TOP SHIPS INC.
Form 20-F
May 21, 2008

w 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

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

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

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: N/A
For the transition period from: N/A to N/A
Commission file number 000-50859

TOP SHIPS INC.
(Exact name of Registrant as specified in its charter)

Republic of The Marshall Islands
(Jurisdiction of incorporation or organization)

1 Vas. Sofias and Meg. Alexandrou Str, 15124 Maroussi, Greece
(Address of principal executive offices)

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

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

Common Stock par value $0.01 per share	NASDAQ Global Select Market
Preferred Stock Purchase Rights	NASDAQ Global Select Market

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

NONE

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

NONE

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.

20,508,575 shares of Common Stock, par value $0.01 per share.

Indicate by check mark if the registrant is a 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 of 15(d) of the Securities Exchange Act of 1934 for 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 registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer | | Accelerated filer | X | Non-accelerated filer | |

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18 X

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

Other | |

U.S. GAAP | X | International Financial Reportings Standards as issued by the International Accounting Standards Board | |

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 | X |

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 | X |

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report 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.

All statements in this document that are not statements of historical fact are forward-looking statements. Forward-looking statements include, but are not limited to, such matters as:

- future operating or financial results;
- statements about planned, pending or recent acquisitions, business strategy and expected capital spending or operating expenses, including drydocking and insurance costs;
- statements about crude oil, refined petroleum products, dry commodities, tanker and drybulk shipping market trends, including charter rates, vessel values and factors affecting supply and demand;
- our ability to obtain additional debt and equity financing;
- expectations regarding the availability of vessel acquisitions; and
- anticipated developments with respect to pending litigation.

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 TOP SHIPS INC. believes 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, TOP SHIPS INC. cannot assure you that it will achieve or accomplish these expectations, beliefs or projections described in the forward looking statements contained in this report.

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 changes in charter rates and vessel values, failure of a seller to deliver one or more vessels, failure of a buyer to accept delivery of a vessel, inability to procure acquisition financing, default by one or more charterers of our ships, changes in demand for crude oil, refined petroleum products and dry commodities, the effect of changes in OPEC’s petroleum production levels, worldwide crude oil consumption and storage, port delays, changes in demand that may affect attitudes of time charterers, scheduled and unscheduled dry-docking, changes in TOP SHIPS INC.’s voyage and operating expenses, including bunker prices, dry-docking and insurance costs, changes in governmental rules and regulations including requirements for double-hull tankers and drybulk vessels or actions taken by regulatory authorities, potential liability from pending or future litigation, domestic and international political conditions, potential disruption of shipping routes due to accidents, international hostilities and political events or acts by terrorists.

When used in this document, the words ‘‘anticipate,’’ ‘‘estimate,’’ ‘‘project,’’ ‘‘forecast,’’ ‘‘plan,’’ ‘‘potential,’’ ‘‘may,’’ ‘‘sh
reflect forward-looking statements.

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 SI INC. and all of its subsidiaries, and ''TOP SHIPS INC.'' refers only to TOP SHIPS INC. and not to its subsidiaries. We use the term deadweight, or dwt, in describing the size of vessels. Dwt, expressed in metric tons each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry.

A. Selected Financial Data

The following table sets forth the selected historical consolidated financial data and other operating data of TOP SHIPS INC. and its predecessors as of December 31, 2003, 2004, 2005, 2006 and 2007 and for the years ended December 31, 2003, 2004, 2005, 2006 and 2007. The following information should be read in conjunction with Item 5 "Operating and Financial Review and Prospects" and the consolidated financial statements and related notes included herein. The following selected historical consolidated financial data of TOP SHIPS INC. and its predecessors in the table are derived from our consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), adjusted for the change in accounting principle, discussed below, and have been audited for the years ended December 31, 2003, 2004 and 2005 by Ernst & Young (Hellas) Certified Auditors Accountants S.A ("Ernst & Young") and for the years ended December 31, 2006 and 2007 by Deloitte, Hadjipavlou, Sofianos & Cambanis S.A., both independent registered public accounting firms.

	Year Ended December 31,				
Dollars in thousands, except per share data and average daily results	2003 (as adjusted) (1)	2004 (as adjusted) (1)	2005 (as adjusted) (1)	2006 (as adjusted) (1)	2007
INCOME STATEMENT DATA					
Revenues	$ 23,085	$ 93,829	$ 244,215	$ 310,043	$ 252,259
Voyage expenses	5,937	16,898	36,889	55,351	59,414
Charter hire expense	-	-	7,206	96,302	94,118
Amortization of deferred gain on sale and leaseback of vessels	-	-	(837)	(8,110)	(15,610)
Other vessel operating expenses	8,420	16,859	47,315	66,082	67,914
Dry-docking costs(1)	2,414	7,365	10,478	39,333	25,094
General and administrative expenses(2)	1,815	8,579	23,818	23,016	24,824
Foreign currency (gains) losses, net	105	75	(68)	255	176
Gain on sale of vessels(3)	-	(1,889)	(10,831)	(12,667)	(1,961)
Depreciation	3,604	13,108	47,055	35,266	27,408
Total operating expenses(1), (3)	22,295	60,995	161,025	294,828	281,377
Operating income (loss) (1), (3)	790	32,834	83,190	15,215	(29,118)
Interest and finance costs	(1,336)	(5,201)	(21,675)	(26,442)	(18,318)
Fair value change of financial instruments	-	-	1,498	(2,733)	(4,904)
Interest income	1	481	1,774	3,022	3,248
Other income (expense), net	364	80	134	(67)	16
Net income (loss) (1), (3)	$ (181)	$ 28,194	$ 64,921	$ (11,005)	$ (49,076)
Earnings (loss) per share, basic and diluted(4),(5)	$ (0.09)	$ 6.54	$ 6.97	$ (1.16)	$ (4.09)
Weighted average common shares outstanding, basic(4),(5)	2,000,000	4,307,483	9,308,923	10,183,424	11,986,857
Weighted average common shares outstanding, diluted(4),(5)	2,000,000	4,307,483	9,310,670	10,183,424	11,986,857

Dividends declared per share(4),(5)	$	0.30	$	1.80	$	2.64	$	23.13	-

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Dollars in thousands, except per share data and average daily results	2003 (as adjusted) (1)	2004 (as adjusted) (1)	2005 (as adjusted) (1)	2006 (as adjusted) (1)	2007
BALANCE SHEET DATA, at end of period					
Current assets	$4,862	$141,051	$67,574	$72,799	$102,161
Total assets(1)	53,555	533,138	970,386	490,885	776,019
Current liabilities, including current portion of long-term debt(1)	9,008	42,811	76,143	45,416	153,290
Total long-term debt, including current portion	34,403	194,806	564,103	218,052	438,884
Stockholders' equity(1)	14,171	315,061	359,147	161,198	211,408
FLEET DATA					
Total number of vessels at end of period	5.0	15.0	27.0	24.0	23.0
Average number of vessels(6)	4.4	9.6	21.7	26.7	22.4
Total voyage days for fleet(7)	1,517	3,215	7,436	8,634	7,032
Total time charter days for fleet	543	1,780	5,567	6,223	4,720
Total spot market days for fleet	974	1,435	1,869	2,411	2,312
Total calendar days for fleet(8)	1,609	3,517	7,905	9,747	8,176
Fleet utilization(9)	94.3%	91.4%	94.1%	88.6%	86.0%
AVERAGE DAILY RESULTS					
Time charter equivalent(10)	$11,304	$23,929	$27,881	$29,499	$27,424
Other vessel operating expenses(11)	5,233	4,794	5,985	6,780	8,307
General and administrative expenses(12)	1,128	2,439	3,013	2,361	3,036

(1) The Company has historically accounted for dry-docking costs that qualified as “Planned Major Maintenance Activities” (“PMMA”) using the deferral method. Beginning with the fourth quarter of 2007, the Company changed its accounting policy for PMMA from the deferral method, under which the Company amortized dry-docking costs over the estimated period of benefit between dry-dockings, to the direct expense method, under which the Company expenses all dry-docking costs as incurred. The Company believes that the direct expense method is preferable as it eliminates the significant amount of time and subjectivity involved to determine which costs and activities related to dry-docking qualify as PMMA under the deferral method. The Company reflected this change as a change in accounting principle from an accepted accounting principle to a preferable accounting principle in accordance with Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections. The new accounting principle is applied retrospectively to all periods presented.

(2) General and administrative expenses include management fees charged by a related party, sub-manager fees and other general and administrative expenses. We did not pay any compensation to members of our senior management or our directors in the year ended December 31, 2003. During 2004, 2005, 2006 and 2007, we paid to the members of our senior management and to our directors aggregate compensation of approximately $4.4 million, $8.1 million, $4.2 million and $4.8 million respectively.

(3)

Due to change in accounting policy for the dry-docking costs discussed in footnote 1 above, the gain from the sale of vessels was adjusted to exclude the unamortized dry-docking costs as of the date of the sale.

(4) All share and per share amounts have been restated to reflect the retroactive effect of the stock dividend in May 2004.

(5) On March 20, 2008, the Company effected a 1-for-3 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 financial statements have been retroactively restated to reflect this stock split.

(6) Average number of vessels is the number of vessels that constituted our fleet 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.

(7) Total voyage days for fleet are the total days the vessels were in our possession for the relevant period net of off hire days associated with major repairs, dry-dockings or special or intermediate surveys.

(8) Calendar days are the total days the vessels were in our possession for the relevant period including off hire days associated with major repairs, dry-dockings or special or intermediate surveys.

(9) Fleet utilization is the percentage of time that our vessels were available for revenue generating voyage days, and is determined by dividing voyage days by fleet calendar days for the relevant period.

(10) 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 voyage 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 non-GAAP measures, provide additional meaningful information in conjunction with shipping revenues, the most directly comparable GAAP measure, because it assists Company's management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance. The following table reflects reconciliation of TCE revenues to shipping revenues as reflected in the consolidated statements of operations and calculation of the TCE rate (all amounts are expressed in thousands of U.S. dollars, except for Average Daily Time Charter Equivalent amounts and Total Voyage Days):

	2003	2004	2005	2006	2007
On a consolidated basis					
Revenues	$ 23,085	$ 93,829	$ 244,215	$ 310,043	$ 252,259
Less:					
Voyage expenses	(5,937)	(16,898)	(36,889)	(55,351)	(59,414)
Time charter equivalent revenues	$ 17,148	$ 76,931	$ 207,326	$ 254,692	$ 192,845
Total voyage days	1,517	3,215	7,436	8,634	7,032
Average Daily Time Charter Equivalent	$ 11,304	$ 23,929	$ 27,881	$ 29,499	$ 27,424

	2003	2004	2005	2006	2007
Tanker Fleet					
Revenues	$23,085	$93,829	$244,215	$310,043	$248,944
Less:					
Voyage expenses	(5,937)	(16,898)	(36,889)	(55,351)	(59,253)
Time charter equivalent revenues	$17,148	$76,931	$207,326	$254,692	$189,691
Total voyage days	1,517	3,215	7,436	8,634	6,991
Average Daily Time Charter Equivalent	$11,304	$23,929	$27,881	$29,499	$27,134

	2007
Drybulk Fleet	
Revenues	$ 1,902
Less:	
Voyage expenses	(161)
Time charter equivalent revenues	$ 1,741
Total voyage days	41
Average Daily Time Charter Equivalent	$ 42,463

(11) Daily other vessel operating expenses, which includes crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs is calculated by dividing other vessel operating expenses by fleet calendar days for the relevant time period.

(12) Daily general and administrative expenses are calculated by dividing general and administrative expenses by fleet calendar days for the relevant time period.

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 industry in which we operate and our business in general. Any of the risk factors could materially and adversely affect our business, financial condition or operating results and the trading price of our common stock.

Risks Related to Our Industry

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

The international tanker and drybulk industries in which we operate are cyclical with attendant volatility in charter hire rates and industry profitability. For both tankers and drybulk carriers, 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. Although our balanced fleet deployment strategy may limit our exposure to charter rate volatility, we are nonetheless exposed to changes in spot rates for tankers and, after the acquisition of drybulk carriers without charters, drybulk carriers. Such changes may affect our earnings and the value of our vessels at any given time.

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

- demand for refined petroleum products and crude oil for tankers and drybulk commodities for drybulk vessels;
- changes in crude oil production and refining capacity as well as drybulk commodity production and resulting shifts in trade flows for crude oil, petroleum product and drybulk commodities;
- the location of regional and global crude oil refining facilities and drybulk commodities markets that affect the distance refined petroleum products and crude oil or drybulk commodities are to be moved by sea;
- global and regional economic and political conditions;
- the globalization of manufacturing and other developments in international trade;
- changes in seaborne and other transportation patterns, including changes in the distances over which cargoes are transported and, with regard to drybulk, the supply of and rates for alternate means of transportation;
- environmental and other regulatory developments;
- currency exchange rates; and
- weather.

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

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

The international tanker and drybulk shipping industries have experienced historically high charter rates and vessel values in the recent past and there can be no assurance that these historically high charter rates and vessel values will be sustained.

Charter rates in the drybulk shipping sector in the recent past have been near historically high levels. We anticipate that future demand for our tankers and drybulk vessels, and in turn our future charter rates, will be dependent upon continued global economic growth as well as seasonal and regional changes in demand as well as changes in the capacity of the world's fleet. We believe that the rising charter rates are the result of continued economic growth in the world economy that exceeds growth in global vessel capacity. There can be no assurance that economic growth will not stagnate or decline leading to a decrease in vessel values and charter rates. A decline in charter rates could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

- the International Maritime Organization, or IMO, International Convention for the Prevention of Pollution from Ships with respect to strict technical and operational requirements for tankers;

- the IMO International Convention for the Safety of Life at Sea of 1974, or SOLAS, with respect to crew and passenger safety;
- the International Convention on Load Lines of 1966 with respect to the safeguarding of life and property through limitations on load capability for vessels on international voyages; and
- the United States Marine Transportation Security Act of 2002.

More stringent maritime safety rules are being imposed worldwide as a result of the oil spill off the coast of France in November 2002 relating to the loss of the M/T Prestige, a 26-year old single-hull tanker owned by a company not affiliated with us. Additional laws and regulations may also be adopted that could limit our ability to do business or increase the cost of our doing business and that could have a material adverse effect on our operations. In addition, we are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates and financial assurances with respect to our vessel operations. In the event of war or national emergency, our tankers and drybulk vessels may be subject to requisition by the government of the flag flown by the tanker or drybulk vessel without any guarantee of compensation for lost profits. We believe our vessels are maintained in good condition in compliance with present regulatory requirements, are operated in compliance with applicable safety/environmental laws and regulations and are insured against usual risks for such amounts as our management deems appropriate. Our vessels' operating certificates and licenses are renewed periodically during each vessel's required annual survey. However, government regulation of tankers and drybulk carriers, particularly in the areas of safety and environmental impact, may change in the future and require us to incur significant capital expenditures on our ships to keep them in compliance.

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

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;
- competition from other shipping companies;
- types, sizes and ages of vessels;
- other modes of transportation;
- cost of newbuildings;
- price of steel;
- governmental or other regulations;

- prevailing level of charter rates; and
- technological advances.

If we sell vessels at a time when vessel prices have fallen and before an impairment is identified, the sale may be at less than the vessel's carrying amount in our financial statements, or if vessel prices have fallen below the carrying amount in our financial statements, we may be required to write down the carrying amount of the vessels on our financial statements, with the result that we shall incur a loss and a reduction in earnings.

An increase in the supply of vessel capacity without an increase in demand for vessel capacity would likely cause charter rates and vessel values to decline, which could have a material adverse effect on our revenues and profitability.

The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels, conversion of vessels to other uses, such as floating production and storage facilities, and loss of tonnage as a result of casualties. Currently there is significant new building activity with respect to virtually all sizes and classes of vessels. If the amount of tonnage delivered exceeds the number of vessels being scrapped, vessel capacity will increase. If the supply of vessel capacity increases faster than the demand for vessel capacity, the charter rates paid for our vessels as well as the value of our vessels could materially decline. Such a decline in charter rates and vessel values would likely have a material adverse effect on our revenues and profitability.

Our operating results from our tankers are subject to seasonal fluctuations, which may adversely affect our operating results and ability to pay dividends.

Seventeen of the vessels in our combined fleet are tankers, representing approximately 77% of our combined fleet and approximately 84% of our total deadweight capacity. We operate our tankers in markets that have historically exhibited seasonal variations in demand and, therefore, charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The tanker sector is typically stronger in the fall and winter months in anticipation of increased consumption of oil and petroleum products in the northern hemisphere during the winter months. As a result, our revenues from our tankers may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, revenues may be stronger in fiscal quarters ended December 31 and March 31. This seasonality could materially affect our results from operations.

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

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

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be dry docked every two to three years for inspection of the underwater parts of such vessel.

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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.

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

We seek to deploy our vessels on both time charters and in the spot market in a manner that will optimize our earnings. As of May 21, 2008, 11 of our tanker vessels and four of our drybulk vessels were contractually committed to time charters, one of our drybulk vessels was contractually committed to a bareboat charter. Although these time 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 time charters may not be available for spot voyages during an upturn in the tanker or drybulk industry cycle, as the case may be, when spot voyages might be more profitable. The spot market is highly competitive, and spot market charter rates may fluctuate dramatically based on the supply and demand for the major commodities carried internationally by water as well as other factors. We cannot assure you that future spot market voyage charters will be available at rates that will allow us to operate our vessels profitably. As of May 21, 2008, six tanker vessels were trading in the spot market. If we cannot continue to employ these vessels on time charters or trade them in the spot market profitably, our results of operations and operating cash flow may suffer.

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

Terrorist attacks such as the attacks on the United States on September 11, 2001, the bombings in Spain on March 11, 2004 and in London on July 7, 2005 and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks in the United States or elsewhere, continue to cause uncertainty in the world financial markets and may affect our business, operating results and financial condition. The continuing conflict in Iraq 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 favorable 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, results of operations and ability to pay dividends.

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 contents of our vessels, delays in the loading, offloading or delivery and 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.

Risks Related to Our Business

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. Our growth will depend on:

- locating and acquiring suitable vessels;
- identifying and consummating acquisitions or joint ventures;
- integrating any acquired business successfully with our existing operations;
- enhancing our customer base;
- managing expansion; and
- obtaining required financing.

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 cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant additional expenses and losses in connection therewith.

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

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

We expend substantial sums during construction of newbuildings without assurance that they will be completed.

We are typically required to expend substantial sums as progress payments during construction of a newbuilding, but we do not derive any revenue from the vessel until after its delivery.

If we were unable to obtain financing required to complete payments on any of our newbuilding orders, we could effectively forfeit all or a portion of the progress payments previously made. As of December 31, 2007, we had 6 newbuildings on order with deliveries scheduled in the first half of 2009. As of December 31, 2007, progress payments made towards these newbuildings, totaled $42.8 million.

To fund the remaining portion of existing or future capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of additional equity securities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition. Even if we are successful in obtaining necessary funds, incurring additional debt

may

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significantly increase our interest expense and financial leverage, which could limit our financial flexibility and ability to pursue other business opportunities.

A decline in the market value of our vessels could lead to a default under our loan agreements and the loss of our vessels.

The loan agreements under our secured credit facilities contain a covenant that requires the aggregate market value of the mortgaged vessels to at all times exceed 140% of the aggregate outstanding principal amount of the loan. If the market value of our fleet declines, we may be in default of this loan covenant and we may not be able to refinance our debt or obtain additional financing. If we are unable to pledge additional collateral, our lenders could accelerate our debt and foreclose on our fleet. In addition, a sale of a vessel at a time when its market value has declined below its carrying value on our books would adversely affect our results.

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, 2007, we had total indebtedness of $444.3 million (excluding unamortized deferred financing fees of $5.4 million), and a ratio of indebtedness to total capital of approximately 67%. We will need to take on additional indebtedness as we expand our fleet, which could increase our debt to equity ratio. 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 some of 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.

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

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

- incur additional indebtedness;
- create liens on our assets;
- sell capital stock of our subsidiaries;
- engage in mergers or acquisitions;
- pay dividends;
- make capital expenditures or other investments;
- 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. Our lenders' interests may be different from ours, and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may prevent us from taking actions that are in our best interest.

If we are unable to remain in compliance with agreements governing our indebtedness or to obtain waivers of any noncompliance, we will not be able to continue as a going concern.

As of December 31, 2007, we were out of compliance with the Adjusted EBITDA to fixed charges coverage covenant in our financing agreements with three of our lenders. While they have waived this non compliance through December 31, 2008, there can be no assurance that we will be able to obtain further waivers of, or amendments to, our financing facilities if we were to breach any representation, warranty or covenant contained in such financing facilities or waiver or amendment. Any default under our secured financing facilities and failure to obtain any necessary waivers or amendments in the future could result in the acceleration of the indebtedness under these facilities and the liquidation by the lender of the related collateral. Any acceleration of indebtedness would have a material adverse affect on our liquidity and ability to continue as a going concern and any liquidation of our collateral could be at a substantial loss.

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.

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We have changed our accounting policy to expense all drydocking costs as we incur them, which may result in significant and varying effects on our results of operations from period to period.

We have historically accounted for drydocking costs that qualified as ''Planned Major Maintenance Activities'' using the deferral method, under which we amortized drydocking costs over the estimated period of benefit between drydockings. Beginning with the fourth quarter of 2007 we have changed our accounting policy and now expense all drydocking costs as we incur them. The effect of this new accounting policy is and will be presented on a comparative basis for all periods covered in future quarterly and annual earnings announcements and filings. The impact of the new accounting policy is that net income for the years ended December 31, 2005 and 2006 decreased by approximately $3.8 million and $26.1 million, or $0.41 and $2.57 per share, respectively. Depending upon the future drydocking schedule for our fleet and the extent of repairs our vessels will require, expensing our drydocking costs as incurred could have significant and varying effects on our results of operations from period to period and may make it difficult to compare our operating results to those of other companies.

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

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

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

We have historically derived a significant part of our revenue from a small number of charterers. In 2007, approximately 33% of our revenue was derived from 2 charterers; Glencore and PDVSA provided 23% and 10% of our revenues, respectively. The occurrence of any problems with these charterers may adversely affect our revenues.

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

Our success depends to a significant extent upon the abilities and efforts of our management team. We have entered into employment contracts with our President, Chief Executive Officer and Director, Evangelos Pistiolis, our Chief Financial Officer and Director, Stamatios Tsantanis, our Executive Vice President and Director, Vangelis Ikonomou and our Vice President Demetris Souroullas. Our success will depend upon our ability to hire and retain key members of our management team. The loss of any of these individuals could adversely affect our business prospects and financial condition.

Difficulty in hiring and retaining personnel could adversely affect our results of operations. We do not intend to maintain ''key man'' life insurance on any of our officers.

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

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

- marine disaster;
- piracy;
- environmental accidents;
- cargo and property losses or damage; and
- mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

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

Delays in deliveries of our vessels could harm our operating results.

We took delivery of six drybulk vessels between November 2007 and May 2008. The delivery of any secondhand vessels we may purchase, could be delayed, which would delay our receipt of revenues in the spot market or under period charters for the vessels. If delivery of a vessel is materially delayed, it could adversely affect our results of operations and financial condition.

Rising fuel prices may adversely affect our profits.

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. As a result, an increase in the price of fuel may adversely affect our profitability. Further, fuel may become much more expensive in future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

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

If our vessels suffer damage, they may need to be repaired at a drydocking facility, resulting in vessel downtime. The costs of drydock repairs are unpredictable and can be substantial. We may have to

pay drydocking costs that our insurance does not cover. The inactivity of these vessels while they are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or we may be forced to move to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while our vessels are forced to wait for space or to relocate to drydocking facilities that are farther away from the routes on which our vessels trade would decrease our earnings.

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

While we rigorously inspect previously owned, or secondhand vessels prior to purchase, this does not normally provide us with the same knowledge about their condition and cost of any required (or anticipated) repairs that we would have had if these vessels had been built for and operated exclusively by us. Also, we do not receive the benefit of warranties from the builders if the vessels we buy are older than one year. In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. As of May 21, 2008, 15 of the tanker vessels in our fleet were more than 10 years of age. 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 increase with the age of a vessel, making older vessels less desirable to charterers. 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. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. If we sell vessels, we are not certain that the price for which we sell them will equal at least their carrying amount at that time.

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

We procure insurance for our fleet against those types of risks commonly insured against by vessel owners and operators. These insurances include hull and machinery insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance coverage, war risk insurance and insurance against loss of hire, which covers business interruptions that result in the loss of use of a vessel. While we currently have loss of hire insurance that covers, subject to annual coverage limits, all of the vessels in our fleet, we may not purchase loss of hire insurance to cover newly acquired vessels. We can give no assurance that we are adequately insured against all risks. We may not be able to obtain adequate insurance coverage at reasonable rates for our fleet in the future. 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.

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

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

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

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

Certain existing stockholders, who hold approximately 32.1% of our common stock, may have the power to exert control over us, which may limit your ability to influence our actions.

Sovereign Holdings Inc., or Sovereign Holdings, a company that is wholly owned by our President, Chief Executive Officer and Director, Evangelos J. Pistiolis, and Kingdom Holdings Inc., or Kingdom Holdings, a company owned primarily by adult relatives of our President, Chief Executive Officer and Director, Evangelos J. Pistiolis, own, directly or indirectly, approximately 6.9% of the outstanding shares of our common stock. In addition, Sphinx Investment Corp. and QVT Financial LP, entities owned and controlled by unaffiliated third parties, own 14.8% and 10.4% of our common stock, respectively. Together, these existing shareholders own 32.1% of our common stock. While these shareholders have no agreement, arrangement or understanding relating to the voting of their shares of common stock, due to the number of shares of our common stock they own, they have the power to exert considerable influence over our actions.

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

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

United States tax authorities could treat us as a ''passive foreign investment company,'' which could have adverse United States federal income tax consequences to United States holders.

A foreign corporation will be treated as a ''passive foreign investment company,'' or PFIC, for United States federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of ''passive income'' or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of ''passive income.'' For purposes of these tests, ''passive income'' includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these

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tests, income derived from the performance of services does not constitute ‘‘passive income.’’ United States shareholders of a PFIC are subject to a disadvantageous United States federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our current assets and activities, we do not believe that we will be a PFIC with respect to our current taxable year or any subsequent taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time chartering activities does not constitute ‘‘passive income,’’ and the assets that we own and operate in connection with the production of that income do not constitute passive assets.

There is, however, no direct legal authority under the PFIC rules addressing our proposed method of operation. Accordingly, no assurance can be given that the United States Internal Revenue Service, or IRS, or a court of law will accept our position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our United States shareholders will face adverse United States tax consequences. 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 ‘‘Tax Considerations— United States Federal Income Taxation of United States Holders’’), such shareholders would be liable to pay United States 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 our common stock, as if the excess distribution or gain had been recognized ratably over the shareholder’s holding period of our common stock. See ‘‘Tax Considerations— United States Federal Income Taxation of United States Holders’’ for a more comprehensive discussion of the United States federal income tax consequences to United States shareholders if we are treated as a PFIC.

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

We generate all of our revenues in U.S. dollars but incur approximately 10% of our expenses in currencies other than U.S. dollars, mainly Euros. This difference could lead to fluctuations in net income due to changes in the value of the U.S. dollar relative to the other currencies, in particular the Euro. Should the Euro appreciate relatively to the U.S. dollar, then our expenses will increase in U.S dollar terms, thereby decreasing our net income. Specifically, in the 12 months ended December 31, 2007, the value of the U.S. dollar decreased by 12.0% as compared to the Euro. We have not hedged these risks. Our operating results could suffer as a result.

We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law.

Our corporate affairs are governed by our Articles of Incorporation and Bylaws 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. Security holder 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 security holders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would security

holders of a corporation incorporated in a United States jurisdiction.

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 Marshall Islands and renamed to TOP TANKERS INC. in May 2004. In December 2007, TOP TANKERS INC. was renamed to TOP SHIPS INC. and 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 8128000.

On July 23, 2004, we completed our initial public offering. The net proceeds of our initial public offering, approximately $124.6 million, were primarily used to finance the acquisition of 10 vessels, comprised of 8 ice-class double-hull Handymax tankers and 2 double-hull Suezmax tankers. The total cost of the acquisition was approximately $251.3 million.

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

During 2005, we acquired 5 double-hull Handymax and 4 double-hull Suezmax tankers at a total cost of $453.4 million and sold 1 double-hull Handymax and our last single-hull Handysize tanker. We sold and leased-back 5 double-hull Handymax tankers for a period of 7 years.

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

During 2006, we sold and leased-back on a fixed charter basis 4 double-hull Handymax, 4 double-hull Suezmax and 5 double-hull Suezmax tankers for a period of 5 years, 5 years and 7 years, respectively. Additionally, we sold 3 double-hull Handymax tankers and we entered into an agreement with SPP Shipbuilding Co, Ltd of the Republic of Korea for the construction of 6 Product / Chemical tankers.

In May 2007, we re-acquired 4 Suezmax tankers that we sold in 2006 in an earlier sale and leaseback transaction and terminated the respective bareboat charters. The re-acquisition price was $208.0 million and was partially financed by the early redemption of the seller's credit of $20.6 million, associated with the 2006 sales and leaseback transactions, along with secured debt financing and cash from operations.

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

During July and August 2007, we agreed to acquire 1 Supramax, 1 Handymax and 4 Panamax drybulk vessels at a total cost of $370.1 million. The Handymax and 2 Panamax drybulk vessels were delivered to us during the fourth quarter of 2007.

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

Finally, during 2007 we sold 1 Suezmax tanker, we agreed to sell 1 Suezmax tanker, which was delivered to its new owners in January 2008 and we terminated the bareboat charters on 3 Handymax tankers that we sold in 2005 in a sale and leaseback transaction, due to the sale of the vessels by their owners to third parties.

As of December 31, 2007, our fleet size consisted of 23 vessels – 12 Suezmax tankers, 8 Handymax tankers and 3 drybulk vessels, or 2.4 million dwt (including 11 tankers sold and leased back) as compared to 24 vessels, or 2.5 million dwt (including 18 vessels sold and leased back) as of December 31, 2006.

During 2008, we acquired 1 Supramax drybulk vessel, 2 Panamax drybulk vessels, we sold 1 Suezmax tanker and 1 Panamax drybulk vessel and finally we terminated the bareboat charter of 1 Suezmax tanker that we sold in 2006 in a sale and leaseback transaction, due to the sale of the vessel by its owners to third party.

On March 20, 2008, we effected a 1-for-3 reverse stock split of our common stock. There was no change in the number of authorized common shares. As a result of the reverse stock split, the number of outstanding shares as of March 20, 2008 was decreased to 20,705,380, while the par value of our common shares remained unchanged at $0.01 per share.

In April 2008, we privately placed 7.3 million common unregistered shares for aggregate proceeds of approximately $51.0 million with various investors. The 7.3 million shares were sold for $7.00 per share, which represents a discount of 15.5 percent based on the closing share price of $8.28 on April 23, 2008.

B. Business Overview

Business Strategy

Our business strategy is focused on building and maintaining enduring relationships with participants in the international tanker and drybulk industries, including leading charterers, oil companies, oil traders, brokers, suppliers, classification societies, insurers and others. We seek to continue to create long-term shareholder value principally by acquiring and operating high quality double-hull, refined petroleum products and crude oil tankers on an accretive basis for our shareholders.

Our tanker fleet under management consists of owned and chartered-in vessels with bare-boat employment agreements. A total of eighteen chartered-in vessels of our fleet derived from a number of sale and leaseback transactions that we completed in 2005 and 2006. The purpose of the sale and leaseback transactions was to take advantage of the high asset price environment prevailing in the market at the time and to maintain commercial and operations control of the vessels for a period of five to seven years. In 2006, the majority of the net proceeds of the transaction, after debt repayment, were distributed as a special dividend to the Company's shareholders.

However, the vessels sold and leased back proved to have higher operating expenses due to the increased need for regular repairs and maintenance. In addition, freight market conditions deteriorated during the year ended December 31, 2007. At the inception of the lease period we had assumed a utilization rate of approximately 90% for those vessels. However, most of these vessels underwent their drydockings in 2006 and early 2007. All of these drydockings required significantly more time and expense than originally anticipated because of the unexpected, increased amount of works required and overbooking of the Chinese shipyards at which the vessels were drydocked, which caused significant delays. That decreased the utilization rate to approximately 71%. As a result of the above, the transaction proved uneconomical having a negative impact on our operating results.

While the chartered-in vessels comprised of the majority of the fleet in 2006, we have initiated a process to unwind a number of bare-boat agreements. We have successfully unwound eight bare-boat charter agreements, either by re-acquiring tankers previously sold and leased back, or initiating the sale process by the Lessors to third parties and we intend to continue our efforts to further unwind existing charter-in bare-boat agreements in the future.

Moreover, in an effort to modernize our tanker fleet, we have ordered six newbuilding product tankers in the SPP shipyard of the Republic of Korea. These tankers are expected to be delivered to us in the first half of 2009.

In addition, we recently diversified our fleet portfolio by acquiring drybulk vessels, beginning with the acquisition of 6 drybulk vessels. We intend to continue to review the market for drybulk vessels to continue our program of acquiring suitable vessels on accretive terms.

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

Our Fleet

We are a provider of international seaborne transportation services, carrying petroleum products, crude oil for the oil industry and drybulk commodities for the steel, electric utility, construction and agri-food industries. As of December 31, 2007, our fleet consisted of 23 vessels (including 11 tankers sold and leased-back), comprised of 8 double-hull Handymax product tankers, 12 double-hull Suezmax tankers and 3 drybulk vessels, with a total cargo carrying capacity of approximately 2.4 million dwt. We actively manage the deployment of our fleet between spot market voyage charters, which generally last from several days to several weeks, and time charters, which can last up to several years. 67% of our fleet by dwt were 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 sold and leased-back on a fixed charter basis 4 double-hull Handymax, 4 double-hull Suezmax and 5 double-hull Suezmax tankers for a period of 5 years, 5 years and 7 years, respectively. Additionally, we sold 3 double-hull Handymax tankers and we entered into an agreement with SPP Shipbuilding Co, Ltd of the Republic of Korea for the construction of 6 Product / Chemical tankers for a consideration of approximately $285.4 million, which will be funded with secured credit lines and working capital. The vessels will be delivered during the first and second quarters of 2009.

During 2007, we re-acquired 4 Suezmax tankers that we sold in 2006 in an earlier sale and leaseback transaction, we agreed to acquire 6 drybulk vessels and terminated the bareboat charters of 3 Handymax tankers that we sold in 2005 in a sale and leaseback transaction, due to the sale of vessels by their owners to third parties. In addition, we sold 1 Suezmax tanker and we agreed to sell 1 more Suezmax tanker, which was delivered to its new owners in January 2008.

During 2008, we acquired 1 Supramax drybulk vessel, 2 Panamax drybulk vessels, we sold 1 Suezmax tanker and 1 Panamax drybulk vessel and we terminated the bareboat charter of 1 Suezmax tanker that we sold in 2006 in a sale and leaseback transaction, due to the sale of the vessel by its owners to third party.

The following table presents the Company’s fleet list and employment as of the date of this report:

	Dwt	Year Built	Charter Type	Expiry	Daily Base Rate	Profit Sharing Above Base Rate (2008)	Daily Charter Hire Expense
9 Suezmax Tankers							
TimelessC	154,970	1991	Spot				$ 25,000
FlawlessC	154,970	1991	Spot				$ 25,000
StoplessC	154,970	1991	Time Charter	Q3/2008	$ 35,000	50% thereafter	$ 25,000
PricelessC	154,970	1991	Spot				$ 25,000
EndlessE	135,915	1992	Time Charter	Q3/2008D	$ 36,500	None	
LimitlessE	136,055	1993	Spot				
StormlessE	150,038	1993	Time Charter	Q2/2010	$ 36,000F	None	
Ellen PE.	146,286	1996	Time Charter	Q2/2008A	$ 44,500	None	

EdgelessE	147,048	1994	Spot

	Dwt	Year Built	Charter Type	Expiry	Daily Base Rate	Profit Sharing Above Base Rate (2008)	Daily Charter Hire Expense
8 Handymax Tankers							
SovereignB	47,084	1992	Time Charter	Q3/2009	$ 14,000	50% thereafter	$ 11,600
RelentlessB	47,084	1992	Time Charter	Q3/2009	$ 14,000	50% thereafter	$ 11,500
VanguardC	47,084	1992	Time Charter	Q1/2010	$ 15,250	50% thereafter	$ 13,200
SpotlessC	47,094	1991	Time Charter	Q1/2010	$ 15,250	50% thereafter	$ 13,200
DoubtlessC	47,076	1991	Time Charter	Q1/2010	$ 15,250	50% thereafter	$ 13,200
FaithfulC	45,720	1992	Time Charter	Q2/2010	$ 14,500	100% first $500 + 50% thereafter	$ 13,200
DauntlessE	46,168	1999	Time Charter	Q1/2010	$ 16,250	100% first $1,000 + 50% thereafter	
Ioannis PE.	46,346	2003	Time Charter	Q4/2010	$ 18,000	100% first $1,000 + 50% thereafter	
Total Tanker dwt	1,708,878						
5 Drybulk Vessels							
CycladesE	75,681	2000	Time Charter	Q2/2011	$ 50,860	None	
AmalfiE	45,526	2000	Time Charter	Q1/2009	$ 22,000	None	
Voc GallantE	51,200	2002	Bareboat Charter	Q2/2009	$ 25,650	None	
PepitoE	75,928	2001	Time Charter	Q2/2013	$ 38,950	None	
AstraleE	75,933	2000	Time Charter	Q2/2009	$ 67,500	None	
Total Drybulk dwt	324,268						
TOTAL DWT	2,033,146						

A. Charterers have option to extend contract for an additional one-year period
B. Vessels sold and leased back in August and September 2005 for a period of 7 years
C. Vessels sold and leased back in March 2006 for a period of 5 years
D. Charterers have option to extend contract for an additional four-year period
E. Owned vessels
F. Base rate will change to $35,000 in May 2008 until expiration.

Chartering of the Fleet

As of December 31, 2007, 14 of the 23 vessels (7 Handymax tankers, 4 Suezmax tankers and 3 drybulk vessels) operated under time charter contracts with an average term of over two years with all but six of the time charters including profit sharing arrangements, 7 of the 23 vessels (7 Suezmax tankers) operated under voyage charters and 2 of the 23 vessels (1 Handymax tanker and 1 Suezmax tanker) were undergoing their special survey, one of which (1 Handymax) was operating under long-term time charter.

All 8 of our Handymax tankers operated under time charter contracts expiring in 2009 and 2010.

Two of our Handymax tankers were deployed under time charter contracts expiring in Q3 of 2009 and have a base rate of $14,000 per day. Should the vessels generate revenues, on a quarterly basis, in excess of the base rate, we will receive 50% of the excess of the base rate.

Three of our Handymax tankers were deployed under time charter contracts expiring in Q1 of 2010 and have a base rate of $15,250 per day. Should the vessels generate revenues, on a quarterly basis, in excess of the base rate, we will receive 50% of the excess of the base rate.

One of our Handymax tankers was deployed under time charter contract expiring in Q2 of 2010 and has a base rate of $14,500 per day. Should the vessel generate revenues, on a quarterly basis, in excess of the base rate, we will receive 100% of the first $500 per day above the base rate and 50% of the excess thereafter.

One of our Handymax tankers was deployed under a time charter contract expiring in Q1 of 2010 and has a base rate of $16,250 per day. Should the vessel generate revenues, on a quarterly basis, in excess of the base rate, we will receive 100% of the first $1,000 per day above the base rate and 50% of the excess thereafter.

One of our Handymax tankers was deployed under a time charter contract expiring in Q4 of 2010 and has a base rate of $18,000 per day. Should the vessel generate revenues, on a quarterly basis, in excess of the base rate, we will receive 100% of the first $1,000 per day above the base rate and 50% of the excess thereafter.

4 of our 13 Suezmax tankers operated under time charter contracts expiring from 2008 to 2010. One of our Suezmax tankers was deployed under a time charter contract expiring in Q3 of 2008 and has a base rate of $35,000 per day. Should the vessel generate revenues, on a quarterly basis, in excess of the base rate, we will receive 50% of the excess of the base rate. The remaining 3 Suezmax tankers were deployed under time charter contracts expiring in Q2 of 2008, Q3 of 2008 and Q2 of 2010, earning a daily rate of $44,500, $36,500 and $36,000 respectively.

All 3 drybulk vessels operated under time charter contracts expiring from 2008 to 2009. One of our drybulk vessels was deployed under a time charter contract expiring in Q1 of 2009 earning a daily rate of $22,000, one was deployed under a short-term time charter contract and the third one was deployed, up to the date of its sale, under a time charter contract earning a daily rate of $29,700.

Management of the Fleet

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

As of December 31, 2007, TOP Tanker Management has subcontracted the day to day technical management and crewing of 1 Handymax tanker and 2 Suezmax tankers to V.Ships Management Limited, a ship management company, and has subcontracted the day to day technical management and crewing of 1 Handymax tanker to Hanseatic Shipping Company Ltd, a ship management company operating in Cyprus. Additionally, TOP Tanker Management has also subcontracted the crewing of 3 Handymax tankers and 9 Suezmax tankers to V. Ships Management Limited and has also subcontracted the crewing of 3 Handymax tankers, 3 drybulk vessels and 1 Suezmax tanker to Interorient Maritime Enterprises Inc. TOP Tanker Management pays a monthly fee of $11,000 per vessel for technical management and crewing of the 3 vessels and $3,220 per vessel for the crewing of 12 vessels under its

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agreements with V. Ships Management, a monthly fee of $7,083 per vessel for the 1 vessel under its agreement with Hanseatic Shipping Company and a monthly fee of $1,700 per vessel for the 7 vessels under its agreements with Interorient Maritime Enterprises Inc.

Crewing and Employees

As of December 31, 2006 and 2007, TOP SHIPS INC. had 3 and 4 employees, respectively, while our wholly-owned subsidiary, TOP Tanker Management, employed approximately 68 employees in 2006 and 92 employees in 2007, all of whom are shore-based. TOP Tanker Management ensures that all seamen have the qualifications and licenses required to comply with international regulations and shipping conventions, and that our vessels employ experienced and competent personnel.

V. Ships Management, Hanseatic Shipping Company and Interorient Maritime Enterprises Inc, are responsible for the crewing of the fleet. Such responsibilities include training, transportation, compensation and insurance of the crew.

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

Environmental Regulation

Government regulation significantly affects the ownership and operation of our vessels including international conventions, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered.

A variety of governmental and private entities subject vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (U.S. Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry) and charterers, particularly terminal operators. Certain of these entities require vessel owners to obtain permits, licenses and certificates for the operation of their vessel. Failure to maintain necessary permits or approvals could require a vessel owner to incur substantial costs or temporarily suspend operation of one or more of its vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created demand for vessels that conform to the stricter environmental standards. We maintain operating standards for all vessels that will emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations. We believe that the operation of our vessels are in substantial compliance with applicable environmental laws and regulations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels.

International Maritime Organization (IMO)

The International Maritime Organization, or IMO (the United Nations agency for maritime safety), has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto, which has been updated through various amendments, or the "MARPOL Convention". The MARPOL Convention relates to environmental standards including oil leakage or spilling, garbage management, as well as the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. These regulations, which have been implemented in many jurisdictions in which our vessels operate, provide in part, that:

- 25 year old tankers must be of double-hull construction or of a mid-deck design with double-sided construction, unless:

(1) they have wing tanks or double-bottom spaces not used for the carriage of oil, which cover at least 30% of the length of the cargo tank section of the hull or bottom; or

(2) they are capable of hydrostatically balanced loading (loading less cargo into a tanker so that in the event of a breach of the hull, water flows into the tanker, displacing oil upwards instead of into the sea);

- 30 year old tankers must be of double-hull construction or mid-deck design with double sided construction; and
- all tankers will be subject to enhanced inspections.

Also, under IMO regulations, a tanker must be of double-hull construction or a mid-deck design with double-sided construction or be of another approved design ensuring the same level of protection against oil pollution if the tanker:

- is the subject of a contract for a major conversion or original construction on or after July 6, 1993;
- commences a major conversion or has its keel laid on or after January 6, 1994; or
- completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

Our vessels are also subject to regulatory requirements including the phase-out of single-hull tankers, imposed by the IMO. Effective September 2002, the IMO accelerated its existing timetable for the phase-out of single-hull oil tankers. At that time, these regulations required the phase-out of most single- hull oil tankers by 2015 or earlier, depending on the age of the tanker and whether it has segregated ballast tanks.

Under the regulations, the flag state may allow for some newer single hull ships registered in its country that conform to certain technical specifications to continue operating until the 25th anniversary of their delivery. Any port state, however, may deny entry of those single hull tankers that are allowed to operate until their 25th anniversary to ports or offshore terminals. These regulations have been adopted by over 150 nations, including many of the jurisdictions in which our tankers operate.

As result of the oil spill in November 2002 relating to the loss of the M/T Prestige, which was owned by a company not affiliated with us, in December 2003, the Marine Environmental Protection Committee of the IMO, or MEPC, adopted an amendment to the MARPOL Convention, which became effective in April 2005. The amendment revised an existing regulation 13G accelerating the phase-out of single hull oil tankers and adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil. Under the revised regulation, single hull oil tankers must be phased out no later than April 5, 2005 or the anniversary of the date of delivery of the ship on the date or in the year specified in the following table:

Category of Oil Tankers	Date or Year
Category 1 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks	April 5, 2005 for ships delivered on April 5, 1982 or earlier; or 2005 for ships delivered after April 5, 1982
Category 2 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements and Category 3 - oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers.	April 5, 2005 for ships delivered on April 5, 1977 or earlier 2005 for ships delivered after April 5, 1977 but before January 1, 1978 2006 for ships delivered in 1978 and 1979 2007 for ships delivered in 1980 and 1981 2008 for ships delivered in 1982 2009 for ships delivered in 1983 2010 for ships delivered in 1984 or later

Under the revised regulations, a flag state may permit continued operation of certain Category 2 or 3 tankers beyond the phase out date set forth in the above table. Under regulation 13G, the flag state may allow for some newer single-hull oil tankers registered in its country that conform to certain technical specifications to continue operating until the eariler of the anniversary of the date of delivery of the vessel in 2015 or the 25th anniversary of their delivery. Under regulation 13G and 13H, as described below, certain Category 2 and 3 tankers fitted with double bottoms or double sides may be allowed by the flag state to continue operations until their 25th anniversary of delivery. Any port state, however, may deny entry of those single hull oil tankers that are allowed to operate under any of the flag state exemptions.

In October 2004, the MEPC adopted a unified interpretation to regulation 13G that clarified the delivery date for converted tankers. Under the interpretation, where an oil tanker has undergone a major conversion that has resulted in the replacement of the fore-body, including the entire cargo carrying section, the major conversion completion date of the oil tanker shall be deemed to be the date of delivery of the ship, provided that:

- the oil tanker conversion was completed before July 6, 1996;
- the conversion included the replacement of the entire cargo section and fore-body and the tanker complies with all the relevant provisions of MARPOL Convention applicable at the date of completion of the major conversion; and

- the original delivery date of the oil tanker will apply when considering the 15 years of age threshold relating to the first technical specifications survey to be completed in accordance with MARPOL Convention.

In December 2003, the MEPC adopted a new regulation 13H on the prevention of oil pollution from oil tankers when carrying heavy grade oil, or HGO, which includes most of the grades of marine fuel. The new regulation bans the carriage of HGO in single hull oil tankers of 5,000 dwt and above after April 5, 2005, and in single hull oil tankers of 600 dwt and above but less than 5,000 dwt, no later than the anniversary of their delivery in 2008.

Under regulation 13H, HGO means any of the following:

- crude oils having a density at 15ºC higher than 900 kg/m3;
- fuel oils having either a density at 15ºC higher than 900 kg/ m3 or a kinematic viscosity at 50ºC higher than 180 mm2/s;
- bitumen, tar and their emulsions.

Under the regulation 13H, the flag state may allow continued operation of oil tankers of 5,000 dwt and above, carrying crude oil with a density at 15ºC higher than 900 kg/m3 but lower than 945 kg/m3, that conform to certain technical specifications and, in the opinion of the such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship and provided that the continued operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery. The flag state may also allow continued operation of a single hull oil tanker of 600 dwt and above but less than 5,000 dwt, carrying HGO as cargo, if, in the opinion of such flag state, the ship is fit to continue such operation, having regard to the size, age, operational area and structural conditions of the ship, provided that the operation shall not go beyond the date on which the ship reaches 25 years after the date of its delivery.

The flag state may also exempt an oil tanker of 600 dwt and above carrying HGO as cargo if the ship is either engaged in voyages exclusively within an area under its jurisdiction, or is engaged in voyages exclusively within an area under the jurisdiction of another party, provided the party within whose jurisdiction the ship will be operating agrees. The same applies to vessels operating as floating storage units of HGO.

Any port state, however, can deny entry of single hull tankers carrying HGO which have been allowed to continue operation under the exemptions mentioned above, into the ports or offshore terminals under its jurisdiction, or deny ship-to-ship transfer of HGO in areas under its jurisdiction except when this is necessary for the purpose of securing the safety of a ship or saving life at sea.

Revised Annex I to the MARPOL Convention entered into force in January 2007. Revised Annex I incorporates various amendments adopted since the MARPOL Convention entered into force in 1983, including the amendments to regulation 13G (regulation 20 in the revised Annex) and Regulation 13H (regulation 21 in the revised Annex). Revised Annex I also imposes construction requirements for oil tankers delivered on or after January 1, 2010. A further amendment to revised Annex I includes an amendment to the definition of heavy grade oil that will broaden the scope of regulation 21. On August 1, 2007, regulation 12A (an amendment to Annex I) came into effect requiring oil fuel tanks to be located inside the double-hull in all ships with an aggregate oil fuel capacity of 600m3 and above, and which are delivered on or after August 1, 2010, including ships for which the buidling contract us entered into on or after August 1, 2007 or, in the absence of a contract which keel is laid on or after February 1, 2008.

In September 1997, the IMO adopted Annex VI to the MAROL Convention to address air pollution from ships. Annex VI was ratified in May 2004 and became effective May 19, 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas

to be established with more stringent controls on sulfur emissions. We believe that all our vessels are currently compliant in all material respects with these regulations. Additional or new

conventions, laws and regulations may be adopted that could adversely affect our business, cash flows, results of operations and financial condition.

In February 2007, the United States proposed a series of amendments to Annex VI regarding particulate matter, NOx and SOx emission standards. The emission program proposed by the United States would reduce air pollution from ships by establishing a new teir so performance-based standards for diesel engines on all vessels and stringent emission requirements for ships that operate in coastal areas with air-quality problems. On June 28, 2007, the world shipping Council announced its support for these amendments. If these amendments are implemented, we may incur costs to comply with the proposed standards.

The IMO has also adopted the International Convention for the Safety of Life at Sea, or SOLAS Convention, and the International Convention on Load Lines, 1966, or LL Convention, which impose a variety of standards to regulate design and operational features of ships. SOLAS Convention and LL Convention standards are revised periodically. We believe that all our vessels are in substantial compliance with SOLAS Convention and LL Convention standards.

Under Chapter IX of SOLAS, the requirements contained in the International Safety Management Code, for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO, also affect our operations. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies.

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

Noncompliance with the ISM Code and other IMO regulations may subject the shipowner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. The U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code by the applicable deadlines will be prohibited from trading in U.S. and European Union ports, as the case may be.

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. Additional or new conventions, laws and regulations may be adopted which could limit our ability to do business and which could have a material adverse effect on our business and results of operations.

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 (beginning in 2009), 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. The flag state, as defined by the United Nations Convention on Law of the Sea, has overall responsibility for the implementation and enforcement of international maritime regulations for all ships granted the right to fly its flag. The "Shipping Industry Guidelines on Flag State Performance" evaluates flag states based on factors such as sufficiency of infrastructure, ratification of international maritime treaties, implementation and enforcement of international maritime regulations, supervision of surveys, casualty investigations and participation at IMO meetings.

Although the United States is not a party to these conventions, 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, or the CLC, as amended in 2000. Under this convention, and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Under an amendment to the 1992 protocol that became effective on November 1, 2003 for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability will be limited to approximately $6.75 million plus $944.7 for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability will be limited to approximately $134.4 million. As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on January 23, 2007. The right to limit liability is forfeited under the CLC where the spill is caused by the owner's actual fault and under the 1992 Protocol where the spill is caused by the owner's intentional or reckless conduct. Vessels trading with states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and

liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our P&I insurance will cover the liability under the plan adopted by the IMO.

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

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

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

- natural resource damages and related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, profits or earnings capacity;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA previously limited the liability of responsible parties to the greater of $1,200 per gross ton or $10 million per tanker that is over 3,000 gross tons (subject to possible adjustment for inflation). Amendments to OPA signed into law in July 2006 increased these limits on the liability of responsible parties to the greater of $1,900 per gross ton or $16 million per double hull tanker that is over 3,000 gross tons. The act specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of $300 per gross ton or $5 million.

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

OPA requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the act. The U.S. Coast Guard has enacted regulations requiring evidence of financial responsibility in the amount of $1,500 per gross ton for tankers, coupling the OPA limitation on liability of $1,200 per gross ton with the CERCLA liability limit of $300 per

gross ton.

On February 5, 2008, the U.S. Coast Guard proposed a new rule that will require evidence of financial responsibility in amounts that reflect the higher limits of liability imposed by the July 2006 amendments to OPA, as described above. Under the regulations, vessel owners and operators may evidence their financial responsibility by showing proof of insurance, surety bond, self-insurance or guaranty. Under OPA, an owner or operator of a fleet of vessels is required to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessels in the fleet having the greatest maximum liability under OPA or CERCLA.

We insure each of our vessels with pollution liability insurance in the maximum commercially available amount of $1.0 billion. A catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on our business.

Under OPA, with certain limited exceptions, all newly built or converted tankers operating in U.S. waters must be built with double-hulls. Existing vessels that do not comply with the double-hull requirement must be phased out over a 20-year period, from 1995 to 2015, based on size, age and place of discharge, unless retrofitted with double-hulls. Notwithstanding the phase-out period, OPA currently permits existing single-hull tankers to operate until the year 2015 if their operations within U.S. waters are limited to:

- discharging at the Louisiana Offshore Oil Port, also known as the LOOP; or
- unloading with the aid of another vessel, a process referred to in the industry as lightering, within authorized lightering zones more than 60 miles off-shore.

Owners or operators of tankers operating in the waters of the United States must file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. These response plans must, among other things:

- address a “worst case” scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a “worst case discharge”;
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

We have obtained vessel response plans approved by the U.S. Coast Guard for our vessels operating in the waters of the United States. In addition, the U.S. Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

In addition, the United States Clean Water Act prohibits the discharge of oil or hazardous substances in United States navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA, discussed above. The United States Environmental Protection Agency, or EPA, has exempted the discharge of ballast water and other substances incidental to the normal operation of vessels in U.S. ports from Clean Water Act permitting requirements. However, on March 31, 2005, a U.S. District Court ruled that the EPA exceeded its authority in creating an exemption for ballast water. On September 18, 2006, the court issued an order invalidating the exemption in EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directing the EPA to develop a system for regulating all discharges from vessels by that date. The EPA filed a notice of appeal of this decision and, if the EPA's appeals are unsuccessful and the exemption is repealed, our vessels may be subject to Clean Water Act permit requirements that could include ballast water treatment obligations that could increase the cost of operating in the United States. For example, this 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 a substantial cost, and/or otherwise restrict our vessels from entering U.S. waters. On June 21, 2007, the EPA provided notice of its intention to develop a permit program for discharge of ballast water incidental to the normal operations of vessels and solicited comments.

In addition, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The U.S. Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the U.S. Environmental Protection Agency, or EPA, to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. In December 1999 and January 2003, the EPA issued final rules regarding emissions standards for marine diesel engines. The final rules apply emissions standards to new engines beginning with the 2004 model year. In the preambles to the final rules, the EPA noted that it may revisit the application of emissions standards for marine diesel engines. These final rules are applicable to marine diesel engines on vessels flagged or registered in the United States. While we do not believe that these current standards are applicable to our vessels, adoption of future standards could require modifications to some existing marine diesel engines, and the extent to which our vessels could be affected cannot be determined at this time. Although a risk exists that new regulations could require significant capital expenditures and otherwise increase our costs, based on the regulations that have been proposed to date, we believe that no material capital expenditures beyond those currently contemplated and no material increase in costs are likely to be required of us.

The U.S. National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. The United States Coast Guard adopted regulations under NISA in July 2004 that impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters. These requirements can be met by performing mid-ocean ballast exchange, by retaining ballast water on board the ship, or by using environmentally sound alternative ballast water management methods approved by the United States Coast Guard. (However, mid-ocean ballast exchange is mandatory for ships heading to the Great Lakes or Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil.) Mid-ocean ballast exchange is the primary method for compliance with the United States Coast Guard regulations, since holding ballast water can prevent ships from performing cargo operations upon arrival in the United States, and alternative methods are still under development. Vessels that are unable to conduct mid-ocean ballast exchange due to voyage or safety concerns may discharge minimum amounts of ballast water (in areas other than the Great Lakes and the Hudson River), provided that they comply with recordkeeping requirements and document the reasons they could not follow the required ballast water management requirements. The United States Coast Guard is developing a proposal to establish ballast water discharge standards, which could set maximum acceptable discharge limits for various invasive species, and/or lead to requirements for

active treatment of ballast water.

Our operations occasionally generate and require the transportation, treatment and disposal of both hazardous and non-hazardous wastes that are subject to the requirements of the U.S. Resource Conservation and Recovery Act, or RCRA, or comparable state, local or foreign requirements. In addition, from time to time we arrange for the disposal of hazardous waste or hazardous substances at offsite disposal facilities. If such materials are improperly disposed of by third parties, we might still be liable for clean up costs under applicable laws.

Several of our vessels currently carry cargoes to U.S. waters regularly and we believe that all of our vessels are suitable to meet OPA and other U.S. environmental requirements and that they would also qualify for trade if chartered to serve U.S. ports.

European Union Tanker Restrictions

In July 2003, in response to M/T Prestige oil spill in November 2002, the European Union adopted regulation that accelerates the IMO single hull tanker phase-out timetable. Under the regulation no oil tanker is allowed to operate under the flag of a EU member state, nor shall any oil tanker, irrespective of its flag, be allowed to enter into ports or offshore terminals under the jurisdiction of a EU member state after the anniversary of the date of delivery of the ship in the year specified in the following table, unless such tanker is a double hull oil tanker:

Category of Oil Tankers	Date or Year
Category 1 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks	2003 for ships delivered in 1980 or earlier 2004 for ships delivered in 1981 2005 for ships delivered in 1982 or later
Category 2 – oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protectively located segregated ballast tank requirements and Category 3 – oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers.	2003 for ships delivered in 1975 or earlier 2004 for ships delivered in 1976 2005 for ships delivered in 1977 2006 for ships delivered in 1978 and 1979 2007 for ships delivered in 1980 and 1981 2008 for ships delivered in 1982 2009 for ships delivered in 1983 2010 for ships delivered in 1984 or later

Furthermore, under the regulation, all oil tankers of 5,000 dwt or less must comply with the double hull requirements no later than the anniversary date of delivery of the ship in the year 2008. The regulation, however, provides that oil tankers operated exclusively in ports and inland navigation may be exempted from the double hull requirement provided that they are duly certified under inland water legislation.

The European Union, following the lead of certain European Union nations such as Italy and Spain, as of October 2003, has also banned all single- hull tankers of 600 dwt and above carrying HGO, regardless of flag, from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction. Commencing in 2005, certain single- hull tankers above 15 years of age will also be restricted from entering or leaving European Union ports or offshore terminals and anchoring in areas under European Union jurisdiction.

The European Union has also adopted legislation that would: (1) ban manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six month period) from European waters and create an obligation of port states to inspect vessels posing a high risk to maritime safety or the marine environment; and (2) provide the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. The sinking of the MT Prestige and resulting oil spill in November 2002 has led to the adoption of other environmental regulations by certain European Union nations, which could adversely affect the remaining useful lives of all of our vessels and our ability to generate income from them. It is impossible to predict what legislation or additional regulations, if any, may be promulgated by the European Union or any other country or authority.

Recent scientific studies have suggested that emissions of certain gases, commonly referred to as “greenhouse gases,” may be contributing to warming of the Earth’s atmosphere. According to the IMO’s study of greenhouse gas emissions from the global shipping fleet, greenhouse emissions from ships are predicted to rise by 38% to 72% due to increased bunker consumption by 2020 if corrective measures are not implemented. Any passage of climate control legislation

or other regulatory initiatives by the IMO or individual countries where we operate that restrict emissions of greenhouse gases could require us to make significant financial expenditures we cannot predict with certainty at this time.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, the United States Coast Guard in July 2003, issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea, or SOLAS, created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect on July 1, 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the recently created International Ship and Port FacilitiesSecurity Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must obtain an International Ship Security Certificate from a recognized security organization approved by the vessel’s flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship’s identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alerts 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, name of the ship and of the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship’s identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid ISSC attesting 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, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

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

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

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

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

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

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

Risk of Loss and Liability Insurance General

The operation of any cargo vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market. While we carry loss of hire insurance to cover 100% of our fleet, we may not be able to maintain this level of coverage. Furthermore, while we believe that our

present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Hull and Machinery Insurance

We have obtained marine hull and machinery 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. The vessels in our fleet are each covered up to at least fair market value, with deductibles of $100,000 per vessel per incident, for the 8 Handymax tankers and 3 drybulk vessels and $200,000 per vessel per incident, for the 12 Suezmax tankers. We also have arranged increased value coverage for some vessels. Under this increased value coverage, in the event of total loss of a vessel, we will recover for amounts not recoverable under the hull and machinery policy by reason of any under-insurance.

Loss of Hire Insurance

We have obtained Loss of Hire Insurance to cover the loss of hire of each vessel for 90 days in excess of 30 days in case of an incident that is coverable by Hull and Machinery policy.

Protection and Indemnity Insurance

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

Our current protection and indemnity insurance coverage for pollution is $1 billion per vessel per incident. The fourteen P&I Associations that comprise the International Group insure approximately 90% of the world’s commercial tonnage and have entered into a pooling agreement to reinsure each association’s liabilities. Each P&I Association has capped its exposure to this pooling agreement at $4.25 billion. As a member of a P&I Association, which is a member of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations, and members of the pool of P&I Associations comprising the International Group.

Competition

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an operator. We arrange our time charters 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 Suezmax and Handymax class sizes and also with owners of drybulk vessels. Ownership of tankers is highly fragmented and is divided among major oil companies and independent vessel owners.

Seasonality

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, therefore, charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results. Both the drybulk and tanker sectors are typically stronger in the fall and winter months in

anticipation of increased consumption of coal and other raw materials, in the case of drybulk vessels, and increased consumption of oil and petroleum, in the case of tankers, in the northern hemisphere during the winter months. Our drybulk vessels may carry coal and our Handymax tankers carry, in part, refined petroleum products such as gasoline, jet fuel, kerosene, naphtha and heating oil. As a result, our revenues from our vessels may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, revenues may be stronger in fiscal quarters ended December 31 and March 31.

Legal Proceedings Against Us

In December 2006, the Company and certain of its executive officers and directors were named as defendants in various class action securities complaints brought in the United States District Court, Southern District of New York (the “Court”), alleging violations of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder, which have since been consolidated under the caption “In Re: Top Tankers, Inc. Securities Litigation,” case no. 06-cv-13761. (“Putative Class Action Suits”). On or about January 11, 2007, the Company was also named as a nominal defendant in a derivative suit (the “Derivative Suit”) in an action captioned Schwartz v. Jackson, et al., 07-cv- 00246 (JSR). On or about June 19, 2007, the plaintiff in the Derivative Suit submitted a Notice of Voluntary Discontinuance Without Prejudice (the “Notice of Discontinuance”) in which the plaintiff voluntarily discontinued the Derivative Suit against all defendants without prejudice. In that Notice of Discontinuance, the plaintiff remarked that (1) no defendant has been served in the action and (2) that neither plaintiff nor her counsel received any consideration for the discontinuance.

On December 18, 2007, the Court denied the motion to dismiss brought by the Company in connection with the Putative Class Action. The Court’s decision also directed that the parties engage in limited discovery on certain specific issues, which discovery was to be completed by January 31, 2008. On January 3, 2008, the Company and the Individual Defendants filed their Answer and Affirmative Defenses to Plaintiff’s Corrected and Amended Consolidated Class Action Complaint. On or about January 18, 2008, the parties reached a settlement agreement in principle whereby the plaintiff, on behalf of members of the Class who do not opt out, would dismiss all claims against the Company with prejudice in exchange for a settlement payment of $1.2 million. After being notified of the settlement agreement in principle, the Court held a conference with the parties on February 14, 2008 during which the basic terms of the settlement were disclosed to the Court. On April 25, 2008, plaintiff filed the motion for preliminary approval of the proposed settlement with the Court. On April 28, 2008, the Court entered an order preliminarily approving the proposed settlement and directing that notice be given to all potential members of the Class of the proposed settlement. The Court has ordered a hearing on July 31, 2008 to determine whether the settlement should be approved. The settlement will be funded by the Company’s directors and officers’ insurance carriers.

C. Organizational Structure

TOP SHIPS INC. is the sole owner of all outstanding shares of the wholly owned subsidiaries as of December 31, 2007. TOP SHIPS INC. is the sole owner of all outstanding shares of the following subsidiaries:

(a) TOP Tanker Management Inc.
(b) Top Bulker Management Inc.
(c) Top Tankers (U.K.) Limited
(d) Helidona Shipping Company Limited
(e) Gramos Shipping Company Inc.
(f) Vermio Shipping Company Limited
(g) Rupel Shipping Company Inc.
(h) Mytikas Shipping Company Ltd.
(i) Litochoro Shipping Company Ltd.
(j) Falakro Shipping Company Ltd.
(k) Pageon Shipping Company Ltd.
(l) Vardousia Shipping Company Ltd.
(m) Psiloritis Shipping Company Ltd.
(n) Parnon Shipping Company Ltd.
(o) Menalo Shipping Company Ltd.
(p) Pintos Shipping Company Ltd.
(q) Pylio Shipping Company Ltd.
(r) Idi Shipping Company Ltd.
(s) Taygetus Shipping Company Ltd.
(t) Kalidromo Shipping Company Limited
(u) Olympos Shipping Company Limited (Marshall Islands)
(v) Olympos Shipping Company Limited, (British Cayman Islands)
(w) Kisavos Shipping Company Limited
(x) Imitos Shipping Company Limited
(y) Parnis Shipping Company Limited
(z) Parnasos Shipping Company Limited
(aa) Vitsi Shipping Company Limited
(bb) Giona Shipping Company Limited
(cc) Lefka Shipping Company Limited
(dd) Agrafa Shipping Company Limited
(ee) Agion Oros Shipping Company Limited
(ff) Nedas Shipping Company Limited
(gg) Ilisos Shipping Company Limited
(hh) Sperhios Shipping Company Limited
(ii) Ardas Shipping Company Limited
(jj) Kifisos Shipping Company Limited
(kk) Noir Shipping S.A.
(ll) Amalfi Shipping Company Limited
(mm) Jeke Shipping Company Limited
(nn) Japan I Shipping Company Limited
(oo) Japan II Shipping Company Limited
(pp) Japan III Shipping Company Limited

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D. Properties, Plants and Equipment

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

In January 2006, we entered into an agreement to lease office space in Athens, Greece, with an unrelated party. The office is located at 1, Vasilisis Sofias & Megalou Alexandrou Street, 151 24 Maroussi, Athens, Greece. The agreement is for duration of twelve years beginning May 2006 with a lessee’s option for an extension of ten years. The current monthly rental is Euro 116,010 adjusted annually for inflation increase plus 1%.

In addition, our subsidiary TOP TANKERS (U.K.) LIMITED, a representative office in London, leases office space in London, from an unrelated third party.

ITEM 4A. Unresolved Staff Comments

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following is a discussion of our financial condition and results of operations for the years ended December 31, 2007, 2006 and 2005. You should read this section together with the consolidated financial statements including the notes to those financial statements for the periods mentioned above.

We are an international provider of seaborne transportation services, carrying petroleum products, crude oil and drybulk commodities for the steel, electric utility, construction and agri-food industries. As of December 31, 2007, our fleet consisted of 23 vessels, comprised of 8 Handymax tankers, 12 Suezmax tankers and 3 drybulk vessels, with a total cargo carrying capacity of approximately 2.4 million deadweight tons, or dwt.

We actively manage the deployment of our fleet between spot market voyage charters, which generally last from several days to several weeks, and time charters, which can last up to several years. A spot market voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for an agreed upon amount. Under spot market voyage charters, we pay voyage expenses such as port, canal and fuel costs. A time charter is generally a contract to charter a vessel for a fixed period of time at a specified daily rate. Under time charters, the charterer pays voyage expenses such as port, canal and fuel costs. Under both types of charters, we pay for vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, as well as for commissions on gross charter rates and we are also responsible for the vessel's intermediate and special survey costs.

Vessels operating on time charters provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot market during periods characterized by favorable market conditions. Vessels operating in the spot market generate revenues that are less predictable but may enable us to capture increased profit margins during periods of improvements in vessel rates although we are also exposed to the downside risk of declining vessel rates, which may have a materially adverse impact on our financial performance. We are constantly evaluating opportunities to increase the number of our vessels deployed on time charters, but only expect to enter into additional time charters if we can obtain contract terms that satisfy our charter rate return criteria.

During 2007, the market conditions were not favorable, due to a weaker spot tanker market. That had an impact to our operating results as further described below. In addition, the weaker spot tanker market affected our profit sharing revenues.

A. Operating Results

For discussion and analysis purposes only and consistent with shipping industry practice, we evaluate performance using time charter equivalent, or TCE, revenues. 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 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 voyage 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.

We depreciate our vessels on a straight-line basis over their estimated useful lives determined to be 25 years from the date of their initial delivery from the shipyard. Depreciation is based on cost less the estimated residual value. We have historically accounted for dry-docking costs that qualified as “Planned Major Maintenance Activities” (“PMMA”) using the deferral method. Beginning with the fourth quarter of 2007 we changed the accounting policy for PMMA from the deferral method, under which we amortized dry-docking costs over the estimated period of benefit between dry-dockings, to the direct expense method, under which we expense all dry-docking costs as incurred. We believe that the direct expense method is preferable as it eliminates the significant amount of time and subjectivity involved to determine which costs and activities related to dry-docking qualify as PMMA under the deferral method.

In August and September 2005, we sold the M/T Restless, M/T Sovereign, M/T Relentless, M/T Invincible and M/T Victorious, and entered into bareboat charter agreements to leaseback the vessels, for a period of seven years.

In March 2006, we sold the M/T Faithful, M/T Spotless, M/T Vanguard, M/T Doubtless, M/T Flawless, M/T Timeless, M/T Priceless and M/T Stopless and entered into bareboat charter agreements to leaseback the vessels, for a period of five years.

In April 2006, we sold the M/T Limitless, M/T Endless, M/T Stainless, M/T Faultless and M/T Noiseless, and entered into bareboat charter agreements to leaseback the vessels, for a period of seven years.

In May 2007, we re-acquired the M/T Limitless, M/T Endless, M/T Stainless and M/T Noiseless and terminated the related bareboat charters. The total acquisition cost of $208.0 million was partially financed by the early redemption of the 10% of the gross sales price, which has been withheld by the purchaser (“seller’s credit”) of $20.6 million, associated with the 2006 sales and leaseback transactions. In addition, during 2007, we terminated the bareboat charter agreements of the M/T Restless, M/T Invincible and M/T Victorious, that we sold in 2005 in a sale and leaseback transaction, due to sale of vessels by their owners to third parties.

The bareboat charter agreements are accounted for as operating leases and the gain on the sale was deferred and is being amortized to income over the respective lease period; lease payments relating to the bareboat charters of the vessels are separately reflected in the consolidated statements of operations. According to the terms of the 2006 sale and leaseback transactions, the seller’s credit of $55.0 million, has been withheld by the purchaser and will be paid to us not later than three months after the end of

bareboat charter period or upon the resale of the vessels by the purchaser, if earlier. Following the re-acquisition of the four vessels mentioned above, the amount that is currently withheld by the purchaser is $34.4 million. Consequently, we recognized this receivable from the purchaser at a discounted amount upon the sale of the vessels, classified as a non-current asset, and will accrete the balance of the receivable to the full amount, through deferred gain on sale and leaseback of vessels over the period of the bareboat charter or upon the resale of the vessels by the purchaser, if earlier. The purpose of the hold-back is to serve as security for the due and punctual performance and observance of all the terms and conditions from our behalf under the vessel charter back agreements.

The purpose of the sale and leaseback transactions that were completed in 2006 was to take advantage of the high asset price environment prevailing in the market at the time and to maintain commercial and operations control of the vessels for a period of five to seven years. The majority of the net proceeds of the transaction, after debt repayment, were distributed as a special dividend to the Company's shareholders. The vessels sold and leased back proved to have higher operating expenses due to the increased need for regular repairs and maintenance. In addition, freight market conditions deteriorated during the year ended December 31, 2007. At the inception of the lease period we had assumed a utilization rate of approximately 90% for those vessels. However, most of these vessels underwent their drydockings in 2006 and early 2007. All of these drydockings required significantly more time and expense than originally anticipated because of the unexpected, increased amount of works required and overbooking of the Chinese shipyards at which the vessels were drydocked, which caused significant delays. That decreased the utilization rate to approximately 71%. As a result, the sale and leaseback transactions turned out to have a negative impact on our operating results.

In accordance with United States generally accepted accounting principles (or GAAP), 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 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. Accordingly, the discussion of revenues below focuses on time charter equivalent revenues and TCE rates of our two reportable segments where applicable.

During 2007, we diversified our fleet portfolio by acquiring drybulk vessels, beginning with the acquisition of 6 drybulk vessels. During the fourth quarter of 2007, we took delivery of 3 of them having on aggregate 66 calendar days and 41 voyage days. Consequently, the drybulk vessels did not have a significant impact on our financial results. We analyze below our results on a consolidated basis and also for each segment (tanker and drybulk fleet).

We manage our business and analyze and report our results of operations on the basis of two segments: the tanker fleet and the drybulk fleet. Please read Item 18 — Financial Statements: Note 4 — Segment Reporting.

Year ended December 31, 2007 compared to the year ended December 31, 2006

REVENUES--Revenues decreased by $57.7 million, or 18.6%, to $252.3 million for 2007 compared to $310.0 million in 2006. This is due to the decrease of voyage days by 18.6% to 7,032 days in 2007 from 8,634 days in 2006 as a result of the decrease in the average number of vessels by 16.1% to 22.4 during 2007 from 26.7 in 2006. Also, during 2007 the average TCE rate (for a full description and calculation of TCE see "Selected Financial Data" above) was lower by 7.0% or $27,424 from $29,499 for 2006, due to a weaker spot tanker market.

VOYAGE EXPENSES--Voyage expenses primarily consist of port charges, including canal dues, bunkers (fuel costs) and commissions that are unique to a particular voyage. These expenses increased by $4.1 million, or 7.4%, to $59.4 million for 2007 compared to $55.3 million for 2006. This increase is due to the fact that our vessels operated 32.9% in the spot market during 2007, compared to 27.9% in the spot market during 2006 and also due to the increase of canal passes and the increase in bunker prices.

TIME CHARTER EQUIVALENT REVENUES--Time charter equivalent revenues, which are revenues minus voyage expenses, decreased by $61.8 million, or 24.3%, to $192.9 million for 2007 compared to $254.7 million for 2006. This is due to the decrease of voyage days by 18.6% to 7,032 days in 2007 from 8,634 days in 2006 as a result of the decrease in the average number of vessels by 16.1% to 22.4 during 2007 from 26.7 in 2006. Also, during 2007 the average TCE rate was lower by 7.0% or $27,424 from $29,499 for 2006, due to a weaker spot tanker market.

The following provides a further analysis of our time charter equivalent revenues for 2007 as compared to 2006:

Spot Charter Revenues:

- Our vessels operated an aggregate of 2,312 days, or 32.9%, in the spot market during 2007, compared to 2,411 days, or 27.9%, in the spot market during 2006.

- The average daily spot rate was $32,249 for 2007 compared to an average daily spot rate of $45,328 in 2006, due to a weaker spot tanker market.

- Time charter equivalent revenues from our vessels' spot trading decreased by 31.7% for 2007 to $74.6 million, compared to $109.3 million in 2006. Spot market revenues were 38.7% of time charter equivalent revenues in 2007, compared to 42.9% of time charter equivalent revenues generated in the spot market during 2006.

Time Charter Revenues:

- Our vessels operated an aggregate of 4,720 days, or 67.1%, on time charter contracts during 2007, compared to 6,223 days, or 72.1%, on time charter contracts during the prior year.

- The average daily time charter rate was $25,060 for 2007 compared to average daily time charter rate of $23,366 for 2006.

- Time charter equivalent revenues from our time charter contracts decreased by 18.6% for 2007 to $118.3 million, compared to $145.4 million in 2006. Time charter revenues were 61.3%, of time charter equivalent revenues in 2007, compared to 57.1% during 2006.

- Revenues from profit sharing, which represents the excess of the base rate, decreased by 51.1% in 2007 to $15.6 million, compared to $31.9 million in 2006.

CHARTER HIRE EXPENSE--Charter hire expense, which refers to lease payments for the vessels sold and leased back, which are treated as operating leases, decreased by $2.2 million, or 2.3%, to $94.1 million for 2007 compared to $96.3 million for 2006. This decrease is due to the repurchase of the Repurchased Vessels, which took place in May 2007 and the sale and simultaneous termination of bareboat agreements of M/T Invincible, M/T Victorious and M/T Restless by their owners to third parties on July 11, 2007, August 27, 2007 and September 17, 2007, respectively. During 2007, we paid an

average daily charter hire of $35,442 for 2,656 days, while in 2006 we paid an average daily charter hire of $61,300 for 1,571 days.

AMORTIZATION OF DEFERRED GAIN ON SALE AND LEASEBACK OF VESSELS--Amortization of deferred gain on sale and leaseback of vessels increased by $7.5 million, or 92.6%, to $15.6 million for 2007 compared to $8.1 million for 2006. This increase is due to the sale of the vessels M/T Invincible, M/T Victorious and M/T Restless by their owners in the third quarter of 2007, which resulted in the termination of the bareboat charters with us and the recognition of their unamortized deferred gain of $8.0 million.

OTHER VESSEL OPERATING EXPENSES--Other vessel operating expenses, which include crew costs, insurance, repairs and maintenance, spares, consumable stores and taxes increased by $1.8 million, or 2.7%, to $67.9 million for 2007 compared to $66.1 million for 2006. Despite the decrease in the average number of vessels by 16.1% to 22.4 during 2007 from 26.7 in 2006, other vessel operating expenses increased due to costs associated with damages incurred to two of our tankers, of approximately $2.5 million incurred during 2007.

DRY-DOCKING COSTS--Dry-docking costs decreased by $14.2 million, or 36.1%, to $25.1 million for 2007 compared to $39.3 million for 2006. The decrease is due to the fact that seven vessels (three Suezmax tankers and four Handymax tankers) underwent their dry-docking during 2007, compared to ten vessels (five Suezmax tankers and five Handymax tankers) that underwent their dry-docking during 2006.

DEPRECIATION--Depreciation decreased by $7.9 million, or 22.4%, to $27.4 million for 2007 compared to $35.3 million for 2006. The decrease is a result of the 3 sale and leaseback transactions for a total of 13 tankers which were concluded in mid March (8 tankers) and April (5 tankers) 2006, the sale of three tankers in the fourth quarter of 2006 and one tanker in April 2007 and partially set off by repurchase of the Repurchased Vessels in May 2007 and the acquisition of three drybulk vessels during the fourth quarter of 2007.

SUB-MANAGER FEES--Sub-Manager fees which relate to the fees paid to V.Ships Management Limited, Hanseatic Shipping Company Ltd. and Interorient Maritime Enterprises Inc., decreased by $0.9 million, or 33.3%, to $1.8 million for 2007 compared to $2.7 million for the prior year. This decrease is due to the transfer of technical management of 19 vessels to Top Tanker Management Inc, while crewing remained with sub-managers.

OTHER GENERAL AND ADMINISTRATIVE EXPENSES--Other general and administrative expenses, which include all of our onshore expenses, increased by $1.8 million, or 7.8%, to $24.8 million for 2007 compared to $23.0 million for 2006. This increase is mainly related to the increase in onshore expenses because of the Euro/U.S. Dollar exchange rate. Specifically, in 2007 the average exchange rate Euro/U.S. Dollar increased by 9.6% to 1/1.37 compared to 1/1.25 in 2006.

GAIN ON SALE OF VESSELS--We incurred a gain of $2.0 million from the sale of M/T Errorless on April 30, 2007, whereas in 2006 we recognized a gain $12.7 million from the sale of M/T Taintless, M/T Soundless and M/T Topless.

OPERATING INCOME / (LOSS)--Operating income decreased by $44.3 million, or 291.4%, to an operating loss of ($29.1) million for 2007 compared to an operating income of $15.2 million for 2006 as a result of the reasons stated above.

FOREIGN CURRENCY GAINS OR LOSSES--We incurred a $0.2 million foreign currency loss in 2007 compared to a loss of $0.3 million for 2006.

INTEREST AND FINANCE COSTS--Interest and finance costs decreased by $8.1 million, or 30.7%, to $18.3 million for 2007 compared to $26.4 million for 2006. This decrease is mainly due to the early repayment of $322.2 million in secured debt associated with thirteen vessels sold and leased back in March and April 2006, three vessels sold in the fourth quarter of 2006 and one vessel sold during April 2007. The effect of debt repayments on the interest and finance costs was partially set off by the drawdown of $20.0 million during the fourth quarter of 2006 and $316.8 million during 2007 ($157.5 million during the six months period ended June 30, 2007 and $159.3 million during the fourth quarter of 2007). It should be noted that during 2006 interest and finance costs included $3.8 million related to the write off of financing fees related to the thirteen vessels sold and leased back and the cancellation of the undrawn limit of the revolving credit facility, partially set off by the arrangement fees of $1.2 million paid in the fourth quarter of 2007 in relation to a bridge loan that was repaid through the proceeds of the offering completed in the fourth quarter of 2007.

FAIR VALUE CHANGE OF FINANCIAL INSTRUMENTS--Fair value change of financial instruments increased by $2.2 million, or 81.5%, to $4.9 million for 2007 compared to $2.7 million for 2006, mainly due to the liability value of the derivative of $2.2 million.

INTEREST INCOME--Interest income increased by $0.2 million, or 6.7%, to $3.2 million for 2007 compared to $3.0 million for 2006.

NET LOSS--Net loss was ($49.1) million for 2007 compared to net loss of $11.0 million for 2006.

Tanker Fleet

The following table presents our tanker fleet operating results for the years ended December 31, 2007 and 2006:

	2006	2007
Dollars in thousands		
Revenues	$ 310,043	$ 248,944
Less Voyage expenses	(55,351)	(59,253)
Time charter equivalent revenues	254,692	189,691
Charter hire expense	96,302	94,118
Amortization of deferred gain on sale and leaseback of vessels	(8,110)	(15,610)
Other vessel operating expenses	66,082	67,225
Dry-docking costs	39,333	25,094
Depreciation	35,266	26,560
Sub-Manager fees	2,755	1,821
Other general and administrative expenses	20,261	22,729
Gain on sale of vessels	(12,667)	(1,961)
Operating income (loss)	$ 15,470	$ (30,285)

	2006	2007
Dollars in thousands, except average daily results		
Revenues	$ 310,043	$ 248,944
Less Voyage expenses	(55,351)	(59,253)
Time charter equivalent revenues	254,692	189,691
Total voyage days for fleet	8,634	6,991
Average Daily Time Charter Equivalent (TCE)	$ 29,499	$ 27,134

REVENUES--Revenues decreased by $61.1 million, or 19.7%, to $248.9 million for 2007 compared to $310.0 million in 2006. This is due to the decrease of voyage days by 19.0% to 6,991 days in 2007 from 8,634 days in 2006 as a result of the decrease in the average number of tankers by 16.8% to 22.2 during 2007 from 26.7 in 2006. Also, during 2007 the average TCE rate (for a calculation of TCE see table above) was lower by 8.0% or $27,134 from $29,499 for 2006, due to a weaker spot tanker market.

VOYAGE EXPENSES--Voyage expenses primarily consist of port charges, including canal dues, bunkers (fuel costs) and commissions that are unique to a particular voyage. These expenses increased by $3.9 million, or 7.0%, to $59.2 million for 2007 compared to $55.3 million for 2006. This increase is due to the fact that our tankers operated 33.1% in the spot market during 2007, compared to 27.9% in the spot market during 2006 and also due to the increase of canal passes and the increase in bunker prices.

TIME CHARTER EQUIVALENT REVENUES--Time charter equivalent revenues, which are revenues minus voyage expenses, decreased by $65.0 million, or 25.5%, to $189.7 million for 2007 compared to $254.7 million for 2006. This is due to the decrease of voyage days by 19.0% to 6,991 days in 2007 from 8,634 days in 2006 as a result of the decrease in the average number of tankers by 16.8% to 22.2 during 2007 from 26.7 in 2006. Also, during 2007 the average TCE rate was lower by 8.0% or $27,134 from $29,499 for 2006.

The following provides a further analysis of our time charter equivalent revenues for 2007 as compared to 2006:

Spot Charter Revenues:

- Our tankers operated an aggregate of 2,312 days, or 33.1%, in the spot market during 2007, compared to 2,411 days, or 27.9%, in the spot market during 2006.
- The average daily spot rate was $32,249 for 2007 compared to an average daily spot rate of $45,328 in 2006, due to a weaker spot tanker market.
- Time charter equivalent revenues from our tankers' spot trading decreased by 31.7% for 2007 to $74.6 million, compared to $109.3 million in 2006. Spot market revenues were 39.3% of time charter equivalent revenues in 2007, compared to 42.9% of time charter equivalent revenues generated in the spot market during 2006.

Time Charter Revenues:

- Our tankers operated an aggregate of 4,679 days, or 66.9%, on time charter contracts during 2007, compared to 6,223 days, or 72.1%, on time charter contracts during the prior year.
- The average daily time charter rate was $24,606 for 2007 compared to average daily time charter rate of $23,366 for 2006.
- Time charter equivalent revenues from our time charter contracts decreased by 20.8% for 2007 to $115.1 million, compared to $145.4 million in 2006. Time charter revenues were 60.7%, of time charter equivalent revenues in 2007, compared to 57.1% during 2006.
- Revenues from profit sharing, which represents the excess of the base rate, decreased by 51.1% in 2007 to $15.6 million, compared to $31.9 million in 2006.

CHARTER HIRE EXPENSE--Charter hire expense, which refers to lease payments for the vessels sold and leased back, which are treated as operating leases, decreased by $2.2 million, or 2.3%, to $94.1 million for 2007 compared to $96.3 million for 2006. This decrease is due to the repurchase of the Repurchased Vessels, which took place in May 2007 and the sale and simultaneous termination of bareboat agreements of M/T Invincible, M/T Victorious and M/T Restless by their owners to third parties on July 11, 2007, August 27, 2007 and September 17, 2007, respectively. During 2007, we paid an average daily charter hire of $35,442 for 2,656 days, while in 2006 we paid an average daily charter hire of $61,300 for 1,571 days.

AMORTIZATION OF DEFERRED GAIN ON SALE AND LEASEBACK OF VESSELS--Amortization of deferred gain on sale and leaseback of vessels increased by $7.5 million, or 92.6%, to $15.6 million for 2007 compared to $8.1 million for 2006. This increase is due to the sale of the vessels M/T Invincible, M/T Victorious and M/T Restless by their owners in the third quarter of 2007, which resulted in the termination of the bareboat charters with us and the recognition of their unamortized deferred gain of $8.0 million.

OTHER VESSEL OPERATING EXPENSES--Other vessel operating expenses, which include crew costs, insurance, repairs and maintenance, spares, consumable stores and taxes increased by $1.1

million, or 1.7%, to $67.2 million for 2007 compared to $66.1 million for 2006. Despite the decrease in the average number of tankers by 16.8% to 22.2 during 2007 from 26.7 in 2006, other vessel operating expenses increased due to costs associated with damages incurred to two of our tankers, of approximately $2.5 million incurred during 2007.

DRY-DOCKING COSTS--Dry-docking costs decreased by $14.2 million, or 36.1%, to $25.1 million for 2007 compared to $39.3 million for 2006. The decrease is due to the fact that seven vessels (three Suezmax tankers and four Handymax tankers) underwent their dry-docking during 2007, compared to ten vessels (five Suezmax tankers and five Handymax tankers) that underwent their dry-docking during 2006.

DEPRECIATION--Depreciation decreased by $8.7 million, or 24.6%, to $26.6 million for 2007 compared to $35.3 million for 2006. The decrease is a result of the 3 sale and leaseback transactions for a total of 13 tankers which were concluded in mid March (8 tankers) and April (5 tankers) 2006, the sale of three tankers in the fourth quarter of 2006 and one tanker in April 2007 and partially set off by repurchase of the Repurchased Vessels in May 2007.

SUB-MANAGER FEES--Sub-Manager fees which relate to the fees paid to V.Ships Management Limited, Hanseatic Shipping Company Ltd. and Interorient Maritime Enterprises Inc., decreased by $0.9 million, or 33.3%, to $1.8 million for 2007 compared to $2.7 million for the prior year. This decrease is due to the transfer of technical management of 16 tankers to Top Tanker Management Inc, while crewing remained with sub-managers.

OTHER GENERAL AND ADMINISTRATIVE EXPENSES--Other general and administrative expenses, which include all of our onshore expenses, increased by $2.4 million, or 11.8%, to $22.7 million for 2007 compared to $20.3 million for 2006. This increase is mainly related to the increase in onshore expenses because of the Euro/U.S. Dollar exchange rate. Specifically, in 2007 the average exchange rate Euro/U.S. Dollar increased by 9.6% to 1/1.37 compared to 1/1.25 in 2006.

GAIN ON SALE OF VESSELS--We incurred a gain of $2.0 million from the sale of M/T Errorless on April 30, 2007, whereas in 2006 we recognized a gain $12.7 million from the sale of M/T Taintless, M/T Soundless and M/T Topless.

OPERATING INCOME / (LOSS)--Operating income decreased by $45.8 million, or 295.5%, to an operating loss of ($30.3) million for 2007 compared to an operating income of $15.5 million for 2006 as a result of the reasons stated above.

Drybulk Fleet

The following table presents our drybulk fleet operating results for the year ended December 31, 2007. During the fourth quarter of 2007 we acquired the M/V Bertram, M/V Cyclades and M/V Amalfi:

		2007
Dollars in thousands		
Revenues	$	1,902
Less Voyage expenses		(161)
Time charter equivalent revenues		1,741
Other vessel operating expenses		689
Depreciation		848
Sub-Manager fees		7
Other general and administrative expenses		267
Operating income (loss)	$	(70)
Dollars in thousands, except average daily results		
Revenues	$	1,902
Less Voyage expenses		(161)
Time charter equivalent revenues		1,741
Total voyage days for fleet		41
Average Daily Time Charter Equivalent (TCE)	$	42,463
Dollars in thousands, except average daily results		
Revenues (including amortization of time charter fair value)	$	3,315
Less Voyage expenses		(161)
Time charter equivalent revenues		3,154
Total voyage days for fleet		41
Average Daily Time Charter Equivalent (TCE) (including amortization of time charter fair value)	$	76,902

In November and December 2007, we acquired the drybulk vessels M/V Bertram and M/V Amalfi respectively, with an attached time charter contract, the fair value of which is amortized to revenues over the remaining period of the time charter contracts on a straight-line basis. For the year ended December 31, 2007, the amortization of the fair value of the time charter contracts totaled $1,413, is included in consolidated Revenues having an impact in TCE of $47,100. The amortization of the fair value of the time charter contracts is not included in segment revenues, since it is not reviewed by the chief operating decision maker. In December 2007, we acquired the M/V Cyclades. All three vessels were operating under time charter contracts.

Year ended December 31, 2006 compared to the year ended December 31, 2005

During 2006 and 2005, we were operating under one segment, which was the tanker fleet.

REVENUES--Revenues increased by $65.8 million, or 26.9%, to $310.0 million for 2006 compared to $244.2 million for the prior year. This increase is due to the increase of our total voyage days for fleet to 8,634 days in 2006 from 7,436 days in 2005, as a result of the increase of our average number of vessels to 26.7 in 2006 from 21.7 in 2005, and to the increase of the average daily TCE rate achieved by our fleet by $1,618, or 5.8%, to $29,499 for 2006 compared to $27,881 for the prior year.

VOYAGE EXPENSES--Voyage expenses primarily consist of port charges, including canal dues, bunkers (fuel costs) and commissions that are unique to a particular voyage. These expenses increased $18.5 million, or 50.1%, to $55.4 million for 2006 compared to $36.9 million for the prior year. This increase is primarily due to the increase of our average number of vessels to 26.7 in 2006 from 21.7 in 2005, as well as the increase of our total spot market days for fleet to 2,411 days in 2006 from 1,869 days in 2005. Furthermore, the average market price for bunkers increased in 2006 approximately by 17.0%.

TIME CHARTER EQUIVALENT REVENUES--Time charter equivalent revenues, which are revenues minus voyage expenses, increased by $47.4 million, or 22.9%, to $254.7 million for 2006 compared to $207.3 million for the prior year. This increase is the result of the increase of our total voyage days for fleet to 8,634 days in 2006 from 7,436 days in 2005, due to the increase of our average number of vessels to 26.7 in 2006 from 21.7 in 2005.

Dollars in thousands	2005	2006
Revenues	$ 244,215	$ 310,043
Less Voyage expenses	(36,889)	(55,351)
Time charter equivalent revenues	$ 207,326	$ 254,692

The following describes our charter revenues for 2006 as compared to the prior year:

Freight revenues:

- Our tankers operated an aggregate of 2,411 days, or 27.9%, in the spot market during 2006, compared to 1,869 days, or 25.1%, in the spot market during the prior year.

- The average daily spot rate was $45,328 for 2006 compared to average daily spot rate of $43,713 for the prior year.

- Revenues from our vessels' spot trading increased by 33.8% to $109,286,000, compared to $81,700,000 in 2005. Spot market revenues were 42.9%, of time charter equivalent revenues in 2006, compared to 39.4%, of time charter equivalent revenues generated in the spot market during the prior year.

Hire revenues:

- Our tankers operated an aggregate of 6,223 days, or 72.1%, on time charter contracts during 2006, compared to 5,567 days, or 74.9%, on time charter contracts during the prior year.

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The average daily time charter rate was $23,366 for 2006 compared to average daily time charter rate of $22,566 for the prior year.

- Revenues from our time charter contracts increased by 15.7% to $145,406,000, compared to $125,626,000 in 2005. Time charter revenues were 57.1%, of time charter equivalent revenues in 2006, compared to 60.6% during the prior year.

CHARTER HIRE EXPENSE--Charter hire expense, which refers to lease payments for the 18 vessels sold and leased back, which are treated as operating leases, increased by $89.1 million, or 1,237.5%, to $96.3 million for 2006 compared to $7.2 million for the prior year. This increase is due to the 13 sale and leaseback deals which were concluded in 2006.

AMORTIZATION OF DEFERRED GAIN ON SALE AND LEASEBACK OF VESSELS--Amortization of deferred gain on sale and leaseback of vessels increased by $7.3 million, or 912.5%, to $8.1 million for 2006 compared to $0.8 million for the prior year. This increase is due to the 13 sale and leaseback transactions concluded in 2006 and due to the 5 sale and leaseback transactions concluded in the third quarter of 2005.

OTHER VESSEL OPERATING EXPENSES--Other vessel operating expenses, which include crew costs, insurance, repairs and maintenance, spares, consumable stores and taxes increased by $18.8 million, or 39.7%, to $66.1 million for 2006 compared to $47.3 million for the prior year. This increase is primarily due to the increase of our total calendar days for fleet to 9,747 days in 2006 from 7,905 days in 2005, due to the increase of our average number of vessels to 26.7 in 2006 from 21.7 in 2005, and due to the increase of daily average other vessel operating expenses by $795, or 13.3%, to $6,780 for 2006 compared to $5,985 for the prior year. The increase of the daily average other vessel operating expenses is attributed mainly to the increase of our average number of suezmax tankers in 2006 from 8.3 in 2005 to 13.0 in 2006, and to the increased maintenance expense per vessel due to extensive repairs conducted in 2006.

DRY-DOCKING COSTS--Dry-docking costs increased by $28.8 million, or 274.3%, to $39.3 million for 2006 compared to $10.5 million for 2005. The increase is due to the fact that ten vessels (five Suezmax tankers and five Handymax tankers) underwent their dry-docking during 2006 and 9 out of 10 vessels underwent their special surveys, compared to eight vessels (three Suezmax tankers and five Handymax tankers), that underwent their dry-docking during 2005 and none of the vessels underwent special survey.

DEPRECIATION--Depreciation decreased by $11.8 million, or 25.0%, to $35.3 million for 2006 compared to $47.1 million for the prior year. This decrease was due to the 13 sale and leaseback deals concluded during 2006. The sale and leasebacks were treated as operating leases for financial reporting purposes. As a result the vessels are not recorded as assets and therefore there is no depreciation expense.

SUB-MANAGER FEES--Sub-Manager fees which relate to the fees paid to V.Ships Management Limited and Hanseatic Shipping Company Ltd., decreased by $0.4 million, or 12.9%, to $2.7 million for 2006 compared to $3.1 million for the prior year. This decrease is mainly due to the transfer of technical management and crewing of 10 vessels from Unicom Management to V.Ships Management Limited and Hanseatic Shipping Company Ltd. effectuated in the third quarter of 2005. Unicom Management charged a monthly fee of $14,000 per vessel for technical management and crewing, whereas V.Ships Management Limited and Hanseatic Shipping Company Ltd., charge for technical management and crewing a monthly fee per vessel of $10,000 and $7,083 respectively for technical management and crewing.

OTHER GENERAL AND ADMINISTRATIVE EXPENSES--Other general and administrative expenses, which include all of our onshore expenses, decreased by $0.4 million, or 1.9%, to $20.3 million for 2006 compared to $20.7 million for the prior year. This decrease is mainly due to decreased

compensation of our senior management and directors, which was in the aggregate amount of $4.2 million during 2006, compared to $8.1 million paid last year. Daily general and administrative expenses per tanker decreased by $652, or 21.6%, to $2,361 for 2006 compared to $3,013 for the prior year.

FOREIGN CURRENCY GAINS OR LOSSES--We incurred a $255,000 foreign currency loss for 2006 compared to a gain of $68,000 for the prior year.

GAIN ON SALE OF VESSELS--During 2006, we sold the vessels M/T Taintless, M/T Soundless and M/T Topless for a total consideration of $127.5 million, which resulted in a total book gain of $12.7 million. During 2005, we sold the vessels M/T Fearless and M/T Yapi for a total consideration of $38.3 million, which resulted in a total book gain of $10.8 million.

OPERATING INCOME--Operating income decreased by $68.0 million, or 81.7%, to $15.2 million for 2006 compared to $83.2 million for the prior year. Despite the increase of time charter equivalent revenues by $47.4 million, or 22.9%, to $254.7 million for 2006 compared to $207.3 million for the prior year, this decrease is mainly due to:

1. The increase in other vessel operating expenses by $18.8 million, or 39.7%, to $66.1 million for 2006 compared to $47.3 million for the prior year.

2. The increase in dry-docking costs by $28.8 million, or 274.3%, to $39.3 million for 2006 compared to $10.5 million for 2005.

3. The 13 sale and leaseback transactions concluded in 2006, which resulted in:

- The increase of charter hire expense by $89.1 million, or 1,237.5%, to $96.3 million for 2006 compared to $7.2 million for the prior year,

- the decrease of the vessel depreciation expense by $11.8 million, or 25.0%, to $35.3 million for 2006 compared to $47.1 million for the prior year, and

- the amortization of deferred gain on sale and leaseback of vessels, which increased by $7.3 million, or 912.5%, to $8.1 million for 2006 compared to $0.8 million for the prior year.

INTEREST AND FINANCE COSTS--Interest and finance costs increased by $4.7 million, or 21.7%, to $26.4 million for 2006 compared to $21.7 million for the prior year. This increase is mainly due to the write-off of the financing fees of $3.8 million associated with the prepayment of the loans due to the 13 sale and leaseback transactions concluded in 2006.

FAIR VALUE CHANGE OF FINANCIAL INSTRUMENTS--Fair value change of financial instruments decreased by $4.2 million, or 280.0%, to a liability ($2.7) million for 2006 compared to an asset $1.5 million for 2005, due to the fair market value of the interest rate swaps decreasing by $4.2 million.

INTEREST INCOME--Interest income increased by $1.2 million, or 66.7%, to $3.0 million for 2006 compared to $1.8 million for the prior year. This increase is due to the increase in cash and cash equivalents, associated mainly with the increase in proceeds from the sale of vessels in 2006.

OTHER NET--We recognized an expense of $0.1 million during 2006 versus an income of $0.1 million during 2005.

NET LOSS--Net loss was $11.0 million for 2006 compared to net income of $64.9 million for the prior year.

B. Liquidity and capital resources

Liquidity and capital resources

Since our formation, our sources of funds have been cash from operations, long-term borrowings and equity provided by our shareholders. 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, make principal repayments on outstanding served loan facilities, and pay dividends. We expect to rely upon operating cash flows, long-term borrowings and equity financings to implement our future growth plan.

In December 2007 and in April 2008 we raised $120.0 million of equity capital to fund our diversification in the dry bulk sector and our newbuilding program. We believe that our current cash balance after the recent equity offerings as well as operating cash flows will be sufficient to meet our liquidity needs for the next year, other than the financing of the newbuildings. We are currently in the process of obtaining debt financing for the newbuildings.

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. These acquisitions will be subject to management's expectation of future market conditions as well as our ability to acquire vessels on favorable terms.

According to the terms of the 2006 sale and leaseback transactions, the seller’s credit of $55.0 million, has been withheld by the purchaser of the vessels and will be paid to us not later than three months after the end of bareboat charter period or upon the resale of the vessels by the purchaser, if earlier. Following the re-acquisition of the four vessels in May 2007, the amount that is currently withheld by the purchaser is $34.4 million. Consequently, we recognized this receivable from the purchaser at a discounted amount upon the sale of the vessels, classified as a non-current asset, and will accrete the balance of the receivable to the full amount, through deferred gain on sale and leaseback of vessels over the period of the bareboat charter or upon the resale of the vessels by the purchaser, if earlier. The purpose of the hold-back is to serve as security for the due and punctual performance and observance of all the terms and conditions from our behalf under the charter agreements.

As of December 31, 2007, we had total indebtedness under various senior secured credit facilities of $444.3 million with our lenders, the Royal Bank of Scotland (“RBS”), HSH Nordbank (“HSH”), DVB Bank and ALPHA BANK, maturing from 2008 through 2015. As of May 21, 2008, and after giving effect to the sale of M/T Noiseless and M/V Bertram and the related loans prepayment, the acquisition of M/V Voc Gallant, M/V Pepito and M/V Astrale, the payment of second installment for four newbuildings and the partial prepayment of the bridge facility, our total indebtedness under the senior secured credit facilities is $511.7 million with $10.0 million undrawn under the RBS revolving credit facility. We are permitted to pay dividends under the loans so long as we are not in default of a loan covenant or if such dividend payment would not result in a default of a loan covenant. In addition, one of the loan agreements with DVB, prohibit the payment of dividends from the borrowing subsidiaries to their equity holders. Furthermore, one of the loan agreements with HSH, prohibit the payment of dividends from the borrowing subsidiaries to the Company in excess of 70% of their net income.

Cash and cash equivalents decreased by $4.0 million to $26.0 million as of December 31, 2007 compared to $30.0 million as of December 31, 2006. That decrease resulted primarily from the decrease

in time charter equivalent revenues due to the decrease of voyage days by 18.6% to 7,032 days in 2007 from 8,634 days in 2006 as a result of the decrease in the average number of vessels by 16.1% to 22.4 during 2007 from 26.7 in 2006. Also, during 2007 the average TCE rate was lower by 7.0% or $27,424 from $29,499 for 2006. Working capital is current assets minus current liabilities, including the current portion of long-term debt. Working capital deficit was $51.1 million as of December 31, 2007 compared to a working capital surplus of $27.4 million as of December 31, 2006. The current portion of long-term debt, included in our current liabilities was $107.5 million and $16.6 million as of December 31, 2007 and December 31, 2006, respectively.

In 2007 the Company entered into agreements to diversify into the drybulk sector. All drybulk vessels of the Company have been chartered in long-term employment agreements that are expected to provide a secured stream of drybulk revenues. Moreover, the long-term employment agreements for the majority of the tanker fleet, in combination with the significantly improved spot market rates are expected to increase our tanker revenues.

Therefore, we expect that our working capital generation, in combination with our existing cash balances and our recent equity offerings will be sufficient to cover our liquidity requirements.

NET CASH FROM (USED IN) OPERATING ACTIVITIES--decreased 153.6% for 2007 to ($11.3) million compared to $21.1 million for 2006. This decrease was attributed to the decrease in time charter equivalent revenues by $61.8 million, or 24.3%, to $192.9 million for 2007 compared to $254.7 million for 2006. The decrease in time charter equivalent revenues was partly set off by the decrease in dry-docking costs by $14.2 million, or 36.1%, to $25.1 million for 2007 compared to $39.3 million for 2006 and the decrease in charter hire expense by $2.2 million, or 2.3%, to $94.1 million for 2007 compared to $96.3 million for 2006.

NET CASH FROM (USED) IN INVESTING ACTIVITIES--2007 ended with net cash outflows of $318.3 million, due to the repurchase of four Suezmax tankers that were sold in 2006 in a sale-and-lease-back transaction for $187.4 million (total consideration of $208.0 million less $20.6 million seller's credit), acquisition of three drybulk vessels for $167.6 million, advances for vessels acquisitions / under construction of $37.3 million (payment of first installment for two out of six newbuildings ordered by the Company in 2006 of $14.2 million, payment of deposit for the acquisition of three drybulk vessels of $20.2 million and capitalized interest and expenses of $2.9 million). These cash outflows were partially set off by proceeds of $52.0 million from the sale of M/T Errorless and the decrease in restricted cash by $23.5 million. For 2006, the Company had net cash inflows of $531.6 million mainly as a result of the proceeds of $474.6 million from the 13 sale and leaseback transactions and $124.6 from the sale of M/T Taintless, M/T Soundless and M/T Topless.

NET CASH FROM (USED IN) FINANCING ACTIVITIES--2007 ended with net cash inflows of $325.6 million as a result of the drawdown of $10.0 million from the existing revolving credit facility, to partially finance the installment for the two newbuildings, the drawdown of $147.5 million from a new credit facility to partially finance the repurchase of four Suezmax tankers and the drawdown of $159.4 million for the acquisition of three drybulk vessels, the repayment of a loan installment and to cover loan arrangement fees Additionally, the Company made total loan repayments of $92.5 million. During 2007 the Company issued 1,435,874 new shares that were sold at the market, under its shelf registration, for total net proceeds of $29.4 million and 8,050,000 new shares that were sold through a follow-on offering, for total net proceeds of $68.9 million. For 2006, the Company had net cash outflows of $540.1 million mainly as a result of total loan repayments of $369.5 million and the pay out of a special dividend of $217.5 million. During 2006 the Company issued 1,302,454 new shares that were sold at the market, under its shelf registration, for total net proceeds of $26.9 million.

As of December 31, 2007, we were not in compliance with one of our financial covenants, (the Adjusted EBITDA covenant, as defined by each bank) under the loans of $93.0 million, $102.9 million,

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$28.1 million and $28.7 million, discussed under “Tabular Disclosure of Contractual Obligations” below, but have obtained waivers up to and including December 31, 2008, at which point we expect to be in compliance with this same financial covenant. No assurance can be given with respect to future compliance with covenants. If we are not in compliance with certain covenants under our debt or derivative agreements and acceptable waivers are not obtained, we would be in default and the banks could exercise their remedy rights including, but not limited to, accelerating the outstanding indebtedness and taking possession of the underlying collateral securing the indebtedness. In the event this was to occur, there can be no assurance that we will be able to continue as a going concern.

In addition, as of December 31, 2007, we were not in compliance with one of our financial covenants (the Adjusted EBITDA covenant as defined by the bank), under the swap agreement of $50.0 million discussed under “Tabular Disclosure of Contractual Obligations” below, but have obtained a waiver up to and including December 31, 2008. In April 2008, we mutually agreed with the bank for the termination of this swap. We are in the process of restructuring all or part of the then outstanding liability of approximately $7.5 million, which was initially scheduled to be repaid up to June 30, 2008.

As of December 31, 2007, we had $26.5 million of restricted cash, required by our sale and leaseback and other financing agreements. As of the date of this report and following amendments in the loan agreements described below, the restricted cash has been increased to $31.5 million. We exclude the restricted cash from our strategic planning and budgeting and we expect that our working capital generation, in combination with our existing cash balances and our recent equity offerings will be sufficient to cover our liquidity requirements.

C. Research and Development, patents and licenses, etc.

Not applicable.

D. Trend Information

Discussed under ITEM 5.

E. Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements, as of December 31, 2007.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and their maturity dates as of December 31, 2007.

		Payments due by period			
Contractual Obligations:	Total	1 year	2-3 years	4-5 years	More than 5 years
		(in thousands of $)			
(1) (i) Long term debt A	444,313	107,488	76,255	101,313	159,257
(ii) Interest B	101,444	23,019	36,288	26,036	16,101
(2) Newbuildings C	242,573	128,421	114,152	-	-
(3) Operating leases D	21,992	2,140	4,254	4,254	11,344
(4)Lease payments under sale and leasebacks E	260,555	72,022	143,998	42,330	2,205
Total	1,070,877	333,090	374,947	173,933	188,907

A. Relates to the outstanding balance as of December 31, 2007, consisted of 1(a) ($93.0 million), 1(b)(i) ($102.9 million), 1(b)(ii) ($56.8 million), 1(c)(i) ($112.6 million), 1(c)(ii) ($31.0 million) and 1(d) ($48.0 million), discussed below.
B. Interest payments are calculated using the Company's weighted average interest rate, excluding swaps, as of December 31, 2007, of 6.12%, applied on the amortized long term debt as presented in the table above.
C. Relates to the remaining construction installments for the construction of six newbuildings
D. Relates to the minimum rentals payable for the office space
E. Relates to remaining lease payments for the eleven vessels that were sold and leasedback as of December 31, 2007

(1) Long Term Debt:

(a) RBS Revolving Credit Facility:

As of December 31, 2007 the outstanding amount under the RBS revolving credit facility was $93.0 million, payable in 10 semi-annual installments of approximately $6.0 million starting April 30, 2011, plus a balloon payment of $32.5 million payable together with the last installment, if no further amounts are drawn. As of December 31, 2007, the undrawn amount under the RBS revolving credit facility amounted to $65.0 million. As of the date of this report and after giving effect to the drawdown of $10.0 million in relation to the payment of the second installment in March 2008, of two newbuildings and the restructuring of the loan by reducing the revolver limit from $65.0 million to $30.0 million, the outstanding amount totaled $103.0 million, payable in 20 quarterly installments of approximately $4.0 million starting November 30, 2008, plus a balloon payment of $42.0 million payable together with the last installment, if further $20.0 million are drawn. As of the date of this report the undrawn amount under the RBS revolving credit facility amounted to $20.0 million.

Additional terms and conditions of the RBS credit facility are as follows:

During 2007, the interest rate on the RBS credit facility was 85 basis points over LIBOR. From March 26, 2008, the interest rate was adjusted to 125 basis points over LIBOR. The RBS credit facility is

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collateralized by a first priority mortgage on each of the M/T Ioannis P. and M/T Dauntless as of December 31, 2007 and by virtue of a deed of assignment in respect of each of the newbuildings contracts.

The RBS credit facility contains, among other things, financial covenants requiring us to ensure that (i) the aggregate market value of our fleet at all times exceeds 130% of the aggregate outstanding principal amount under the credit facility; (ii) to maintain minimum liquid funds (included in the restricted cash as those presented in the financial statements) with the lender of not less than the greater of $10.0 million or $0.5 million per vessel in our fleet; (iii) to ensure that our total assets minus our debt will not at any time be less than $250.0 million and at all times exceed 35% of our total assets; (iv) to ensure that Adjusted EBITDA (as defined in the RBS credit facility) will exceed 120% of the aggregate of interest expenses and debt due during a particular period ("fixed charges").

The RBS credit facility also contains general covenants that require us to maintain adequate insurance coverage and obtain the bank's consent before we incur new indebtedness that is secured by the vessels mortgaged thereunder. In addition, the RBS credit facility prohibits us, without the lender's consent, from appointing a chief executive officer other than Evangelos Pistiolis and requires that the vessels mortgaged thereunder be managed by TOP Tanker Management, which will subcontract the technical management of the mortgaged vessels to V.Ships Management Limited, Hanseatic Shipping Company Ltd., and any other company acceptable to the lender. We will be permitted to pay dividends under the RBS credit facility so long as we are not in default of a loan covenant.

As of December 31, 2007, we were not in compliance with the Adjusted EBITDA to fixed charges coverage covenant, discussed above, but have obtained waiver up to and including December 31, 2008, at which point we expect to be in compliance with this same financial covenant. No assurance can be given with respect to future compliance with covenants. If we are not in compliance with certain covenants under our served debt or derivative agreements and acceptable waivers are not obtained, we would be in default and the bank could exercise its remedy rights including, but not limited to, accelerating the outstanding indebtedness and taking possession of the underlying collateral securing the indebtedness. In the event this was to occur, there can be no assurance that we will be able to continue as a going concern.

A commitment fee of 0.35% per annum accrues on the amount of the undrawn balance under the revolving credit facility, which is payable quarterly in arrears.

As of December 31, 2007, we had three interest rate swaps with RBS, summarized as follows:

(i) for a notional amount of $28.6 million, with effective date of June 30, 2005 and for a period of four years, with a fixed interest rate of 4.66% plus the applicable bank margin, in order to hedge portion of the variable interest rate exposure.

(ii) for a notional amount of $10.0 million, with effective date of September 30, 2006 and for a period of seven years, with an initial fixed interest rate of 4.23%, in order to hedge portion of the variable interest rate exposure.

(iii) for a notional amount of $10.0 million, with effective date of September 30, 2006 and for a period of seven years, with an initial fixed interest rate of 4.11%, in order to hedge portion of the variable interest rate exposure.

For the swaps (ii) and (iii) we will pay an initial fixed interest rate, as designated above, and will receive a floating interest rate, which is the 3-month LIBOR, as is determined on the reset dates. For the first three quarters of 2007, the difference between the 10-year swap rate and the 2-year swap rate was

greater to 0 basis points, and we paid the initial fixed rate and received the floating interest rate. For the fourth quarter of 2007, the difference between the 10-year swap rate and the 2-year swap rate was greater to 8 basis points, and we paid the initial fixed rate and received the floating interest rate. In all subsequent periods, if the difference between the 10-year swap rate and the 2-year swap rate is greater or equal to 8 basis points, then we will continue to pay the previous rate and continue to receive the respective floating rate. If the difference between the 10-year swap rate and the 2-year swap rate is less than 8 basis points, then we will pay the previous rate, plus three times the difference between 8 basis points and the difference between the 10-year swap rate and the 2-year swap rate. The interest rate that we will pay for those swaps is capped at 10.25%.

(b) HSH Credit Facilities:

(i) Loan of an initial amount of $154.0 million: In November 2005, we concluded a bank loan of $154.0 million to partially finance the acquisition cost of vessels M/T Stormless, M/T Ellen P., M/T Errorless and M/T Edgeless. As of December 31, 2007, the outstanding amount under the loan was $102.9 million, payable in 24 consecutive quarterly installments of $2.6 million, starting on March 13, 2008 plus a balloon payment of $40.3 million payable together with the final installment. During 2007, the interest rate on the credit facility was 80 basis points over LIBOR. The interest rate will be adjusted to 90 basis points over LIBOR if the aggregate amount drawn to aggregate value of ships is greater than 60% but equal or below 70% and will be adjusted to 110 basis points over LIBOR if the aggregate amount drawn to aggregate value of ships is greater than 70%. The loan was subject to a fee of 1% paid upon signing of the agreement.

The $154.0 million credit facility contains, among other things, financial covenants requiring us to ensure that (i) the aggregate market value of the mortgaged vessels is equal to at least 130% of the outstanding principal amount under the loan, (ii) our total assets minus our debt will not at any time be less than $250.0 million or 35% of our total assets, (iii) our Adjusted EBITDA (as defined in the HSH credit facility agreement) will not at any time be less than 120% of the aggregate of interest expenses and debt due at a particular period, and (iv) maintain certain minimum liquid funds (included in the restricted cash as those presented in the financial statements) of not less than the greater of $10.0 million or $0.5 million per vessel in our fleet, including the sold and leased-back vessels. In addition, the HSH credit facility prohibits us, without the lender's consent, from appointing a chief executive officer other than Evangelos Pistiolis and requires that the mortgaged vessels are managed by TOP Tanker Management, which may subcontract the technical management of the mortgaged vessels to V.Ships Management Limited, Hanseatic Shipping Company Ltd., or any other company acceptable to the lender.

In connection with the loan of $154.0 million discussed above, we have entered into an interest rate swap agreement with declining notional balances in order to hedge its variable interest rate exposure, with effective date January 30, 2006, for a notional amount of $37.4 million and for a period of five years, with a fixed interest rate of 4.8% plus the applicable margin.

As of December 31, 2007, we were not in compliance with the Adjusted EBITDA to fixed charge coverage covenant, discussed above, but have obtained waiver up to and including December 31, 2008, at which point we expect to be in compliance with this same financial covenant. No assurance can be given with respect to future compliance with covenants. If we are not in compliance with certain covenants under our served debt or derivative agreements and acceptable waivers are not obtained, we would be in default and the bank could exercise its remedy rights including, but not limited to, accelerating the outstanding indebtedness and taking possession of the underlying collateral securing the indebtedness. In the event this was to occur, there can be no assurance that we will be able to continue as a going concern.

In connection to the waiver of the covenant, discussed above, we have agreed with the bank on the following:

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- Applicable margin increase, from March 7, 2008, and during the waiver period to 135 basis points,
- Full dividend restriction as long as we are not in compliance with the same covenant,
- Amendment of minimum liquidity from $10.0 million to $30.0 million, including restricted cash,
- Amendment of the definition of the asset cover ratio from 130% to 140%.

(ii) Loan of an initial amount of $95.0 million: At December 31, 2007, we had a secured term loan outstanding of $56.8 million, which was ultimately part of a $95.0 million secured term loan available to partially finance the acquisition cost of the M/V Bertram, M/V Amalfi and the M/V Voc Gallant).

M/V Bertram: The loan of $28.1 million was drawn down on November 9, 2007 (originally amounted to $29.6 million). In December 2007, $1.5 million was prepaid from the net proceeds of the equity offering. Following the sale of the vessel in April 2008, the then outstanding loan of $26.5 million was fully repaid.

M/V Amalfi: The loan of $28.7 million was drawn down on December 27, 2007 (originally amounted to $30.3 million). In December 2007, $1.6 million was prepaid on this loan from the net proceeds of the equity offering. As a result of the prepayment, the loan is payable in 28 consecutive quarterly installments as follows: (i) four installments of $1.0 million, starting on March 27, 2008; (ii) twenty four installments of $0.5 million; and (iii) a balloon payment of $11.9 million payable together with the last installment.

The credit facility bears interest at LIBOR plus a margin. During 2007, the interest rate on the credit facility was 100 basis points over LIBOR. The interest rate will be adjusted to 112.5 basis points over LIBOR as long as the vessels are not employed under time charter agreements acceptable to the lender of periods of at least 12 months. The credit facility was subject to a 1% arrangement fee paid in 2007.

The $95.0 million credit facility contains, among other things, financial covenants requiring us to ensure that (i) the aggregate market value of the mortgaged vessels for the first four years is equal to at least 130% and 135% thereafter of the outstanding principal amount under the loan, (ii) our total assets minus our debt will not at any time be less than $250.0 million or 35% of our total assets, (iii) our Adjusted EBITDA (as defined in the HSH credit facility agreement) will not at any time be less than 120% of the aggregate of interest expenses and debt due at a particular period, and (iv) maintain certain minimum liquid funds (included in the restricted cash as those presented in the financial statements) of not less than the greater of $25.0 million or $0.5 million per vessel in our fleet, including the sold and leased-back vessels. In addition, the HSH credit facility prohibits us, without the lender's consent, from appointing a chief executive officer other than Evangelos Pistiolis and requires that the mortgaged vessels are managed by TOP Tanker Management, which may subcontract the technical management of the mortgaged vessels to V.Ships Management Limited, Hanseatic Shipping Company Ltd., or any other company acceptable to the lender. In addition, it prohibits the 3 borrowers, which are our subsidiaries from declaring or paying any dividends or making any distributions to their shareholders in excess of 70% of their net income.

As of December 31, 2007, we were not in compliance with the Adjusted EBITDA to fixed charges coverage covenant, discussed above, but have obtained waiver up to and including December 31, 2008, at which point we expect to be in compliance with this same financial covenant. No assurance can be given with respect to future compliance with covenants. If we are not in compliance with certain

covenants under our served debt or derivative agreements and acceptable waivers are not obtained, we would be in default and the bank could exercise its remedy rights including, but not limited to, accelerating the outstanding indebtedness and taking possession of the underlying collateral securing the indebtedness. In the event this was to occur, there can be no assurance that we will be able to continue as a going concern.

In connection to the waiver of the covenant, discussed above, we have agreed with the bank on the following:

- Applicable margin increase, from March 7, 2008, and during the waiver period to 135 basis points,
- Full dividend restriction as long as we are not in compliance with the same covenant,
- Amendment of minimum liquidity from $25.0 million to $30.0 million, including restricted cash,
- Amendment of the definition of the asset cover ratio from 130% and 135% to 140% and 145%.

M/V Voc Gallant: On February 1, 2008, following the delivery of the vessel, $33.2 million, net of a prepayment of $1.9 million, was drawn (originally amounted to $35.1 million). The loan is payable in 28 consecutive quarterly installments as follows: (i) four installments of $1.6 million, starting on May 2, 2008; (ii) four installments of $0.8 million; (iii) twenty installments of $0.5 million; and (iv) a balloon payment of $13.4 million payable together with the last installment.

(c) DVB Credit Facilities:

(i) Loan of an initial amount of $147.5 million: At December 31, 2007, we had a secured term loan outstanding of $112.6 million. The loan was drawn down in May 2007, to partially finance the re-acquisition cost of vessels M/T Limitless, M/T Endless, M/T Stainless and M/T Noiseless. In December 2007, $20.0 million was prepaid from the net proceeds of the equity offering. In January 2008, $28.2 million was prepaid due to sale of the M/T Noiseless and the loan is currently payable as follows: (i) six consecutive quarterly installments of approximately $4.2 million, starting on February 29, 2008; (ii) two consecutive quarterly installments of approximately $2.8 million; (iii) six consecutive quarterly installments of approximately $3.4 million; iv) four consecutive quarterly installments of approximately $3.1 million; and (iv) a balloon payment of approximately $20.7 million payable together with the final installment.

The credit facility bears interest at LIBOR plus a margin. During 2007, the interest rate on the credit facility was 125 basis points over LIBOR. The credit facility was subject to a 1% arrangement fee paid on the initial drawdown date.

The $147.5 million credit facility contains, among other things, financial covenants requiring us to ensure that (i) the aggregate market value of the mortgaged vessels is equal to at least 125% of the outstanding principal amount under the loan, (ii) net asset value (as defined in the DVB credit facility agreement) will not at any time be less than $125.0 million, (iii) our book equity will not at any time be less than $100.0 million and (iv) maintain minimum consolidated cash balances of not less than $25.0 million, including the restricted cash. In addition, the DVB credit facility prohibits the four borrowers, which are our subsidiaries, without the lender's consent, from declaring or paying any dividends or returning any capital to their equity holders and requires that the mortgaged vessels are managed by TOP Tanker Management, which may subcontract the technical management of the mortgaged vessels to V.Ships Management Limited, Hanseatic Shipping Company Ltd., or any other company acceptable to the lender.

(ii) Bridge Loan of an initial amount of $35.0 million: In November 2007, we concluded a secured loan (originally amounted to $35.0 million) to partially finance the acquisition cost of three drybulk vessels, the M/V Bertram, the M/V Voc Gallant and the M/V Amalfi, to cover the arrangement fees and for general corporate purposes. The loan was subject to an arrangement fee of $1.0 million which was paid on the first drawdown. On November 9, 2007, the amount of $12.9 million, which was part of the $35.0 million bank loan discussed above, was drawn to partially finance the acquisition of the M/V Bertram, delivered to us on November 12, 2007, and to cover the arrangement fees. On November 30, 2007, we borrowed $7.5 million under the loan, which was part of the $35.0 million secured loan discussed above, to partially finance the loan installment of the loan c(i) discussed above and to cover the arrangement fees of $0.2 million. In December 2007, we repaid the full $20.4 million outstanding under this loan from the net proceeds of the equity offering.

As of December 31, 2007 the loan outstanding under the bridge facility was $31.0 million, (which relates to the $35.0 million loan, discussed above, as amended) and was drawn to partially finance the acquisition cost of the drybulk vessels M/V Cyclades and M/V Amalfi. The loan was subject to an arrangement fee of $1.5 million, paid on the first drawdown. On December 21, 2007, the amount of $19.0 million was drawn to refinance part of the acquisition cost of the drybulk vessel M/V Cyclades. On December 27, 2007, the amount of $12.0 million was drawn to partially finance the acquisition cost of the drybulk vessel M/V Amalfi. The loan is payable in one installment latest by September 30, 2008. In May 2008, we prepaid $15.5 million from the proceeds of the private placement, discussed above.

The credit facility bears interest at LIBOR plus a margin. During 2007 and up to February 29, 2008, the interest rate on the credit facility was 300 basis points over LIBOR. For each calendar month commencing after February 29, 2008, additional 100 basis points per month apply.

The $35.0 million credit facility contains, among other things, financial covenants requiring us to ensure that the aggregate market value of the mortgaged vessels is equal to at least 125% of the outstanding principal amount under the loan.

(d) ALPHA Credit Facility: At December 31, 2007, we had a secured term loan outstanding of $48.0 million. The loan of $48.0 million was drawn down on December 17, 2007 to partially finance the acquisition cost of the drybulk vessel M/V Cyclades. The loan is payable in 32 consecutive quarterly installments as follows: (i) four installments of $2.7 million, starting on March 17, 2008; (ii) four installments of $2.2 million; (iii) four installments of $1.2 million; (iv) twenty installments of $0.7 million; and (v) a balloon payment of $8.0 million payable together with the last installment.

The credit facility bears interest at LIBOR plus a margin of 130 basis points. The loan was subject to an arrangement fee of 0.50% on the loan amount, half of which was paid in November 2007 and the other half was paid in January 2008.

The $48.0 million credit facility contains, among other things, financial covenants requiring us to ensure that (i) the aggregate market value of the mortgaged vessel is equal to at least 130% of the outstanding principal amount under the loan, (ii) adjusted net worth (as defined in the ALPHA credit facility agreement) will not at any time be less than $250.0 million, (iii) our book equity will not at any time be less than $100.0 million and (iv) maintain minimum consolidated cash balances of not less than $25.0 million, including the restricted cash. In addition, the ALPHA credit facility requires that the mortgaged vessel is managed by TOP Tanker Management, which may subcontract the technical management of the mortgaged vessel to V.Ships Management Limited, Hanseatic Shipping Company Ltd., or any other company acceptable to the lender.