements."

**Legal Proceedings**

We have not been involved in any legal proceedings which may have, or have had, a significant effect on our business, financial position, results of operations or liquidity, nor are we aware of any proceedings that are pending or threatened which may have a significant effect on our business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

**Dividend Distribution Policy**

On April 6, 2006, our Board of Directors decided to discontinue our policy of paying regular quarterly dividends. The declaration and payment of any future special dividends shall remain subject to the discretion of the Board of Directors and shall be based on general market and other conditions including our earnings, financial strength and cash requirements and availability.

We are permitted to pay dividends under the loans so long as we are not in default of a loan covenant and if such dividend payment would not result in a default of a loan covenant.

**B. Significant Changes**

All significant changes have been included in the relevant sections.



**ITEM 9. THE OFFER AND LISTING.****A. Offer and Listing Details****Price Range of Common Stock**

The trading market for our common stock is the Nasdaq Global Select Market, on which the shares are listed under the symbol "TOPS." The following table sets forth the high and low market prices for our common stock since our initial public offering of common stock at \$330.00 per share on July 23, 2004, as reported by the Nasdaq Global Select Market. All share prices have been adjusted to account for a 1-for-10 reverse stock split of our common stock effected on June 24, 2011. The high and low market prices for our common stock for the periods indicated were as follows:

	<u>HIGH</u>	<u>LOW</u>
<b>For the Fiscal Year Ended December 31, 2012</b>	\$ 5.20	\$ 0.88
<b>For the Fiscal Year Ended December 31, 2011</b>	\$ 11.60	\$ 1.00
<b>For the Fiscal Year Ended December 31, 2010</b>	\$ 13.00	\$ 6.20
<b>For the Fiscal Year Ended December 31, 2009</b>	\$ 38.80	\$ 6.74
<b>For the Fiscal Year Ended December 31, 2008</b>	\$ 107.00	\$ 12.50
<b>For the Quarter Ended</b>		
March 31, 2013	\$ 1.55	\$ 0.70
December 31, 2012	\$ 1.45	\$ 0.88
September 30, 2012	\$ 1.87	\$ 1.11
June 30, 2012	\$ 3.75	\$ 1.21
March 31, 2012	\$ 2.89	\$ 1.00
December 31, 2011	\$ 5.20	\$ 1.30
September 30, 2011	\$ 4.20	\$ 1.30
June 30, 2011	\$ 7.80	\$ 3.15
March 31, 2011	\$ 1.16	\$ 0.70
<b>For the Month</b>		
April 2013 (through April 29, 2013)	\$ 1.74	\$ 1.16
March 2013	\$ 1.55	\$ 0.70
February 2013	\$ 1.09	\$ 0.91
January 2013	\$ 1.35	\$ 0.90
December 2012	\$ 1.39	\$ 0.88
November 2012	\$ 1.45	\$ 1.00
October 2012	\$ 1.24	\$ 0.97

**B. Plan of Distribution**

Not applicable

**C. Markets**

Shares of our common stock trade on the Nasdaq Global Select Market under the symbol "TOPS."

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

Our purpose is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the Marshall Islands Business Corporations Act, or BCA. Our Amended and Restated Articles of Incorporation and Amended and Restated By-laws do not impose any limitations on the ownership rights of our shareholders.

Under our Amended and Restated By-laws, annual shareholder meetings will be held at a time and place selected by our Board of Directors. The meetings may be held in or outside of the Marshall Islands. Special meetings of the shareholders, unless otherwise prescribed by law, may be called for any purpose or purposes at any time exclusively by the Board of Directors. Notice of every annual and special meeting of shareholders shall be given at least 15 but not more than 60 days before such meeting to each shareholder of record entitled to vote thereat.

**Directors.** Our directors are elected by a plurality of the votes cast at a meeting of the shareholders by the holders of shares entitled to vote in the election. Our Amended and Restated Articles of Incorporation and Amended and Restated By-laws prohibit cumulative voting in the election of directors.

The Board of Directors must consist of at least one member and not more than twelve, as fixed from time to time by the vote of not less than  $66\frac{2}{3}\%$  of the entire board. Each director shall be elected to serve until the third succeeding annual meeting of shareholders and until his successor shall have been duly elected and qualified, except in the event of his death, resignation, removal, or the earlier termination of his term of office. The Board of Directors has the authority to fix the amounts which shall be payable to the members of our Board of Directors, and to members of any committee, for attendance at any meeting or for services rendered to us.

#### ***Classified Board***

Our Amended and Restated Articles of Incorporation provide for the division of our Board of Directors into three classes of directors, with each class as nearly equal in number as possible, serving staggered, three-year terms. Approximately one-third of our Board of Directors will be elected each year. This classified board provision could discourage a third party from making a tender offer for our shares or attempting to obtain control of our company. It could also delay shareholders who do not agree with the policies of the Board of Directors from removing a majority of the Board of Directors for two years.

#### ***Election and Removal***

Our Amended and Restated Articles of Incorporation and Amended and Restated by-laws require parties other than the Board of Directors to give advance written notice of nominations for the election of directors. Our Amended and Restated articles of incorporation provide that our directors may be removed 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 those directors. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

#### ***Dissenters' Rights of Appraisal and Payment***

Under the Business Corporation Act of the Republic of the Marshall Islands, or BCA, our shareholders have the right to dissent from various corporate actions, including any merger or sale of all or substantially all of our assets not made in the usual course of our business, and receive payment of the fair value of their shares. In the event of any further amendment of the articles, a shareholder also has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. The dissenting shareholder must follow the procedures set forth in the BCA to receive payment. In the event that, among other things, the institution of proceedings in the circuit court in the judicial circuit in the Marshall Islands in which our Marshall Islands office is situated. The value of the shares of the dissenting we and any dissenting shareholder fail to agree on a price for the shares, the BCA procedures involve shareholder is fixed by the court after reference, if the court so elects, to the recommendations of a court-appointed appraiser.

#### ***Shareholders' Derivative Actions***

Under the BCA, any of our shareholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action, provided that the shareholder bringing the action is a holder of common stock both at the time the derivative action is commenced and at the time of the transaction to which the action relates.

#### ***Anti-takeover Provisions of our Charter Documents***

Several provisions of our Amended and Restated Articles of Incorporation and Amended and Restated by-laws may have anti-takeover effects. These provisions are intended to avoid costly takeover battles, lessen our vulnerability to a hostile change of control and enhance the ability of our Board of Directors to maximize shareholder value in connection with any unsolicited offer to acquire us. However, these anti-takeover provisions, which are summarized below, could also discourage, delay or prevent (1) the merger or acquisition of our company by means of a tender offer, a proxy contest or otherwise, that a shareholder may consider in its best interest and (2) the removal of incumbent officers and directors.

### ***Business Combinations***

Our Amended and Restated Articles of Incorporation include provisions which prohibit the Company from engaging in a business combination with an interested shareholder for a period of three years after the date of the transaction in which the person became an interested shareholder, unless:

- prior to the date of the transaction that resulted in the shareholder becoming an interested shareholder, the Board approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;
- upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced;
- at or subsequent to the date of the transaction that resulted in the shareholder becoming an interested shareholder, the business combination is approved by the Board and authorized at an annual or special meeting of shareholders by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested shareholder; and
- the shareholder became an interested shareholder prior to the consummation of the initial public offering.

### ***Limited Actions by Shareholders***

Our Amended and Restated Articles of Incorporation and our Amended and Restated By-laws provide that any action required or permitted to be taken by our shareholders must be effected at an annual or special meeting of shareholders or by the unanimous written consent of our shareholders.

Our Amended and Restated Articles of Incorporation and our Amended and Restated By-laws provide that only our Board of Directors may call special meetings of our shareholders and the business transacted at the special meeting is limited to the purposes stated in the notice. Accordingly, a shareholder may be prevented from calling a special meeting for shareholder consideration of a proposal over the opposition of our Board of Directors and shareholder consideration of a proposal may be delayed until the next annual meeting.

### ***Blank Check Preferred Stock***

Under the terms of our Amended and Restated Articles of Incorporation, our Board of Directors has authority, without any further vote or action by our shareholders, to issue up to 20,000,000 shares of blank check preferred stock. Our Board of Directors may issue shares of preferred stock on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management.

### ***Super-majority Required for Certain Amendments to Our By-Laws***

On February 28, 2007, we amended our by-laws to require that amendments to certain provisions of our by-laws may be made when approved by a vote of not less than 66 2/3% of the entire Board of Directors. These provisions that require not less than 66 2/3% vote of the Board of Directors to be amended are provisions governing: the nature of business to be transacted at our annual meetings of shareholders, the calling of special meetings by our Board of Directors, any amendment to change the number of directors constituting our Board of Directors, the method by which our Board of Directors is elected, the nomination procedures of our Board of Directors, removal of our Board of Directors and the filling of vacancies on our Board of Directors.

### ***Stockholders Rights Agreement***

We entered into a Stockholders Rights Agreement with Computershare Investor Services, LLC, as Rights Agent, as of August 19, 2005. Under this Agreement, we declared a dividend payable of one right, or Right, to purchase one one-thousandth of a share of our Series A Participating Preferred Stock for each outstanding share of our common stock, par value U.S.\$0.01 per share. The Rights will separate from the common stock and become exercisable after (1) the 10th day after public announcement that a person or group acquires ownership of 15% or more of our common stock or (2) the 10th business day (or such later date as determined by our Board of Directors) after a person or group announces a tender or exchange offer which would result in that person or group holding 15% or more of our common stock. On the distribution date, each holder of a right will be entitled to purchase for \$25 (the "Exercise Price") a fraction (1/1000th) of one share of our preferred stock which has similar economic terms as one share of common stock. If an acquiring person (an "Acquiring Person") acquires more than 15% of our common stock then each holder of a right (except that Acquiring Person) will be entitled to buy at the exercise price, a number of shares of our common stock which has a market value of twice the exercise price. If after an Acquiring Person acquires more than 15% of our common stock, we merge into another company or we sell more than 50% of our assets or earning power, then each holder of right (except for those owned by the acquirer) will be entitled to purchase at the Exercise Price, a number of shares of common stock of the surviving entity which has a then current market value of twice the Exercise Price. Any time after the date an Acquiring Person obtains more than 15% of our common stock and before that Acquiring Person acquires more than 50% of our outstanding common stock, we may exchange each right owned by all other rights holders, in whole or in part, for one share of our common stock. The rights expire on the earliest of (1) August 31, 2015 or (2) the exchange or redemption of the rights as described above. We can redeem the rights at any time on or prior to the earlier of a public announcement that a person has acquired ownership of 15% or more of our common stock, or the expiration date. The terms of the rights and the Stockholders Rights Agreement may be amended without the consent of the rights holders at any time on or prior to the Distribution Date. After the Distribution Date, the terms of the rights and the Stockholders Rights Agreement may be amended to make changes that do not adversely affect the rights of the rights holders (other than the Acquiring Person). The rights do not have any voting rights. The rights have the benefit of certain customary anti-dilution protections.

#### **C. Material Contracts**

Attached as exhibits to this annual report are the contracts we consider to be both material and not entered into in the ordinary course of business. Descriptions are included within Item 5.B. with respect to our credit facilities, and Item 7.B. with respect to our related party transactions.

Other than these contracts, we have no other material contracts, other than contracts entered into in the ordinary course of business, to which we are a party.

#### **D. Exchange controls**

The Marshall Islands impose no exchange controls on non-resident corporations.

#### **E. Taxation**

The following is a discussion of the material Marshall Islands and U.S. federal income tax considerations relevant to an investment decision by a U.S. Holder and a non U.S. Holder, each as defined below, with respect to the common stock. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which, such as dealers in securities and investors whose functional currency is not the U.S. dollar, may be subject to special rules. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of common stock.

#### **Marshall Islands Tax Consequences**

We are incorporated in the Republic of the Marshall Islands. Under current Marshall Islands law, we are not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by us to our shareholders.

#### **U.S. Federal Income Tax Consequences**

The following are the material United States federal income tax consequences to us of our activities and to U.S. Holders and non U.S. Holders, each as defined below, of our common stock. The following discussion of U.S. federal income tax matters is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury (the "Treasury Regulations"), all of which are subject to change, possibly with retroactive effect. The discussion below is based, in part, on the description of our business in "Business" above and assumes that we conduct our business as described in that section. Except as otherwise noted, this discussion is based on the assumption that we will not maintain an office or other fixed place of business within the United States. References in the following discussion to "we" and "us" are to Top Ships Inc. and its subsidiaries on a consolidated basis.

#### **U.S. Federal Income Taxation of Our Company**

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

Unless exempt from U.S. federal income taxation under the rules discussed below, a foreign corporation is subject to U.S. federal income taxation in respect of any income that is derived from the use of vessels, from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis, from the participation in a pool, partnership, strategic alliance, joint operating agreement, code sharing arrangements or other joint venture it directly or indirectly owns or participates in that generates such income, or from the performance of services directly related to those uses, which we refer to as "shipping income," to the extent that the shipping income is derived from sources within the United States. For these purposes, 50% of shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States constitutes income from sources within the United States, which we refer to as "U.S.-source shipping income."

Shipping income attributable to transportation that both begins and ends in the United States is considered to be 100% from sources within the United States. We are not permitted by law to engage in transportation that produces income which is considered to be 100% from sources within the United States.

Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to any U.S. federal income tax.

In the absence of exemption from tax under Section 883 of the Code, our gross U.S.-source shipping income would be subject to a 4% tax imposed without allowance for deductions as described below.

#### *Exemption of Operating Income from U.S. Federal Income Taxation*

Under Section 883 of the Code and the regulations there under, we will be exempt from U.S. federal income tax on our U.S.-source shipping income if:

- (1) we are organized in a foreign country, or our country of organization, that grants an "equivalent exemption" to corporations organized in the United States; and
- (2) either
  - (A) more than 50% of the value of our stock is owned, directly or indirectly, by individuals who are "residents" of our country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States, which we refer to as the "50% Ownership Test," or
  - (B) our stock is "primarily and regularly traded on an established securities market" in our country of organization, in another country that grants an "equivalent exemption" to U.S. corporations, or in the United States, which we refer to as the "Publicly-Traded Test."

The Marshall Islands and Liberia, the jurisdictions where we and our ship-owning subsidiaries are incorporated, each grant an "equivalent exemption" to U.S. corporations. Therefore, we will be exempt from U.S. federal income tax with respect to our U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met.

Treasury Regulations provide, in pertinent part, that stock of a foreign corporation will be considered to be "primarily traded" on an established securities market if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. Our common stock, which is our sole class of issued and outstanding stock, is and we anticipate will continue to be "primarily traded" on the Nasdaq Global Select Market.

Under the Treasury Regulations, our common stock will be considered to be "regularly traded" on an established securities market if one or more classes of our stock representing more than 50% of our outstanding shares, by total combined voting power of all classes of stock entitled to vote and total value, is listed on the market, which we refer to as the "listing threshold." Since our common stock, our sole class of stock, is listed on the Nasdaq Global Select Market, we will satisfy the listing threshold.

It is further required that with respect to each class of stock relied upon to meet the listing threshold, (i) such class of stock be traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or one-sixth of the days in a short taxable year, which we refer to as the "trading frequency test"; and (ii) the aggregate number of shares of such class of stock traded on such market is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year, which we refer to as the "trading volume test." We believe we will satisfy the trading frequency and trading volume tests. Even if this were not the case, the Treasury Regulations provide that the trading frequency and trading volume tests will be deemed satisfied if, as is the case with our common stock, such class of stock is traded on an established securities market in the United States and such stock is regularly quoted by dealers making a market in such stock.

Notwithstanding the foregoing, the Treasury Regulations provide, in pertinent part, that a class of our stock will not be considered to be "regularly traded" on an established securities market for any taxable year if 50% or more of the vote and value of the outstanding shares of such class of stock are owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the vote and value of the outstanding shares of such class of stock, which we refer to as the "5% Override Rule."

For purposes of being able to determine the persons who own 5% or more of our stock, or "5% Shareholders," the Treasury Regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the SEC, as having a 5% or more beneficial interest in our common stock. The Treasury Regulations further provide that an investment company identified on a SEC Schedule 13G or Schedule 13D filing which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% shareholder for such purposes.

In the event the 5% Override Rule is triggered, the Treasury Regulations provide that the 5% Override Rule will not apply if we can establish that among the closely-held group of 5% Shareholders, there are sufficient 5% Shareholders that are considered to be qualified shareholders for purposes of Section 883 of the Code to preclude non-qualified 5% Shareholders in the closely-held group from owning 50% or more of each class of our stock for more than half the number of days during such year. To establish and substantiate this exception to the 5% Override Rule, our 5% Shareholders who are qualified shareholders for purposes of Section 883 of the Code must comply with ownership certification procedures attesting that they are residents of qualifying jurisdictions, and each intermediary or other person in the chain of ownership between us and such 5% Shareholder must undertake similar compliance procedures.

For the 2012 taxable year, we believe that the 5% Override Rule was triggered as 50% or more of the vote and value of our common stock was owned by 5% Shareholders on more than half of the days during the taxable year. Nevertheless, we believe that we qualify for the exception to the 5% Override Rule because each 5% Shareholder is a qualified shareholder for purposes of Section 883 of the Code and the substantiation requirements have been satisfied. Therefore, we believe that we qualified for the exemption under Section 883 of the Code for the 2012 taxable year. However, due to the factual nature of the issues, no assurances can be made that we will continue to qualify for the benefits of Section 883 of the Code for any future taxable year.

#### **Taxation in the Absence of Exemption under Section 883 of the Code**

To the extent the benefits of Section 883 of the Code are unavailable, our U.S.-source shipping income, to the extent not considered to be "effectively connected" with the conduct of a U.S. trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, which we refer to as the "4% gross basis tax regime." Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being derived from U.S. sources, the maximum effective rate of U.S. federal income tax on our shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent the benefits of the exemption under Section 883 of the Code are unavailable and our U.S.-source shipping income is considered to be "effectively connected" with the conduct of a U.S. trade or business, as described below, any such "effectively connected" U.S.-source shipping income, net of applicable deductions, would be subject to the U.S. federal corporate income tax currently imposed at rates of up to 35%. In addition, we may be subject to the 30% "branch profits" tax on earnings effectively connected with the conduct of such U.S. trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of such U.S. trade or business.

Our U.S.-source shipping income would be considered "effectively connected" with the conduct of a U.S. trade or business only if:

- We have, or are considered to have, a fixed place of business in the United States involved in the earning of shipping income; and
- substantially all of our U.S.-source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

We do not currently have, nor intend to have or permit circumstances that would result in having, any vessel operating to the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our U.S.-source shipping income will be "effectively connected" with the conduct of a U.S. trade or business.

## *U.S. Taxation of Gain on Sale of Vessels*

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

### **U.S. Federal Income Taxation of U.S. Holders**

As used herein, the term "U.S. Holder" means a beneficial owner of our common stock that

- is a U.S. citizen or resident, U.S. corporation or other U.S. entity taxable as a corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust;
- owns the common stock as a capital asset, generally, for investment purposes; and
- owns less than 10% of our common stock for U.S. federal income tax purposes.

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

### *Distributions*

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

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate (a "U.S. Non-Corporate Holder") will generally be treated as "qualified dividend income" that is taxable to such U.S. Non-Corporate Holder at preferential tax rates provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the Nasdaq Global Select Market on which our common stock is traded); (2) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (as discussed in more detail below); (3) the U.S. Non-Corporate Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend; and (4) the U.S. Non-Corporate Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property.

As discussed below, we believe that we were treated as a PFIC for our 2012 taxable year. Assuming this is the case, any dividends paid by us during 2012 and 2013 will not be treated as "qualified dividend income" in the hands of a U.S. Non-Corporate Holder. Any dividends we pay which are not eligible for the preferential rates applicable to "qualified dividend income" will be taxed as ordinary income to a U.S. Non-Corporate Holder.

Special rules may apply to any "extraordinary dividend," generally, a dividend paid by us in an amount which is equal to or in excess of 10% of a shareholder's adjusted tax basis in a common share. If we pay an "extraordinary dividend" on our common stock that is treated as "qualified dividend income," then any loss derived by a U.S. Non-Corporate Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

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

Subject to the discussion of our status as a PFIC below, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as U.S.-source income or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

### *3.8% Tax on Net Investment Income*

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual, estate, or, in certain cases, a trust, will generally be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's net investment income for the taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000). A U.S. Holder's net investment income will generally include distributions made by us which constitute a dividend for U.S. federal income tax purposes and gain realized from the sale, exchange or other disposition of our common stock. This tax is in addition to any income taxes due on such investment income.

If you are a U.S. Holder that is an individual, estate or trust, you are encouraged to consult your tax advisors regarding the applicability of the 3.8% tax on net investment income to the ownership and disposition of our common stock.

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

Special U.S. federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a PFIC for U.S. federal income tax purposes. In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such holder held our common stock, either

- at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or



- at least 50% of the average value of the assets held by the corporation during such taxable year produce, or are held for the production of, passive income.

For purposes of determining whether we are a PFIC, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiary corporations in which we own at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by us in connection with the performance of services would not constitute "passive income" for these purposes. By contrast, rental income would generally constitute "passive income" unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business.

In general, income derived from the bareboat charter of a vessel will be treated as "passive income" for purposes of determining whether we are a PFIC and such vessel will be treated as an asset which produces or is held for the production of "passive income." On the other hand, income derived from the time charter of a vessel should not be treated as "passive income" for such purpose, but rather should be treated as services income; likewise, a time chartered vessel should generally not be treated as an asset which produces or is held for the production of "passive income."

For our 2012 taxable year, at least 50% of the average value of our assets consisted of vessels which were bareboat chartered and at least 75% of our gross income was derived from vessels on bareboat charter. Therefore, we believe that we were a PFIC for our 2012 taxable year.

Since we are a PFIC, a U.S. Holder will be treated as owning his proportionate share of the stock of any of our subsidiaries which is a PFIC. We expect that certain of our subsidiaries were PFICs in 2012 and, therefore, a U.S. Holder will be treated as owning stock in such PFICs. The PFIC rules discussed below will apply on a company-by-company basis with respect to us and each of our subsidiaries which is treated as a PFIC.

Since we are a PFIC, a U.S. Holder will be subject to different taxation rules depending on whether the U.S. Holder (1) makes an election to treat us as a "Qualified Electing Fund," which is referred to as a "QEF election," (2) makes a "mark-to-market" election with respect to our common stock, or (3) makes no election and, therefore, is subject to the Default PFIC Regime (as defined below). As discussed in detail below, making a QEF election or a mark-to-market election generally will mitigate the otherwise adverse U.S. federal income tax consequences under the Default PFIC Regime. However, the mark-to-market election may not be possible with respect to our subsidiaries which are treated as PFICs. Assuming we are treated as a PFIC, a U.S. Holder may have to file an annual information return with the U.S. Internal Revenue Service, or the IRS, under Section 1298(f) of the Code.

#### *The QEF Election*

We do not intend to provide U.S. Holders with the necessary information to make and maintain a QEF election. Accordingly, U.S. Holders will not be able to make or maintain a QEF election with respect to our common stock. U.S. Holders who have made a QEF election with respect to our common stock prior to the 2012 taxable year should be aware that the IRS has wide discretion to invalidate or terminate their QEF election if we do not provide the necessary information, and with respect to a termination the IRS has the discretion to determine the effective date of the termination. The IRS also has wide discretion in determining the U.S. federal income tax consequences of an invalidation or termination of a QEF election, including treating the invalidation or termination as a deemed sale of our common stock on the last day of our taxable year during which the QEF election was effective. Any gain, but not loss, would be recognized by the U.S. Holder and appropriate adjustments would be made to the tax basis and holding period of the U.S. Holder's common stock. The IRS also has the authority to subject to the U.S. Holder to any other terms and conditions that the IRS determines are necessary to ensure compliance with the PFIC rules.

If a U.S. Holder who has made a QEF election with respect to our common stock prior to the 2012 taxable year makes a mark-to-market election, as discussed below, for the 2012 taxable year, such U.S. Holder's QEF election will automatically terminate. The termination of the QEF election would be effective on the last day of the U.S. Holder's taxable year preceding the first taxable year for which the mark-to-market election is in effect with respect to our common stock.

**If you are a U.S. Holder who has made a QEF election with respect to our common stock prior to the 2012 taxable year, you are strongly encouraged to consult your tax advisor regarding the consequences of not receiving from us the information necessary to maintain the QEF election and the U.S. federal income tax consequences to you of the invalidation or termination of your QEF election, including whether you should automatically terminate your QEF election by making a mark-to-market election with respect to our common stock for the 2012 taxable year.**

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### *Taxation of U.S. Holders Making a "Mark-to-Market" Election*

Making the Election. Alternatively, if, as is anticipated, our common stock is treated as "marketable stock," a U.S. Holder would be allowed to make a "mark-to-market" election with respect to the common stock, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. The common stock will be treated as "marketable stock" for this purpose if it is "regularly traded" on a "qualified exchange or other market." The common stock will be "regularly traded" on a qualified exchange or other market for any calendar year during which it is traded (other than in de minimis quantities) on at least 15 days during each calendar quarter. A "qualified exchange or other market" means either a U.S. national securities exchange that is registered with the SEC, the Nasdaq, or a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and which satisfies certain regulatory and other requirements. We believe that the Nasdaq Global Select Market should be treated as a "qualified exchange or other market" for this purpose. However, it should be noted that a separate mark-to-market election would need to be made with respect to each of our subsidiaries which is treated as a PFIC. The stock of these subsidiaries is not expected to be "marketable stock." Therefore, a "mark-to-market" election is not expected to be available with respect to these subsidiaries.

Current Taxation and Dividends. If the "mark-to-market" election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such U.S. Holder's adjusted tax basis in the common stock. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in its common stock over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Any income inclusion or loss under the preceding rules should be treated as gain or loss from the sale of common stock for purposes of determining the source of the income or loss. Accordingly, any such gain or loss generally should be treated as U.S.-source income or loss for U.S. foreign tax credit limitation purposes. A U.S. Holder's tax basis in his common stock would be adjusted to reflect any such income or loss amount. Distributions by us to a U.S. Holder who has made a mark-to-market election generally will be treated as discussed above under "Taxation—U.S. United States Federal Income Taxation of U.S. Holders—Distributions."

Sale, Exchange or Other Disposition. Gain realized on the sale, exchange, redemption or other disposition of the common stock would be treated as ordinary income, and any loss realized on the sale, exchange, redemption or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder. Any loss in excess of such previous inclusions would be treated as a capital loss by the U.S. Holder. A U.S. Holder's ability to deduct capital losses is subject to certain limitations. Any such gain or loss generally should be treated as U.S.-source income or loss for U.S. foreign tax credit limitation purposes.

### *Taxation of U.S. Holders Not Making a Timely QEF or "Mark-to-Market" Election*

Finally, a U.S. Holder who does not make either a QEF election or a "mark-to-market" election or a U.S. Holder whose QEF election is invalidated or terminated, or a Non-Electing Holder, would be subject to special rules, or the Default PFIC Regime, with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on the common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common stock), and (2) any gain realized on the sale, exchange, redemption or other disposition of the common stock.

Under the Default PFIC Regime:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common stock;
- the amount allocated to the current taxable year and any taxable year before we became a PFIC would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed tax deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

Any distributions other than "excess distributions" by us to a Non-Electing Holder will be treated as discussed above under "Taxation—U.S. United States Federal Income Taxation of U.S. Holders—Distributions."

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of the common stock. If a Non-Electing Holder who is an individual dies while owning the common stock, such Non-Electing Holder's successor generally would not receive a step-up in tax basis with respect to the common stock.

### **U.S. Federal Income Taxation of "Non-U.S. Holders"**

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

#### *Dividends on Common Stock*

Non-U.S. Holders generally will not be subject to U.S. federal income tax or withholding tax on dividends received from us with respect to our common stock, unless that income is effectively connected with a trade or business conducted by the Non-U.S. Holder in the United States. If the Non-U.S. Holder is entitled to the benefits of a U.S. income tax treaty with respect to those dividends, that income is taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States.

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

Non-U.S. Holders generally will not be subject to U.S. federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our common stock, unless:

- the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder in the United States. If the Non-U.S. Holder is entitled to the benefits of a U.S. income tax treaty with respect to that gain, that gain is taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; or
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

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

### **Backup Withholding and Information Reporting**

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements. In addition, such payments will be subject to backup withholding tax if you are a non-corporate U.S. Holder and you:

- fail to provide an accurate taxpayer identification number;
- are notified by the IRS that you have failed to report all interest or dividends required to be shown on your U.S. federal income tax returns; or
- in certain circumstances, fail to comply with applicable certification requirements.

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

If you sell your common stock to or through a U.S. office of a broker, the payment of the proceeds is subject to both U.S. backup withholding and information reporting unless you certify that you are a non-U.S. person, under penalties of perjury, or you otherwise establish an exemption. If you sell your common stock through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the United States, then information reporting and backup withholding generally will not apply to that payment. However, U.S. information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to you outside the United States, if you sell your common stock through a non-U.S. office of a broker that is a U.S. person or has some other contacts with the United States. Backup withholding tax is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your U.S. federal income tax liability by filing a refund claim with the IRS.

Individuals who are U.S. Holders (and to the extent specified in applicable Treasury Regulations, certain individuals who are Non-U.S. Holders and certain U.S. entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury Regulations). Specified foreign financial assets would include, among other assets, our common shares, unless the shares are held through an account maintained with a U.S. financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event an individual U.S. Holder (and to the extent specified in applicable Treasury regulations, an individual Non-U.S. Holder or a U.S. entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. U.S. Holders (including U.S. entities) and Non-U.S. Holders are encouraged to consult their own tax advisors regarding their reporting obligations under this legislation.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts**

Not applicable.

**H. Documents on Display**

We file annual reports and other information with the SEC. You may read and copy any document we file with the SEC at its public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of this information by mail from the public reference section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available to the public at the web site maintained by the SEC at <http://www.sec.gov>, as well as on our website at <http://www.topships.org>.

**I. Subsidiary Information**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Our Risk Management Policy**

Our primary market risks relate to adverse movements in freight rates in the product tanker market and in the Supramax sectors of the drybulk market. In 2008, we began to implement our strategy of entering into long-term period charters (either time or bareboat). As of the date of this annual report, we have seven vessels on long-term period charters with duration of more than one year. Our policy is to continuously monitor our exposure to other business risks, including the impact of changes in interest rates, currency rates, and bunker prices on earnings and cash flows. We assess these risks and, when appropriate, enter into derivative contracts with credit-worthy counterparties to minimize our exposure to the risks. With regard to bunker prices, as our employment policy for our vessels has been and is expected to continue to be with a high percentage of our fleet on period employment, we are not directly exposed with respect to those vessels to increases in bunker fuel prices, as these are the responsibility of the charterer under period charter arrangements.

## Interest Rate Risk

We are subject to market risks relating to changes in interest rates because we have floating rate debt outstanding under our loan agreements on which we pay interest based on LIBOR, or cost of funds for certain banks, plus a margin. In order to manage our exposure to changes in interest rates due to this floating rate indebtedness, we enter into interest rate swap agreements. Set forth below is a table of our interest rate swap arrangements as of December 31, 2011 and 2012 (in thousands of U.S. dollars).

Counterparty	SWAP Number (Nr)	Notional Amount	Period	Effective Date	Interest Rate Payable	Fair Value - Liability	
						December 31, 2011**	December 31, 2012
		December 31, 2012					
EGNATIA	1	\$ 10,000	7 years	July 3, 2006	4.76%	\$ (684)	\$ (222)
HSH NORDBANK	2	\$ 7,332	5 years	March 27, 2008	4.60%	\$ (375)	\$ (73)
EMPORIKI	3	\$ 20,000	7 years	March 30, 2008	10.85%	\$ (3,863)	\$ (2,785)
HSH NORDBANK	4	\$ 10,599	7 years	July 15, 2008	5.55%	\$ (1,951)	\$ (1,591)
HSH NORDBANK	5	\$ 11,346	4 years	June 28, 2010	4.73%	\$ (1,502)	\$ (1,140)
		\$ 59,277				\$ (8,375)	\$ (5,811)

\*\* The total value of our interest rate swap arrangements as of December 31, 2011 was \$8,467. One of our interest rate swap arrangements as of December 31, 2012 has since matured. The table above presents a comparison of the value of our interest rate swap arrangements as of December 31, 2012 with their value on December 31, 2011.

*SWAP Nr 1.* Under this SWAP agreement, we paid Egnatia a fixed rate of 4.70% for the first payment period (quarter) in 2006. From the second quarter onwards we pay a fixed rate of 4.70% plus a coupon equal to three times the difference between 0.05% and the difference of the 10 year U.S. dollar swap rate and the two year U.S. dollar swap rate for the payment period (quarter) in question, plus the coupon of the previous payment period (quarter). The coupon of the previous payment period is essentially the same formula calculated for the previous payment period (quarter). The coupon payment is capped at 8.80%. We receive from Egnatia variable three month LIBOR.

*SWAPS Nr 2.* Under this SWAP agreement, we pay a fixed rate of the three-month U.S. dollar LIBOR multiplied with the factor 0.95 per annum if the three month U.S. dollar LIBOR is between 1.50% and 4.84%. In case the U.S. dollar LIBOR is lower than 1.50% or higher 4.84%, we will pay a fixed rate of 4.60% per annum for that period. We receive from HSH variable three month LIBOR. This SWAP agreement matured in March 2013.

*SWAP Nr 3.* Under this SWAP agreement, we received an upfront amount of \$1.5 million. During the first year, we received a fixed rate of 5.25% and paid a fixed rate of 5.50%. From the second year, we receive quarterly a fixed rate of 5.25% and we pay a rate of 5.10%, if either of two conditions are met: i) the difference between the 10 year Euro swap rate and the 2 year Euro swap rate is greater or equal than -0.15% and ii) the six month USD LIBOR is between 1.00% and 6.00%. Otherwise, we pay 10.85% less 5.75% multiplied by a cushion consisting of the number of days that either of the above two conditions are not met, divided by the total number of days of the period multiplied by the previous quarter's cushion. The first cushion, as of the end of the first year, was set to 1. During the third and fourth quarter of 2009, the six month USD LIBOR has been consistently below 1% and the cushion has become zero. As a result we will be paying 10.85% until the instrument's maturity date.

*SWAP Nr 4.* Under this SWAP agreement, we receive the three month LIBOR and pay 5.55%, less 2.5% multiplied by the quotient of the number of days the three month LIBOR and the 10 year swap rate falls within certain fixed ranges.

*SWAPS Nr 5.* Under this SWAP agreement, we pay a fixed rate and we receive variable three month LIBOR.

As of December 31, 2012, our total bank indebtedness was \$172.6 million, which after excluding unamortized financing fees of \$2.4 million amounts to \$175.0 million, of which \$59.3 million was covered by the interest rate swap agreements described above. As set forth in the above table, as of December 31, 2012, we paid fixed rates ranging from 2.095% to 10.85% and received floating rates on the SWAPs that are based on three month LIBOR as well as a fixed rate of 5.25% from Swap Nr 3. As of December 31, 2012 and March 31, 2013, our interest rate swap agreements are, on an average basis, above the prevailing three month LIBOR rates over which our loans are priced due to the steep reduction in prevailing interest rates during 2009 that continued into 2010, 2011 and 2012. Accordingly, the effect of these interest rate swap agreements in 2012 and the first three months of 2013 has been to increase our loss on financial instruments.

Based on the amount of our outstanding indebtedness as of December 31, 2012 that is not covered by interest swap arrangements as of December 31, 2012, a hypothetical one percentage point increase in the three month U.S. dollar LIBOR would increase our interest rate expense for 2013, on an annualized basis, by approximately \$1.4 million. We have not and do not intend to enter into interest rate swaps for speculative purposes.

## Foreign Exchange Rate Fluctuation

We generate all of our revenues in U.S. dollars but incur certain expenses in currencies other than U.S. dollars, mainly Euro. During 2012, approximately 22% of our expenses were in Euro and approximately 2% were in other currencies than the U.S. dollar or Euro. For accounting purposes, expenses incurred in other currencies are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. We have not hedged currency exchange risks associated with our expenses and our operating results could be adversely affected as a result. We constantly monitor the U.S. dollar exchange rate and we try to achieve the most favorable exchange rates from the financial institutions we work with.

Based on our total expenses for the year ended December 31, 2011, and using as an average exchange rate of \$1.3935 / 1 Euro, a 5% decrease in the exchange rate to \$1.3238 / 1 Euro, would result in an expense saving of approximately \$0.9 million. Based on our total expenses for the year ended December 31, 2012, and using as an average exchange rate of \$1.2861 / 1 Euro, a 5% decrease in the exchange rate to \$1.2218 / 1 Euro, would result in an expense saving of approximately \$0.35 million.

### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

As of December 31, 2012, we were in breach of certain loan covenants. For further information, please see "Item 5. Operating and Financial Review and Prospects—F. Tabular Disclosure of Contractual Obligations—Debt Facilities." Despite these breaches, neither we nor any of our subsidiaries have been subject to a material default in the payment of principal, interest, a sinking fund or purchase fund installment or any other material default that was not cured within 30 days.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable.

### ITEM 15. CONTROLS AND PROCEDURES

#### a) Disclosure Controls and Procedures

Management, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this annual report, as of December 31, 2012.

The term disclosure controls and procedures are defined under SEC rules as controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2012.

**b) Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act.

Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management with the participation of our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, the Company used the control criteria framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, published in its report entitled Internal Control—Integrated Framework. As a result of its assessment, the Chief Executive Officer and Chief Financial Officer concluded that our internal controls over financial reporting are effective as of December 31, 2012.

**c) Attestation Report of the Registered Public Accounting Firm**

This annual report does not contain an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm since under the SEC adopting release implementing the Dodd-Frank Act, companies that are non-accelerated filers are exempt from including auditor attestation reports in their Form 20-Fs.

**d) Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially effected or are reasonably likely to materially affect, our internal control over financial reporting.



**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

We have established an audit committee composed of one independent member that is responsible for reviewing our accounting controls and recommending to the Board of Directors the engagement of our outside auditors.

We do not believe it is necessary to have a financial expert, as defined in Item 407 of Regulation S-K, because our Board of Directors has determined that the member of the audit committee has the financial experience and other relevant experience necessary to effectively perform the duties and responsibilities of the audit committee.

**ITEM 16B. CODE OF ETHICS**

The Board of Directors has adopted a Corporate Code of Business Ethics and Conduct that applies to all employees, directors and officers, that complies with applicable guidelines issued by the SEC. The finalized Code of Ethics has been approved by the Board of Directors and was distributed to all employees, directors and officers. We will also provide any person a hard copy of our code of ethics free of charge upon written request. Shareholders may direct their requests to the attention of Mr. Alexandros Tsirikos at our registered address and phone number.

**ITEM 16C. PRINCIPAL AUDITOR FEES AND SERVICES**

Aggregate fees billed to the Company for the years ended December 2011 and 2012 represent fees billed by our principal accounting firm, Deloitte, the other member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche").

*U.S. dollars in thousands,*

	<b>Year Ended</b>	
	<b>2011</b>	<b>2012</b>
<b>Audit Fees</b>	283	117.1
<b>Tax Fees*</b>	5	
<b>Total Fees</b>	<b>288</b>	<b>117.1</b>

\* Includes fees for PFIC Tax Services

Our audit committee pre-approves all audit, audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees prior to the engagement of the independent auditor with respect to such services.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

We have certified to Nasdaq that our corporate governance practices are in compliance with, and are not prohibited by, the laws of the Republic of the Marshall Islands. Therefore, we are exempt from many of Nasdaq's corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, submission of a listing agreement, notification to Nasdaq of non-compliance with Nasdaq corporate governance practices, prohibition on disparate reduction or restriction of shareholder voting rights, and the establishment of an audit committee satisfying Nasdaq Listing Rule 5605 (c)(3) and ensuring that such audit committee's members meet the independence requirement of Listing Rule 5605(c)(2)(A)(ii). The practices we follow in lieu of Nasdaq's corporate governance rules applicable to U.S. domestic issuers are as follows:

- *Majority Independent Board.* Nasdaq requires, among other things, that a listed company has a Board of Directors comprised of a majority of independent directors. As permitted under Marshall Islands law, our Board of Directors is comprised of one independent director and 3 executive directors.
- *Audit Committee.* Nasdaq requires, among other things, that a listed company has an audit committee with a minimum of three independent members, at least one of whom meets certain standards of financial sophistication. As permitted under Marshall Islands law, our audit committee consists of one independent director who is not required to satisfy these financial sophistication standards.
- As a foreign private issuer, we are not required to hold regularly scheduled board meetings at which only independent directors are present.
- In lieu of obtaining shareholder approval prior to the issuance of designated securities, we will comply with provisions of the Marshall Islands Business Corporations Act, which allows the Board of Directors to approve share issuances.
- As a foreign private issuer, we are not required to solicit proxies or provide proxy statements to Nasdaq pursuant to Nasdaq corporate governance rules or Marshall Islands law. Consistent with Marshall Islands law and as provided in our bylaws, we will notify our shareholders of meetings between 15 and 60 days before the meeting. This notification will contain, among other things, information regarding business to be transacted at the meeting. In addition, our bylaws provide that shareholders must give us between 120 and 180 days advance notice to properly introduce any business at a meeting of shareholders.

Other than as noted above, we are in compliance with all other Nasdaq corporate governance standards applicable to U.S. domestic issuers.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not Applicable.

### PART III

#### ITEM 17. FINANCIAL STATEMENTS

See Item 18.

#### ITEM 18. FINANCIAL STATEMENTS

The following financial statements beginning on page F-1 are filed as a part of this annual report.

#### ITEM 19. EXHIBITS

Number	Description of Exhibits
1.1	Second Amended and Restated Articles of Incorporation of Top Ships Inc. (1)
1.2	Amended and Restated By-Laws of the Company, as adopted on February 28, 2007 (3)
2.1	Form of Share Certificate (2)
4.1	Top Ships Inc. Amended and Restated 2005 Stock Incentive Plan (5)
4.2	Credit Facility between the Company and the Royal Bank of Scotland dated November 1, 2005 (5)
4.3	Supplement to Credit Facility between the Company and the Royal Bank of Scotland dated December 21, 2006 (4)
4.4	Stockholders Rights Agreement with Computershare Investor Services, LLC, as Rights Agent as of August 19, 2005 (6)
4.5	Amendment No. 1 to the Stockholders Rights Agreement with Computershare Investor Services, LLC, as Rights Agent, dated August 24, 2011 (8)
4.6	Credit Facility between Jeke Shipping Company Limited, Noir Shipping S.A., Amalfi Shipping Company Limited and HSH Nordbank AG, dated November 8, 2007 (2)
4.7	Secured Loan Agreement between Japan III Shipping Company Limited and Alpha Bank A.E, dated December 17, 2007 (2)
4.8	Supplemental Agreement between Japan III Shipping Company Limited, Lichtenstein Shipping Company Limited and Alpha Bank A.E., dated April 3, 2009, to Secured Loan Facility Agreement dated December 17, 2007 (2)
4.10	Supplemental Agreement, dated March 26, 2008 to Facilities Agreement between Top Ships Inc. and the Royal Bank of Scotland plc, dated November 1, 2005 (2)
4.11	Loan Agreement between Japan II Shipping Company Limited, Top Ships Inc., DVB Bank AG and DVB Bank America N.V., dated April 24, 2008 (2)
4.12	Secured Loan Agreement between Lichtenstein Shipping Company Limited and Alpha Bank A.E., dated August 18, 2008 (2)
4.13	First Supplemental Agreement between Lichtenstein Shipping Company Limited and Alpha Bank A.E, dated February 23, 2009, to Secured Loan Agreement dated August 18, 2008 (2)
4.14	Second Supplemental Agreement between Lichtenstein Shipping Company, Japan III Shipping Company Limited and Alpha Bank A.E., dated April 3, 2009, to Secured Loan Agreement dated August 18, 2008 (2)
4.15	Credit Facility between Warhol Shipping Company Limited, Indiana R Shipping Company Limited, Britto Shipping Company Limited and HSH Nordbank AG, dated October 1, 2008 (2)
4.16	Loan Agreement between Banksy Shipping Company Limited, Hongbo Shipping Company Limited and DVB Bank America N.V., dated October 6, 2008 (2)

- 4.17 Amendment Letter between Banksy Shipping Company Limited, Hongbo Shipping Company Limited and DVB Bank America N.V. dated July 31, 2009, to Loan Agreement dated October 6, 2008 (1)
- 4.18 Fourth Supplemental Agreement between The Royal Bank of Scotland plc and Top Ships Inc. dated July 30, 2009, to Facilities Agreement dated November 1, 2005 (1)
- 4.19 Second Supplemental Agreement between Japan III Shipping Company Limited, Lichtenstein Shipping Company Limited and Alpha Bank A.E., dated May 21, 2009, to Secured Loan Facility Agreement dated December 17, 2007 (1)
- 4.20 Third Supplemental Agreement between Japan III Shipping Company Limited, Lichtenstein Shipping Company Limited and Alpha Bank A.E., dated November 25, 2009, to Secured Loan Facility Agreement dated December 17, 2007 (1)
- 4.21 Third Supplemental Agreement between Lichtenstein Shipping Company Limited and Alpha Bank A.E, dated November 25, 2009, to Secured Loan Agreement dated August 18, 2008 (1)
- 4.23 Amendment No. 1 between Jeké Shipping Company Limited, Noir Shipping S.A., Amalfi Shipping Company Limited and HSH Nordbank AG, dated May 11, 2009, to Credit Facility dated November 8, 2007 (1)
- 4.24 Amendment No. 1 between Warhol Shipping Company Limited, Indiana R Shipping Company Limited, Britto Shipping Company Limited and HSH Nordbank AG, dated May 11, 2009, to Credit Facility dated October 1, 2008 (1)
- 4.25 Amended and Restated Loan Agreement between Japan II Shipping Company Limited, Top Ships Inc., Banksy Shipping Company Limited, Hongbo Shipping Company Limited, DVB Bank SE and DVB Bank N.V., dated December 1, 2010, to Loan Agreement dated April 24, 2008 (7)
- 4.26 Amendment and Restatement Agreement between Banksy Shipping Company Limited, Hongbo Shipping Company Limited, Top Ships Inc. and DVB Bank America N.V., dated December 1, 2010, to Loan Agreement dated October 6, 2008 (7)
- 4.27 Loan Agreement between Banksy Shipping Company Limited, Hongbo Shipping Company Limited and DVB Bank America N.V., dated October 6, 2008 as amended and restated by an amendment and restatement agreement dated December 1, 2010 (7)
- 4.29 Loan Agreement between Top Ships Inc. and Laurasia Trading Ltd., dated August 6, 2010 (7)
- 4.30 Supplemental Agreement between Top Ships Inc. and Laurasia Trading Ltd., dated February 15, 2011, to Loan Agreement dated August 6, 2010 (7)
- 4.31 Loan Agreement between Top Ships Inc. and Laurasia Trading Ltd., dated February 15, 2011 (7)
- 4.32 Loan Agreement between Top Ships Inc., and Santa Lucia Holdings Limited, dated August 16, 2010 (7)
- 4.33 Form of bareboat commercial management agreement with Central Mare Inc. (Hongbo) (7)
- 4.34 Form of non-bareboat commercial management and technical management agreement with Central Mare Inc. (Amalfi) (7)
- 4.35 Form of technical management agreement with TMS Shipping Ltd. (Delos) (7)
- 4.36 Form of commercial management agreement with Central Mare Inc. (Delos) (7)
- 4.37 Form of commercial technical and commercial management agreement with International Ship Management Inc. (Delos) (9)
- 4.38 Shipping Financial Services Inc Credit Facility dated July 1, 2011 (9)
- 4.39 Central Mare Inc Credit Facility dated July 16, 2011 (9)
- 4.40 Common Stock Purchase Agreement with Sovereign Holdings Inc., dated as of August 24, 2011 (9)

- 4.41 Registration Rights Agreement with Sovereign Holdings Inc., dated as of August 24, 2011 (9)
- 4.42 Fifth Supplemental Agreement between Lichtenstein Shipping Company Limited and Alpha Bank A.E, dated February 28, 2013 to Secured Loan Agreement dated August 18, 2008, as amended and supplemented
- 4.43 Amended and Restated Loan Agreement, dated August 15, 2012 between Top Ships Inc. and Laurasia Trading Ltd.
- 4.44 Addendum Number 1 dated August 15, 2012 to the Amended and Restated Loan Agreement dated August 15, 2012 between Top Ships Inc. and Laurasia Trading Ltd.
- 4.45 Supplemental Agreement dated July 8, 2012 between Top Ships Inc. and Shipping Financial Services Inc. to the Credit Facility dated July 1, 2011
- 4.46 Supplemental Agreement dated July 21, 2012 between Top Ships Inc. and Central Mare Inc. to the Credit Facility dated July 16, 2011.
- 8.1 List of subsidiaries of the Company
- 12.1 Rule 13a-14(a)/15d-14(a) Certification of the Company's Principal Executive Officer
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of the Company's Principal Financial Officer
- 13.1 Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2 Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 15.1 Consent of Independent Registered Public Accounting Firm

- 
- (1) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on June 18, 2010 (File No. 000-50859)
  - (2) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on June 29, 2009 (File No. 000-50859)
  - (3) Incorporated by reference to the Company's Current Report on Form 6-K filed on March 9, 2007
  - (4) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on April 20, 2007 (File No. 000-50859)
  - (5) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on April 13, 2006 (File No. 000-50589)
  - (6) Incorporated by reference to the Company's Registration Statement on Form 8-A (File No. 000-50859)
  - (7) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on April 12, 2011 (File No. 000-50859)
  - (8) Incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form 8-A (File No. 000-50859)
  - (9) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on April 11, 2012 (File No. 000-50859)

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**TOP SHIPS INC.**  
(Registrant)

Date: April 30, 2013

By:

\_\_\_\_\_  
Evangelos Pistiolis  
President, Chief Executive Officer, and Director

**TOP SHIPS INC.**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Top Ships Inc., Majuro, Republic of the Marshall Islands

We have audited the accompanying consolidated balance sheets of Top Ships Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income/ (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 18. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company's recurring losses from operations and stockholders' capital deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 3 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2(I) as a result of the Company's decision not to dispose of the entire drybulk fleet the results of drybulk operations were reclassified from discontinued operations to income from continuing operations for the two years ended December 31, 2010 and 2011.

/s/ Deloitte Hadjipavlou, Sofianos & Cambanis S.A.

Athens, Greece  
April 30, 2013



TOP SHIPS INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2011 AND 2012

(Expressed in thousands of U.S. Dollars - except share and per share data)

	<u>December 31, 2011</u>	<u>December 31, 2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Trade accounts receivable	2,671	399
Due from related parties (Note 5)	74	-
Insurance claims	4	-
Advances to various creditors	152	47
Prepayments and other (Note 7)	1,551	1,089
Vessel held for sale (Note 4)	10,414	25,200
<b>Total current assets</b>	<b>14,866</b>	<b>26,735</b>
<b>FIXED ASSETS:</b>		
Vessels, net (Notes 8)	265,019	177,292
Other fixed assets, net (Note 5)	3,161	1,851
<b>Total fixed assets</b>	<b>268,180</b>	<b>179,143</b>
<b>OTHER NON CURRENT ASSETS:</b>		
Other long term receivable (Note 19)	1,841	-
Restricted cash (Note 9)	11,486	5,537
<b>Total assets</b>	<b>296,373</b>	<b>211,415</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of debt (Note 9)	171,437	150,395
Debt from related parties (Note 9)	2,543	2,632
Debt related to vessel held for sale (Note 9)	19,769	19,592
Current portion of financial instruments (Note 17)	8,467	5,811
Due to related parties	1,563	2,150
Accounts payable	8,156	3,732
Accrued liabilities	5,682	6,659
Unearned revenue	2,072	2,659
<b>Total current liabilities</b>	<b>219,689</b>	<b>193,630</b>
<b>NON-CURRENT LIABILITIES:</b>		
Other non-current liabilities (Note 20)	-	4,706
<b>Total non-current liabilities</b>	<b>-</b>	<b>4,706</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>Total liabilities</b>	<b>219,689</b>	<b>198,336</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value; 1,000,000,000 shares authorized; 17,147,534 shares issued and outstanding at December 31, 2011 and December 31, 2012 (Note 11)	171	172
Additional paid-in capital (Note 11)	292,583	292,961
Accumulated other comprehensive income	37	37
Accumulated deficit	(216,107)	(280,091)
<b>Total stockholders' equity</b>	<b>76,684</b>	<b>13,079</b>
<b>Total liabilities and stockholders' equity</b>	<b>296,373</b>	<b>211,415</b>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/ (LOSS)  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012  
(Expressed in thousands of U.S. Dollars - except share and per share data)

**REVENUES:**

Revenues	90,875	79,723	31,428
Other Income	-	872	-

**EXPENSES:**

Voyage expenses (Note 14)	2,468	7,743	1,023
Charter hire expense (Note 6)	480	2,380	-
Lease termination expense (Note 6)	-	5,750	-
Vessel operating expenses (Note 14)	12,853	10,368	814
Dry-docking costs	4,103	1,327	-
Vessel depreciation (Note 8)	32,376	25,327	11,458
Management fees-third parties	159	439	-
Management fees-related parties (Note 1, 5)	3,131	5,730	2,345
General and administrative expenses	18,142	15,364	7,078
(Gain)/loss on sale of vessels (Note 8)	(5,101)	62,543	-
Impairment on vessels	-	114,674	61,484
<b>Operating income (loss)</b>	<b>22,264</b>	<b>(171,050)</b>	<b>(52,774)</b>

**OTHER INCOME (EXPENSES):**

Interest and finance costs (Notes 9 and 15)	(14,776)	(16,283)	(9,345)
Loss on financial instruments (Note 17)	(5,057)	(1,793)	(447)
Interest income	136	95	175
Other, net	(54)	(81)	(1,593)
<b>Total other expenses, net</b>	<b>(19,751)</b>	<b>(18,062)</b>	<b>(11,210)</b>

<b>Net income (loss)</b>	<b>2,513</b>	<b>(189,112)</b>	<b>(63,984)</b>
Other Comprehensive income / (loss)	(51)	-	-
<b>Comprehensive income / (loss)</b>	<b>2,462</b>	<b>(189,112)</b>	<b>(63,984)</b>

<b>Earnings (loss) per common share, basic and diluted (Note 13)</b>	<b>0.82</b>	<b>(30.00)</b>	<b>(3.77)</b>
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<b>Weighted average common shares outstanding, basic and diluted</b>	<b>3,075,278</b>	<b>6,304,679</b>	<b>16,989,585</b>
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The accompanying notes are an integral part of these consolidated financial statements.

TOP SHIPS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Expressed in thousands of U.S. Dollars - except share and per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
	# of Shares	Par Value				
<b>BALANCE, December 31, 2009</b>	<u>3,289,469</u>	<u>33</u>	<u>276,583</u>	<u>88</u>	<u>(29,508)</u>	<u>247,196</u>
Net Income	-	-	-	-	2,513	2,513
Stock based compensation	130,598	1	2,023	-	-	2,024
Equity component of convertible loans	-	-	3,800	-	-	3,800
- Accumulated unrecognized actuarial loss	-	-	-	(51)	-	(51)
Comprehensive Income	-	-	-	-	-	-
<b>BALANCE, December 31, 2010</b>	<u>3,420,067</u>	<u>34</u>	<u>282,406</u>	<u>37</u>	<u>(26,995)</u>	<u>255,482</u>
Net Income	-	-	-	-	(189,112)	(189,112)
Stock based compensation	49,967	-	1,412	-	-	1,412
Equity component of convertible loans	-	-	2,000	-	-	2,000
Cancellation of fractional shares	(17)	-	-	-	-	-
Issuance of common stock, net	13,677,517	137	6,765	-	-	6,902
Comprehensive Loss	-	-	-	-	-	-
<b>BALANCE, December 31, 2011</b>	<u>17,147,534</u>	<u>171</u>	<u>292,583</u>	<u>37</u>	<u>(216,107)</u>	<u>76,684</u>
Net Income	-	-	-	-	(63,984)	(63,984)
Stock based compensation	-	1	378	-	-	379
Comprehensive Income	-	-	-	-	-	-
<b>BALANCE, December 31, 2012</b>	<u>17,147,534</u>	<u>172</u>	<u>292,961</u>	<u>37</u>	<u>(280,091)</u>	<u>13,079</u>

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

TOP SHIPS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Expressed in thousands of U.S. Dollars)

	2010	2011	2012
<b>Cash Flows provided by Operating Activities:</b>			
Net income (loss)	2,513	(189,112)	(63,984)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	33,864	27,156	12,510
Amortization and write off of deferred financing costs	1,946	2,234	1,437
Amortization of debt discount	1,464	3,965	371
Translation gain of foreign currency denominated loan	(159)	(294)	70
Stock-based compensation expense	2,024	1,412	378
Change in fair value of financial instruments	(865)	(2,835)	(2,656)
Loss on sale of other fixed assets	54	81	178
(Gain)/loss on sale of vessels	(5,101)	62,543	
Vessels impairment charge	-	114,674	61,484
Provision for doubtful accounts	160	-	256
Increase (Decrease) in:			
Trade accounts receivable	(314)	(2,189)	1,281
Deferred vessel lease payments	(543)	543	
Insurance claims	(1,127)	(876)	4
Inventories	(171)	660	
Advances to various creditors	308	(57)	105
Prepayments and other	243	632	462
Due from related parties	-	(74)	74
Other long term receivable	-	(1,841)	1,841
Increase (Decrease) in:			
Due to related Parties	1,797	(234)	587
Accounts payable	663	2,473	(4,426)
Other non-current liabilities	-	-	4,706
Accrued liabilities	(658)	(75)	(136)
Unearned revenue	(496)	(3,007)	587
<b>Net Cash provided by Operating Activities</b>	<b>35,602</b>	<b>15,779</b>	<b>15,129</b>
<b>Cash Flows provided by Investing Activities:</b>			
Vessel acquisitions	511	-	-
Insurance claims recoveries	1,310	872	-
Decrease / (increase) in restricted cash	4,600	6,158	5,949
Net proceeds from sale of vessels	19,473	118,220	
Net proceeds from sale of other fixed assets	254	35	60
Acquisition of other fixed assets	(416)	(356)	(7)
<b>Net Cash provided by Investing Activities</b>	<b>25,732</b>	<b>124,929</b>	<b>6,002</b>
<b>Cash Flows (used in) Financing Activities:</b>			
Proceeds from convertible debt	4,000	2,000	-
Proceeds from debt		2,782	500
Principal payments of debt	(40,674)	(27,637)	(16,656)
Prepayment of debt	(23,950)	(124,000)	(4,975)
Financial instrument termination payments	-	(364)	-
Proceeds from issuance of common stock, net of issuance costs	(27)	6,833	-
Repurchase and cancellation of common stock	-	-	-
Payment of financing costs	(842)	(616)	-
<b>Net Cash used in Financing Activities</b>	<b>(61,493)</b>	<b>(141,002)</b>	<b>(21,131)</b>
<b>Effect of exchange rate changes on cash</b>	<b>159</b>	<b>294</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(159)</b>	<b>(294)</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
<b>Interest paid net of capitalized interest</b>	<b>11,476</b>	<b>10,180</b>	<b>6,837</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES</b>			
<b>Amounts owed for capital expenditures at the end of year</b>	<b>14</b>	<b>-</b>	<b>-</b>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011 AND 2012

AND FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Expressed in thousands of United States Dollars – except share, per share data and rate per day, unless otherwise stated)

1. Basis of Presentation and General Information:

The accompanying consolidated financial statements include the accounts of Top Ships Inc. (formerly Top Tankers Inc. and Ocean Holdings Inc.) and its wholly owned subsidiaries (collectively the "Company"). Ocean Holdings Inc. was formed on January 10, 2000, under the laws of Marshall Islands, was renamed to Top Tankers Inc. and Top Ships Inc. in May 2004 and December 2007 respectively.

Top Ships Inc. is the sole owner of all outstanding shares of the following subsidiaries with vessels in operations, vessels under lease and other active companies as of December 31, 2012. The following list is not exhaustive as the Company has other subsidiaries relating to vessels that have been sold.

	<i>Shipowning Companies with vessels in operations at December 31, 2012</i>	<i>Date of Incorporation</i>	<i>Country of Incorporation</i>	<i>Vessel</i>
1	<i>Jeke Shipping Company Limited ("Jeke")</i>	July 2007	Liberia	Evian (acquired February 2008) (Note 8)
2	<i>Warhol Shipping Company Limited ("Warhol")</i>	July 2008	Liberia	Miss Marilena (delivered February 2009) (Note 8)
3	<i>Lichtenstein Shipping Company Limited ("Lichtenstein")</i>	July 2008	Liberia	Lichtenstein (delivered February 2009) (Note 8)
4	<i>Banksy Shipping Company Limited ("Banksy")</i>	July 2008	Liberia	UACC Sila (delivered March 2009) (Note 8)
5	<i>Indiana R Shipping Company Limited ("Indiana R")</i>	July 2008	Liberia	UACC Shams (delivered March 2009) (Note 8)
6	<i>Britto Shipping Company Limited ("Britto")</i>	July 2008	Liberia	Britto (delivered May 2009) (Note 8)
7	<i>Hongbo Shipping Company Limited ("Hongbo")</i>	July 2008	Liberia	Hongbo (delivered August 2009) (Note 8)

	<i>Other Companies</i>	<i>Date of Incorporation</i>	<i>Country of Incorporation</i>	<i>Activity</i>
8	<i>TOP Tanker Management Inc.</i>	May 2004	Marshall Islands	Management Company
9	<i>Top Tankers (U.K) Limited</i>	January 2005	England and Wales	Representative office in London- Dissolved in January 2013

The Company is an international provider of worldwide seaborne crude oil and petroleum products transportation services and of drybulk transportation services, through the ownership and operation of the vessels mentioned above.

During 2010, 2011, and 2012, three, five and three charterers individually accounted for more than 10% of the Company's revenues as follows:

Charterer	Year Ended December 31,		
	2010	2011	2012
A	-	11%	-
B	19%	-	-
C	17%	20%	51%
D	16%	12%	-
E	-	12%	-
F	-	13%	-
G	-	-	21%
H	-	-	17%

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2011 AND 2012**

**AND FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012**

**(Expressed in thousands of United States Dollars – except share, per share data and rate per day, unless otherwise stated)**

***Management of Company Vessels***

As of December 31 2012, the Company had outsourced to Central Mare Inc., a related party controlled by the family of the Company's Chief Executive Officer, all operational, technical and commercial functions relating to the chartering and operation of Company vessels, pursuant to a letter agreement concluded between Central Mare and the Company and management agreements concluded between Central Mare and the Company's vessel-owning subsidiaries on July 1, 2010. The letter agreement was amended on January 1, 2012 resulting in a decrease in the fixed management fees (accounting and reporting fee), with all other terms remaining unchanged (see Note 5). The letter agreement was amended again on January 1, 2013 resulting in a decrease in the variable management fees to \$250 per vessel per day that will include operational, technical and commercial functions, services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to the Company's maintenance of proper books and records, services in relation to the financial reporting requirements of the Company under Commission and NASDAQ rules and regulations, the provision of information-system related services, commercial operations and freight collection services, with all other terms remaining unchanged

In relation to M/T Delos in 2010 the Company had outsourced technical management and crewing to Titan Owing Company Ltd ("TMS Tankers"), a related party in 2010, but from 2011 onwards an unrelated party, whereas operational monitoring of the vessel was outsourced to Central Mare, a related party, both agreements effective from October 1, 2010. In June 1, 2011 the Company transferred the full management of M/T Delos to International Ship Management, a related party (Note 5) up to the date of the vessels lease termination on October 15, 2011.

Up to July 1, 2010, TOP Tanker Management Inc. was responsible for all of the chartering, operational and technical management of the Company's fleet for a fixed monthly fee per vessel.

Top Tanker Management Inc. had been subcontracting the day to day technical management of certain vessels to unaffiliated ship management companies (collectively the "sub-managers"). The sub-managers provided day to day operational and technical services to the Company's vessels at a fixed monthly fee per vessel. The last agreement with the sub-managers V. Ships Management Limited was terminated on July 10, 2010 and the agreement with Interorient Maritime Enterprises Inc. was also terminated on June 30, 2010.

As of December 31, 2011 and 2012 the amount due to the sub-managers totaled \$447 and \$0 respectively and is included in Accounts Payable in the accompanying consolidated balance sheets.

As of December 31, 2011 and 2012 the net amount due to Central Mare was \$1,553 and \$2,150 respectively and is included in Due to related parties, which are separately presented in the accompanying consolidated balance sheets (Note 5). Also as of December 31, 2011 and 2012 the amount due to International Ship management was \$8 and \$0 respectively, and is included in Due to related parties, which is separately presented in the accompanying consolidated condensed balance sheets (Note 5). Together these payables comprise of the Due to related parties line item.

Management fees paid to related parties and management fees paid to third parties are being presented separately in the accompanying consolidated statements of operations and are summarized as follows:

	<b>December 31, 2010</b>	<b>December 31, 2011</b>	<b>December 31, 2012</b>
<b>Management Fees –Related Parties</b>			
Central Mare Inc (Note 5)	1,666	5,575	2,345
TMS Tankers *	138	-	-
International Shipmanagement Inc	-	155	-
<b>Total</b>	<b>1,804</b>	<b>5,730</b>	<b>2,345</b>
<b>Management Fees –Third Parties</b>			
ST Shipping and Transport Pte. Limited	9	10	-
TMS Tankers	-	384	-
Heidmar Inc	-	45	-
Interorient	11	-	-
V. Ships Management limited	99	-	-
<b>Total</b>	<b>119</b>	<b>439</b>	<b>-</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011 AND 2012

AND FOR THE YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

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\* TMS Tankers was a related party in 2010, but it is no longer a related party as of December 31, 2011 and December 31, 2012, since TMS's shareholders own less than 5% of the shares of the Company.

2. Significant Accounting Policies:

- (a) **Principles of Consolidation:** The accompanying consolidated financial statements have been prepared in accordance with U.S generally accepted accounting principles ("US GAAP") and include the accounts and operating results of Top Ships Inc. and its wholly-owned subsidiaries referred to in Note 1. Intercompany balances and transactions have been eliminated in consolidation.
- (b) **Use of Estimates:** The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Critical estimates mainly include impairment of vessels, vessel useful lives and residual values, provision for doubtful accounts and fair values of derivative instruments.
- (c) **Foreign Currency Translation:** The Company's functional currency is the U.S. Dollar because all vessels operate in international shipping markets, and therefore primarily transact business in U.S. Dollars. The Company's books of accounts are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are translated to reflect the year-end exchange rates. Losses from foreign currency translation amounted to \$154 and \$48 for the years ended December 31, 2011 and 2012 respectively and are reflected in General and administrative expenses in the accompanying consolidated statement of comprehensive income/(loss).
- (d) **Cash and Cash Equivalents:** The Company considers highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents.
- (e) **Restricted Cash:** The Company considers amounts that are pledged, blocked, held as cash collateral, required to be maintained with a specific bank or be maintained by the Company as an overall cash position as part of a loan agreement, as restricted (Note 9).
- (f) **Trade Accounts Receivable, net:** The amount shown as Trade Accounts Receivable, net at each balance sheet date, includes estimated recoveries from charterers for hire, freight and demurrage billings, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually, combined with the application of a historical recoverability ratio, for purposes of determining the appropriate provision for doubtful accounts. Provision for doubtful accounts at December 31, 2011 and 2012 totaled \$1,187 and \$576, and is summarized as follows:

	Provision for doubtful accounts
<b>Balance, December 31, 2010</b>	<b>1,389</b>
—Additions	-
—Reversals / write-offs	(202)
<b>Balance, December 31, 2011</b>	<b>1,187</b>
—Additions	20
—Reversals / write-offs	(631)
<b>Balance, December 31, 2012</b>	<b>576</b>

- (g) **Insurance Claims:** Insurance claims, relating mainly to crew medical expenses and hull and machinery incidents are recorded upon collection or agreement with the relevant party of the collectible amount when collectability is probable.
- (h) **Inventories:** Inventories consist of bunkers, lubricants and consumable stores which are stated at the lower of cost or market. Cost, which consists of the purchase price, is determined by the first in, first out method.
- (i) **Vessel Cost:** Vessels are stated at cost, which consists of the contract price, pre-delivery costs incurred during the construction of new buildings, capitalized interest and any material expenses incurred upon acquisition (improvements and delivery costs).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of United States Dollars – except share, per share data and rate per day, unless otherwise stated)

Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. Repairs and maintenance are charged to expense as incurred and are included in Vessel operating expenses in the accompanying consolidated statements of comprehensive income/(loss).

- (j) **Impairment of Long-Lived Assets:** The Company reviews its long-lived assets held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When 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, the Company evaluates the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. In this respect, management regularly reviews the carrying amount of the vessels in connection with the estimated recoverable amount for each of the Company's vessels (notes 4 and 8).
- (k) **Vessel Depreciation:** Depreciation is calculated using the straight-line method over the estimated useful life of the vessels, after deducting the estimated salvage value. Each vessel's salvage value is equal to the product of its lightweight tonnage and estimated scrap rate. Management estimates the useful life of the Company's vessels to be 25 years from the date of initial delivery from the shipyard. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its useful life is adjusted at the date such regulations are adopted.
- (l) **Long Lived Assets held for sale and discontinued operations:** The Company classifies vessels as being held for sale when the following criteria are met: a. Management, having the authority to approve the action, commits to a plan to sell the asset, b. The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, c. An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated, d. The sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale, within one year, e. The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Long-lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These vessels are not depreciated once they meet the criteria to be classified as held for sale (Note 4). The results of operations of a component that either has been disposed of or is classified as held for sale, are reported in discontinued operations if both of the following conditions are met: (i) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the Company as a result of the disposal transaction and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction (Note 4).

During the year-end December 31, 2011, the Company, except for the Evian which was classified as held for sale, had sold all its drybulk vessels. As such, at December 31, 2011, the Company determined that the drybulk segment was a component that met the requirements for discontinued operations presentation. On December 31, 2012 the Company determined not to discontinue its drybulk operations (Note 21) through the decision to hold and use the Evian. Hence the revenues and expenses for all drybulk vessels have been reclassified to continuing operations for all periods presented in the consolidated financial statements.

- (m) **Other Fixed Assets, Net:** Other fixed assets, net consists of furniture, office equipment, cars and leasehold improvements, stated at cost, which consists of the purchase / contract price less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful life of the assets, while leasehold improvements are depreciated over the lease term, as presented below:

<u>Description</u>	<u>Useful Life (years)</u>
Leasehold improvements	Until the end of the lease term (December 2024)
Cars	6
Office equipment	5
Furniture and fittings	5
Computer equipment	3



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of United States Dollars – except share, per share data and rate per day, unless otherwise stated)

In September 2010, the Company agreed to revert occupancy in certain areas of the leased office space in Maroussi, by the end of April 2011. As a result of this agreement the Company has made a revision in the useful life of certain leasehold improvements that would have been amortized over the life of the lease. In September 1, 2011, the agreement was amended again and a new monthly rent was renegotiated. It was also agreed to revert occupancy in a larger area of the leased office space. The revision in useful life of these assets resulted in an accelerated depreciation of \$565 in 2010 and \$931 in 2011 which is included in the statement of comprehensive income/ (loss). On January 1, 2013 the agreement was amended again and a new monthly rent was renegotiated. It was also agreed to revert occupancy in an even larger area of the leased office space and to extend the duration of the lease to December 31, 2024. All other terms of the lease remained unchanged. The revision in useful life of these assets resulted in an accelerated depreciation of \$621 in 2012 which is included in the consolidated statement of comprehensive income/ (loss).

- (n) **Accounting for Dry-Docking Costs:** All dry-docking costs are accounted for under the direct expense method, under which they are expensed as incurred and are reflected separately in the accompanying consolidated statements of comprehensive income/(loss).
- (o) **Financing Costs:** Fees incurred and paid to the lenders for obtaining new loans or refinancing existing ones are recorded as a contra to debt and such fees are amortized to interest expense over the life of the related debt using the effective interest method. Unamortized fees relating to loans repaid or refinanced are expensed when a repayment or refinancing is made and charged to interest and finance costs.
- (p) **Convertible Debt:** The Company evaluates debt securities ("Debt") for beneficial conversion features. A beneficial conversion feature is present when the conversion price per share is less than the market value of the common stock at the commitment date. The intrinsic value of the feature is then measured as the difference between the conversion price and the market value multiplied by the number of shares into which the Debt is convertible and is recorded as debt discount with an offsetting amount increasing additional paid-in-capital. The debt discount is accreted to interest expense over the term of the Debt with any unamortized discount recognized as interest expense upon conversion of the Debt. The total intrinsic value of the feature is limited to the proceeds allocated to the Debt instrument. On August 15, 2012 the conversion feature of our bridge loans with Laurasia was terminated and as of December 31, 2012 the Company has no convertible short or long term debt.
- (q) **Pension and Retirement Benefit Obligations—Crew:** The ship-owning companies included in the consolidation employ the crew on board under short-term contracts (usually up to nine months) and accordingly, they are not liable for any pension or post retirement benefits.
- (r) **Staff leaving Indemnities – Administrative personnel:** The Company's employees are entitled to termination payments in the event of dismissal or retirement with the amount of payment varying in relation to the employee's compensation, length of service and manner of termination (dismissed or retired). Employees who resign, or are dismissed with cause are not entitled to termination payments. The Company's liability, at December 31, 2011 and 2012 amounted to \$64 and \$11 respectively.
- (s) **Accounting for Revenue and Expenses:** Revenues are generated from bareboat charter, time charter, voyage charter agreements and pool arrangements. A bareboat charter is a contract in which the vessel owner provides the vessel to the charterer for a fixed period of time at a specified daily rate, which is generally payable monthly in advance, and the customer generally assumes all risk and costs of operation during the charter term. A time charter is a contract for the use of a vessel for a specific period of time and a specified daily charter hire rate, which is generally payable monthly in advance. Profit sharing represents the excess between an agreed daily base rate and the actual rate generated by the vessel every quarter, if any, and is settled and recorded on a quarterly basis. Under a voyage charter, revenue, including demurrage and associated voyage costs, with the exception of port expenses which are recorded as incurred, are recognized on a proportionate performance method over the duration of the voyage. A voyage is deemed to commence upon the latest between the completion of discharge of the vessel's previous cargo and the charter party date of the current voyage and is deemed to end upon the completion of discharge of the current cargo. Demurrage income represents payments by the charterer to the Company when loading or discharging time exceeded the stipulated time in the voyage charter. Vessel operating expenses are expensed as incurred. Unearned revenue represents cash received prior to year-end related to revenue applicable to periods after December 31 of each year. Under a pool arrangement, the pool charters-in a vessel on a time charter basis but the daily charter hire is not fixed but it depends on the total return that the pool is able to achieve by operating all its vessels in the spot market.

When vessels are acquired with time charters attached and the rates on such charters are below market on the acquisition date, the Company allocates 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 time charter is computed as the present value of the difference between the contractual amount to be received over the term of the time charter and management's estimates of the market time charter rate at the time of acquisition. The fair value of below market time charter is amortized over the remaining period of the time charter as an increase to revenues.

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(Expressed in thousands of United States Dollars – except share, per share data and rate per day, unless otherwise stated)

As is common in the drybulk and tanker shipping industries, the Company pays commissions to ship brokers associated with arranging our charters. The commissions that the Company pays ranges from 1.25% to 7.5% of the total daily charter hire rate of each charter. Commissions are paid by the Company and are recognized over the related charter period and included in voyage expenses.

- (t) **Stock Incentive Plan:** All share-based compensation related to the grant of restricted and/or unrestricted shares provided to employees and to non-employee directors, for their services as directors, is included in General and administrative expenses in the consolidated statements of comprehensive income/(loss). The shares that do not contain any future service vesting conditions are considered vested shares and recognized in full on the grant date. The shares that contain a time-based service vesting condition are considered non-vested shares on the grant date and recognized on a straight-line basis over the vesting period. The shares, vested and non-vested are measured at fair value, which is equal to the market value of the Company's common stock on the grant date. Compensation cost for awards with graded vesting is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards.
- (u) **Earnings / (Loss) per Share:** Basic earnings/(loss) per share are computed by dividing net income or loss available to common stockholders' by the weighted average number of common shares deemed outstanding during the year. Diluted earnings/(loss) per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised. For purposes of calculating diluted earnings per share the denominator of the diluted earnings per share calculation includes the incremental shares assumed issued under the treasury stock method weighted for the period the non-vested shares were outstanding, with the exception of the 147,244 shares, granted to the Company's CEO, which will vest in the event of change of control. Consequently, those shares are excluded from the remaining non-vested shares (Note 13). The dilutive effect of convertible debt outstanding shall be reflected in diluted EPS by application of the if-converted method. In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be antidilutive.
- (v) **Related Parties:** The Company considers as related parties the affiliates of the Company; entities for which investments are accounted for by the equity method; principal owners of the Company; its management; members of the immediate families of principal owners of the Company; and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. An Affiliate is a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or has common control with the Company. Control is the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract and otherwise. Immediate Family is family members whom a principal owner or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship. Management is the persons who are responsible for achieving the objectives of the Company and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the CEO, the CFO, Vice President and CTO in charge of principal business functions and other persons who perform similar policy making functions. Persons without formal titles may also be members of management. Principal owners are owners of record or known beneficial owners of more than 10% of the voting interests of the Company.
- (w) **Derivatives and Hedging:** The Company records every derivative instrument (including certain derivative instruments embedded in other contracts) in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivatives' fair value recognized currently in earnings unless specific hedge accounting criteria are met. The Company has not applied hedge accounting for its derivative instruments during the periods presented.
- The fair value of derivative liabilities was not adjusted for nonperformance risk as the Company, as one of the parties to a derivative transaction expects to be able to perform under the contractual terms of its derivative agreements, such as making cash payments at periodic net settlement dates or upon termination.
- (x) **Financial instruments:** Financial liabilities are classified as either financial liabilities at 'fair value through the profit and loss' (FVTPL) or 'other financial liabilities'. Financial instruments classified as FVTPL are recognized at fair value in the balance sheet when the Company has an obligation to perform under the contractual provisions of those instruments. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Changes in the financial instruments are recognized in earnings. Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest rate method.

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(y) **Recent Accounting Pronouncements:** The Company adopted Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income (ASU 2011-05), as amended by ASU 2011-12. This new guidance, among other things, requires companies to present, on a retrospective basis, the components of net income and other comprehensive income ("OCI") either in a single continuous statement of comprehensive income or in two separate but consecutive statements. As a result of the adoption, the Company OCI is presented in a single continuous statement of comprehensive income for each of the years ended December 31, 2012, 2011 and 2010. The adoption of ASU 2011-05, as amended, did not change the Company's consolidated results of operations, financial condition or cash flows for any periods.

There are no other recent accounting pronouncements issued during 2012 whose adoption would have a material effect on the Company's consolidated financial statements in the current year or expected to have an impact on future years.

(z) **Continuing Operations:** In December 31, 2012 the Company determined not to discontinue its drybulk operations (Note 21) and hence the consolidated statement of comprehensive income/ (loss) included herein includes revenue and expenses related to both tankers and dry bulk vessels.

(aa) **Segment Reporting:** The Company reports financial information and evaluates its operations by charter revenues and not by the length, type of vessel or type of ship employment for its customers (i.e. time or bareboat charters) or by geographical region as the charterer is free to trade the vessel worldwide and as a result, the disclosure of geographic information is impracticable. The Company does not use discrete financial information to evaluate the operating results for each such type of charter or vessel. Although revenue can be identified for these types of charters or vessels, management cannot and does not identify expenses, profitability or other financial information for these various types of charters or vessels. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet, and thus the Company has determined that it operates as one reportable segment.

(ab) **Other Comprehensive Income / (Loss):** The Company follows the accounting guidance relating to Statement of Comprehensive Income, which requires separate presentation of certain transactions that are recorded directly as components of shareholders' equity. The Company has no other comprehensive income/ (loss) and accordingly comprehensive income/(loss) equals net income for the periods presented.

### 3. Going Concern:

As of December 31, 2012, the Company was in breach of loan covenants with certain banks relating to EBITDA, overall cash position (minimum liquidity covenants), adjusted net worth, book equity and asset cover. As a result of these covenant breaches and due to cross default provisions contained in all of the Company's bank facilities, the Company was in breach of all its loan facilities and has classified all its debt and financial instruments as current. The amount of long term debt and financial instruments that have been reclassified and presented together with current liabilities amount to \$172,619 and \$5,811 respectively (Note 9).

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result should the Company be unable to continue as a going concern, except for the current classification of debt and financial instruments.

Our operating cash flow for 2013 is expected to increase compared to 2012 since the Company anticipates that the decrease in revenue due to the planned sale of the UACC Sila will be less than the decrease in expenses as a result of management's cost cutting initiatives including the unwinding and reduction of office lease agreements, the reduction of management fees and the reduction of the cost for the provision of the Company's executive officers from Central Mare.

Based on the Company's cash flow projections for 2013, cash provided by operating activities will not be sufficient to cover scheduled debt repayments as of December 31, 2012. As of the date of this report, the Company is current in its debt and interest payments.

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The Company intends to take certain actions during 2013 in an effort to improve its liquidity. Such actions may include the reduction of expenses, negotiations to defer part of the Company's debt repayments into future years, equity or debt offerings and/or asset sales.

### 4. Assets Held for Sale:

As of December 31, 2011, the Company classified the vessel M/V Evian as held for sale. On December 31, 2012 the Company re-assessed its plan for the sale of the M/V Evian and re-classified the vessel as held for use (see Note 21).

As of December 31, 2012, the M/T UACC Sila met the criteria to classify as held for sale at December 31, 2012. Consequently the Company treated the vessel as held for sale and classified it as a short term asset measured at the lower of the carrying amount and fair value less costs to sell as determined by the Company and supported by an unrelated third party offer to buy the vessel. The related loan was also classified as short term in a separate balance sheet line from other short term debt. Furthermore, the Company recognized an impairment charge of \$16,978 to reduce the carrying value to the fair value less costs to sell that is included in the accompanying statements of consolidated income/ (loss) The Company signed a Memorandum of Agreement with a non-related party on March 27, 2013 for a contracted sales price of \$ 26,000 and expects to deliver the vessel to its new owners on April 30, 2013.

### 5. Transactions with Related Parties:

(a) *Pyramis Technical Co. S.A.*: Pyramis Technical Co. S.A. is wholly owned by the father of the Company's Chief Executive Officer and has been responsible for the renovation of the Company's premises. During the year ended December 31, 2012 Euro 3,741 or \$4,937 (2011: Euro 3,741 or \$4,840) was paid up to December 31, 2012 and is included in renovation works which are included in "Other fixed assets, net", which are separately presented in the accompanying consolidated balance sheet.

(b) *Central Mare Inc. ("Central Mare") – Letter Agreement and Management Agreements*: on May 12, 2010, the Company's 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 that was determined by its executive officers in consideration of the vessels' schedule. Since July 1, 2010 Central Mare has been performing all operational, technical and commercial functions relating to the chartering and operation of the Company vessels, pursuant to a letter agreement concluded between Central Mare and Top Ships as well as management agreements concluded between Central Mare and the vessel-owning subsidiaries.

The Company pays a management fee of Euro 689.6 or approximately \$910 per day per vessel that is employed under a time or voyage charter and a management fee of Euro 265.2 or approximately \$350 per day per vessel that is employed under a bareboat charter. In addition, the management agreements provide for payment to Central Mare of: (i) a fee of Euro 106.1 or approximately \$140 per day per vessel for services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002; (ii) Euro 530.5 or approximately \$700 per day for superintendent visits; (iii) a chartering commission of 0.75% on all existing (as of July 1, 2010) freight, hire and demurrage revenues; (iv) a chartering commission of 1.25% on all new (concluded after July 1, 2010) freight, hire and demurrage revenues; (v) a commission of 1.00% of all gross sale proceeds or the purchase price paid for vessels; (vi) a quarterly fee of Euro 100,000 or approximately \$131,970 for the services rendered in relation to the Company's maintenance of proper books and records; (vii) a quarterly fee of Euro 25,000 or \$32,993 for services in relation to the financial reporting requirements of the Company under Commission and NASDAQ rules and regulations; (viii) a commission of 0.2% on derivative agreements and loan financing or refinancing; (ix) a newbuilding supervision fee of Euro 424,360 or approximately \$560,028 per newbuilding vessel and (x) an annual fee of Euro 10,609 or approximately \$14,001 per vessel, for the provision of information-system related services.

Central Mare also provides commercial operations and freight collection services in exchange for a fee of Euro 95.5 or approximately \$126 per day per vessel. Central Mare provides insurance services and obtains insurance policies for the vessels for a fee of 5.00% of the total insurance premiums. Furthermore, if required, Central Mare will also handle and settle all claims arising out of its duties under the management agreements (other than insurance and salvage claims) in exchange for a fee of Euro 159.7 or approximately \$211 per person per eight-hour day. Finally legal fees for claims and general corporate services incurred by Central Mare on behalf of the Company will be reimbursed to Central Mare at cost.

These agreements have an initial term of five years after which they will continue to be in effect until terminated by either party subject to a twelve-month advance notice of termination.

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Pursuant to the terms of the management agreements, all fees payable to Central Mare are adjusted upwards 3% per annum on each anniversary date of the agreement. Transactions with the Manager in Euros are settled on the basis of the EUR/USD on the invoice date.

The Letter Agreement was amended on January 1, 2012 to reduce management fees paid by the Company to Central Mare by approximately 35% for the services rendered in relation to the Company's maintenance of proper books and records and for services in relation to the financial reporting requirements of the Company under Commission and NASDAQ rules and regulations. The letter agreement was amended again on January 1, 2013 resulting in a decrease in the variable management fees to \$250 per vessel per day that will include operational, technical and commercial functions, services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to the Company's maintenance of proper books and records, services in relation to the financial reporting requirements of the Company under Commission and NASDAQ rules and regulations, the provision of information-system related services, commercial operations and freight collection services, with all other terms remaining unchanged.

- (c) **International Ship Management Inc. ("International")**: on June 1, 2011, the Company decided to outsource all of the commercial and technical management of M/T Delos to International Ship Management Inc., or International, a related party controlled by the family of the Company's Chief Executive Officer, with terms similar to the ones between the Company and Central Mare. The management agreement ended in October 15, 2011 when the bareboat charter of the vessel with the Company was terminated. No termination fees were charged for the termination of the said agreement.
- d) **Central Mare Inc. ("Central Mare") – Executive Officers and Other Personnel Agreements**: On September 1, 2010, the Company entered into separate agreements with Central Mare pursuant to which Central Mare furnishes the Company with its executive officers. These agreements were entered into in exchange for terminating prior agreements.

Under the terms of the agreement for the Company's Chief Executive Officer, the Company is obligated to pay annual base salary, a minimum cash bonus and stock compensation of 50,000 common shares of the Company to be issued at the end of each calendar year (see Note 12).

The initial term of the agreement expires on August 31, 2014; however the agreement shall be automatically extended for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term.

Under the terms of the agreement for the Company's Executive Vice President and Chairman, the Company is obligated to pay annual base salary and additional incentive compensation as determined by the board of directors. The initial term of the agreement expired on August 31, 2011; however the agreement shall automatically be extended for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term.

Under the terms of the agreement for the Company's Chief Financial Officer, the Company is obligated to pay annual base salary. The initial term of the agreement expired on August 31, 2012; however the agreement shall automatically be extended for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term.

Under the terms of the agreement for the Company's Chief Technical Officer, the Company is obligated to pay annual base salary. The initial term of the agreement expired on August 31, 2011, however the agreement shall automatically be extended for successive one-year terms unless Central Mare or the Company provides notice of non-renewal at least sixty days prior to the expiration of the then applicable term. In the event of a change of control the Chief Technical Officer is entitled to receive a cash payment equal to three years' annual base salary. In addition, our Chief Technical Officer is subject to non-competition and non-solicitation undertakings.

On March 1, 2011, the Company entered into an agreement with Central Mare pursuant to which, Central Mare furnishes certain administrative employees. Under the terms of this agreement the Company is obligated to pay an annual base salary.

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On July 1, 2012 the Executive Officers and Other Personnel Agreements were amended and the salaries of the executive officers were reduced as was the number of administrative employees provided.

As of December 31, 2012 the net amount due to Central Mare was \$2,150 and is included in Due to related parties, which are separately presented in the accompanying consolidated balance sheets. The amount concerns \$797 related to executive officers and other personnel expenses, \$1,013 related to commissions on charter hire agreements and sale and purchase of vessels and \$340 that relates to management fees.

The fees charged by Central Mare for the year ended December 31, 2011 and 2012 are as follows:

	Year Ended December 31,		
	2011	2012	
Management Fees	\$ 5,575	\$ 2,345	Management fees related party - Statement of comprehensive income/ (loss)
Executive officers and other personnel expenses	\$ 5,405	\$ 2,349	General and administrative expenses - Statement of comprehensive income/ (loss)
Superintendent Fees	\$ 184	\$ 29	Vessel operating expenses - Statement of comprehensive income/ (loss)
	\$ 39	-	Dry-docking costs - Statement of comprehensive income/ (loss)
Commission for sale of vessels	\$ 1,216	-	
Commission on charter hire agreements	\$ 672	\$ 275	Voyage expenses - Statement of comprehensive income/ (loss)
<b>Total</b>	<b>\$ 13,901</b>	<b>\$ 4,998</b>	

(e) **Sovereign Equity Line Transaction:** On August 24, 2011, the Company entered into a Common Stock Purchase Agreement with Sovereign Holdings Inc. ("Sovereign"), which is controlled by the Company's Chief Executive Officer and President. In this transaction, commonly known as an equity line, Sovereign committed to purchase up to \$10,000 of the Company's common shares, to be drawn from time to time at the Company's request in multiples of \$500 over the following 12 months ("the Sovereign Equity Line Transaction"). Shares purchased under the Common Stock Purchase Agreement are priced at the greater of (i) \$0.45 per share and (ii) a per share price of 35% of the volume weighted average price of our common stock for the previous 12 trading days. Also on August 24, 2011, the Company entered into a registration rights agreement with Sovereign, pursuant to which Sovereign has been granted certain demand registration rights with respect to the shares issued to Sovereign under the Common Stock Purchase Agreement. In addition, on August 24, 2011, the Company entered into a lock-up agreement with Sovereign, pursuant to which Sovereign agreed not to sell shares acquired pursuant to the Common Stock Purchase Agreement for a period starting 12 months from each acquisition of such shares.

The Sovereign Equity Line Transaction was entered into to meet urgent short-term liquidity needs, especially the Company's debt service obligations. The discount at which the shares are sold under the equity line was evaluated in the context of the Company's urgent liquidity needs, the lack of alternatives available to the Company to raise capital due to unfavorable market conditions, the flexibility provided by the Sovereign transaction and the 12 month lock-up agreement that accompanied the transaction that made the shares illiquid for Sovereign.

The Board established a special committee composed of independent directors (the "Special Committee") to consider the Sovereign Equity Line Transaction and make a recommendation to the Board. In the course of its deliberations, the Special Committee hired an independent investment bank which had never previously done any work for the Company or for Sovereign and obtained a fairness opinion from that investment bank. On August 24, 2011, the Special Committee determined that the Sovereign Equity Line Transaction was fair to and in the Company's best interest and the best interests of its shareholders. Upon the recommendation of the Special Committee, the Board approved the Sovereign Equity Line Transaction on August 24, 2011 and the Company entered into the Agreement on that date.

The Company drew down \$2,000 under the Common Stock Purchase Agreement at a price of \$0.7793 per share on September 1, 2011, and on October 19, 2011, the Company drew down \$5,000 at a price of \$0.45 per share.

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The Company has accounted for the Sovereign Equity Line Transaction as a freestanding financial instrument settled in its common stock. As such, the obligation has been recognized in the balance sheet at fair value. The Company has recorded all changes in its fair value in earnings.

Financial instruments classified as FVTPL are recognized at fair value in the balance sheet when the Company has an obligation to perform under the contractual provisions of those instruments. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Changes in the financial instruments are recognized in earnings.

- (f) **Central Shipping Monaco SAM:** On September 21, 2011, the Company entered into a lease agreement for one year for the provision of office space in Monaco, effective from October 1, 2011 with Central Shipping Monaco SAM, a related party controlled by the family of the Company's Chief Executive Officer and President. The monthly rent as of December 31, 2012 is Euro 5 or \$7 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2012) adjusted annually by 3% and the yearly charge for utilities is Euro 4 or \$5 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2012). This agreement was extended up to December 12, 2012 and then terminated. This termination did not result in any additional fees or costs.
- (g) **Central Mare Inc. ("Central Mare") – Credit Facility:** On July 16, 2011 the Company entered into an unsecured credit facility with Central Mare for Euro 1,800 (\$2,372 applying the U.S. Dollar/Euro exchange rate as of December 31, 2012) to be used for general working capital purposes. The Company has undertaken to repay the loan within twelve months of its receipt, however the loan was extended on July 21, 2012 for another twelve months. The loan bears interest at a rate of 8%.
- (h) **Shipping Financial Services Inc Credit Facility:** On July 1, 2011 the Company entered into an unsecured credit facility with Shipping Financial Services Inc, a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 350 (\$ 461 applying the U.S. Dollar/Euro exchange rate as of December 31, 2012) to be used for general working capital purposes. The Company has undertaken to repay the loan within twelve months of its receipt, however the loan was extended on July 8, 2012 for another twelve months. The loan bears interest at a rate of 8% per annum.

### 6. Leases:

#### A. LEASE ARRANGEMENTS, UNDER WHICH THE COMPANY ACTS AS THE LESSEE

##### i) Operating Lease M/T Delos:

On October 1, 2010, the Company entered into a bareboat charter agreement to lease vessel M/T Delos until September 30, 2015 for a variable rate per year. Additionally, the Company agreed to pay \$480 together with the first hire. The bareboat charter agreement was accounted for as operating lease. Charterers had certain options by the end of the normal charter period (five years) to purchase the vessel.

During the years ended December 31, 2010, 2011 and 2012, lease payments relating to the bareboat charters of the vessel were \$480, \$2,380 and \$0, respectively and are included in Charter hire expense in the accompanying consolidated statements of comprehensive income/(loss). On October 15, 2011 the Company terminated the bareboat charter agreement resulting in a termination expense of \$5,750 included in "Lease Termination Expense" in the accompanying consolidated statements of comprehensive income/(loss) for the year ended December 31, 2011. As of December 31, 2012, the outstanding amount of the termination fee was \$5,306.

##### ii) Office lease:

In January 2006, Top Tanker Management entered into an agreement to lease office space in Athens, Greece, with an unrelated party. In September 2010 the agreement was amended and the new monthly rent starting then was renegotiated down to Euro 41 or \$55 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2010) and it was agreed to revert occupancy in certain areas of the leased office space by the end of April 2011, with all other terms remaining unchanged. In September 1, 2011, the agreement was amended again and the new monthly rent was renegotiated down to Euro 8 or \$10 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2012). It was also agreed to revert occupancy in a larger area of the leased office space. General and administrative expenses for the years ended December 31, 2010, 2011 and 2012 include \$1,653, \$531 and \$127, respectively, for rent expense. In January 1, 2013, the agreement was amended again and the new monthly rent was renegotiated down to Euro 2.5 or \$3.3 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2012) and the annual adjustment for inflation increase plus 1% clause was removed. It was also agreed to revert occupancy in an even larger area of the leased office space and to extend the duration of the lease to December 31, 2024. All other terms of the lease remained unchanged.

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In May 2007, Top Tankers (U.K) Limited entered into a lease agreement for office space in London. The lease agreement was valid from June 2007 and would continue until either party gave to the other one calendar month written notice. The annual lease was GBP 20 or \$32 (based on the U.S. Dollar/GBP exchange rate as of December 31, 2009), payable quarterly in advance. In September 2010, Top Tankers (U.K) Limited entered into a new lease agreement for office space in London. The new lease agreement was valid from September 2010 and would continue until either party gave to the other one calendar month written notice. The new annual lease was GBP 12 or \$19 (based on the U.S. Dollar/GBP exchange rate as of December 31, 2012). This agreement was terminated in September 30, 2012. General and administrative expenses for the years ended December 31, 2010, 2011 and 2012 include \$27, \$19 and \$14, respectively, for rent expense.

In November 2009, Top Ships Inc. entered into a lease agreement for office space in London. The initial agreement was signed on November 15, 2009 and it expired on November 14, 2010. The agreement was extended for another year with all terms remaining unchanged. On November 15, 2011 the agreement was extended for another year with all terms remaining unchanged. Finally the agreement was terminated on June 30, 2012. The monthly rent was GBP 26 or \$42 (based on the U.S. Dollar/GBP exchange rate as of December 31, 2012). General and administrative expenses for the year ended December 31, 2010, 2011 and 2012 include \$487, \$498 and \$247 for rent expense.

In September 2011, Top Ships Inc. entered into a lease agreement for office space in Monaco with Central Shipping Monaco SAM, a Company which is controlled by the Company's Chief Executive Officer and President. The monthly rent was Euro 5 or \$7 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2012). This agreement was extended up to December 2012 and then terminated. This termination did not result in any additional fees. General and administrative expenses for the year ended December 31, 2011 and 2012 include \$23 and \$87 for rent expense respectively.

#### iii) Future minimum lease payments:

The Company's future minimum lease payments required to be made after December 31, 2012, related to the existing at December 31, 2012 leases are as follows:

Year ending December 31,	Office Lease
2013	40
2014	40
2015	40
2016	40
2017	40
2018 and thereafter	280
<b>Total</b>	<b>480</b>

## B. LEASE ARRANGEMENTS, UNDER WHICH THE COMPANY ACTS AS THE LESSOR

#### i) Charter agreements:

All of the Company's time charters and bareboat charters are classified as operating leases. Revenues under operating leases are recognized when a charter agreement exists, charter rate is fixed and determinable, the vessel is made available to the lessee and collection of related revenue is reasonably assured.

As of December 31, 2012, the Company operated seven owned vessels, all operating under bareboat charters.

Future minimum time-charter receipts, based on vessels committed to non-cancellable bareboat charter contracts, as of December 31, 2012, are as follows:



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Year ending December 31,	Time Charter receipts
2013	30,313
2014	30,201
2015	27,758
2016	27,834
2017	27,758
2018 and thereafter	25,658
<b>Total</b>	<b>169,522</b>

On January 11, 2010, the Company announced that it 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. Furthermore, on January 26, 2011, the Company announced that it had received from the same charterer another decrease in the charter rate to \$9,092 per day. The Company examined this unilateral reduction and decided to take all necessary steps to recover the amounts owed since the said charterer was considered to be in breach of the charter. On April 29, 2011 and May 25, 2011 the Company announced that it repossessed the M/T Ionian Wave and M/T Tyrrhenian Wave, respectively, from their previous Charterer and delivered the vessels to a major Charterer under a new bareboat charter for a minimum period of seven (7) years with three successive one-year options at a daily rate of \$9,000. The vessels were subsequently renamed to M/T UACC Sila and M/T UACC Shams respectively.

7. Prepayments and Other:

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

	December 31, 2011	December 31, 2012
Prepaid expenses	334	77
Other receivables	1,217	1,012
<b>Total</b>	<b>1,551</b>	<b>1,089</b>

8. Vessels, net:

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

	Vessel Cost	Accumulated Depreciation	Net Book Value
<b>Balance, December 31, 2010</b>	<b>672,010</b>	<b>(76,274)</b>	<b>595,736</b>
—Disposals	(213,239)	32,936	(180,303)
— Vessel held for sale	(10,414)	-	(10,414)
—Impairment	(152,250)	37,577	(114,673)
—Depreciation	0	(25,327)	(25,327)
<b>Balance, December 31, 2011</b>	<b>296,107</b>	<b>(31,088)</b>	<b>265,019</b>
—Reclassified from vessel held for sale	10,414	-	10,414
—Depreciation	-	(11,458)	(11,458)
—Impairment	(104,029)	42,546	(61,483)
— Vessel held for sale	(25,200)	-	(25,200)
<b>Balance, December 31, 2012</b>	<b>177,292</b>	<b>0</b>	<b>177,292</b>

During 2010, vessel oversupply and market disruptions decreased charter rates and vessel values. These are conditions that the Company considered to be indicators of potential impairment. The Company performed the undiscounted cash flow test as of December 31, 2010 and determined that the carrying amounts of its vessels held for use were recoverable.

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In September 2010, the Company entered into an agreement to sell the vessel M/T Dauntless to an unrelated third party for a consideration of \$20.1 million. The vessel was delivered to its new owners on November 5, 2010. A gain from the sale of \$5,101 was recognized upon vessel's delivery.

In June 2011 the Company tested the M/V Evian for impairment and assigned a high probability to sell the M/V Evian upon the expiration of its charter. This assumption significantly reduced the probability weighted undiscounted expected cash flows, which were determined to be lower than the vessel's carrying value. Consequently the Company wrote the vessel down to fair value less costs to sell and recognized an impairment charge of \$32,076. In December 2011 the Company classified the M/V Evian as held for sale (see note 21) and wrote the vessel down to fair value less costs to sell, resulting in an additional impairment charge of \$13,034.

In July 2011, the Company entered into an agreement to sell the vessel M/V Astrale to an unrelated third party for a consideration of \$23,000. The vessel was delivered to its new owners on July 26, 2011. The Company recorded an impairment charge of \$40,023 to write down the carrying amount of the vessel to fair market value less costs to sell.

In July 2011, the Company entered into an agreement to sell the vessel M/V Amalfi to an unrelated third party for a consideration of \$18,000. The vessel was delivered to its new owners on August 31, 2011. The Company recorded an impairment charge of \$29,541 to write down the carrying amount of the vessel to fair market value less costs to sell.

In September 2011, the Company entered into an agreement to sell the vessel M/V Cyclades to an unrelated third party for a consideration of \$20,510. The vessel was delivered to its new owners on November 1, 2011. A loss from the sale of \$39,960 was recognized upon vessel's delivery, which is included in the Company's consolidated statement of comprehensive income/ (loss).

In November 2011, the Company entered into an agreement to sell the vessel M/T Ioannis P. to an unrelated third party for a consideration of \$23,500. The vessel was delivered to its new owners on November 21, 2011. A gain from the sale of \$2,642 was recognized upon vessel's delivery, which is included in the Company's consolidated statement of comprehensive income/ (loss).

In December 2011, the Company entered into an agreement to sell the vessel M/V Pepito to an unrelated third party for a consideration of \$36,617. The vessel was delivered to its new owners on December 29, 2011. A loss from the sale of \$25,225 was recognized upon vessel's delivery, which is included in the Company's consolidated statement of comprehensive income/ (loss).

During 2012, vessel oversupply decreased charter rates and further decreased vessel values. These are conditions that the Company considered to be indicators of potential impairment for its vessels. In December 2012, the Company tested the M/T Miss Marilena, M/T Lichtenstein, M/T UACC Shams, M/T Britto and M/T Hongbo for impairment and assigned a medium probability to sell them. This assumption together with the deteriorating charter rates significantly reduced the probability weighted undiscounted expected cash flows, which were determined to be lower than the vessels carrying values. Consequently, the Company wrote the vessels down to their fair values and recognized an impairment charge of \$46,592 (see Note 17).

In December 2012 the Company reclassified the M/V Evian as held and used resulting from its assessment that the vessel would not be sold and that it would continue to earn revenue within the following year and measured the vessel at its fair value, resulting in a write-up of \$2,086 (see Note 17).

In December 2012 the Company classified the M/T UACC Sila as held for sale and wrote the vessel down to fair value less costs to sell, resulting in an impairment charge of \$16,978 (see Note 4).

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9. Debt:

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

Borrower / Vessel(s)	December 31, 2011	December 31, 2012
<b>HSH</b>		
Warhol / Miss Marilena	32,932	29,456
Indiana / Tyrrhenian Wave	23,911	21,224
Britto / Britto	29,500	26,393
Jeke / Evian (ex Papillon)*		15,662
<b>DVB</b>		
Banksy / Ionian Wave**	21,110	-
Hongbo / Hongbo	26,306	24,289
Hongbo / Bridge Loan	4,928	3,520
<b>ALPHA</b>		
Lichtenstein / Lichtenstein	29,179	26,819
<b>LAURASIA TRADING***</b>		
The Company	3,942	3,032
<b>Debt Discount</b>	(371)	
<b>LOANS FROM RELATED PARTIES</b>		
<b>CENTRAL MARE INC</b>		
The Company	2,147	2,218
<b>SHIPPING FINANCIAL SERVICES INC</b>		
The Company	396	414
<b>Total</b>	<b>173,980</b>	<b>153,027</b>
<b>Less-current portion</b>	<b>(173,980)</b>	<b>(153,027)</b>
<b>Borrower / Vessel(s)</b>		
	<b>December 31, 2011</b>	<b>December 31, 2012</b>
Jeke / Evian (ex Papillon)*	19,769	-
Banksy / Ionian Wave**	-	19,592
<b>Debt related to Vessel held for sale</b>	<b>19,769</b>	<b>19,592</b>

\*M/V Evian as of December 31, 2011 was classified as held for sale, while as of December 31, 2012 it is classified as held for use.

\*\*M/T UACC Sila as of December 31, 2012 was classified as held for sale.

\*\*\*The Laurasia Trading facility was presented under Convertible Loans as of December 31, 2010 and 2011 but the conversion feature was cancelled on August 15, 2012

(a) HSH:

As of December 31, 2011, the Company's subsidiaries had a total outstanding balance with HSH of \$107,277, excluding unamortized financing fees of \$1,164, under two facilities (bulker financing and product tanker financing). As of December 31, 2012, the Company's subsidiaries had a total outstanding balance with HSH of \$93,664, excluding unamortized financing fees of \$929, under two facilities (bulker financing and product tanker financing), as follows:

**Bulker Financing**

**M/V Evian:** At December 31, 2012, Jeke had a loan outstanding of \$15,768, maturing in February 2015, excluding unamortized financing fees of \$106, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 3.125%). The applicable interest rate as of December 31, 2012 is 3.44%. On July 26, 2012 the Company executed a letter agreement that enabled it to apply all HSH pledged funds related to the facility as a prepayment, leading to a prepayment of \$2,225 in August 2012. The prepayment amount will reduce on a pro-rata basis all future repayments of the facility.

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The facility contains various covenants, including i) asset maintenance whereby the fair market value of the vessel and the fair value of any additional security is required to be greater than or equal to a required percentage of the outstanding loan and the fair value of the outstanding swaps. The minimum required percentage is set at 130% up to November 2011 and 135% from then on until maturity, ii) market value adjusted net worth required to be greater than or equal to \$250,000 and greater than 35% of total assets, and iii) EBITDA greater than 120% of fixed charges, iv) minimum liquid funds of \$25,000 or \$500 per group vessel which is free of any security interest (other than a permitted security interest and other than ordinary bankers' liens which have not been enforced or become capable of being enforced) v) no dividend payout in excess of 70% of net income per year and full dividend restriction in case of breach of covenant and vi) cross collateralization of the two facilities.

As of December 31, 2012, the Company was not in compliance with the asset maintenance, the EBITDA, the adjusted net worth and the minimum liquid funds covenants. The facility provides that default rate of two percent (2%) on top of the applicable rate shall apply for as long as there is an event of default. From April 1, 2011, onwards HSH has been charging the default rate of 2% on top of margin, in respect of the covenant breaches. As of the date of this report the Company is in discussion with HSH to resolve the covenant breaches and avoid being charged the default rate.

### **Product Tanker Financing**

**Warhol:** At December 31, 2012, Warhol had a loan outstanding of \$29,712, maturing in February 2019, excluding unamortized financing fees of \$256, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 3.75%). The applicable interest rate as of December 31, 2012 is 4.06%.

**Indiana:** At December 31, 2012, Indiana had a loan outstanding of \$21,527, maturing in March 2019, excluding unamortized financing fees of \$303, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 3.75%). The applicable interest rate as of December 31, 2012 is 4.06%.

**Britto:** At December 31, 2012, Britto had a loan outstanding of \$26,658, maturing in May 2019, excluding unamortized financing fees of \$265, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 3.75%). The applicable interest rate as of December 31, 2012 is 4.06%.

On July 26, 2012 the Company executed a letter agreement that enabled it to apply all HSH pledged funds related to the facility as a prepayment, leading to a prepayment of \$1,500 in August 2012 and a prepayment of \$750 in September 2012. Prepayments were equally allocated to all three vessels of the facility and the prepayment amounts will reduce on a pro-rata basis all future repayments of the facility. The credit facility contains a provision whereby the bank may choose to use an alternative base interest rate if it believes that the LIBOR is not representative of its funding cost. During 2011, the bank used cost of funds instead of LIBOR as this appeared in REUTERS screen at the corresponding electronic pages of KLIEM (Carl Kliem GmgH).

The facility contains various covenants, including i) asset maintenance whereby the fair market value of the vessel and vessels and of any additional security is required to be greater than or equal to a required percentage of the outstanding loan and the fair value of outstanding swaps. The minimum required percentage is set at 120% up to October 2012 and 125% from then on until maturity, ii) market value adjusted net worth required to be greater than or equal to \$250,000 and greater than or equal to 35% of total assets, and iii) EBITDA required to be greater than 120% of fixed charges, iv) minimum liquid funds of \$25,000 or \$500 per group vessel which is free of any security interest (other than a permitted security interest and other than ordinary bankers' liens which have not been enforced or become capable of being enforced), v) no dividend payout in excess of 70% of net income per year and full dividend restriction in case of breach of covenant.

As of December 31, 2012, the Company was not in compliance with the asset maintenance, the EBITDA, the adjusted net worth and the minimum liquid funds covenants. The facility provides that default rate of two percent (2%) on top of the applicable rate shall apply for as long as there is an event of default. From April 1, 2011, onwards HSH has been charging the default rate of 2% on top of margin, in respect of the covenant breaches. As of the date of this report the Company is in discussion with HSH to resolve the covenant breaches and avoid being charged the default rate.

### **(b) DVB:**

As of December 31, 2011, the Company's subsidiaries had a total outstanding balance with DVB of \$53,364, excluding unamortized financing fees of \$1,020, under one facility. As of December 31, 2012, the Company's subsidiaries had a total outstanding balance with DVB of \$48,247, excluding unamortized financing fees of \$846, under one facility, as follows:

#### **Tranche A:**

**Tranche A-Banksy:** As of December 31, 2012, Banksy had a loan outstanding of \$20,000, excluding unamortized financing fees of \$408, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 1.75%). The applicable interest rate as of December 31, 2012 is 2.31%.

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**Tranche A-Hongbo:** As of December 31, 2012, Hongbo had a loan outstanding of \$24,727, excluding unamortized financing fees of \$438, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 1.55%). The applicable interest rate as of December 31, 2012 is 2.11%.

The credit facility contains a provision whereby the bank may choose to use an alternative base interest rate if it believes that the LIBOR is not representative of its funding cost. From January 1, 2012 to May 30, 2012, the bank used cost of funds instead of LIBOR as this appeared in REUTERS screen at the corresponding electronic pages of KLIEM (Carl Kliem GmgH). From June 12012 to December 312012, the bank continued using cost of funds instead of LIBOR but switched from KLIEM to USD-EURIBOR as this appeared in REUTERS screen.

**Tranche B:** On July 31, 2009, the Company amended its \$80,000 product tanker facility with DVB in order to take account of a bridge loan (Top Up Loan) of \$12,512 used in the financing of the delivery installment of the M/T Hongbo. The bridge loan was payable in full on July 30, 2010. Furthermore, the facility included a cash sweep mechanism whereby 100% of the aggregate of any excess cash being hire earned by M/T Hongbo and M/T Ionian Wave above capital repayments in connection with the relevant loan tranches and interest expenses in connection with relevant tranches and the Top Up Loan, was applied on a quarterly basis as prepayment against the outstanding Top Up Loan, starting on September 16, 2009. During 2009, the Company prepaid a total amount of \$1,313 of the Top Up Loan in accordance with the cash sweep mechanism. In March and June 2010, the Company prepaid an additional amount of \$550 and \$587, respectively.

On December 1, 2010 the Company entered into an amended agreement with DVB Bank which among other changes, reassigned the distribution of the outstanding loan facility between the two vessels that were financed and cross-collateralized this facility with a then existing Bulker facility. In addition, the Company obtained waivers for covenant breaches until the end of the year 2010 and restructured the loan relating to the acquisition of the product tankers the M/T Ionian Wave and M/T Hongbo part of which, the Top Up Loan, was due to be repaid on July 30, 2010. Pursuant to the term sheet signed ahead of this agreement, the Company made a partial repayment of \$7,710 against the Top Up Loan, out of which \$3,710 was funded by cash on hand and \$4,000 by two unsecured bridge loan financing facilities with unrelated third parties, Laurasia Trading and Santa Lucia Holdings.

As of December 31, 2012 the outstanding amount of the Top Up Loan, renamed to Tranche B, was \$3,520, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 1.75%). The applicable interest rate as of December 31, 2012 is 2.31%.

In connection with the July 2009 amendment of the product tanker financing, the Company issued 1,251,240 common shares to Hongbo Shipping Company Limited, a wholly owned subsidiary, who pledged these shares in favor of DVB. The Company is in the process of canceling these common shares.

The facility, as amended on December 1, 2010, contains various financial covenants, including (i) minimum required security cover whereby the fair market value of the mortgaged vessels and of any additional security is required to be greater than or equal to 115% for the first five years, up to August 2014 and 125% thereafter of the outstanding loan (excluding amounts relating to Tranche B) and the fair value of the outstanding swaps, (ii) minimum net asset value of \$225,000, calculated on an annual basis, (iii) book equity required to be greater than \$180,000, (iv) minimum Free Cash of \$25,000 or \$500 per vessel (\$250 per vessel as cash in hand may be included); and (v) EBITDAR/Interest Expense: minimum 1.50:1.00.

As of December 31, 2012, the Company was in breach of the net asset value, the book equity, the minimum cash balance as well as the cross default provision of the facility as a result of covenant breaches in other credit facilities. As of the date of this report the Company is in discussions with DVB in relation to covenants.

### (c)ALPHA:

As of December 31, 2011, the Company's subsidiaries had a total outstanding balance with ALPHA of \$29,400, excluding unamortized financing fees of \$221 under one facility. As of December 31, 2012, the Company's subsidiaries had a total outstanding balance with ALPHA of \$27,000, excluding unamortized financing fees of \$181 under one facility, as follows:

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**Lichtenstein:** At December 31, 2011, Lichtenstein had a loan outstanding of \$27,000, maturing in February 2019, excluding unamortized financing fees of \$181, which bears interest at LIBOR plus a margin (as of December 31, 2012 the margin was 3%). The applicable interest rate as of December 31, 2012 is 3.25%. On February 28, 2013 the Company entered into a supplemental agreement which increased the quarterly repayments from \$600 to \$750, effective from February 2013 onwards, and decreased the balloon accordingly. This supplemental agreement also fixed the interest margin of the facility to 3% for the duration of the loan.

The facility contains various covenants, including i) asset maintenance whereby the fair market value of the vessel and any additional security is required to be greater than or equal to 130% of the outstanding loan, ii) market value adjusted net worth required to be greater than or equal to \$250,000 iii) book equity (total assets less consolidated debt) required to be greater than \$100,000, and iv) minimum cash balances of \$25,000.

As of December 31, 2012, the Company was not in compliance with the asset maintenance, the adjusted net worth, the book equity and the minimum cash balance covenants. As of the date of this report the Company is in discussions with ALPHA in relation to covenants.

### Other loans

#### Laurasia Trading Ltd Credit Facility:

On August 6, 2010, the Company entered into an unsecured bridge loan financing facility with an unrelated party for \$2,000. The purpose of this loan was to refinance part of the DVB Top Up Loan which was due to be repaid on July 30, 2010.

The Company had undertaken to repay the loan by August 17, 2011 in cash or shares or in combination as demanded by the lender. Interest and fees in connection with the facility will be paid in cash by the same date. In case repayment or part repayment is made in shares, the number of shares will be calculated as the dollar amount of the liability as of the repayment date divided by \$4, meaning that a full repayment by means of shares will result in a transfer of 0.5 million shares to Laurasia Trading Ltd. However the number of shares cannot exceed 15% of the Company's total number of outstanding shares due to anti-takeover provisions in the Company's Stockholders Rights Agreement, unless the board specifically agrees to allow a shareholder to exceed such limit.

Since the Company's stock price was above the debt conversion price of \$4 on August 6, 2010, the conversion feature contains a beneficial share settlement option and in accordance with the Financial Accounting Standards Board's, or FASB's, Codifications topic 470-20 "Debt with Conversion and Other Options" the Company calculated the beneficial conversion feature to be \$2,000 at the time of issuance, by multiplying the number of shares into which the debt is convertible by the difference between the conversion price and the market price of the Company's stock at the time of issuance. The Company recorded this amount as debt discount, to be amortized over the duration of the loan, with a corresponding credit to additional paid in capital. The total interest expense related to the facility in the Company's consolidated statement of comprehensive income/ (loss) for the year ended December 31, 2010 was \$833 of which \$787 is non-cash amortization of the debt discount and \$46 is the contractual interest at an interest rate of 6% per year. As of December 31, 2010 the unamortized debt discount was \$ 1,213.

On February 15, 2011, the Company entered into an amendment of the initial facility which provides for a new repayment date, specifically, February 15, 2012, with no other change to the terms of the debt or the conversion feature.

On that same date the Company also entered into a new unsecured bridge loan facility for \$2,000. The Company had undertaken to repay the loan by February 15, 2012 in cash or shares or in combination as demanded by the lender. Interest and fees in connection with the facility would have been payable in cash at the same date. In the case repayment or part repayment would have been made in shares, the number of shares would have been calculated as the dollar amount of the liability as of the repayment date divided by \$4. The total shareholding of Laurasia, resulting from both facilities, couldn't have had exceed 15% of the Company's total number of outstanding shares due to anti-takeover provisions in the Company's Stockholders Rights Agreement unless the board would have specifically agreed to allow a shareholder to exceed such limit. The loan bared an interest of 8.0% per annum.

On January 20, 2012, the Company amended both Laurasia loans setting the interest for both facilities to 8% and extending maturity to August 15, 2012, with no other change to the terms of the debt or the conversion feature.

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On August 15, 2012, the Company amended both Laurasia loans and consolidated them in one facility without a debt conversion feature. Furthermore the Company assigned a long-term receivable (see note 19) to Laurasia in return for a \$750 reduction in principal outstanding. Finally the Laurasia loan was extended for one more year to August 15, 2013, with no other changes in the terms.

The total interest expense related to the facility in the Company's consolidated statement of comprehensive income/ (loss) for the year ended December 31, 2012 was \$667 of which \$371 is non-cash amortization of the debt discount and \$296 is the contractual interest. As of December 31, 2012, the unamortized debt discount was \$0.

As of December 31, 2011 and 2012, the outstanding amount was \$4 and \$3.25 million respectively.

#### **Shipping Financial Services Inc Credit Facility:**

On July 1, 2011 the Company entered into an unsecured credit facility with Shipping Financial Services Inc, a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 350 (\$ 462 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012) to be used for general working capital purposes. The Company had undertaken to repay the loan within 12 months of its receipt, however the loan was extended on July 8, 2012 and is now due to be repaid on July 8, 2013. The loan bears interest at a rate of 8% per annum. As of December 31, 2011, the outstanding amount was Euro 350 (\$ 453 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2011). As of December 31, 2012, the outstanding amount was Euro 350 (\$462 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012). Related party interest expense for the years ended December 31, 2011 and 2012 incurred in connection with this credit facility, amounted to \$17,468 and \$36,095 respectively and is included in interest and finance costs in the accompanying consolidated statements of comprehensive income/(loss) (Note 15).

#### **Central Mare Inc Credit Facility:**

On July 16, 2011 the Company entered into an unsecured credit facility with Central Mare Inc, a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 1,800 (\$ 2,375 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012) to be used for general working capital purposes. Part of this facility was used to prepay the loan of the MV Astrale following its sale. The Company had undertaken to repay the loan within 12 months of its receipt, however the loan was extended on July 21, 2012 and is now due to be repaid on July 21, 2013. The loan bears interest at a rate of 8%. As of December 31, 2011, the outstanding amount was Euro 1,800 (\$ 2,329 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2011). As of December 31, 2012, the outstanding amount was Euro 1,800 (\$ 2,375 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012). Related party interest expense for the years ended December 31, 2011 and 2012 incurred in connection with this credit facility, amounted to \$5,615 and \$185,634 respectively and is included in interest and finance costs in the accompanying consolidated statements of comprehensive income/(loss) (Note 15).

***Loans Securities:*** All secured loans are secured as follows:

- Mortgages over the Company's vessels;
- Assignments of insurance and earnings of the mortgaged vessels;
- Corporate guarantee of TOP Ships Inc;
- Pledge over the earnings accounts of the vessels.

#### ***Debt Covenants:***

As of December 31, 2012 and 2011, the Company was in breach of loan covenants relating to EBITDA, overall cash position (minimum liquidity covenants), book equity, adjusted net worth, the asset cover with certain banks, as well cross-default covenants with all banks. As a result of these covenant breaches with all the banks, the Company has classified all its debt and financial instruments as current.

***Interest Expense:*** Interest expense for the years ended December 31, 2010, 2011 and 2012, amounted to \$11,241, \$10,068 and \$7,240 respectively and is included in interest and finance costs in the accompanying consolidated statements of comprehensive income/(loss) (Note 15).

***Financing Costs:*** The additions in deferred financing costs amounted to \$971 and \$1,128 during the years ended December 31, 2011 and 2012. For 2012, this figure is due to the extension of the Laurasia, Central Mare and Shipping Financial Services facilities.

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The weighted average interest rates, as of December 31, 2011 and 2012, excluding all swaps, were 4.01% and 3.55%, respectively.

The vessel-owning subsidiary companies with outstanding loans had restricted net assets amounting to \$44,438 and \$15,806 as of December 31, 2011 and 2012, respectively.

*Scheduled Principal Repayments:* The annual principal payments required to be made after December 31, 2012, are as follows:

Year ending December 31, 2012	Amount
Principal payments	174,998
Excluding unamortized financing fees	(2,379)
	<u>172,619</u>

**10. Commitments and Contingencies:**

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company's vessels. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

The Company accrues for the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements. A minimum of up to \$1 billion of the liabilities associated with the individual vessels actions, mainly for sea pollution, are covered by the Protection and Indemnity (P&I) Club insurance.

**11. Common Stock and Additional Paid-In Capital:**

*Issuance of common stock:* On July 1, 2009, the Company entered into a standby equity distribution agreement (the "SEDA") with YA Global Master SPV Ltd.

Under the SEDA the Company issued an amount of 223,000 shares of common stock. As a result, the Company's common stock and additional paid-in capital were increased by \$22 and \$2,520, respectively as of December 31, 2009, net of issuance costs. The total net proceeds, after commissions, amounted to \$2,936. During 2010 and 2011 until May 2011 when the SEDA agreement was terminated, no further shares have been sold to YA Global under the SEDA.

*Reverse Stock Split:* On June 24, 2011, the Company effected a 1-for-10 reverse stock split of its common stock. There was no change in the number of authorized common shares of the Company. All share and per share amounts in these consolidated financial statements have been adjusted to reflect this stock split. The par value of the Company's common shares remained unchanged at \$0.01 per share.

**12. Stock Incentive Plan:**

Starting on July 1, 2005 and on various grant dates (the "grant dates") thereafter, as outlined below, the Company granted shares pursuant to the Company's 2005 Stock Incentive Plan as from time to time amended ("the Plan"), which was adopted in April 2005 to provide certain key persons (the "Participants"), on whose initiatives and efforts the successful conduct of the Company's business depends, and who are responsible for the management, growth and protection of the Company's business, with incentives to: (a) enter into and remain in the service of the Company, a Company's subsidiary, or Company's joint venture, (b) acquire a proprietary interest in the success of the Company, (c) maximize their performance, and (d) enhance the long-term performance of the Company (whether directly or indirectly) through enhancing the long-term performance of a Company subsidiary or Company joint venture. The granted shares have no exercise price and constitute a bonus in nature.



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In the case where restricted shares were granted, there were signed "Restricted Stock Agreements" between the Company and the Participants on the respective grant dates. Under these agreements, the Participants have the right to receive dividends and the right to vote the shares, subject to the following restrictions:

i. Grants to Company's CEO. The Company's CEO shall not sell, assign, exchange, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the shares other than to a Company, which is wholly owned by the Company's CEO. The restrictions lapse on the earlier of (i) the time specified in the relevant Restricted Stock Agreement or (ii) the termination of the Company's CEO employment with the Company for any reason. As the shares granted to the Company's CEO do not contain any future service vesting conditions, all such shares are considered vested shares on the grant date.

ii. Grants to Other Participants. The Participants (officers, independent and executive members of the Board, Company's employees and consultants) shall not sell, assign, exchange, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the shares. The restrictions lapse on the time specified in the relevant Restricted Stock Agreement conditioned upon the Participant's continued employment with the Company from the date of the agreement until the date the restrictions lapse (the "vesting period").

In the event the Participant's employment with the Company terminates for any reason before the end of the vesting period, that Participant shall forfeit all rights to all Shares that have not yet vested as of such date of termination. Dividends earned during the vesting period will not be returned to the Company, even if the unvested shares are ultimately forfeited. As these Shares granted to other than the CEO Participants contain a time-based service vesting condition, such shares are considered non-vested shares on the grant date.

The following table presents grants pursuant to the Plan's issuance from 2008 onwards:

<b>Grant Date</b>	<b>Number of Shares</b>	<b>Issued to</b>	<b>Vesting Period (according to the way stock based compensation is expensed)</b>
January 22, 2008	197,562	Officers and Employees	proportionately over a period of 4 years
July 1, 2008	50,000	CEO	on the grant date
September 2, 2008	37,500	Non-Executive Directors	proportionately over a period of 5 years
September 4, 2008	147,243	CEO	In the event of change of control
December 21, 2009	30,000	New Non-Executive Directors	proportionately over a period of 5 years
December 21, 2009	50,000	CEO	on the grant date
October 29, 2010	24,999	Officer	15 equal monthly installments (1st vesting on the grant date)
October 29, 2010	49,999	Officer	15 equal monthly installments (1st vesting on the grant date)
December 2, 2010	50,000	CEO	on the grant date
December 1, 2011	50,000	CEO	on the grant date

All share amounts have been adjusted for the 1:3 reverse stock split effected on March 20, 2008 and the 1:10 reverse stock split effected on June 24, 2011.

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A summary of the status of the Company's non-vested shares as of December 31, 2012 and movement during the year ended December 31, 2012, is presented below:

	Non-vested Shares	Weighted average grant date fair value
<b>As of January 1, 2012</b>	<b>180,244</b>	<b>\$ 47.95</b>
Vested	(25,500)	\$ 21.86
<b>As of December 31, 2012</b>	<b>154,744</b>	<b>\$ 52.25</b>

The compensation expense recognized in the years ended December 31, 2010, 2011 and 2012 was \$2,024, \$1,412 and \$378 and is included in General and administrative expenses in the consolidated statements of comprehensive income/(loss). As of December 31, 2012, the total unrecognized compensation cost related to non-vested share awards is \$51, which is expected to be recognized by September 30, 2013. The weighted average grant date fair value of shares granted, vested and forfeited for the years 2010, 2011 and 2012 was 38.5, 47.95 and 52.25 respectively.

The total fair value of shares vested during the years ended December 31, 2011 and 2012 was \$458 and \$51 respectively.

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

No dividends were paid in the years ended December 31, 2010, 2011 and 2012.

**13. Earnings (loss) Per Common Share:**

All shares issued (including non-vested shares issued under the Plan) are the Company's common stock and have equal rights to vote and participate in dividends and in undistributed earnings. Non-vested shares do not have a contractual obligation to share in the losses. Dividends declared during the period for non-vested common stock as well as undistributed earnings allocated to non-vested stock are deducted from net income / (loss) attributable to common shareholders for the purpose of the computation of basic earnings per share in accordance with two-class method as required by relevant guidance. The denominator of the basic earnings per common share excludes any non-vested shares as such are not considered outstanding until the time-based vesting restriction has elapsed.

For purposes of calculating diluted earnings per share the denominator of the diluted earnings per share calculation includes the incremental shares assumed issued under the treasury stock method weighted for the period the non-vested shares were outstanding, with the exception of the 147,244 shares, granted to the Company's CEO, which will vest in the event of change of control. Consequently, those shares are excluded from the remaining non-vested shares.

The components of the calculation of basic and diluted earnings per share for the years ended December 31, 2010, 2011 and 2012 are as follows:

	Year Ended December 31,		
	2010	2011	2012
Net (loss) income	\$ 2,513	\$ (189,112)	\$ (63,984)
Less: Undistributed earnings allocated to non-vested shares	\$ (177)	\$ -	\$ -
Net (loss) income available to common shareholders	\$ 2,336	\$ (189,112)	\$ (63,984)
Weighted average common shares outstanding, basic	3,075,278	6,304,679	16,989,585
Weighted average common shares outstanding, diluted	3,077,741	6,304,679	16,989,585
(Loss) income per common share, basic and diluted	\$ 0.82	\$ (30.00)	\$ (3.77)

For the years ended December 31 2010, 2011 and 2012, 261,511, 180,244 and 154,744 shares respectively, which constitute the number of non-vested shares as at the end of each year, were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the periods presented.

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14. Voyage and Vessel Operating Expenses:

The amounts in the accompanying consolidated statements of comprehensive income/(loss) are as follows (expressed in thousands of U.S. Dollars):

Voyage Expenses	Year Ended December 31,		
	2010	2011	2012
Port charges	(59)	1,141	24
Bunkers	700	4,684	177
Commissions	1,827	1,918	822
<b>Total</b>	<b>2,468</b>	<b>7,743</b>	<b>1,023</b>

Vessel Operating Expenses	Year Ended December 31,		
	2010	2011	2012
Crew wages and related costs	6,624	5,415	361
Insurance	2,087	1,165	83
Repairs and maintenance	1,219	1,356	179
Spares and consumable stores	2,862	2,369	184
Taxes (Note 16)	61	63	7
<b>Total</b>	<b>12,853</b>	<b>10,368</b>	<b>814</b>

15. Interest and Finance Costs:

The amounts in the accompanying consolidated statements of comprehensive income/(loss) are analyzed as follows (expressed in thousands of U.S. Dollars):

Interest and Finance Costs	Year Ended December 31,		
	2010	2011	2012
Interest on debt (Note 9)	11,241	10,068	7,240
Bank charges	124	16	297
Amortization and write-off of financing fees	1,947	2,234	1,437
Amortization of debt discount	1,464	3,965	371
<b>Total</b>	<b>14,776</b>	<b>16,283</b>	<b>9,345</b>

16. Income Taxes:

Marshall Islands, Cyprus and Liberia do not impose a tax on international shipping income. Under the laws of Marshall Islands, Cyprus and Liberia, the countries of the companies' incorporation and vessels' registration, the companies are subject to registration and tonnage taxes, which have been included in vessels' operating expenses in the accompanying consolidated statements of comprehensive income/(loss).

Pursuant to the United States Internal Revenue Code of 1986, as amended (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the Company operating the ships meets both of the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exception to corporations organized in the United States and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (50% Ownership Test) or (ii) the Company's stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States (Publicly-Traded Test).

Under the regulations, a Company's stock will be considered to be "regularly traded" on an established securities market if (i) one or more classes of its stock representing more than 50 percent of its outstanding shares, by voting power and value, is listed on the market and is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year; and (ii) the aggregate number of shares of stock traded during the taxable year is at least 10% of the average number of shares of the stock outstanding during the taxable year.

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The Marshall Islands, Cyprus and Liberia, the jurisdictions where the Company and its ship-owning subsidiaries are incorporated, grant an "equivalent exemption" to United States corporations. Therefore, the Company is exempt from United States federal income taxation with respect to U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met. The Company believes that for periods prior to its initial public offering in July 2004, it satisfied the 50% Ownership Test. The Company also believes that for periods subsequent to its initial public offering, it satisfies the Publicly-Traded Test on the basis that more than 50% of the value of its stock is primarily and regularly traded on the Nasdaq National Market and, therefore, the Company and its subsidiaries are entitled to exemption from U.S. federal income tax, in respect of their U.S. source shipping income.

17. Financial Instruments:

The principal financial assets of the Company consist of cash on hand and at banks and accounts receivable due from charterers. The principal financial liabilities of the Company consist of loans, accounts payable due to suppliers, interest rate swap agreements and an interest rate derivative product.

- a) **Interest rate risk:** The Company is subject to market risks relating to changes in interest rates because it has floating rate debt outstanding under its loan agreements on which it pays interest based on LIBOR, or cost of funds for certain banks, plus a margin. In order to manage part or whole of its exposure to changes in interest rates due to this floating rate indebtedness, the Company might enter into interest rate swap agreements.

The Company places its temporary cash investments, consisting mostly of deposits, with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions with which it places its temporary cash investments. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable.

- b) **Concentration of Credit risk:** Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and trade accounts receivable.
- c) **Fair value:** The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The Company considers its creditworthiness when determining the fair value of the credit facilities. The carrying value approximates the fair market value for the floating rate loans. The fair value of the interest rate swaps was determined using a discounted cash flow method taking into account current and future interest rates and the creditworthiness of both the financial instrument counterparty and the Company.

The estimated fair value of the Company's derivatives, seen below, approximates their carrying values.

Counterparty	SWAP Number (Nr)	Notional Amount	Period	Effective Date	Interest Rate Payable	Fair Value - Liability	
						December 31, 2011**	December 31, 2012
EGNATIA	1	\$ 10,000	7 years	July 3, 2006	4.76%	\$ (684)	\$ (222)
HSH NORDBANK	2	\$ 7,332	5 years	March 27, 2008	4.60%	\$ (375)	\$ (73)
EMPORIKI	3	\$ 20,000	7 years	March 30, 2008	10.85%	\$ (3,863)	\$ (2,785)
HSH NORDBANK	4	\$ 10,599	7 years	July 15, 2008	5.55%	\$ (1,951)	\$ (1,591)
HSH NORDBANK	5	\$ 11,346	4 years	June 28, 2010	4.73%	\$ (1,502)	\$ (1,140)
		\$ 59,277				\$ (8,375)	\$ (5,811)

\*\* Our interest rate swap arrangements as of December 31, 2011 were valued at \$8,467. The table above serves to compare the swap agreements that the Company had on December 31, 2012 with their equivalent value on December 31, 2011. The difference between the value of the swap agreements as depicted in the above table and last year's the reported number is \$92 and is due to the fact that one of our swaps matured during 2012.

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The Company enters into interest rate swap transactions to manage interest costs and the risk associated with changing interest rates with respect to its variable interest rate loans and credit facilities. These interest rate swap transactions fix the interest rates based on predetermined ranges in current LIBOR rates. As of December 31, 2012, the Company's outstanding interest rate swaps had a combined notional amount of \$59,277.

The Company follows the accounting guidance for Fair Value Measurements and Disclosures. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value should be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data;

Level 3: Unobservable inputs that are not corroborated by market data.

The Company pays a fixed rate and receives a variable rate for its interest rate swaps. The variable rate is based on the LIBOR swap rates. LIBOR swap rates are observable at commonly quoted intervals for the full terms of the swaps and therefore are considered Level 2 items. The fair values of those derivatives determined through Level 2 of the fair value hierarchy are derived principally from or corroborated by observable market data. Inputs include quoted prices for similar assets, liabilities (risk adjusted) and market-corroborated inputs, such as market comparables, interest rates, yield curves and other items that allow value to be determined.

As of December 31, 2012, no fair value measurements for assets or liabilities under Level 1 or Level 3 were recognized in the Company's consolidated financial statements.

The following tables summarize the valuation of the Company's assets measured at fair value on a non-recurring basis as of December, 31, 2011 and 2012 respectively:

**Items Measured at Fair Value on a Nonrecurring Basis**

	December 31, 2011	Fair Value Measurements			Gains/ (Losses)
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Unobservable Inputs Level 3	
Non – Recurring Measurements:					
Long-lived assets held for sale	\$10,414		\$10,414		\$(45,110)

**Items Measured at Fair Value on a Nonrecurring Basis**

	December 31, 2012	Fair Value Measurements			Gains/ (Losses)
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Unobservable Inputs Level 3	
Non – Recurring Measurements:					
Long-lived assets held for sale	\$ 25,200		\$ 25,200		\$ (16,978)
Long-lived assets held and used	\$ 164,792		\$ 164,792		\$ ( 46,592)
Long-lived assets previously held for sale and currently held and used	\$ 12,500		\$ 12,500		\$ 2,086

In accordance with the provisions of relevant guidance, a long-lived asset held for sale with a carrying amount of \$42,178 was written down to its fair value of \$25,200, resulting in an impairment charge of \$16,978, which is included in the accompanying consolidated statement of comprehensive income/ (loss) for December 31, 2012 (see note 8). The fair value of the impaired vessel was determined based on a market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to our vessels. As a result, the Company has classified long-lived asset held for sale as Level 2.

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In accordance with the provisions of relevant guidance, long-lived assets held and used with a carrying amount of \$211,384 were written down to their fair value of \$164,792, resulting in an impairment charge of \$46,592, which was also included in the accompanying consolidated statement of comprehensive income/ (loss) for December 31, 2012 (see note 8). The fair value of the impaired vessels was determined by a combination of market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to our vessels, that determined the charter-free vessel value (level 2) and a charter valuation based on the Company's projections employing assumptions used by market participants (level 3). The Company has split its approach in two sections: (i) Charter-free value of the vessel. To determine the charter-free value consists of quotations from well respected brokers regarding vessels with similar characteristics with ours. This market approach is deemed more objective mainly due to the multitude of transactions of comparable assets in the active and liquid shipping S & P market. Valuation inputs from the market approach are considered Level 2 in the fair value hierarchy, since the Company uses a valuation derived from prices in observed transactions. (ii) Value of the charter. The valuation of the attached timecharter on three of our impaired tankers entails the discounting of the differential between the current long period timecharter for a similar vessel and the timecharter already attached to the vessel for the duration of the latter. The source of the current long period timecharter rates are third party independent shipbrokers. Apart from the long period timecharter rates, budgeted operating expenses and the discount rate that the Company uses there are no other assumptions used in the discounting model. The discount rate used by the Company takes into account the cost of equity of the company, the country risk of the charterer's country and the default rate of the charterer. The operating expenses used are management estimates based on the management's experience in operating this type of vessel. The charter valuation, since it entails the use of judgments and assumptions, is individually considered a level 3 approach. However according to ASC 820-10-35-37 (Applying ASU 2011-04) if the level 3 part of the valuation is deemed insignificant (18.7% of the total value is derived from level 3 inputs) from the Company the prevailing level would be level 2, hence the Company characterized the valuation approach as a Level 2 in its entirety.

In accordance with the provisions ASC 360-10-35-44, long-lived assets previously classified as held for sale that are currently classified as held and used with a carrying amount of \$10,414 were valued at \$12,500, resulting in a write-up of \$2,086, which was included in the accompanying consolidated statement of comprehensive income/ (loss) for December 31, 2012 (see note 8). According to the provisions of abovementioned guidance the Company measured (i) the carrying amount of the vessel before it was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the vessel been continuously classified as held and used and (ii) the fair value of the vessel on December 31, 2012, which was the date that the Company decided not to sell the asset. The Company determined that the lower value of the two above measurements was the fair value of the vessel on December 31, 2012 and used that as fair value. The fair value of the vessel on December 31, 2012 was determined based on a market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to our vessels. As a result, the Company has classified long-lived asset held and used as Level 2.

The following tables summarize the valuation of our financial instruments as of December 31, 2011 and 2012 respectively:

As of December 31, 2011	Fair Value Measurement at Reporting Date Using			
	Total	Active Markets for Identical Assets (Level 1)	Quoted Prices in Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Interest rate swaps	\$ 8,467	-	\$ 8,467	-

  

As of December 31, 2012	Fair Value Measurement at Reporting Date Using			
	Total	Active Markets for Identical Assets (Level 1)	Quoted Prices in Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Interest rate swaps	\$ 5,812	-	\$ 5,812	-

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The Company's interest rate swaps did not qualify for hedge accounting. The Company marks to market the fair market value of the interest rate swaps at the end of every period and reflects the resulting unrealized gain or loss during the period in "Gain / (loss) on financial instruments" in its consolidated statement of comprehensive income/ (loss) as well as presents the fair value at the end of each period in the balance sheet. Information on the location and amounts of derivative fair values in the consolidated balance sheets and derivative losses in the consolidated statements of comprehensive income/(loss) are presented below:

Derivatives not designated as hedging instruments	Liability Derivatives			
	December 31, 2011		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Current liabilities – Current portion of financial instruments	\$ 8,467	Current liabilities – Current portion of financial instruments	\$ 5,811
Total Derivatives not designated as hedging instruments		\$ 8,467		\$ 5,811
<b>Amount of (Loss) or Gain Recognized in Statement of Comprehensive Income/ (Loss)</b>				
Derivative Instruments not designated as hedging instruments	Location of (Loss) or Gain recognized in Income on Derivative	December 31, 2010	December 31, 2011	December 31, 2012
Interest rate swaps	(Loss) / gain on financial instruments	\$ (865)	\$ (2,835)	\$ (2,656)
Total (Loss) / Gain on Derivatives		\$ (865)	\$ (2,835)	\$ (2,656)

The Company has treated the Sovereign transaction as a freestanding financial instrument settled in the Company's common stock according to guidance under ASC 480-10 and as such the obligation is recognized in the balance sheet at fair value with changes in its fair value recorded in earnings. The Company didn't recognize an obligation deriving from the Sovereign financial instrument as of December 31, 2011 since the Company is not obliged in any way to issue shares further shares or draw down the remaining \$3 million under the Sovereign Transaction and has made no commitment to Sovereign to do so. Hence the instrument was not valued and hence there were no changes in its fair value to be recorded in earnings. For the same reason, no changes in the Sovereign financial instrument's fair value were recorded in earnings during the year ended December 31, 2012. Finally the Company didn't recognize an obligation deriving from the Sovereign financial instrument as of December 31, 2012 since the Sovereign financial instrument matured in August 25, 2012.

**18. Equity line discount:**

As mentioned above the Company effected two transactions under the Sovereign contract (see note 5 "Transactions with Related Parties") in September 1, 2011 and October 19, 2011. The difference between the quoted market price at those dates and the issuance price amounting to \$23,406 is recognized in equity under line item "Additional paid-in capital". Changes in the fair value of the obligation, if any, between the drawdown date and share issuance date are recognized in the P&L, but since at both transaction dates the issuance of shares was done on the same day as the drawdown, there is no fair value change in the obligation, hence no effect on the consolidated statement of comprehensive income/ (loss) of the Company.

**19. Other Long Term Receivable**

On September 5, 2011 the Company terminated the charter of M/V Cyclades in order to sell the vessel. Since the daily charter rate that the Company was receiving was higher than what the market was paying at the time, the charterer realized a benefit from this termination and hence agreed to pay the Company a termination fee. This termination fee amounted to \$4.6 per day and was agreed to be collected over the period of the terminated charter party (i.e. up to February 2, 2014). The balance of this receivable as of December 31, 2011 amounted to \$3,074, \$1,841 presented under "Other Long-term Receivables" and \$1,233 under "Trade accounts receivable". On August 15, 2012 the Company sold this receivable, which amounted then to \$2,165 to the company Laurasia, in return for a \$750 reduction of the principal of one of the Laurasia bridge loan facilities (see note 9). The loss on the sale of the receivable was recorded under "Other, Net" in the Company's consolidated statement of comprehensive income / (loss).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in thousands of United States Dollars – except share, per share data and rate per day, unless otherwise stated)

### 20. Other Non Current Liabilities

On October 1, 2010, the Company entered into a bareboat charter agreement to lease vessel M/T Delos until September 30, 2015 for a variable rate per year. On October 15, 2011 the Company terminated the bareboat charter agreement resulting in a termination expense of \$5,750 included in "Lease Termination Expense" in the accompanying consolidated statements of comprehensive income/(loss) for the year ended December 31, 2011. As of December 31, 2012, the outstanding amount of the termination fee was \$5,306.

On January 1, 2013 the Company entered into an agreement with the owner of M/T Delos by which the termination fee outstanding as of December 31, 2012 is divided into two tranches, "Tranche A" (\$4,500) that will bear interest of 3% plus Libor and "Tranche B" (\$806) that will not bear interest. This agreement provides for the repayment of Tranche A and Tranche B according to the following schedule.

Year ending December 31,	Tranche A	Tranche B
	of the Termination Fee	of the Termination Fee
2013	600	
2014	800	
2015	800	
2016	800	
2017	1,500	806
	<b>4,500</b>	<b>806</b>

Finally, according to this agreement the Company will pay monthly Interest payments. As of December 31, 2012 the non-current part of the termination fee is \$4,706. This agreement and the negotiations preceding it constitute evidence about conditions that existed at the balance sheet date and hence the Company considers it a recognized subsequent event, since the said agreement is the culmination of conditions that existed over a relatively long period of time.

### 21. Continued Operations

In 2007 the Company made an investment in the drybulk sector, and from 2007 to 2010, the Company owned a total of five dry bulk vessels ("Drybulk Business") (three Panamax, one Supramax and one Handymax) under time charters, three of which were scheduled to expire during 2011. The Company had determined that in 2010 it operated under two reportable segments as the chief operating decision maker reviewed drybulk operations separate from that of the tankers and therefore presented operating results accordingly.

Following the sale of four drybulk vessels during 2011 and management's intention to sell M/V Evian, the Company's last dry bulk vessel, the Company determined that as of December 31, 2011, the Drybulk Business should be reflected as discontinued operations. (Note 8).

During 2012, the Company actively marketed M/V Evian but did not receive any suitable offers in order to sell the vessel. In addition, during May 2012 the Company was offered and subsequently signed a bareboat timecharter for the vessel at a rate higher than the prevailing market rates at that time. Thus on this basis the Company decided to change the plan of sale of the M/V Evian and assessed that it will continue to generate revenue (and incur associated costs) from its continuing operations. As a result, the M/V Evian no longer met the criteria to be classified as held for sale and reclassified the vessel as held for use and measured the vessel at its fair value, resulting in a write-up of \$2,086. As a result, the Drybulk business was reclassified to continuing operations for all periods presented. In evaluating the ongoing business operations, the Company determined that since tankers and dry bulk carriers have similar economic characteristics and that there is only one dry bulk vessel left, and as the chief operating decision maker reviews operating results solely by revenue per day and operating results of the fleet, the Company concluded that in 2012 they operated under one segment. Therefore, the presentation of the operating results for the year ended December 31, 2011 was modified accordingly.

### 22. Subsequent Events

On March 27, 2013 the Company entered into an agreement with an unrelated third party to sell the M/T UACC Sila, which as of December 31, 2012 the Company has classified as held for sale in the accompanying consolidated balance sheets (see Note 4). Since the vessel is classified as held for sale the Company estimates that no significant loss or gain will result from its sale. The vessel was delivered to its new owners on April 30, 2013 and its respective debt was fully repaid.

On April 15, 2013 the Company announced it has received a notice from the bareboat charterer of the M/T "MISS MARILENA" that it will unilaterally reduce the charterhire rate to \$10,000 per day starting from April 2013 month and for one year. Pursuant to the charter agreement, the charterer should pay the amount of \$14,400 per day. The Company is examining its options for recovery of the amounts contractually owed to it and intends to enforce its right to payment under the charter.



Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)

Balance Sheets

December 31, 2011 and 2012

(Expressed in thousands of U.S. Dollars – except for share and per share data)

	<u>December 31,</u>	
	<u>2011</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	-	-
Due from subsidiaries	266,859	264,697
Other current assets	393	141
<b>Total current assets</b>	<b>267,252</b>	<b>264,838</b>
<b>NON CURRENT ASSETS</b>		
Investments in subsidiaries	105,149	52,107
Restricted cash	952	164
Other non-current assets	193	52
<b>Total non-current assets</b>	<b>106,294</b>	<b>52,323</b>
<b>Total assets</b>	<b>373,546</b>	<b>317,161</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of debt	6,113	5,664
Due to subsidiaries	287,901	293,133
Current portion of financial instruments	684	222
Due to related parties-central	727	1,136
Other current liabilities	1,437	3,926
<b>Total current liabilities</b>	<b>296,862</b>	<b>304,081</b>
<b>NON CURRENT LIABILITIES</b>		
Other non-current liabilities	-	-
<b>Total non-current liabilities</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; none issued	-	-
Common stock \$0.01 par value; 1,000,000,000 shares authorized		
17,147,534 shares issued and outstanding at December 31, 2011 and 2012	171	172
Additional paid-in capital	292,583	292,962
Accumulated other comprehensive income	37	37
Accumulated deficit	(216,107)	(280,091)
<b>Total stockholders' equity</b>	<b>76,684</b>	<b>13,080</b>
<b>Total liabilities and stockholders' equity</b>	<b>373,546</b>	<b>317,161</b>

**Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)**  
**Statements of Operations**  
**For the years ended December 31, 2010, 2011 and 2012**  
(Expressed in thousands of U.S. Dollars – except for share and per share data)

	<b>December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>EXPENSES</b>			
General and administrative expenses	11,591	13,153	5,635
Foreign currency gains, net	(49)	37	59
<b>Operating loss</b>	<b>(11,542)</b>	<b>(13,190)</b>	<b>(5,694)</b>
<b>OTHER (EXPENSES) / INCOME</b>			
Interest and finance costs	(3,301)	(5,732)	(2,059)
Loss / (gain) on financial instruments	(1,058)	(300)	24
Interest income	1	1	0
Other, net	-	(37)	688
<b>Total Other (expenses), net</b>	<b>(4,358)</b>	<b>(6,068)</b>	<b>(1,347)</b>
Equity in earnings / (loss) of subsidiaries	18,413	(169,854)	(56,943)
<b>Net Income / (loss)</b>	<b>2,513</b>	<b>(189,112)</b>	<b>(63,984)</b>
Earnings / (loss) per common share, basic and diluted	<b>0.82</b>	<b>(30.00)</b>	<b>(3.77)</b>
Weighted average common shares outstanding, basic	3,075,278	6,304,679	16,989,585
Weighted average common shares outstanding, diluted	3,077,741	6,304,679	16,989,585

Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)  
**Statements of Cash Flows**  
**For the years ended December 31, 2010, 2011 and 2012**  
(Expressed in thousands of U.S. Dollars)

	2010	December 31, 2011	2012
<b>Net cash (used in) / provided by Operating Activities</b>	3,921	(6,150)	(844)
<b>Cash flows from Investing Activities</b>			
Return of investment from subsidiaries	19,473	24,142	-
Decrease in Restricted cash	52	(531)	788
Acquisition of fixed assets	(177)	(37)	
Net proceeds from sale of fixed assets			56
<b>Net cash provided by / (used in) Investing Activities</b>	<b>19,348</b>	<b>23,574</b>	<b>844</b>
<b>Cash flows from Financing Activities</b>			
Proceeds from debt	-	2,782	500
Proceeds from convertible debt	4,000	2,000	-
Principal payments of debt	(26,747)	(28,915)	(500)
Issuance of common stock, net of issuance costs	27	6,834	-
Payment of financing costs	(708)	(419)	-
<b>Net cash (used in) Financing Activities</b>	<b>(23,428)</b>	<b>(17,718)</b>	<b>0</b>
<b>Effect of exchange rate changes on cash</b>	<b>159</b>	<b>294</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(159)</b>	<b>(294)</b>	<b>0</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at end of year</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Schedule I- Condensed Financial Information of Top Ships Inc. (Parent Company Only)**

(Figures in thousands of U.S. Dollars)

In the condensed financial information of the Parent Company, the Parent Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries less equity in undistributed loss of subsidiaries, distributions from subsidiaries as return on investment and return of investment.

The Parent Company's subsidiaries made the following distributions to the Parent Company during the years ended December 31, 2010, 2011 and 2012:

	2010	2011	2012
Return on Investment	5,992	3,070	475
Return of Investment	19,473	24,142	-
<b>Total cash from subsidiaries</b>	<b>25,465</b>	<b>27,212</b>	<b>475</b>

The Parent Company is a borrower under the Laurasia, Central Mare and Shipping Financial Services facilities and guarantor under the remaining loans outstanding at December 31, 2012. Refer to Note 9 to the consolidated financial statements.

The principal payments required to be made after December 31, 2012 for these are as follows:

Year ending December 31, 2012	6,087
Less financing fees	(423)
	<b>5,664</b>

The vessel-owning subsidiary companies with outstanding loans had restricted net assets amounting to \$44,438 and \$15,806 as of December 31, 2011 and 2012, respectively.

The condensed financial information of the Parent Company should be read in conjunction with the Company's consolidated financial statements.