

TOP SHIPS INC.  
Form 20-F  
February 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

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

OR

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

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

Commission file number 000-50859

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

(Translation of Registrant's name into English)

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

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(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Common Stock par value \$0.01 per share	Nasdaq Global Select Market

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

NONE  
(Title of class)

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

NONE  
(Title of class)

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

As of December 31, 2013, 17,287,534 shares of Common Stock, par value \$0.01 per share, were outstanding.

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

Yes                      No

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

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

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

Yes                       No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17

Item 18

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

Yes

No

X

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#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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



PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Unless the context otherwise requires, as used in this report, the terms "Company," "we," "us," and "our" refer to Top Ships Inc. and all of its subsidiaries, and "Top Ships Inc." refer only to Top Ships Inc. and not to its subsidiaries. We use the term deadweight ton or dwt, in describing the size of vessels. Dwt, expressed in metric tons each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. Throughout this annual report, the conversion from Euros to U.S. dollars is based on the U.S. dollar/Euro exchange rate of 1.379 as of December 31, 2013, unless otherwise specified.

A. Selected Financial Data

The following table sets forth our selected historical consolidated financial data and other operating data for the years ended December 31, 2009, 2010, 2011, 2012 and 2013. The following information should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the consolidated financial statements and related notes included herein. The following selected historical consolidated financial data is derived from our consolidated financial statements and notes thereto, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, and have been audited by Deloitte, Hadjipavlou, Sofianos & Cambanis S.A., or Deloitte, an independent registered public accounting firm.

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Year Ended December 31,

U.S. Dollars in thousands, except per share data

	2009	2010	2011	2012	2013
<b>STATEMENT OF COMPREHENSIVE INCOME/ (LOSS)</b>					
Revenues	107,979	90,875	79,723	31,428	20,074
Other Income	-	-	872	-	-
Voyage expenses	3,372	2,468	7,743	1,023	663
Charter hire expense	10,827	480	2,380	-	-
Amortization of deferred gain on sale and leaseback of vessels and write-off of seller's credit	(7,799 )	-	-	-	-
Lease termination expense	15,391	-	5,750	-	-
Vessel operating expenses	23,739	12,853	10,368	814	745
Dry-docking costs	4,602	4,103	1,327	-	-
Management fees-third parties	419	159	439	-	-
Management fees-related parties	-	3,131	5,730	2,345	1,351
General and administrative expenses	23,416	18,142	15,364	7,078	3,258
(Gain)/Loss on sale of vessels	-	(5,101 )	62,543	-	(14 )
Vessel Depreciation	31,585	32,376	25,327	11,458	6,429
Impairment on vessels	36,638	-	114,674	61,484	-
(Gain) on disposal of subsidiaries	-	-	-	-	(1,591 )
Operating (loss)/income	(34,211 )	22,264	(171,050 )	(52,774 )	9,233
Interest and finance costs	(13,969 )	(14,776 )	(16,283 )	(9,345 )	(7,443 )
Loss on derivative financial instruments	(2,081 )	(5,057 )	(1,793 )	(447 )	(171 )
Interest income	235	136	95	175	131
Other (expense) income, net	(170 )	(54 )	(81 )	(1,593 )	(342 )
Net (loss) income	(50,196 )	2,513	(189,112 )	(63,984 )	1,408
Other Comprehensive income / (loss)	64	(51 )	-	-	-
Comprehensive (loss)/income	(50,132 )	2,462	(189,112 )	(63,984 )	1,408
(Loss) earnings per share, basic and diluted	\$(17.78 )	\$0.82	\$(29.99 )	\$(3.77 )	\$0.08
Weighted average common shares outstanding, basic	2,823,059	3,075,278	6,304,679	16,989,585	17,061,530
Weighted average common shares outstanding, diluted	2,823,059	3,077,741	6,304,679	16,989,585	17,111,530



Year Ended December 31,

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

	2009	2010	2011	2012	2013
<b>BALANCE SHEET DATA</b>					
Current assets	3,787	3,420	14,866	26,735	10,262
Total assets	675,149	622,091	296,373	211,415	27,868
Current liabilities, including current portion of long-term debt	427,953	366,609	219,690	193,630	8,605
Non-Current liabilities	-	-	-	4,706	3,906
Total debt	399,087	337,377	193,749	172,619	-
Common stock	311	322	171	172	174
Stockholders' equity	247,196	255,482	76,684	13,079	14,795
<b>FLEET DATA</b>					
Total number of vessels at end of period	13.0	13.0	7.0	7.0	0.0
Average number of vessels(1)	13.7	13.1	11.7	7.0	5.1
Total calendar days for fleet(2)	5,008	4,781	4,281	2,562	1,852
Total available days for fleet(3)	4,813	4,686	4,218	2,546	1,852
Total operating days for fleet(4)	4,775	4,676	4,180	2,544	1,852
Total time charter days for fleet	2,841	2,076	1,109	124	-
Total bareboat charter days for fleet	1,934	2,555	2,551	2,420	1,852
Total spot market days for fleet	-	45	520	-	-
Fleet utilization(5)	99.20 %	99.80 %	99.1 %	99.92 %	100.00 %
<b>AVERAGE DAILY RESULTS</b>					
Time charter equivalent(6)	\$ 21,907	\$ 18,907	\$ 17,220	\$ 11,951	\$ 10,484
Vessel operating expenses(7)	\$ 4,740	\$ 2,688	\$ 2,422	\$ 318	\$ 402
General and administrative expenses(8)	\$ 4,676	\$ 3,795	\$ 3,589	\$ 2,763	\$ 1,759

(1) Average number of vessels is the number of vessels that constituted our fleet (including leased vessels) for the relevant period, as measured by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in that period.

(2) Calendar days are the total days the vessels were in our possession for the relevant period. Calendar days are an indicator of the size of our fleet over the relevant period and affect both the amount of

revenues and expenses that we record during that period.

- (3) Available days are the number of calendar days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or scheduled guarantee inspections in the case of newbuildings, vessel upgrades or special or intermediate surveys and the aggregate amount of time that we spend positioning our vessels. Companies in the shipping industry generally use available days to measure the number of days in a period during which vessels should be capable of generating revenues. We determined to use available days as a performance metric, for the first time, in the second quarter and first half of 2009. We have adjusted the calculation method of utilization to include available days in order to be comparable with shipping companies that calculate utilization using operating days divided by available days.
- (4) Operating days are the number of available days in a period less the aggregate number of days that our vessels are off-hire due to unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period that our vessels actually generate revenue.
- (5) Fleet utilization is calculated by dividing the number of operating days during a period by the number of available days during that period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the number of days that its vessels are off-hire for reasons other than scheduled repairs or scheduled guarantee inspections in the case of newbuildings, vessel upgrades, special or intermediate surveys and vessel positioning. We used a new calculation method for fleet utilization, for the first time, in the second quarter and first half of 2009. In all prior filings and reports, utilization was calculated by dividing operating days by calendar days. We have adjusted the calculation method in order to be comparable with most shipping companies, which calculate utilization using operating days divided by available days.

(6) Time charter equivalent rate, or TCE rate, is a measure of the average daily revenue performance of a vessel on a per voyage basis. Our method of calculating TCE rate is consistent with industry standards and is determined by dividing time charter equivalent revenues or TCE revenues by operating days for the relevant time period. TCE revenues are revenues minus voyage expenses. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by the charterer under a time charter contract, as well as commissions. TCE revenues and TCE rate, which are non-GAAP measures, provide additional meaningful information in conjunction with shipping revenues, the most directly comparable GAAP measure, because it assists our management in making decisions regarding the deployment and use of our vessels and in evaluating their financial performance. The table below reflects the reconciliation of TCE revenues to revenues as reflected in the consolidated statements of operations and our calculation of TCE rates for the periods presented.

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

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

The following table reflects reconciliation of TCE revenues to revenues as reflected in the consolidated statements of operations and calculation of the TCE rate (all amounts are expressed in thousands of U.S. dollars, except for total operating days and average daily time charter equivalent amounts).

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

	2009	2010	2011	2012	2013
On a consolidated basis					
Revenues	\$107,979	\$90,875	\$79,723	\$31,428	\$20,074
Less:					
Voyage expenses	(3,372 )	(2,468 )	(7,743 )	(1,023 )	(663 )
Time charter equivalent revenues	\$104,607	\$88,407	\$71,980	\$30,405	\$19,411
Total operating days	4,775	4,676	4,180	2,544	1,852
Average Daily Time Charter Equivalent (TCE)	\$21,907	\$18,907	\$17,220	\$11,951	\$10,484

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 these risk factors could materially and adversely affect our business, financial condition or operating results and the trading price of our common stock.

#### RISKS RELATED TO OUR INDUSTRY

Our earnings may be adversely affected if we do not successfully employ our vessels once they are delivered.

Given current market conditions, we will seek to deploy our vessels on time and bareboat charters in a manner that will help us achieve a steady flow of earnings. Although period charters provide relatively steady streams of revenue as well as a portion of the revenues generated by the charterer's deployment of the vessels in the spot market or otherwise, vessels committed to period charters may not be available for spot voyages during an upturn in the tanker or drybulk industry cycle, as the case may be, when spot voyages might be more profitable. If we can't employ our vessels on profitable time charters or trade them in the spot market profitably, our results of operations and operating cash flow may suffer if rates achieved are not sufficient to cover respective vessel operating and financial expenses.

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

The international tanker and drybulk industries in which we operate are cyclical with attendant volatility in charter hire rates, vessel values and industry profitability. For both tankers and drybulk vessels, the degree of charter rate volatility among different types of vessels has varied widely. If we enter into a charter when charter rates are low, our revenues and earnings will be adversely affected. In addition, a decline in charter hire rates likely will cause the value of our vessels to decline.

Changes in spot rates and time charters can not only affect the revenues we will receive from operations, but can also affect the value of our vessels, even if they are employed under long-term time charters. Our ability to re-charter our vessels on the expiration or termination of their time or bareboat charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in the tanker and drybulk market.

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

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

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

- the number of newbuilding deliveries;
- current and expected purchase orders for vessels;



- the scrapping rate of older vessels;
- vessel freight rates;
- the price of steel and vessel equipment;
- technological advances in the design and capacity of vessels;
- potential conversion of vessels to alternative use;
- changes in environmental and other regulations that may limit the useful lives of vessels;
- port or canal congestion;

- the number of vessels that are out of service at a given time; and
- changes in global crude oil and drybulk commodity production.

The international tanker and drybulk shipping industries have experienced drastic downturns after experiencing historically high charter rates and vessel values in early 2008, and a continued downturn in these markets may have an adverse effect on our earnings, impair the carrying value of our vessels and affect compliance with our loan covenants.

The Baltic Drybulk Index, or BDI, is a U.S. dollar daily average of charter rates that takes into account input from brokers around the world regarding fixtures for various routes, dry cargoes and various drybulk vessel sizes and is issued by the London-based Baltic Exchange (an organization providing maritime market information for the trading and settlement of physical and derivative contracts). The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and has remained volatile since then. The BDI recorded a 25-year record low of 647 in 2012. The decline in charter rates was due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which resulted in falling iron ore prices and increased stockpiles in Chinese ports and vessel oversupply. The decline in charter rates in the drybulk market affected the earnings, the value and, following periodic impairment reviews, the carrying value of our drybulk vessels. As a result, this decline negatively affected asset values, cash flows and liquidity and hence compliance with the covenants contained in our loan agreements. While the BDI has since increased to 1,398 as of January 16, 2014, there can be no assurance that the drybulk charter market will increase further, and the market could decline.

The Baltic Dirty Tanker Index, a U.S. dollar daily average of charter rates issued by the Baltic Exchange that takes into account input from brokers around the world regarding crude oil fixtures for various routes and tanker vessel sizes, declined from a high of 2,347 in July 2008 to a low of 453 in mid-April 2009, which represents a decline of 80%. While the index rose to 1,222 as of January 16, 2014 there can be no assurance that the crude oil charter market will increase further, and the market could decline. The Baltic Clean Tanker Index fell from 1,509 points as of June 19, 2008, to 345 points as of April 4, 2009. The index rose to 908 as of December 23, 2011, but has since dropped again to 613 as of as of January 16, 2014. The dramatic decline in charter rates was due to various factors, including the significant fall in demand for crude oil and petroleum products, the consequent rising inventories of crude oil and petroleum products in the United States and in other industrialized nations and the corresponding reduction in oil refining, the dramatic fall in the price of oil in 2008, and the restrictions on crude oil production that OPEC and other non-OPEC oil producing countries have imposed in an effort to stabilize the price of oil. Starting from 2009 and up to 2013, the above-mentioned factors affecting the Baltic Dirty and Clean Tanker Indices partially subsided, allowing for the modest recovery of rates and a stabilization of tanker vessel values; however, tanker vessel oversupply has suppressed any increase in rates or values due to increases in crude oil or oil product demand.

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

The instability of the euro or the inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.

As a result of the credit crisis in Europe, in particular in Greece, Cyprus, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such

support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism, or the ESM, which was established on September 27, 2012 to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for oil and for drybulk cargoes and consequently for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

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

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

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

Continued economic slowdown in the Asia Pacific region, especially in Japan and China, may exacerbate the effect on us of the recent slowdown in the rest of the world. As a result, continued economic slowdown in the Asia Pacific region, especially in Japan and China, may have a material adverse effect on our business, financial position and results of operations, as well as our future prospects. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The growth rate of China's GDP is estimated by government officials to average 7.6% for the year ended December 31, 2013, as compared to approximately 7.8% for the year ended December 31, 2012, and continues to remain below pre-2008 levels. China has imposed measures to restrain lending, which may further contribute to a slowdown in its economic growth. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our financial condition and results of operations, as well as our future prospects, would likely be impeded by a continuing or worsening economic downturn in any of these countries.

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

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

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

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

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

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

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

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

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

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

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

The operation of our vessels is affected by the requirements set forth in the United Nations' International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires ship owners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. We expect that any vessels that we acquire in the future will be ISM Code-certified when delivered to us. The failure

of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports, including United States and European Union ports.

In addition, the hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention. If a vessel does not maintain its class and/or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable, which will negatively impact our revenues and results from operations.

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

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

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

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

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

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

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

The fair market value of our vessels may increase and decrease depending on the following factors:

- general economic and market conditions affecting the international tanker and drybulk shipping industries;
  - prevailing level of charter rates;
  - competition from other shipping companies;
  - types, sizes and ages of vessels;
  - other modes of transportation;
  - supply and demand for vessels;
  - cost of newbuildings;



- price of steel;
- governmental or other regulations; and
- technological advances.

If we sell any vessel at a time when vessel prices have fallen, the sale price may be less than the vessel's carrying amount in our financial statements, in which case we will realize a loss. Vessel prices can fluctuate significantly, and in the case where the market value falls below the carrying amount we will evaluate the asset for a potential impairment adjustment and may be required to write down the carrying amount of the vessel in our financial statements and incur a loss and a reduction in earnings, if the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount. See "Item 5. Operating and Financial Review and Prospects—Critical Accounting Policies—Impairment of Vessels."

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

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

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

The supply of vessels generally increases with deliveries of new vessels and decreases with the scrapping of older vessels. The market supply of drybulk carriers has been increasing, and the number of drybulk carriers on order as of December 31, 2013, was estimated by market sources to be approximately 20% of the existing global drybulk fleet, with the majority of deliveries expected during 2014 to 2015, although available data with regard to cancellations of existing newbuilding orders or delays of newbuilding deliveries are not always accurate.

The market supply of tankers is affected by a number of factors such as demand for energy resources, oil and petroleum products, as well as strong overall economic growth in part of the world economy, including Asia. As of December 31, 2013, newbuilding orders have been placed for an aggregate of approximately 11% of the existing global tanker fleet with the bulk of deliveries expected during 2014 to 2015.

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

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

From time to time on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the U.S. government as state sponsors of terrorism, including Cuba, Iran, Sudan and Syria. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to companies such as ours and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, in 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including

conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the "Joint Plan of Action" ("JPOA"). Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is used only for peaceful purposes, the U.S. and E.U. would voluntarily suspend certain sanctions for a period of six months.

On January 20, 2014, the U.S. and E.U. indicated that they would begin implementing the temporary relief measures provided for under the JPOA. These measures include, among other things, the suspension of certain sanctions on the Iranian petrochemicals, precious metals, and automotive industries from January 20, 2014 until July 20, 2014.

Although it is our intention to comply with the provisions of the JPOA, there can be no assurance that we will be in compliance in the future as such regulations and U.S. Sanctions may be amended over time, and the U.S. retains the authority to revoke the aforementioned relief if Iran fails to meet its commitments under the JPOA.

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

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

The continuing conflicts and recent developments in Korea, the Middle East, including Egypt, and North Africa, including Libya, and the presence of the United States and other armed forces in Iraq and Afghanistan may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing or, if we are able to obtain financing, to do so on terms unfavorable to us. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea. Any of these occurrences could have a material adverse impact on our business, financial condition and results of operations.

Acts of piracy on ocean-going vessels could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased during 2013 to its lowest level since 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea, with drybulk vessels and tankers particularly vulnerable to such attacks. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones by insurers or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ onboard security

guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, results of operations, cash flows, financial condition and ability to pay dividends and may result in loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

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

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in respects such as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five-year plans, or State Plans, are adopted by the Chinese government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through State Plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken, with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform the level of imports to and exports from China could be adversely affected which could adversely affect our business, operating results and financial condition.

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

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

Rising fuel prices may adversely affect our business.

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

#### RISKS RELATED TO OUR COMPANY

We will not generate any revenues until we take delivery of the newbuilding vessels we have agreed to acquire or identify and acquire other vessels.

We have entered into Memoranda of Agreement, or MOAs, with two entities affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis, to purchase two newbuilding product/chemical tankers to be built in Hyundai Mipo Dockyard Co., Ltd. for an aggregate purchase price of \$73.25 million. These vessels are expected to be delivered to us in the second quarter of 2014 and the third quarter of 2015. We do not currently have any operating vessels. Until we take delivery of the vessels we have agreed to acquire or identify and acquire additional vessels, we will not generate any revenues. However, we will continue to incur costs related to any efforts to identify other vessels for acquisition, interest expense for any debt we incur and general administrative expenses, including those related to being a public company. As a result, we will incur losses and are unlikely to be able to pay dividends prior to operating our newbuilding vessels or any vessels we may acquire.

Newbuilding projects are subject to risks that could cause delays.

Pursuant to the MOAs, we have agreed to purchase two newbuilding vessels to be built in Hyundai Mipo Dockyard Co., Ltd. with expected delivery in the second quarter of 2014 and the third quarter of 2015. Newbuilding construction projects are subject to risks of delay inherent in any large construction project from numerous factors, including shortages of equipment, materials or skilled labor, unscheduled delays in the delivery of ordered materials and equipment or shipyard construction, failure of equipment to meet quality and/or performance standards, financial or operating difficulties experienced by equipment vendors or the shipyard, unanticipated actual or purported change orders, inability to obtain required permits or approvals, design or engineering changes and work stoppages and other labor disputes, adverse weather conditions or any other events of force majeure. Yards failure to complete the project on time may result in the delay of revenue from the vessel.

If we are unable to obtain financing required to complete payments on our newbuildings, we may lose all or a portion of the payments previously made.

Pursuant to the MOAs, as of December 31, 2013, we have paid a \$14.4 million installment to acquire two newbuilding vessels under construction at Hyundai Mipo Dockyard Co., Ltd. Upon delivery of the vessels we will have a remaining installment under the MOAs in the amount of \$58.9 million before we take possession of the vessels. We had, as of December 31, 2013, a cash balance of \$9.7 million to fund these newbuilding vessels and other newbuilding or secondhand purchases. To fund the delivery installment for Hull S406, we have the option to pay in cash or shares. To fund the delivery installment for Hull S418 and to acquire further vessels, we will be required to use cash 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. If we are not able to borrow additional funds, raise other capital or utilize available cash on hand, we may not be able to take delivery of Hull S418 or acquire other newbuilding or secondhand vessels, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. If for any reason we fail to make a payment when due, which may result in a default under our MOA contracts, or otherwise fail to take delivery of our vessel, we would be prevented from realizing potential revenues from this vessel, which could have a material adverse effect on our business, results of operations and financial condition. Additionally, we could also lose all or a portion of our payments to the sellers that were paid by us and we could be liable for penalties and damages under such contracts. Even if we are successful in obtaining necessary funds, incurring additional debt may significantly increase our interest expense and financial leverage, which could limit our financial flexibility and ability to pursue other business opportunities.

We are subject to certain risks with respect to our counterparties and contracts, and failure of such counterparties to meet their obligations could cause us to suffer losses or negatively impact our results of operations and cash flows.

In the future we may enter into various contracts, including pooling arrangements, charter agreements, shipbuilding contracts and credit facilities. Such agreements subject us to counterparty risks. The ability of each of our counterparties to perform its obligations under a contract with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the maritime industry, the overall financial condition of the counterparty, charter rates received for specific types of vessels, and various expenses. For example, the combination of a reduction of cash flow resulting from declines in world trade, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may result in a significant reduction in the ability of charterers to make charter payments to us. In addition, in depressed market conditions, charterers and customers may no longer need a vessel that is then under charter or contract or may be able to obtain a comparable vessel at lower rates. As a result, charterers and customers may seek to renegotiate the terms of their existing charter agreements or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under agreements with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Due to market conditions, we may sell our newbuilding vessels at a loss.

We have entered into MOAs for one 39,000 dwt product/chemical tanker and one 50,000 dwt product/chemical tanker both to be built at Hyundai Mipo Dockyard Co., Ltd., and we currently own no other vessels. Since the summer of 2008, vessel values in both the drybulk and tanker industries have been very volatile. If vessel values decline, we may decide to sell the newbuilding vessels at a loss that would affect our cash flow and financial condition.

Servicing 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 intend to incur 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, 2013, we had no indebtedness. Our future 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 future 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 future interest expense could increase if interest rates increase. 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.

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

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

- generate excess cash flow so that we can invest without jeopardizing our ability to cover current and foreseeable working capital needs (including debt service);
  - raise equity and obtain required financing for our existing and new operations;
    - locate and acquire suitable vessels;
    - identify and consummate acquisitions or joint ventures;
    - integrate any acquired business successfully with our existing operations;
  - hire, train and retain qualified personnel and crew to manage and operate our growing business and fleet;
    - enhance our customer base; and
    - manage expansion.

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

Our ability to obtain additional debt financing may be dependent on our ability to charter our newbuilding vessels upon delivery, the performance of our then-existing charters and the creditworthiness of our charterers.

Our inability to charter our newbuilding vessels when they are delivered to us, and 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 financing, or at a higher than anticipated cost, may materially affect our results of operation and our ability to implement our business strategy.

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

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

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

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

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

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

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

Our success depends to a significant extent upon the abilities and efforts of our management team. All of our executive officers are employees of Central Mare Inc., or Central Mare which we refer to as our Fleet Manager, a related party controlled by the family of our Chief Executive Officer, and we have entered into agreements with our Fleet Manager for the provision of our President, Chief Executive Officer, and Director, Evangelos Pistiolis, our Chief Financial Officer and Director, Alexandros Tsirikos, our Executive Vice President, Chairman and Director, Vangelis Ikonou, and our Chief Technical Officer, Demetris Souroullas. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining personnel could adversely affect our results of operations. We do not maintain "key man" life insurance on any of our officers.

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

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

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

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

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

When we enter into a time charter or bareboat charter, charter rates under that charter are fixed throughout the term of the charter. If the spot charter rates in the tanker or drybulk shipping industry, as applicable, become significantly lower than the time charter equivalent rates that some of our charterers are obligated to pay us under our then existing

charters, the charterers may have incentive to default under that charter or attempt to renegotiate the charter. If our charterers fail to pay their obligations, we would have to attempt to re-charter our vessels at lower charter rates, and as a result we could sustain significant losses which could have a material adverse effect on our cash flow and financial condition, which would affect our ability to meet our loan repayment obligations if any, in which case our lenders could choose to accelerate our indebtedness and foreclose their liens, and we could be required to sell vessels in our fleet and our ability to continue to conduct our business would be impaired.

An increase in operating costs could decrease earnings and available cash.

Vessel operating costs include the costs of crew, fuel (for spot chartered vessels), provisions, deck and engine stores, insurance and maintenance and repairs, which depend on a variety of factors, many of which are beyond our control. Some of these costs, primarily relating to insurance and enhanced security measures, have been increasing. If any vessels we acquire suffer damage, they may need to be repaired at a drydocking facility. The costs of drydocking repairs are unpredictable and can be substantial. Increases in any of these expenses could decrease our earnings and available cash. In the case of bareboat chartered vessels, operating expenses and loss of hire or freight revenue due to repairs or damages affect the bareboat charterer and not the shipowner, for the duration of the bareboat charter.

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

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. As our fleet ages, operating and other costs will increase. In the case of bareboat charters, operating costs are borne by the bareboat charterer. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, including environmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. As our fleet ages, market conditions might not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

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

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

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

We may expand our fleet through the acquisition of previously owned vessels. While we rigorously inspect previously owned, or secondhand vessels prior to purchase, this does not normally provide us with the same knowledge about their condition and cost of any required (or anticipated) repairs that we would have had if these vessels had been built for and operated exclusively by us. Accordingly, we may not discover defects or other problems with such vessels prior to purchase. Any such hidden defects or problems, when detected, may be expensive to repair, and if not detected, may result in accidents or other incidents for which we may become liable to third parties. Also, when purchasing previously owned vessels, we do not receive the benefit of warranties from the builders if the vessels we buy are older than one year. In general, the costs to maintain a vessel in good operating condition increase with the age and type of the vessel. In the case of chartered-in vessels, we run the same risks.

Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment, to our vessels and may restrict the type of activities in which the vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

We may not have adequate insurance to compensate us if we lose any vessels that we acquire.

We will carry insurance for all vessels we acquire against those types of risks commonly insured against by vessel owners and operators. These insurances include hull and machinery insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance coverage and war risk insurance. Reasonable insurance rates can best be obtained when the size and the age/trading profile of the fleet is attractive. As a result, rates become less competitive as a fleet downsizes.

In the future, we may not be able to obtain adequate insurance coverage at reasonable rates for the vessels we acquire. The insurers may not pay particular claims. Our insurance policies contain deductibles for which we will be responsible as well as limitations and exclusions which may nevertheless increase our costs or lower our revenue.

We may be subject to increased premium payments, or calls, if we obtain some of our insurance through protection and indemnity associations.

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

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by "arresting" or "attaching" a vessel through foreclosure proceedings. The arrest or attachment of one or more vessels we acquire could result in a significant loss of earnings for the related off-hired period. In addition, in jurisdictions where the "sister ship" theory of liability applies, a claimant may arrest the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. In countries with "sister ship" liability laws, claims might be asserted against us or any of our vessels for liabilities of other vessels that we own.

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

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

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

Under the U.S. Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not begin and end, in the U.S. is characterized as U.S. source shipping income and such income is subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code. Although we have qualified for this statutory exemption in previous taxable years and have taken this position for U.S. federal income tax return reporting purposes and we expect to qualify for the 2013 taxable year, there are factual circumstances beyond our control that could cause us to lose the benefit of the exemption and thereby become subject to U.S. federal income tax on our U.S. source shipping income. For example, we would fail to qualify for exemption under Section 883 of the Code for a particular tax year if shareholders, each of whom owned, actually or under applicable constructive ownership rules, a 5% or greater interest in the vote and value of our common stock, owned in the aggregate 50% or more of the vote and value of such stock, and "qualified shareholders" as defined by the Treasury regulation under Section 883 of the Code did not own, directly or under applicable constructive ownership rules, sufficient shares in our closely-held block of common stock to preclude the shares in that closely-held block that are not so owned from representing 50% or more of the value of our common stock for more than half of the number of days during the taxable year. Establishing such ownership by qualified shareholders will depend upon the status of certain of our direct or indirect shareholders as residents of qualifying jurisdictions and whether those shareholders own their shares through bearer share arrangements. In addition, such shareholders will also be required to comply with ownership certification procedures attesting that they are residents of qualifying jurisdictions, and each intermediary or other person in the chain of ownership between us and such shareholders must undertake similar compliance procedures. Due to the factual nature of the issues involved, we may not qualify for exemption under Section 883 of the Code for any future taxable year.

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

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive



income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. Income derived from the performance of services does not constitute "passive income" for this purpose. U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

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

For our 2013 taxable year, we believe that at least 50% of the average value of our assets consisted of vessels which are bareboat chartered and at least 75% of our gross income was derived from vessels on bareboat charter. Therefore, we expect to be treated as a PFIC for our 2013 taxable year.

Our U.S. shareholders may face adverse U.S. federal income tax consequences and certain information reporting obligations as a result of us being treated as a PFIC. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Taxation— U.S. Federal Income Consequences—U.S. Federal Income Taxation of U.S. Holders"), such shareholders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of their common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of the common shares. See "Taxation —U.S. Federal Income Consequences—U.S. Federal Income Taxation of U.S. Holders" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders as a result of our status as a PFIC. In addition, as a result of being treated as a PFIC for the 2013 taxable year, any dividends paid by us during 2013 and 2014 will not be eligible to be treated as "qualified dividend income," which would otherwise be eligible for preferential tax rates in the hands of non-corporate U.S. shareholders.

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

We generate all of our revenues in U.S. dollars but incur certain expenses in currencies other than U.S. dollars, mainly Euros. During 2013, approximately 7.3% of our expenses were in Euros and approximately 0.2% were in currencies other than the U.S. dollar or Euro. This difference could lead to fluctuations in net income due to changes in the value of the U.S. dollar relative to the other currencies, in particular, the Euro. Should the Euro appreciate relative to the U.S. dollar in future periods, our expenses will increase in U.S. dollar terms, thereby decreasing our net income. We have not hedged these risks and therefore our operating results could suffer as a result.

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

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

## RISKS RELATED TO OUR COMMON SHARES

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

The market price of our common shares has fluctuated widely since our common shares began trading in July of 2004 on the Nasdaq National Market, now the Nasdaq Global Select Market, which we refer to as Nasdaq. Over the last few years, the stock market has experienced price and volume fluctuations. This volatility has sometimes been unrelated to

the operating performance of particular companies. During 2013, the closing price of our common shares experienced a high of \$2.40 on July 29, 2013 and a low of \$0.74 on March 11, 2013. On August 21, 2012, we received a notification of deficiency from Nasdaq stating that market value of our publicly-held shares fell below certain minimum requirements for listing on the Nasdaq Global Select Market, with a grace period of 180 calendar days to regain compliance. Nasdaq has since notified us that we regained compliance within the applicable grace period. In addition, because the market price of our common shares has dropped below \$5.00 per share, brokers generally prohibit shareholders from using such shares as collateral for borrowing in margin accounts. This inability to continue to use our common shares as collateral may lead to sales of such shares creating downward pressure on and increased volatility in the market price of our common shares. Furthermore, if the volatility in the market continues or worsens, it could have a further adverse affect on the market price of our common shares, regardless of our operating performance.

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

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

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

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

Our common shares began trading in July of 2004 on the Nasdaq National Market, and our common shares currently trade on the Nasdaq Global Select Market; however, an active and liquid public market for our common shares may not continue and you may not be able to sell your common shares in the future at the price that you paid for them or at all. As noted above, on August 21, 2012, we received a notification of deficiency from Nasdaq stating that market value of our publicly-held shares fell below certain minimum requirements for listing on the Nasdaq Global Select Market, with a grace period of 180 calendar days to regain compliance. Nasdaq has since notified us that we regained compliance within the applicable grace period.

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

Certain existing stockholders, who hold approximately 53.8% of our common stock, may have the power to exert control over us, which may limit your ability to influence our actions.

As of the day of this report, Sovereign Holdings Inc., or Sovereign, a company that is wholly owned by our President, Chief Executive Officer and Director, Evangelos J. Pistiolis, owns, directly or indirectly, approximately 53.8% of the

outstanding shares of our common stock. Due to the number of shares it owns, Sovereign has the power to exert considerable influence over our actions and to effectively control the outcome of matters on which our shareholders are entitled to vote, including the election of our directors and other significant corporate actions. The interests of this stockholder may be different from your interests.

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

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

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

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

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

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

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

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

It may not be possible for investors to serve process on or enforce U.S. judgments against us.

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

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

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

These provisions include:

- authorizing our Board of Directors to issue "blank check" preferred stock without shareholder approval;
  - providing for a classified Board of Directors with staggered, three-year terms;
  - prohibiting cumulative voting in the election of directors;

- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of at least 80% of the outstanding shares of our capital stock entitled to vote for the directors;
- prohibiting shareholder action by written consent unless the written consent is signed by all shareholders entitled to vote on the action;
  - limiting the persons who may call special meetings of shareholders; and
  - establishing advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

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

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

Upon delivery of vessels we acquire, we will be dependent on our Fleet Manager to perform the day-to-day management of our fleet.

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

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

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

Our Fleet Manager is a privately held company. The ability of our Fleet Manager to provide services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair our Fleet Manager's



financial strength, and there may be limited publicly available information about its financial strength. As a result, an investor in our common shares might have little advance warning of problems affecting our Fleet Manager, even though these problems could have a material adverse effect on us.

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

Upon delivery of our newbuilding vessels, we expect to subcontract the day-to-day technical and commercial management of our fleet, including crewing, maintenance, supply provisioning and repair to our Fleet Manager. Our Fleet Manager will provide similar services for vessels owned by other shipping companies, and it may provide similar services to companies with which our Fleet Manager is affiliated. These responsibilities and relationships could create conflicts of interest between our Fleet Manager's performance of its obligations to us, on the one hand, and our Fleet Manager's performance of its obligations to its other clients, on the other hand. These conflicts may arise in connection with the crewing, supply provisioning and operations of the vessels in our fleet versus vessels owned by other clients of our Fleet Manager. In particular, our Fleet Manager may give preferential treatment to vessels owned by other clients whose arrangements provide for greater economic benefit to our Fleet Manager. These conflicts of interest may have an adverse effect on our results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

Business Development

On July 26, 2011, we sold the M/V Astrale, which resulted in a loss of approximately \$40.0 million.

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

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

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

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

On January 1, 2013 we entered into an agreement with the owner of M/T Delos by which the termination fee of \$ 5.3 million outstanding as of December 31, 2012 is divided into two tranches; "Tranche A" (\$4.5 million) that will bear interest of 3% plus Libor and "Tranche B" (\$0.8 million) that will not bear interest. This agreement provides for the repayment of Tranche A and Tranche B up to 2017.

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

On April 15, 2013, we received a notice from the charterer of the M/T Miss Marilena that it has unilaterally reduced the daily rate payable to us from \$14,400 to \$11,500 for one year, beginning in April 2013, in violation of our charter agreement. As part of our agreement for securing the charterer's consent for the sale of the shipowning company of the M/T Miss Marilena to an affiliate of the AMCI Poseidon Fund LP, we mutually agreed to waive our claims on any outstanding hire balance.

On October 16, 2013, we sold the shipowning subsidiaries which own the six vessels of our fleet to an affiliate of the AMCI Poseidon Fund LP, for an aggregate cash consideration of approximately \$173 million less approximately \$135 million in debt and swap obligations of the shipowning companies that were assumed by the buyers. Following this sale we did not own any operating vessels.

On December 5, 2013, we entered into an MOA to acquire a 39,000 dwt newbuilding product/chemical tanker from an entity affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis. The newbuilding is scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the third quarter of 2015. The purchase price of the newbuilding is \$35.0 million and is payable as follows: 20% as an initial deposit and 80% on

delivery of the vessel.

On December 16, 2013, we entered into an MOA to acquire a 50,000 dwt newbuilding product/chemical tanker with a time charter attached from an entity affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis. The newbuilding is scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the first quarter of 2015. The purchase price of the newbuilding is \$37.0 million and is payable as follows: 20% as an initial deposit and 80% on delivery of the vessel.

As of December 31, 2013, our fleet consisted of two newbuilding vessels under construction and scheduled for delivery in the first and third quarter of 2015. As of December 31, 2012, our fleet consisted of seven owned vessels, including six Handymax tankers and one Supramax drybulk vessel, with total carrying capacity of 0.35 million dwt.

In February 6, 2014 we agreed to cancel the MOA we had entered into in December 16, 2013 and entered into a new MOA to purchase another 50,000 dwt newbuilding product/chemical tanker with a time charter from an entity also affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis, scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in May 2014. The purchase price of the newbuilding is \$38.3 million, payable as follows: \$7.4 million already paid on December 2013 for the purchase of the vessel we agreed on in December 16, 2013; \$3.5 million in cash payable in February 2014 and \$27.4 million, payable in cash or shares at our option, on delivery of the vessel.

## B. Business Overview

We are a provider of international seaborne transportation services, carrying petroleum products and crude oil for the oil industry and drybulk commodities for the steel, electric utility, construction and agriculture-food industries. As of the date of this annual report, our fleet of product/chemical tankers consists of two newbuilding vessels: a 50,000 dwt and a 39,000 dwt product/chemical tanker, scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the second quarter of 2014 and the third quarter of 2015, respectively. We do not own any operating vessels.

We intend to continue to review the market in order to identify potential acquisition targets on accretive terms.

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

### Our Fleet

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

TANKER VESSELS	Delivery (per yard contract)	Dwt	Type	Employment on delivery	Duration (years fixed + options)	Gross Rate per day fixed period/ options
Hull number S406	Q2 2014	50,000	MR	T/C	2+1	\$16,000 / \$17,250
Hull number S418	Q3 2015	39,000	MR	N/A		
<b>TOTAL DWT</b>		<b>89,000</b>				

### Management of our Fleet

Central Mare, a related party controlled by the family of our Chief Executive Officer, has been our Shipping Fleet Manager since July 1, 2010. During this period, Central Mare has performed all operational, technical and commercial functions relating to the chartering and operation of the vessels in our tanker and drybulk segments, and upon their delivery will perform these services for the newbuilding product/chemical tankers of our current fleet, pursuant to a letter agreement, or the Letter Agreement, entered into between Central Mare and Top Ships Inc. as well as management agreements between Central Mare and our vessel-owning subsidiaries. Furthermore, the Letter Agreement provides for the provision of services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to the maintenance of proper books and records, services in relation to financial reporting requirements under Commission and NASDAQ rules and regulations and information-system related services.

### Crewing and Employees

As of the date of this annual report, our employees include our executive officers and one administrative employee whose services are provided by an agreement through Central Mare. In addition, Central Mare is responsible for recruiting, mainly through a crewing agent, the senior officers and all other crew members for our vessels. We believe

the streamlining of crewing arrangements will ensure that all our vessels will be crewed with experienced seamen that have the qualifications and licenses required by international regulations and shipping conventions.

#### The International Shipping Industry

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

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

Demand for tankers and tonnage of oil shipped is primarily a function of global oil consumption, which is driven by economic activity as well as the long-term impact of oil prices on the location and related volume of oil production. The Baltic Dirty Tanker Index has modestly risen, after a steep decline that started in mid-2008, and high volatility throughout 2009, 2010 and 2011. The Baltic Dirty Tanker Index declined from a high of 2,347 in July 2008 to a low of 453 in mid-April 2009, which represents a decline of 80%, but has since modestly risen to 1,222 as of January 16, 2014. The Baltic Clean Tanker Index fell from 1,509 as of June 19, 2008, to 345 as of April 4, 2009, but has modestly risen to 613 as of January 16, 2014. The dramatic decline in charter rates was due to various factors, including the significant fall in demand for crude oil and petroleum products, the consequent rising inventories of crude oil and petroleum products in the United States and in other industrialized nations and the corresponding reduction in oil refining, the dramatic fall in the price of oil in 2008, and the restrictions on crude oil production that OPEC, and other non-OPEC oil producing countries have imposed in an effort to stabilize the price of oil. During 2010 and up to 2013, the above factors affecting the Baltic Dirty and Clean Tanker Indices subsided, allowing for the mild recovery of charter rates. According to the International Energy Agency, or the IEA, demand for oil and petroleum products was stronger in 2013, with the global oil product demand rising to 91.2 million barrels per day, compared to 89.8 million barrels per day in 2012.

The IEA expects 2014 oil demand to grow by 1.3% to 92.4 million barrels per day. However, throughout 2013, vessel oversupply has put pressure on charter rates and the respective Baltic Tanker indices.

The price of crude oil reached historical highs in the summer of 2008 but declined sharply thereafter as a result of the deterioration in the world economy, the collapse of financial markets, declining oil demand and bearish market sentiment. From 2009 up to 2013, oil prices started rising again amidst a growing demand for oil, leading to a price of approximately \$91.45 per barrel as of January 13, 2014.

We strategically monitor developments in the tanker and drybulk shipping industry on a regular basis and, subject to market demand, will seek to enter into shorter or longer time or bareboat charters according to prevailing market conditions.

We will 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 will arrange our time charters and bareboat charters through the use of brokers, who negotiate the terms of the charters based on market conditions. We will compete primarily with owners of tankers in the Handymax class sizes. Ownership of tankers is highly fragmented and is divided among major oil companies and independent vessel owners. The drybulk market is less fragmented with more small operators.

Seasonality

We will operate our tanker vessels in markets that have historically exhibited seasonal variations in demand and, therefore, charter rates. This seasonality may affect operating results. However, to the extent that our vessels are chartered at fixed rates on a long-term basis, seasonal factors will not have a significant direct effect on our business.

#### Risk of Loss and Liability Insurance Generally

The operation of any cargo vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel for oil pollution accidents in the United States Exclusive Economic Zone, has made liability insurance more expensive for ship owners and operators trading in the United States market. While we will maintain hull and machinery insurance, war risks insurance, protection and indemnity cover and freight, demurrage and defense cover for our future operating fleet in amounts that we believe will be prudent to cover normal risks in our operations, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe that our intended future insurance coverage will be 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.

#### Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syrian Human Rights Act

Section 219 of the U.S. Iran Threat Reduction and Syria Human Rights Act of 2012, or the ITRA, added new Section 13(r) to the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") requiring each SEC reporting issuer to disclose in its annual and, if applicable, quarterly reports whether it or any of its affiliates have knowingly engaged in certain activities, transactions or dealings relating to Iran or with the Government of Iran or certain designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the report.

Pursuant to Section 13(r) of the Exchange Act, we note that for the period covered by this annual report, the vessel M/V Evian, prior to its sale in October 2013, made one port call to Iran in 2013. The vessel made one call to the port of Bandar Abbas on August 29, 2013, loading iron ore. The vessel remained in the port of Bandar Abbas for 26.3 days, from August 29, 2013 until September 24, 2013, and subsequently completed a voyage that lasted 35.8 days carrying the iron ore to another port. During this time the M/V Evian was on bareboat charter to an unrelated third party for \$7,000 per day. Under the terms of the bareboat charter, and consistent with shipping industry practice, the charterer of the vessel pays the Company a daily charter rate and the charterer directs the vessel's route, loading and discharge ports and the cargoes carried. Due to the nature of the bareboat charter it is difficult to compute the gross revenue or net proceeds gained by the charterer from this port call and subsequent voyage.

#### Environmental and Other Regulations

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

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

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for tankers that conform to stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with applicable local, national and international environmental laws and regulations. We believe that the operation of our vessels will be in substantial compliance with applicable environmental laws and regulations and that our vessels will have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations; however, because such laws and regulations are frequently changed and may impose increasingly strict requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the 2010 Deepwater Horizon oil spill



in the Gulf of Mexico, could result in additional legislation or regulation that could negatively affect our profitability.

#### International Maritime Organization

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

## Air Emissions

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

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

Sulfur content standards are even stricter within certain "Emission Control Areas" ("ECAs"). As of July 1, 2010, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 1.0% (from 1.50%), which will be further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. The Baltic Sea and the North Sea have been so designated. On August 1, 2012, certain coastal areas of North America were designated ECAs and effective January 1, 2014 the United States Caribbean Sea was designated an ECA. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

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

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

## Safety Management System Requirements

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or LL, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL standards. May 2012 SOLAS amendments entered into force as of January 1, 2014. The Convention on Limitation for Maritime Claims (LLMC) was recently amended and the amendments are expected to go into effect on June 8, 2015. The amendments alter the limits of liability for a loss of life or personal injury claim and a property claim against ship owners.

Our operations are also subject to environmental standards and requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO under Chapter IX of SOLAS. The ISM Code requires the owner of a vessel, or any person who has taken responsibility for operation of a vessel, to develop an extensive safety management system that includes, among other

things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We will rely upon the safety management system that has been developed for our vessels for compliance with the ISM Code.

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

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

#### Pollution Control and Liability Requirements

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

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on shipowners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In addition, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements to be replaced in time with mandatory concentration limits. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. To date, there has not been sufficient adoption of this standard for it to take force. However, Panama may adopt this standard in the relatively near future, which would be sufficient for it to take force. Upon entry into force of the BWM Convention, mid-ocean ballast exchange would be mandatory. Vessels would be required to be equipped with a ballast water treatment system that meets mandatory concentration limits not later than the first intermediate or renewal survey, whichever occurs first, after the anniversary date of delivery of the vessel in 2014, for vessels with ballast water capacity of 1500-5000 cubic meters, or after such date in 2016, for vessels with ballast water capacity of greater than 5000 cubic meters. If mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our operations.

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

#### U.S. Regulations

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

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

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

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

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

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee.

OPA permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA. Some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters,

however, in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws.

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

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

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

The United States Environmental Protection Agency, or EPA, has enacted rules requiring a permit regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters under the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in United States waters. On March 28, 2013 the EPA re-issued the VGP for another five years. This VGP took effect on December 19, 2013. The VGP focuses on authorizing discharges incidental to operations of commercial vessels and the new VGP contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

U.S. Coast Guard regulations adopted and proposed for adoption under the U.S. National Invasive Species Act, or NISA, impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters, which could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures, and/or otherwise restrict our vessels from entering U.S. waters. In 2009, the U.S. Coast Guard proposed new ballast water management standards and practices, including limits regarding ballast water releases. As of June 21, 2012, the U.S. Coast Guard implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships into U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004.

Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, and/or otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act of 1970 (including its amendments of 1977 and 1990), or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels will be subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Should our vessels operate in such port areas with restricted cargoes they will be equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment.

#### European Union Regulations

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required



to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

#### Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. As of January 1, 2013 all new ships must comply with two new sets of mandatory requirements adopted by the IMO's Marine Environmental Protection Committee, MEPC, in July 2011 in part to address greenhouse gas emissions from ships. Currently operating ships are required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is also planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In April 2013, the European Union Parliament rejected proposed changes to the European Union Emissions law regarding carbon trading. In June 2013 the European Commission developed a strategy to integrate maritime emissions into the overall European Union strategy to reduce greenhouse gas emissions. If the strategy is adopted by the European Parliament and Council, large vessels using European Union ports would be required to monitor, report and verify their carbon dioxide emissions beginning in January 2018. In December 2013, the European Union environmental ministers discussed draft rules to implement monitoring and reporting of carbon dioxide emissions from ships.

In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and has proposed regulations to limit greenhouse gases from large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any climate control legislation or other regulatory initiatives adopted by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures, including capital expenditures to upgrade our vessels, which we cannot predict with certainty at this time.

#### International Labour Organization

The International Labour Organization, or ILO, is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 entered into force on August 20, 2013. MLC 2006 requires us to develop new procedures to ensure full compliance with its requirements.

#### Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

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

To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;

- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history, including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

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

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels provided such vessels have on board a valid ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code.

### Inspection by Classification Societies

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

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

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

**Annual Surveys:** For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.

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

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

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

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

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

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies. All 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.

#### Customers

Historically, our customers have included national, regional and international companies, and we have derived a significant part of our revenue from a small number of charterers. In 2013, approximately 99% of our revenue derived from three charterers, Daelim H&L Co. Ltd., United Arab Chemical Carriers, Ltd and Perseveranza Di Navigazione S.p.a, which respectively provided 63%, 18% and 18% of our revenues. In 2012, approximately 89% of our revenue derived from three charterers, Daelim H&L Co. Ltd., United Arab Chemical Carriers, Ltd and Perseveranza Di Navigazione S.p.a, which respectively provided 51%, 21% and 17% of our revenues.

C. Organizational Structure

We are a Marshall Islands corporation with principal executive offices located at 1 Vas. Sofias and Meg. Alexandrou Str, 15124 Maroussi, Greece. We will own our vessels through wholly-owned subsidiaries that are incorporated in the Marshall Islands or other jurisdictions generally acceptable to lenders in the shipping industry. Our significant wholly-owned subsidiaries as of December 31, 2013 are listed in Exhibit 8.1 to this Annual Report on Form 20-F.

D. Property, Plants and Equipment

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

We do not own any real property.

We lease office space in Athens, Greece, located at 1, Vasilisis Sofias & Megalou Alexandrou Street, 151 24 Maroussi, Athens, Greece at a yearly rent of \$0.04 million. The amounts of yearly rent stated in this paragraph are based on the relevant exchange rate on December 31, 2013.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in "Item 3. Key Information—Risk Factors" and elsewhere in this report.

A. Operating Results

Segments and Continuing Operations

Following the acquisition of five drybulk vessels in 2007, we reported our income in two segments, the tanker segment and the drybulk segment. In 2011, we sold four of our drybulk vessels and held the fifth drybulk vessel for sale, the M/V Evian. As a result, we determined that as of December 31, 2011, our drybulk segment should be reflected as discontinued operations. During 2012, we entered into a bareboat agreement to charter-out the M/V Evian through December 15, 2014 at a rate of \$7,000 per day and decided to change the plan of sale of the M/V Evian. As of December 31, 2012, we reclassified the M/V Evian as held for use. As a result, the Dry bulk business was reclassified to continuing operations for all periods presented. In evaluating the ongoing business operations, the Company determined that since tankers and dry bulk carriers have similar economic characteristics, and as the chief operating decision maker reviews operating results solely by revenue per day and operating results of the fleet, we concluded that in 2012 and 2013 we operated under one segment.

## Factors Affecting our Results of Operations

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

- **Calendar days.** We define calendar days as the total number of days the vessels were in our possession for the relevant period. Calendar days are an indicator of the size of our fleet during the relevant period and affect both the amount of revenues and expenses that we record during that period.
- **Available days.** We define available days as the number of calendar days less the aggregate number of days that our vessels are off-hire due to scheduled repairs, or scheduled guarantee inspections in the case of newbuildings, vessel upgrades or special or intermediate surveys and the aggregate amount of time that we spend positioning our vessels. Companies in the shipping industry generally use available days to measure the number of days in a period during which vessels should be capable of generating revenues. We have adjusted the calculation method of utilization to include available days in order to be comparable with shipping companies that calculate utilization using operating days divided by available days.

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

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

#### Voyage Revenues

Our voyage revenues are driven primarily by the number of vessels in our fleet, the number of operating days during which our vessels generate revenues and the amount of daily charterhire that our vessels earn under charters, which, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and disposals, the amount of time that we spend positioning our vessels, the amount of time that our vessels spend in dry-dock undergoing repairs, maintenance and upgrade work, the duration of the charter, the age, condition and specifications of our vessels, levels of supply and demand in the global transportation market for oil products or bulk cargo and other



factors affecting spot market charter rates such as vessel supply and demand imbalances.

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

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

Under a bareboat charter, the vessel is chartered for a stipulated period of time which gives the charterer possession and control of the vessel, including the right to appoint the master and the crew. Under bareboat charters all voyage and operating costs are paid by the charterer.

As of the date of this annual report we don't own any operating vessels. We may in the future operate vessels in the spot market until the vessels have been chartered under appropriate medium to long-term charters.

#### Voyage Expenses

Voyage expenses primarily consist of port charges, including canal dues, bunkers (fuel costs) and commissions. All these expenses, except commissions, are paid by the charterer under a time charter or bareboat charter contract. The amount of voyage expenses are primarily driven by the routes that the vessels travel, the amount of ports called on, the canals crossed and the price of bunker fuels paid.

#### Charter Hire Expenses

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

#### Vessel Operating Expenses

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

#### Dry-docking Costs

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

#### Management Fees—Third Parties

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

#### Management Fees—Related Parties

Since July 1, 2010, Central Mare, a related party controlled by the family of our Chief Executive Officer, has been performing all of our operational, technical and commercial functions relating to the chartering and operation of our vessels, except for the M/T Delos, pursuant to a Letter Agreement concluded between Central Mare and us as well as management agreements concluded between Central Mare and our vessel-owning subsidiaries. For further information please see "Item 4. Information on the Company—B. Business Overview—Management of the Fleet."

#### General and Administrative Expenses

Our general and administrative expenses include executive compensation paid to Central Mare, a related party controlled by the family of our Chief Executive Officer, for the provision of our executive officers, office rent, legal and auditing costs, regulatory compliance costs, other miscellaneous office expenses, non-cash stock compensation, and corporate overhead. Central Mare provides the services of the individuals who serve in the position of Chief Executive Officer, Chief Financial Officer, Executive Vice President and Chief Technical Officer as well as certain administrative employees. For further information please see "Item 18. Financial Statements—Note 7—Transactions with Related Parties."

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

#### Interest and Finance Costs

We have historically incurred interest expense and financing costs in connection with vessel-specific debt. Interest expense was directly related with the repayment schedule of our loans, the then prevailing LIBOR and the relevant margin. Currently the only liability we have that bears interest that fluctuates according to the prevailing LIBOR rates relates to the outstanding balance of the termination fee outstanding (see Note 20 to our consolidated financial statements included herein).

#### Inflation

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

In evaluating our financial condition, we focus on the above measures to assess our historical operating performance and we use future estimates of the same measures to assess our future financial performance. In assessing the future performance of our fleet, the greatest uncertainty relates to future charter rates at the expiration of a vessel's present period employment, whether under a time charter or a bareboat charter. Decisions about future purchases and sales of vessels are based on the availability of excess internal funds, the availability of financing and the financial and operational evaluation of such actions and depend on the overall state of the shipping market and the availability of relevant purchase candidates.

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

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

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

During 2011, 2012 and 2013, we did not acquire any vessels with existing time charter arrangements.

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

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- in some cases, obtain the charterer's consent to a new flag for the vessel;
- arrange for a new crew for the vessel, and where the vessel is on charter, in some cases, the crew must be approved by the charterer;
  - replace all hired equipment on board, such as gas cylinders and communication equipment;

- negotiate and enter into new insurance contracts for the vessel through our own insurance brokers; and
- register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state.

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

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

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

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

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

- management of our financial resources, including banking relationships, i.e., administration of bank loans and bank accounts;

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- management of our accounting system and records and financial reporting;
- administration of the legal and regulatory requirements affecting our business and assets; and
- management of the relationships with our service providers and customers.

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

- charter rates and periods of charter hire for our tanker and drybulk vessels;

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

## RESULTS OF OPERATIONS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

The following table depicts changes in the results of operations for 2013 compared to 2012 and 2012 compared to 2011.

	Year Ended December 31,			Change		YE13 v YE12		
	2011	2012	2013	YE12 v YE11	YE13 v YE12	YE13 v YE12	YE13 v YE12	
				\$	%	\$	%	
	(\$ in thousands)							
Voyage Revenues	79,723	31,428	20,074	(48,295 )	-60.6	% (11,354 )	-36.1	%
Other Income	872	-	-	(872 )	-100.0	-	-	%
Voyage expenses	7,743	1,023	663	(6,720 )	-86.8	% (360 )	-35.2	%
Charter hire expense	2,380	-	-	(2,380 )	-100.0	% -	-	%
Lease termination expense	5,750	-	-	(5,750 )	-100.0	-	-	%
Vessel operating expenses	10,368	814	745	(9,554 )	-92.1	% (69 )	-8.5	%
Dry-docking costs	1,327	-	-	(1,327 )	-100.0	% -	-	%
Depreciation	25,327	11,458	6,429	(13,869 )	-54.8	% (5,029 )	-43.9	%
Management fees-third parties	439	-	-	(439 )	-100.0	% -	-	%
Management fees-related parties	5,730	2,345	1,351	(3,385 )	-59.1	% (994 )	-42.4	%
General and administrative expenses	15,364	7,078	3,258	(8,286 )	-53.9	% (3,820 )	-54.0	%
Loss/(Gain) on sale of vessels	62,543	-	(14 )	(62,543 )	-100.0	% (14 )	-100.0	%
Gain on disposal of subsidiaries	-	-	(1,591 )	-	-	(1,591 )	-100.0	%
Impairment on vessels	114,674	61,484	-	(53,190 )	-46.4	% (61,484 )	-100.0	%
Expenses	251,645	84,202	10,841	(167,443 )	-66.5	% (73,361 )	-87.1	%
Operating income (loss)	(171,050 )	(52,774 )	9,233	118,276	-69.1	% 62,007	-117.5	%



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Interest and finance costs	(16,283 )	(9,345 )	(7,443 )	(6,938 )	-42.6	%	(1,902 )	-20.4	%
Loss on derivative financial instruments	(1,793 )	(447 )	(171 )	(1,346 )	-75.1	%	(276 )	-61.7	%
Interest income	95	175	131	80	84.2	%	(44 )	-25.1	%
Other, net	(81 )	(1,593 )	(342 )	1,512	1866.7	%	(1,251 )	-78.5	%
Total other expenses, net	(18,062 )	(11,210 )	(7,825 )	6,852	-37.9	%	3,385	-30.2	%
Net income (loss)	(189,112 )	(63,984 )	1,408	125,128	-66.2	%	65,392	-102.2	%

The table below presents the key measures for each of the years 2011, 2012 and 2013. Please see "Item 3. Key Information—A. Selected Financial Data" for a reconciliation of Average Daily TCE to revenues.

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11	YE13 v YE12		
	(\$ in thousands)			%	%		
<b>FLEET**</b>							
Total number of vessels at end of period	7.0	7.0	0.0	0.0	%	-100.0	%
Average number of vessels	11.7	7.0	5.1	-40.3	%	-27.5	%
Total operating days for fleet under spot charters	520	0.0	0.0	-100.0	%	0.0	%
Total operating days for fleet under time charters	1,109	124	0.0	-88.8	%	-100.0	%
Total operating days for fleet under bareboat charters	2,551	2,420	1,852	-5.1	%	-23.5	%
Average TCE (\$/day)	17,220	11,951	10,484	-30.6	%	-12.3	%

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

## Year on Year Comparison of Operating Results

## 1. Voyage Revenues

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
Revenues	79,723	31,428	20,074	(48,295)	-60.6%	(11,354)	-36.1%

## 2013 vs. 2012

During 2013, revenues decreased by \$11.4 million, or 36.1%, compared to 2012. This decrease was mainly due to the disposal of the subsidiaries which owned our 6 operating vessels in October 2013 (namely M/Ts Miss Marilena, Lichtenstein, UACC Shams, Britto, Hongbo and M/V Evian) that resulted in a revenue decrease of \$6.1 million, due to the sale of M/T UACC Sila in April of 2013 that resulted in a revenue decrease of \$2.5 million, due to a write off of \$1.8 million in 2013 relating to uncollected revenue from the charterer of M/V Evian, due to a write off of \$0.6 million in 2013 relating to uncollected revenue from the charterer of M/T Miss Marilena and due to a collection in 2012 of a demurrage related claim of \$0.4 million for the M/T Timeless (the vessel's lease was terminated in 2008), absent in 2013.

## 2012 vs. 2011

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

## 2. Other Income

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

## Expenses

## 1. Voyage expenses

	Year Ended December 31,	Change
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	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
Voyage Expenses	7,743	1,023	663	(6,720)	-86.8%	(360)	-35.2%

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

2013 vs. 2012

During 2013, voyage expenses decreased by \$0.4 million, or 35.2%, compared to 2012. This decrease was mainly due to the disposal of the subsidiaries which owned our 6 operating vessels in October 2013 (namely M/Ts Miss Marilena, Lichtenstein, UACC Shams, Britto, Hongbo and M/V Evian) that resulted in decreased voyage expenses of \$0.2 million, due to the absence of voyage expenses (mainly fuel) of the M/T Delos that contributed to the voyage expenses decrease by \$0.1 million, a write off of voyage expenses in 2012 relating to brokerage commissions for the vessel M/V Cyclades that was sold in November 2011 amounting to \$0.1 million and the reduction of voyage expenses relating to brokerage commissions for the vessel M/T UACC Sila due to its sale in April 2013 amounting to \$0.1 million. These decreases were offset by increased voyage expenses for M/V Evian amounting to \$0.1 million.

## 2012 vs. 2011

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

## 2. Charter hire expenses

In 2011, we incurred \$2.4 million of charter hire expenses due to chartering-in of the M/T Delos for 9.5 months.

## 3. Lease termination expense

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

## 4. Vessel operating expenses

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
Vessel Operating Expenses	10,368	814	745	(9,554)	-92.1%	(69)	-8.5%

## 2013 vs. 2012

During 2013, vessel operating expenses decreased by \$0.1 million, or 8.5%, compared to 2012 due to the fact that in 2013 we incurred \$0.1 million less operating expenses for the M/V Evian compared to 2012 (see note 15).

## 2012 vs. 2011

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

## 5. Dry-docking costs

During 2011, dry-docking costs amounted to \$1.3 million due to the drydocking of M/V Pepito.

## 6. Vessel depreciation

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%

V e s s e l							
Depreciation	25,327	11,458	6,429	(13,869)	-54.8%	(5,029)	-43.9%

2013 vs. 2012

During 2013, vessel depreciation decreased by \$5 million, or 43.9%, compared to 2012. This decrease was mainly due to the disposal of the subsidiaries which owned 5 of our vessels in October 2013 (namely M/Ts Miss Marilena, Lichtenstein, UACC Shams, Britto, and Hongbo) that resulted in the reduction of depreciation expense of \$3.7 million. Furthermore the absence of depreciation for M/T UACC Sila in 2013 (as it was held for sale up to April 2013 and then sold), further reduced depreciation expense by \$1.9 million. These decreases were offset by increased depreciation expense for M/V Evian in 2013 that amounted to \$0.6 million, as it was held for sale in 2012 while in 2013 it was treated as held for use.

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## 2012 vs. 2011

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

## 7. Management fees—third parties

During 2011, sub-manager fees amounted to \$0.4 million

## 8. Management fees—related parties

Fees paid to International Ship Management for the management of the M/T Delos are included in Management Fees—related parties. Please see "Item 18. Financial Statements—Note 7—Transactions with Related Parties."

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
Management fees—related parties	5,730	2,345	1,351	(3,385)	-59.1%	(994)	-42.4%

## 2013 vs. 2012

During 2013, management fees for related parties decreased by \$1.0 million or 42.4% compared to 2012. This is due to a reduction of management fees by \$1.8 million that resulted from the renegotiation of the management fee structure that became effective from January 1, 2013 which resulted in a decrease in variable management fees and the cancelation of fixed management fees (see F. Tabular Disclosure of Contractual Obligations—Other Contractual Obligations). This decrease was offset by an increase in management fees resulting from termination fees payable as per the shipmanagement agreements between Central Mare and the vessel owning subsidiaries of the six vessels sold on October 16, 2013, due to early termination without 12 months notice, that amounted to \$0.8 million.

## 2012 vs. 2011

During 2012, management fees for related parties decreased by \$3.4 million or 59.1% compared to 2011. This is due to the reduced vessel-related management fees due to the sale of M/V Amalfi in August 2011, which contributed to the management fees decrease by \$0.3 million, the reduced vessel-related management fees due to the sale of M/V Astrale in July 2011, which contributed to the management fees decrease by \$0.3 million, the reduced vessel-related management fees due to the sale of M/V Cyclades in November 2011, which contributed to the management fees decrease by \$0.4 million, the reduced vessel-related management fees due to the sale of M/T Ioannis P. in November 2011, which contributed to the management fees decrease by \$0.4 million, the reduced vessel-related management

fees due to the sale of M/V Pepito in December 2011, which contributed to the management fees decrease by \$0.5 million, the reduced vessel-related management fees due to the termination of M/T Delos charter in October 2011, which contributed to the management fees decrease by \$0.3 million, and finally due to the reduction in the non-vessel related accounting and reporting fees in 2011 fixed management fees, which contributed to the management fees decrease by \$1.2 million.

9. General and administrative expenses

General and administrative expenses include executive compensation paid to Central Mare, a related party controlled by the family of our Chief Executive Officer, for the provision of our executive officers, office rent, legal and auditing costs, regulatory compliance costs, other miscellaneous office expenses, non-cash stock compensation, and corporate overhead. Central Mare provides the services of the individuals who serve in the position of Chief Executive Officer, Chief Financial Officer, Executive Vice President and Chief Technical Officer, and certain administrative employees. For further information, please see "Item 18. Financial Statements—Note 7—Transactions with Related Parties."

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
General and Administrative Expenses	15,364	7,078	3,258	(8,286)	-53.9%	(3,820)	-54.0%

## 2013 vs. 2012

During 2013, our general and administrative expenses decreased by \$3.8 million, or 54.0%, compared to 2012. This decrease is mainly due to a reduction in manager and employee related expenses of \$1.8 million as a result of our management's effort to contain costs. Also, during 2013, legal and consulting fees decreased by \$0.8 million, depreciation of other fixed assets (non-vessels) decreased by \$0.7 million, due to the acceleration of leasehold improvements depreciation in our Athens office in 2012 (see F. Tabular Disclosure of Contractual Obligations—Operating Leases), other general and administrative expenses decreased by \$0.6 million, rent expense decreased by \$0.4 million, travelling expenses decreased by \$0.2 million and utilities and repairs decreased by \$0.1 million. These decreases were offset by an increase in bonuses of \$0.8 million.

## 2012 vs. 2011

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

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

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
Loss/(Gain) on sale of vessels	62,543	-	(14)	(62,543)	-100%	(14)	-100%

In April 2013, we sold the M/T UACC Sila and realized an immaterial gain from the sale since, as of December 31, 2012, we classified the vessel as held for sale and measured it at the lower of the carrying amount and fair value less costs to sell.

During 2012, we did not sell any vessels.



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

11. Loss on disposal of subsidiaries

On October 16, 2013 we sold the shipowning subsidiaries which owned the six vessels of our fleet (namely M/Ts Miss Marilena, Lichtenstein, UACC Shams, Britto, Hongbo and M/V Evian) to an affiliate of the AMCI Poseidon Fund LP, an unrelated party, for an aggregate cash consideration of \$173 million less \$135 million in debt and swap obligations of the Shipowning companies that were assumed by the buyers. This transaction resulted in a gain of \$1.6 million.

12. Impairment on vessels

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
Impairment on vessels	114,674	61,484	-	(53,190)	-46.4%	(61,484)	-100%

During 2013, we did not recognize an impairment loss.

During 2012, we classified the M/T UACC Sila as held for sale and wrote the vessel down to fair value less costs to sell, resulting in an impairment charge of \$17.0 million. Furthermore, in December 2012, we tested the M/T Miss Marilena, M/T Lichtenstein, M/T UACC Shams, M/T Britto and M/T Hongbo for impairment and their probability-weighted undiscounted expected cash flows were determined to be lower than the vessels carrying values. Consequently, we wrote the vessels down to their fair values and recognized an impairment charge of \$46.6. The impairment charge was partially offset by a write-up of \$2.1 million for the M/V Evian, due to our classification of the M/V Evian as held for use as at December 31, 2012 and our measurement of the vessel at its fair value (see Note 18 to our consolidated financial statements included herein).

During 2011, before the sale of the M/V Amalfi and the M/V Astrale and impairment charge was recognized of \$29.6 million and \$40 million, respectively. Furthermore, in June 2011, we tested the M/V Evian for impairment and we determined that its probability-weighted undiscounted expected cash flows were lower than the vessel's carrying value and consequently we wrote the vessel down to its fair value less costs to sell and recognized an impairment charge of \$32.1 million. Finally, in December 2011 we classified the M/V Evian as held for sale and wrote the vessel down to fair value less costs to sell, resulting in an additional impairment charge of \$13 million.

### 13. Interest and Finance Costs

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11		YE13 v YE12	
	(\$ in thousands)			\$	%	\$	%
Interest and finance costs	(16,283)	(9,345)	(7,443)	6,938	-42.6%	1,902	-20.4%

#### 2013 vs. 2012

During 2013, interest and finance costs decreased by \$1.9 million, or 20.3% compared to 2012. The decrease is mainly due to a \$2.7 million decrease in interest expense mainly from the reduction of debt outstanding due to the sale of the six shipowning companies that owned our fleet together with all their outstanding loan balances to AMCI Products Limited in October 2013 and a \$0.4 million decrease in amortization of the debt discount relating to convertible loans (in 2012 we terminated the conversion feature of our Laurasia facilities). These decreases were offset by a \$0.6 million increase in other financing costs resulting mainly from a \$0.5 million fee charged by the bank holding the mortgage on the M/T Hongbo in order to permit the sale of the ship-owning company of the vessel to AMCI Products Limited, an increase of \$0.4 million in amortization of finance fees resulting mainly from a \$0.4 million accelerated amortization of finance fees outstanding of M/T UACC Sila due its sale in April 2013, a \$0.2 million of interest expense relating to the M/T Delos termination fee outstanding (see F. Tabular Disclosure of Contractual Obligations - Operating Leases) that was absent in 2012 and a \$0.1 million increase in bank charges.

#### 2012 vs. 2011

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

## 14. Loss on derivative financial instruments

	Year Ended December 31,			Change			
	2011	2012	2013	YE12 v YE11	YE13 v YE12		
	(\$ in thousands)			\$	%	\$	%
Loss on Derivative Financial Instruments	(1,793)	(447)	(171)	1,346	-75.1%	276	-61.7%

## 2013 vs. 2012

During 2013, fair value loss on derivative financial instruments decreased by \$0.3 million, mainly due to the maturity of one swap with Piraeus Bank (ex Egnatia Bank) in June 2013 and the maturity of another swap by HSH Nordbank AG, or HSH, in March 2013. Furthermore, two swaps with HSH were transferred on October 16, 2013 to AMCI Products Limited as per the agreement for the sale of the ship-owning company of M/V Evian.

2012 vs. 2011

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

#### B. Liquidity and Capital Resources

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

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

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

As of December 31, 2013, we had no debt facilities in place.

As of December 31, 2013, our cash balances amounted to \$11.4 million. Of this amount, \$1.7 million is inaccessible to the Company as a result of being held as cash collateral for the interest rate swap agreement we have with Alpha Bank (see "ITEM 11. Quantitative and Qualitative Disclosures about Market Risk" - Interest Rate Risk").

#### Working Capital Requirements and Sources of Capital

As of December 31, 2013, we had a working capital surplus (current assets less current liabilities) of \$1.7 million. This working capital surplus consisted of the following (figures in millions):

Total current assets	10.3
Other current liabilities	7.5
Current portion of derivative financial instruments	1.1
Total current liabilities	8.6
Working capital surplus	1.7
Less other capital requirements for the coming 12 months:	
Management Fees	0.2
Cash surplus (Working capital surplus less other capital requirements)	1.5

Our material capital requirements in the coming 12 months are expected to be as follows (figures in millions):

Interest payments (swaps)	1.1
Termination fee payments for M/T Delos	0.8
Termination fee interest for M/T Delos	0.1
Management Fees	0.2
Total material capital requirements:	2.2

After the balance sheet date, on February 6, 2014, we agreed to cancel the MOA we had entered into in December 16, 2013 and entered into a new agreement to purchase another 50,000 dwt newbuilding product/chemical tanker with a time charter from an entity also affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis, scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in May 2014. The purchase price of the newbuilding is \$38.3 million, payable as follows: \$7.4 million already paid in December 2013 for the purchase of the vessel we agreed on December 16, 2013; \$3.5 million in cash payable in February 2014 and \$27.4 million, payable in cash or shares at our option, on delivery of the vessel. Hence including this subsequent to the balance sheet date event, in the coming 12 months we will incur capital expenditure relating to vessel acquisitions for the above-mentioned vessel amounting to \$30.9 million. Out of these \$30.9 million, \$3.5 million is payable in cash and \$27.4 million is payable in cash or shares at our option.

Our operating cash flow for 2014 is expected to decrease compared to 2013, since we do not expect to generate any revenue until we take delivery of our first newbuilding vessel in Q2 2014. We expect to finance our capital requirements through our cash balances, bank debt proceeds, debt and / or equity offerings and other sources such as funds from our major shareholder. Furthermore, the agreement we entered into in February concerning the purchase of Hull S406 provides us with the option to pay the seller either in cash or in company shares at a conversion rate to be agreed at that date.

#### Cash Flow Information

Unrestricted cash and cash equivalents were \$0.0 as of December 31, 2012 and \$9.7 as of December 31, 2013 respectively.

#### Net Cash Provided by Operating Activities.

Net cash provided by operating activities decreased by \$12.0 million, or 79.5%, for 2013 to \$3.1 million, compared to \$15.1 million for 2012. In determining net cash provided by operating activities, net loss is adjusted for the effects of certain non-cash items such as depreciation and amortization, impairment losses, gains and losses from sales of vessels and unrealized gains and losses on derivative financial instruments.

Non-cash adjustments to reconcile net income to net cash provided by operating activities for the year ended December 31, 2013 totaled \$5.0 million. This consisted mainly of the following adjustments: \$6.8 million of depreciation expenses; \$1.8 million of amortization of deferred finance fees; \$0.3 million relating to share-based compensation. These adjustments were partially offset by a \$2.3 million gain from the valuation of derivative financial instruments and a \$1.6 million gain from disposal of subsidiaries. The cash inflow from operations resulted mainly from a \$1.0 million decrease in current assets and a \$4.3 million decrease in current liabilities.

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

#### Net Cash Provided By Investing Activities.

Net cash provided by investing activities during 2013 was \$51.0 million, consisting primarily from \$25.2 million in proceeds from the sale of a vessel and \$37.6 million in net proceeds from the disposal of subsidiaries and a decrease in restricted cash of \$2.6 million and \$0.1 million from the sale of other fixed assets. These were partially offset by a \$14.4 million cash outflow for vessel acquisitions.

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

#### Net Cash Used in Financing Activities.

Net cash used in financing activities for 2013 was \$44.3 million, consisting primarily of \$30.4 million of debt prepayments, relating to the prepayment of the facility of M/T UACC Sila that was sold in April 2013 and the

prepayment of all our bridge loans in October 2013, \$11.1 million of scheduled debt repayments and \$2.8 million payment of finance fees mainly relating to the bridge loans we prepaid.

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

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

Not applicable.

## D. Trend Information

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

## E. Off-Balance Sheet Arrangements

None.

## F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and their maturity dates as of December 31, 2013 in millions of dollars:

Contractual Obligations:	Total	Payments due by period			
		Less than 1 year	1-3years	3-5 years	More than 5 years
(1) Operating leases A	\$ 0.4	\$ 0.0	\$ 0.1	\$ 0.1	\$ 0.2
(2) (i) Termination fee payments for M/T Delos B	\$ 4.7	\$ 0.8	\$ 1.6	\$ 2.3	\$ 0.0
(ii) Termination fee interest for M/T Delos C	\$ 0.3	\$ 0.1	\$ 0.2	\$ 0.0	\$ 0.0
(3) Management Fee D	\$ 0.2	\$ 0.2	\$ 0.0	\$ 0.0	\$ 0.0
(4) Vessel acquisitions E	\$ 57.6	\$ 0.0	\$ 57.6	\$ 0.0	\$ 0.0
Total	\$ 63.2	\$ 1.1	\$ 59.5	\$ 2.4	\$ 0.2

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

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

C. Relates to the interest payments deriving from the M/T Delos termination agreement. We have assumed an interest rate of 3.24% going forward (fixed margin of 3% plus a LIBOR estimate of 0.24%) (see F. Tabular Disclosure of Contractual Obligations - Operating Leases).

D. Relates to our obligation for monthly fees under our latest letter agreement with Central Mare. These fees cover the provision of information-system related services and services in connection with compliance to the Section 404 of the Sarbanes-Oxley Act of 2002 as well as services rendered in relation to the maintenance of proper books and records and services in relation to financial reporting requirements under Commission and NASDAQ rules. These fees have been estimated up to the delivery of our first newbuilding product tanker. Please see "Item 4. Information on the Company—B. Business Overview—Central Mare—Letter Agreement and Management Agreements." After the acquisition of Hull S406 that we agreed on February 6, 2014, we will have an operating vessel in May 2014 so the management fees will be renegotiated.

E. Relates to the remaining installments of for the acquisition of our two newbuilding vessels in Q1 and Q3 of 2015. Please see "ITEM 7. Major Shareholders and Related Party Transactions - B. Related Party Transactions - Newbuilding Acquisitions". Note that after the acquisition of Hull S406 that we agreed on February 6, 2014, and the cancelation of the acquisition of the newbuilding vessel due for delivery in Q1 2015, the contractual obligations for vessel acquisitions will be \$30.9 million in 2014 and \$28.0 million in 2015. Out of the \$30.9 million payable in 2014, \$3.5 million is payable in cash and \$27.4 million is payable in cash or shares at our option.



(1) Debt Facilities:

As of December 31, 2013, we had no outstanding indebtedness.

(a) HSH Credit Facilities:

Following the sale of the ship-owning companies of the vessels M/V Evian, M/T Miss Marilena, M/T UACC Shams and M/T Britto on October 16, 2013, the balance under the HSH credit facility was transferred to the buyers.

(b) DVB Credit Facility:

Following the sale of the ship-owning company of the vessel M/T Hongbo on October 16, 2013, the balance under the DVB credit facility was transferred to the buyers.

(c) Alpha Bank Credit Facility:

Following the sale of the ship-owning company of the vessel M/T Lichtenstein on October 16, 2013, the balance under the Alpha Bank credit facility was transferred to the buyers.

(d) Laurasia Trading Ltd Credit Facility

This facility was repaid in full on October 17, 2013.

(e) Shipping Financial Services Inc. Credit Facility

The facility was repaid in full on October 22, 2013.

(f) Central Mare Inc. Credit Facility

The facility was repaid in full on October 24, 2013.

(2) Operating Leases:

On October 1, 2010, we entered into a bareboat charter agreement to lease the M/T Delos until September 30, 2015 at an average daily rate of \$5,219. The charter agreement included the option for the charterers to purchase the M/T Delos at the end of the five year charter period. The bareboat charter agreement was accounted for as an operating lease. We terminated this agreement on October 15, 2011 by agreeing to pay a termination fee of \$5.75 million. On January 1, 2013, we entered into an agreement with the owner of M/T Delos by which the termination fee outstanding as of December 31, 2012 that amounted to \$5.31 million was divided into two tranches; "Tranche A" (\$4.5 million) that bears an interest of 3% plus Libor and "Tranche B" (\$0.8 million) that doesn't bear interest. This agreement provides for the repayment of Tranche A and Tranche B according to the following schedule. As of December 31, 2013, the termination fee outstanding was \$4.7 million.

Year ending December 31,	Tranche A of the Termination Fee	Tranche B of the Termination Fee
2014	0.8	
2015	0.8	
2016	0.8	
2017	1.5	0.8
	3.9	0.8

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

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

Other Contractual Obligations:

Since July 1, 2010, Central Mare, a related party controlled by the family of our Chief Executive Officer, has been performing all of our operational, technical and commercial functions relating to the chartering and operation of our vessels, pursuant to a letter agreement concluded between Central Mare and Top Ships and management agreements concluded between Central Mare and our then vessel-owning subsidiaries. The letter agreement was amended on January 1, 2012 resulting in a decrease in the fixed management fees, with all other terms remaining unchanged. On January 1, 2013 we amended the letter agreement again resulting in a decrease in the variable management fees to \$250 per vessel per day that includes operational, technical and commercial functions, services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to our maintenance of proper books and records, services in relation to our financial reporting requirements under SEC and Nasdaq rules and regulations, the provision of information-system related services, commercial operations and freight collection services, with all other terms remaining unchanged. On October 16, 2013 the letter agreement was amended again and it now provides for a fixed monthly fee of \$15,000 for the provision of all the abovementioned services, for the period when we do not have any ships.

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

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

#### Critical Accounting Policies:

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

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

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

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

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

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

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

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

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

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

During 2013 and up to June 30, fears of vessel oversupply and market disruptions led to high charter rate volatility and to a further decrease in vessel values. These are conditions that we considered to be indicators of potential impairment. We performed the undiscounted cash flow test as of June 30, 2013 and determined that the carrying amounts of our vessels held for use were recoverable.

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

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



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

G. Safe Harbor

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

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

Name	Age	Position
Evangelos J. Pistiolis	41	Director, President, Chief Executive Officer
Vangelis G. Ikonomou	49	Director, Executive Vice President and Chairman of the Board
Alexandros Tsirikos	40	Director, Chief Financial Officer
Michael G. Docherty	54	Director
Demetris P. Souroullas	51	Chief Technical Officer

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

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

Vangelis G. Ikonomou is our Executive Vice President and Chairman and has served on our Board of Directors since July 2004. Prior to joining the Company, Mr. Ikonomou was the Commercial Director of Primal Tankers Inc. From 2000 to 2002, Mr. Ikonomou worked with George Moundreas & Company S.A. where he was responsible for the purchase and sale of second-hand vessels and initiated and developed a shipping industry research department. Mr.



Ikonomou worked, from 1993 to 2000, for Eastern Mediterranean Maritime Ltd., a ship management company in Greece, in the commercial as well as the safety and quality departments. Mr. Ikonomou holds a Masters degree in Shipping Trade and Finance from the City University Business School in London, a Bachelors degree in Business Administration from the University of Athens in Greece and a Navigation Officer Degree from the Higher State Merchant Marine Academy in Greece.

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

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

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

## B. Compensation

During the fiscal year ended December 31, 2013, we paid to the members of our senior management and to our directors aggregate compensation of \$1.7 million. We do not have a retirement plan for our officers or directors.

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

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

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

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

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

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

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

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

#### Equity Incentive Plan

In April 2005, our Board of Directors adopted our 2005 Stock Incentive Plan, which was amended and restated in December 2009, or the Plan, under which our officers, key employees and directors may be granted options to acquire common stock. A total of 33,333 shares of common stock were initially reserved for issuance under the Plan, which is administered by the Board of Directors. The number of shares of common stock reserved for issuance under the Plan is currently 400,000. The Plan also provides for the issuance of stock appreciation rights, dividend equivalent rights, restricted stock, unrestricted stock, restricted stock units, and performance shares at the discretion of our Board of Directors. The Plan expires 10 years from the date of its adoption. Please see "Item 18. Financial Statements—Note 13—Stock Incentive Plan" describing grants provided since the Plan's adoption.

On February 12, 2013, we granted 50,000 shares to our Chief Executive Officer which were issued to Sovereign Holdings Inc., a company wholly owned by our Chief Executive Officer. The shares vest six months from the date of grant, with any unvested restricted stock vesting upon his termination from the Company for any reason (including resignation). However, as the shares granted to our CEO do not contain any future service vesting conditions, all such shares are considered vested shares on the grant date. The fair value of each share on the grant date was \$1.05.

On September 26, 2013, we granted 90,000 shares to two of our officers. The shares vest six months from the date of grant, with any unvested restricted stock vesting upon their termination from the Company for any reason (including resignation). However, as these shares do not contain any future service vesting conditions, all such shares are considered vested shares on the grant date. The fair value of each share on the grant date was \$1.88.

On December 18, 2013, we granted 50,000 shares to our Chief Executive Officer which were issued on January 17 2014 to Sovereign Holdings Inc., a company wholly owned by our Chief Executive Officer. The shares vest six months from the date of grant, with any unvested restricted stock vesting upon his termination from the Company for any reason (including resignation). However, as the shares granted to our CEO do not contain any future service vesting conditions, all such shares are considered vested shares on the grant date. The fair value of each share on the grant date was \$1.60.

#### C. Board Practices

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

Our Board of Directors is divided into three classes. Members of our Board of Directors are elected annually on a staggered basis, and each director elected holds office for a three-year term. The term of our Class I director, Michael

G. Docherty, expires at the annual general meeting of shareholders in 2014. The term of our Class II director, Evangelos J. Pistiolis, expires at the annual general meeting of shareholders in 2015. The term of our Class III directors, Alexandros Tsirikos and Vangelis G. Ikonou, expires at the annual general meeting of shareholders in 2016.

#### Committees of the Board of Directors

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

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

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

D. Employees

We have no direct employees and our four executive officers and one other administrative employee are furnished to us pursuant to agreements with Central Mare, as described above. During 2011, 2012 and 2013, our wholly-owned subsidiary Top Tanker Management employed on average 16, 7 and 2 employees, respectively, all of whom are shore-based. Our current Fleet Manager, Central Mare, ensures that all seamen have the qualifications and licenses required to comply with international regulations and shipping conventions, and that our vessels employ experienced and competent personnel. As of December 31, 2011, 2012 and 2013, we employed no sea going employees, directly or indirectly through our sub-managers.

E. Share Ownership

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth the beneficial ownership of our common shares, as of December 31, 2013, held by: (i) each person or entity that we know beneficially owns 5% or more of our common stock; (ii) each of our executive officers, directors and key employees; and (iii) all our executive officers, directors and key employees as a group. All of the shareholders, including the shareholders listed in this table, are entitled to one vote for each share of common stock held.

Name and Address of Beneficial Owner(1)	Number of Shares	Percent of Class
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	Owned		
Evangelos Pistiolis (2)	9,285,280	53.7	%
Vangelis G. Ikonomou	*	*	
Alexandros Tsirikos	*	*	
Michael G. Docherty	*	*	
Demetris P. Souroullas	*	*	
Executive Officers and Directors as a Group	9,386,876	54.3	%

\* Less than one percent.

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

- (2) Mr. Pistiolis may be deemed to beneficially own these shares through Sovereign Holdings Inc., or Sovereign, a company wholly owned by Mr. Pistiolis. Pursuant to a Common Stock Purchase Agreement dated August 24, 2011, we issued 2,566,406 common shares to Sovereign on September 1, 2011, and 11,111,111 common shares on October 19, 2011. Please see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Sovereign Equity Line Transaction" for further details. On December 4, 2012, Sovereign sold, in three separate private transactions, 765,000 Common Shares at a price of \$1.265 per share, 705,000 Common Shares at a price of \$1.28 per share, and 750,000 Common Shares at a price of \$1.27 per share. On December 6, 2012, Sovereign sold, in four separate private transactions, 454,760 Common Shares at a price of \$1.31 per share, 430,000 Common Shares at a price of \$1.31 per share, 655,413 Common Shares at a price of \$1.30 per share, and 350,000 Common Shares at a price of \$1.27 per share. On May 23, 2013, Sovereign sold, in a private transaction, 794,720 Common Shares at a price of \$1.46 per share.

As of February 11, 2014, we had 27 shareholders of record, 15 of which were located in the United States and held an aggregate of 2,999,827 shares of our common stock, representing 17.3% of our outstanding shares of common stock. However, one of the U.S. shareholders of record is Cede & Co., which held 2,999,405 shares of our common stock as of February 11, 2014. We believe that the shares held by Cede & Co. include shares of common stock beneficially owned by both holders in the United States and non-U.S. beneficial owners. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

#### B. Related Party Transactions

Please see "Item 18. Financial Statements—Note 7—Transactions with Related Parties."

#### Newbuilding Acquisitions

On December 5, 2013, we agreed to acquire a 39,000 dwt newbuilding product/chemical tanker from Monte Carlo 37 Shipping Company Limited, an entity affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis. The newbuilding is scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the third quarter of 2015. The purchase price of the newbuilding is \$35.0 million, and is payable as follows: 20% as an initial deposit and 80% on delivery of the vessel.

On December 16, 2013, we agreed to acquire a 50,000 dwt newbuilding product/chemical tanker with a time charter attached from Monte Carlo One Shipping Company Limited, an entity affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis. The newbuilding is scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the first quarter of 2015. The purchase price of the newbuilding is \$37.0 million, and is payable as follows: 20% as an initial deposit and 80% on delivery of the vessel.

On February 6, 2014, we agreed to cancel the MOA we had entered into in December 16, 2013 and entered into a new agreement to purchase another 50,000 dwt newbuilding product/chemical tanker with a time charter from an entity also affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis, scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in May 2014. The purchase price of the newbuilding is \$38.3 million, payable as follows: \$7.4 million already paid in December 2013 for the purchase of the vessel we agreed on in December 16, 2013; \$3.5 million in cash payable in February 2014 and \$27.4 million, payable in cash or shares at our option, on delivery of the vessel.

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



On May 12, 2010, the Board of Directors agreed to outsource all of the commercial and technical management of our vessels to Central Mare Inc., or Central Mare, a related party controlled by the family of our Chief Executive Officer. Since July 1, 2010 Central Mare has been performing all operational, technical and commercial functions relating to the chartering and operation of our vessels, pursuant to a letter agreement, or the Letter Agreement, concluded between Central Mare and Top Ships as well as management agreements concluded between Central Mare and our vessel-owning subsidiaries. Furthermore the letter agreement provided for the provision of services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to the maintenance of proper books and records, services in relation to financial reporting requirements under Commission and NASDAQ rules and regulations and information-system related services.

Pursuant to an amendment of the Letter Agreement in January 1, 2013, we paid a management fee of \$250 per day per vessel up to June 30 2013 and \$258 per day per vessel up to October 16 2013. That fee included all the abovementioned services.

On October 16, 2013, following the sale of our entire fleet, the letter agreement was amended so that for the period when we do not have any ships, Central Mare will be entitled to a monthly retainer of \$15,000 in relation to compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to the maintenance of proper books and records, services in relation to financial reporting requirements under Commission and NASDAQ rules and regulations and information-system related services.

Also Central Mare will receive a chartering commission of 1.25% on all freight, hire and demurrage revenues; a commission of 1.00% of all gross sale proceeds or the purchase price paid for vessels; a commission of 0.2% on derivative agreements and loan financing or refinancing and a newbuilding supervision fee of Euro 437,091 or approximately \$602,749 per newbuilding vessel. All the abovementioned commissions and fees will apply only in the case that the service is provided.

Furthermore, if required, Central Mare will also handle and settle all claims arising out of its duties under the management agreements (other than insurance and salvage claims) in exchange for a fee of Euro 164 or approximately \$226 per person per eight-hour day. Finally legal fees for claims and general corporate services incurred by Central Mare on behalf of the Company will be reimbursed to Central Mare at cost.

This letter agreement had an initial term of five years after which it will continue to be in effect until terminated by either party subject to a twelve-month advance notice of termination.

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

On September 1, 2013 we entered into a termination agreement with Central Mare, whereby Central Mare agreed to provide us a 30% discount on the termination fees that were payable as per the shipmanagement agreements between Central Mare and the vessel owning subsidiaries of the six vessels we sold on October 16, 2013, due to early termination without 12 months notice. The termination fees due to Central Mare amounted to \$0.8 million.

As of December 31, 2013, \$0.8 million is payable to Central Mare, and is reflected in the consolidated balance sheets as due to related parties.

On September 1, 2010, we entered into separate agreements with Central Mare pursuant to which Central Mare furnishes our executive officers to us. These agreements were entered into in exchange for terminating prior employment agreements. See "Item 6—Compensation." On March 1, 2011, we entered into an agreement with Central Mare pursuant to which Central Mare furnishes certain employees to us including Corporate Development Officer and Internal Auditor as well as certain administrative employees. Under the terms of this, we are obligated to pay an annual base salary. See "Item 18. Financial Statements—Note 7—Transactions with Related Parties." On July 1, 2012, these agreements were amended and the salaries of the executive officers were reduced. Pursuant to the amendment of these agreements, Central Mare will no longer furnish us a Corporate Development Officer and the number of the administrative employees has been reduced.

On July 16, 2011, we entered into an unsecured credit facility with Central Mare for Euro 1.8 million (\$2.38 million) to be used for general working capital purposes. We had undertaken to repay the loan within twelve months of its receipt, however it was extended for another twelve months on July 21, 2012. The loan bore interest at a rate of 8% per annum. The loan was repaid in full on October 24, 2013.

#### Shipping Financial Services Inc. Credit Facility

On July 1, 2011 we entered into an unsecured credit facility with Shipping Financial Services Inc., a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 0.35 million (\$0.46 million) to be used for general working capital purposes. We had undertaken to repay the loan within twelve months of its receipt, however it was extended for another twelve months on July 8, 2012. The loan bore interest at a rate of 8% per annum. The loan was repaid in full on October 22, 2013.

Provision of Office Space in Monaco by Central Shipping Monaco SAM

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

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

Pyramis Technical Co. S.A., a related party controlled by the father of our Chief Executive Officer and President, has been responsible for the renovation of our office space in Athens, Greece. As of December 31, 2013, the total contracted cost amounted to Euro 3.2 (\$4.4 million) over a period of approximately seven years.

### Sovereign Equity Line Transaction

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

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

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

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

#### C. Interests of Experts and Counsel

Not applicable.

### ITEM 8. FINANCIAL INFORMATION.

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

See "Item 18-Financial Statements."

#### Legal Proceedings

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

customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

#### Dividend Distribution Policy

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

#### B. Significant Changes

All significant changes have been included in the relevant sections.

## ITEM 9. THE OFFER AND LISTING.

## A. Offer and Listing Details

## Price Range of Common Stock

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

	HIGH	LOW
For the Fiscal Year Ended December 31, 2013	\$2.93	\$0.70
For the Fiscal Year Ended December 31, 2012	\$5.20	\$0.88
For the Fiscal Year Ended December 31, 2011	\$11.60	\$1.00
For the Fiscal Year Ended December 31, 2010	\$13.00	\$6.20
For the Fiscal Year Ended December 31, 2009	\$38.80	\$6.74

## For the Quarter Ended

March 31, 2014 (through February 13, 2014)	\$2.11	\$1.50
December 31, 2013	\$2.10	\$1.30
September 30, 2013	\$2.93	\$1.31
June 30, 2013	\$1.74	\$1.16
March 31, 2013	\$1.55	\$0.70
December 31, 2012	\$1.45	\$0.88
September 30, 2012	\$1.87	\$1.11
June 30, 2012	\$3.75	\$1.21
March 31, 2012	\$2.89	\$1.00

## For the Month

February 2014 (through February 13, 2014)	\$1.74	\$1.50
January 2014	\$2.11	\$1.60
December 2013	\$2.10	\$1.47
November 2013	\$1.90	\$1.30
October 2013	\$1.99	\$1.41
September 2013	\$2.93	\$1.63
August 2013	\$2.40	\$1.83

## B. Plan of Distribution

Not applicable

## C. Markets

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

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

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

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

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

Classified Board

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

Election and Removal

Our Amended and Restated Articles of Incorporation and Amended and Restated by-laws require parties other than the Board of Directors to give advance written notice of nominations for the election of directors. Our Amended and Restated articles of incorporation provide that our directors may be removed only for cause and only upon the



affirmative vote of the holders of at least 80% of the outstanding shares of our capital stock entitled to vote for those directors. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

#### Dissenters' Rights of Appraisal and Payment

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

### Shareholders' Derivative Actions

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

### Anti-takeover Provisions of our Charter Documents

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

### Business Combinations

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

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

### Limited Actions by Shareholders

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

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

consideration of a proposal may be delayed until the next annual meeting.

#### Blank Check Preferred Stock

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

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

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

### Stockholders Rights Agreement

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

### C. Material Contracts

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

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

D. Exchange controls

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

E. Taxation

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

### Marshall Islands Tax Consequences

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

### U.S. Federal Income Tax Consequences

The following are the material United States federal income tax consequences to us of our activities and to U.S. Holders and non U.S. Holders, each as defined below, of our common stock. The following discussion of U.S. federal income tax matters is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury (the "Treasury Regulations"), all of which are subject to change, possibly with retroactive effect. The discussion below is based, in part, on the description of our business in "Information on the Company—Business Overview, Item 4.B." above and assumes that we conduct our business as described in that section. Except as otherwise noted, this discussion is based on the assumption that we will not maintain an office or other fixed place of business within the United States. References in the following discussion to "we" and "us" are to Top Ships Inc. and its subsidiaries on a consolidated basis.

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

#### Taxation of Operating Income: In General

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

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

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

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

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

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

(1) we are organized in a foreign country, or our country of organization, that grants an "equivalent exemption" to corporations organized in the United States; and

(2) either

(A) more than 50% of the value of our stock is owned, directly or indirectly, by individuals who are "residents" of our country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (each such individual a "qualified shareholder" and such individuals collectively, "qualified shareholders"), which we refer to as the "50% Ownership Test," or

(B)our stock is "primarily and regularly traded on an established securities market" in our country of organization, in another country that grants an "equivalent exemption" to U.S. corporations, or in the United States, which we refer to as the "Publicly-Traded Test."

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

Based on information provided in Schedule 13D and Schedule 13G filings with the SEC and ownership certificates that we obtained from certain of our shareholders, we believe that we meet the 50% Ownership Test for the taxable year 2013 since more than 50% of the value of our common stock was owned, directly or indirectly, by one or more qualified shareholders. Therefore, we believe that for taxable year 2013, we will be exempt from U.S. federal income tax with respect to our U.S.-source shipping income. In addition, as discussed below, we believe that we also meet the Publicly Traded Test for the taxable year 2013.

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

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

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

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

For purposes of being able to determine the persons who own 5% or more of our stock, or "5% Shareholders," the Treasury Regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the SEC, as having a 5% or more beneficial interest in our common stock. The Treasury Regulations further



provide that an investment company identified on a SEC Schedule 13G or Schedule 13D filing which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% shareholder for such purposes.

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

For the 2013 taxable year, we believe that the 5% Override Rule was triggered as 50% or more of the vote and value of our common stock was owned by 5% Shareholders on more than half of the days during the taxable year. Nevertheless, we believe that we qualify for the exception to the 5% Override Rule because each 5% Shareholder is a qualified shareholder for purposes of Section 883 of the Code and the substantiation requirements have been satisfied. Therefore, we believe that we qualified for the exemption under Section 883 of the Code for the 2013 taxable year. However, due to the factual nature of the issues, no assurances can be made that we will continue to qualify for the benefits of Section 883 of the Code for any future taxable year.

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

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

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

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

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

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

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

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

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

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

- is a U.S. citizen or resident, U.S. corporation or other U.S. entity taxable as a corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States

is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust;

- owns the common stock as a capital asset, generally, for investment purposes; and
- owns less than 10% of our common stock for U.S. federal income tax purposes.

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

## Distributions

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

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

As discussed below, we believe that we were treated as a PFIC for our 2013 taxable year. Assuming this is the case, any dividends paid by us during 2013 and 2014 will not be treated as "qualified dividend income" in the hands of a U.S. Non-Corporate Holder. Any dividends we pay which are not eligible for the preferential rates applicable to "qualified dividend income" will be taxed as ordinary income to a U.S. Non-Corporate Holder.

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

## Sale, Exchange or other Disposition of Common Stock

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

## 3.8% Tax on Net Investment Income

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual, estate, or, in certain cases, a trust, will generally be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's net investment income for the

taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000). A U.S. Holder's net investment income will generally include distributions made by us which constitute a dividend for U.S. federal income tax purposes and gain realized from the sale, exchange or other disposition of our common stock. This tax is in addition to any income taxes due on such investment income.

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

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

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

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

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

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

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

For our 2013 taxable year, at least 50% of the average value of our assets consisted of vessels which were bareboat chartered and at least 75% of our gross income was derived from vessels on bareboat charter. Therefore, we believe that we were a PFIC for our 2013 taxable year.

Since we are a PFIC, a U.S. Holder will be treated as owning his proportionate share of the stock of any of our subsidiaries which is a PFIC. We expect that certain of our subsidiaries were PFICs in 2013 and, therefore, a U.S. Holder will be treated as owning stock in such PFICs. The PFIC rules discussed below will apply on a company-by-company basis with respect to us and each of our subsidiaries which is treated as a PFIC.

Since we are a PFIC, a U.S. Holder will be subject to different taxation rules depending on whether the U.S. Holder (1) makes an election to treat us as a "Qualified Electing Fund," which is referred to as a "QEF election," (2) makes a "mark-to-market" election with respect to our common stock, or (3) makes no election and, therefore, is subject to the Default PFIC Regime (as defined below). As discussed in detail below, making a QEF election or a mark-to-market election generally will mitigate the otherwise adverse U.S. federal income tax consequences under the Default PFIC Regime. However, the mark-to-market election may not be possible with respect to our subsidiaries which are treated as PFICs. Assuming we are treated as a PFIC, a U.S. Holder will have to file IRS Form 8621 with the U.S. Internal Revenue Service, or the IRS, under Section 1298(f) of the Code.

#### The QEF Election

We do not intend to provide U.S. Holders with the necessary information to make and maintain a QEF election. Accordingly, U.S. Holders will not be able to make or maintain a QEF election with respect to our common stock. U.S. Holders who have made a QEF election with respect to our common stock prior to the 2013 taxable year should be aware that the IRS has wide discretion to invalidate or terminate their QEF election if we do not provide the necessary information, and with respect to a termination the IRS has the discretion to determine the effective date of the termination. The IRS also has wide discretion in determining the U.S. federal income tax consequences of an invalidation or termination of a QEF election, including treating the invalidation or termination as a deemed sale of our common stock on the last day of our taxable year during which the QEF election was effective. Any gain, but not loss, would be recognized by the U.S. Holder and appropriate adjustments would be made to the tax basis and holding period of the U.S. Holder's common stock. The IRS also has the authority to subject to the U.S. Holder to any other

terms and conditions that the IRS determines are necessary to ensure compliance with the PFIC rules.

If a U.S. Holder who has made a QEF election with respect to our common stock prior to the 2013 taxable year makes a mark-to-market election, as discussed below, for the 2013 taxable year, such U.S. Holder's QEF election will automatically terminate. The termination of the QEF election would be effective on the last day of the U.S. Holder's taxable year preceding the first taxable year for which the mark-to-market election is in effect with respect to our common stock.

If you are a U.S. Holder who has made a QEF election with respect to our common stock prior to the 2013 taxable year, you are strongly encouraged to consult your tax advisor regarding the consequences of not receiving from us the information necessary to maintain the QEF election and the U.S. federal income tax consequences to you of the invalidation or termination of your QEF election, including whether you should automatically terminate your QEF election by making a mark-to-market election with respect to our common stock for the 2013 taxable year.

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

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

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

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

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

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



Under the Default PFIC Regime:

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

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

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

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

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

#### Dividends on Common Stock

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

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

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

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

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

#### Backup Withholding and Information Reporting

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

- fail to provide an accurate taxpayer identification number;

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

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

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

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Risk Management Policy

Our primary market risks relate to adverse movements in freight rates in the product tanker market. Our policy is to continuously monitor our exposure to other business risks, including the impact of changes in interest rates, currency rates, and bunker prices on earnings and cash flows. We assess these risks and, when appropriate, enter into derivative contracts with credit-worthy counterparties to minimize our exposure to the risks. With regard to bunker prices, as our employment policy for our vessels has been and is expected to continue to be with a high percentage of our fleet on period employment, we are not directly exposed with respect to those vessels to increases in bunker fuel prices, as these are the responsibility of the charterer under period charter arrangements.

## Interest Rate Risk

As of December 31, 2013 we bear no interest rate risk since we have no senior outstanding indebtedness and our only interest rate swap arrangement is not pegged to a floating interest rate. The only exposure we have to floating interest rates relates to the outstanding balance of the termination fee outstanding (see Note 20 to our consolidated financial statements included herein).

Set forth below is a table of our interest rate swap arrangements as of December 31, 2013 and 2012 (in thousands of U.S. dollars).

Counterparty	SWAP Number (Nr)	Notional Amount December 31, 2013	Period	Effective Date	Interest Rate Payable	Fair Value - Liability	
						December 31, 2012**	December 31, 2013
ALPHA BANK	1	\$20,000 \$20,000	7 years	March 30, 2008	\$ \$	\$(2,785 ) \$(2,785 )	\$(1,697 ) \$(1,697 )

\*\* The total value of our interest rate swap arrangements as of December 31, 2012 was \$5,811. Two of our interest rate swap arrangements as of December 31, 2012 have since matured and another two were transferred on October 16, 2013 to the new owners of Jeke Shipping Company Limited. (owner of the M/T Evian) in accordance with the stock purchase agreement for the disposal of the subsidiary. The table above presents a comparison of the value of our interest rate swap arrangements as of December 31, 2013 with their value on December 31, 2012.

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

## Foreign Exchange Rate Fluctuation

We generate all of our revenues in U.S. dollars but incur certain expenses in currencies other than U.S. dollars, mainly Euro. During 2013, approximately 7.3% of our expenses were in Euro and approximately 0.2% were in other currencies than the U.S. dollar or Euro. For accounting purposes, expenses incurred in other currencies are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. We have not hedged currency exchange risks associated with our expenses and our operating results could be adversely affected as a result. We constantly monitor the U.S. dollar exchange rate and we try to achieve the most favorable exchange rates from the financial institutions we work with.

Based on our total expenses for the year ended December 31, 2012, and using as an average exchange rate of \$1.2861 / 1 Euro, a 5% decrease in the exchange rate to \$1.2218 / 1 Euro, would result in an expense saving of approximately \$0.35 million. Based on our total expenses for the year ended December 31, 2013, and using as an average exchange rate of \$1.328 / 1 Euro, a 5% decrease in the exchange rate to \$1.262 / 1 Euro, would result in an expense saving of approximately \$0.06 million.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Neither we nor any of our subsidiaries have been subject to a material default in the payment of principal, interest, a sinking fund or purchase fund installment or any other material default that was not cured within 30 days.

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

Not Applicable.

ITEM 15. CONTROLS AND PROCEDURES

a) Disclosure Controls and Procedures

Management, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this annual report, as of December 31, 2013.

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

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2013.

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

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

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

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Company's management and directors; and



- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Our management with the participation of our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, the Company used the control criteria framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, published in its report entitled Internal Control—Integrated Framework. As a result of its assessment, the Chief Executive Officer and Chief Financial Officer concluded that our internal controls over financial reporting are effective as of December 31, 2013.

c) Attestation Report of the Registered Public Accounting Firm

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

d) Changes in Internal Control over Financial Reporting

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

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL AUDITOR FEES AND SERVICES

Aggregate fees billed to the Company for the years ended December 2012 and 2013 represent fees billed by our principal accounting firm, Deloitte, the other member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche").

U.S. dollars in thousands,	Year Ended	
	2012	2013
Audit Fees	117.1	120.8

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

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

Not applicable.

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

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

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

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18.

ITEM 18. FINANCIAL STATEMENTS

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

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ITEM 19. EXHIBITS

Number Description of Exhibits

- 1.1 Second Amended and Restated Articles of Incorporation of Top Ships Inc. (1)
- 1.2 Amended and Restated By-Laws of the Company, as adopted on February 28, 2007 (3)
- 2.1 Form of Share Certificate (2)
- 4.1 Top Ships Inc. Amended and Restated 2005 Stock Incentive Plan (4)
- 4.2 Stockholders Rights Agreement with Computershare Investor Services, LLC, as Rights Agent as of August 19, 2005 (5)
- 4.3 Amendment No. 1 to the Stockholders Rights Agreement with Computershare Investor Services, LLC, as Rights Agent, dated August 24, 2011 (7)
- 4.4 Form of bareboat commercial management agreement with Central Mare Inc. (Hongbo) (6)
- 4.5 Form of non-bareboat commercial management and technical management agreement with Central Mare Inc. (Amalfi) (6)
- 4.6 Form of technical management agreement with TMS Shipping Ltd. (Delos) (6)
- 4.7 Form of commercial management agreement with Central Mare Inc. (Delos) (6)
- 4.8 Form of commercial technical and commercial management agreement with International Ship Management Inc. (Delos) (8)
- 4.11 Shipping Financial Services Inc Credit Facility dated July 1, 2011 (8)
- 4.12 Supplemental Agreement dated July 8, 2012 between Top Ships Inc. and Shipping Financial Services Inc. to the Credit Facility dated July 1, 2011 (9)
- 4.13 Central Mare Inc Credit Facility dated July 16, 2011 (8)
- 4.14 Supplemental Agreement dated July 21, 2012 between Top Ships Inc. and Central Mare Inc. to the Credit Facility dated July 16, 2011 (9)
- 4.15 Common Stock Purchase Agreement with Sovereign Holdings Inc., dated as of August 24, 2011 (8)
- 4.16 Registration Rights Agreement with Sovereign Holdings Inc., dated as of August 24, 2011 (8)
- 4.17 Amended and Restated Loan Agreement, dated August 15, 2012 between Top Ships Inc. and Laurasia Trading Ltd. (9)
- 4.18 Addendum Number 1 dated August 15, 2012 to the Amended and Restated Loan Agreement dated August 15, 2012 between Top Ships Inc. and Laurasia Trading Ltd. (9)
- 4.19 Stock Purchase Agreement dated September 5, 2013, between Top Ships Inc. and AMCI Products Limited with respect to Jeke Shipping Company Limited, Warhol Shipping Company Limited, Indiana R Shipping Company Limited and Britto Shipping Company Limited
- 4.20 Stock Purchase Agreement dated September 5, 2013, between Top Ships Inc. and AMCI Products Limited with respect to Hongbo Shipping Company Limited
- 4.21 Stock Purchase Agreement dated September 5, 2013, between Top Ships Inc. and AMCI Products Limited with respect to Lichtenstein Shipping Company Limited
- 4.22 Amendment to Stock Purchase Agreement dated September 5, 2013, between Top Ships Inc. and AMCI Products Limited with respect to Lichtenstein Shipping Company Limited, dated October 10, 2013
- 4.23 Memorandum of Agreement dated December 5, 2013, between Top Ships Inc. and Monte Carlo 37 Shipping Company Limited
- 4.24 Termination of Memorandum of Agreement dated December 5, 2013, between Top Ships Inc. and Monte Carlo 37 Shipping Company Limited, dated February 6, 2014
- 4.25 Memorandum of Agreement dated December 16, 2013, between Top Ships Inc. and Monte Carlo One Shipping Company Limited
- 4.26 Memorandum of Agreement dated February 6, 2014, between Top Ships Inc. and Million Hope Maritime S.A.
- 8.1 List of subsidiaries of the Company

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- 12.1 Rule 13a-14(a)/15d-14(a) Certification of the Company's Principal Executive Officer
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of the Company's Principal Financial Officer
- 13.1 Certification of the Company's Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2 Certification of the Company's Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2013, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2012 and 2013; (ii) Consolidated Statements of Comprehensive Income/ (Loss) for the years ended December 31, 2011, 2012 and 2013; (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2012 and 2013; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2012 and 2013; and (v) Notes to Consolidated Financial Statements

- 
- (1) Incorporated by reference to the Company's Current Report on Form 6-K, filed on June 24, 2011
  - (2) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on June 29, 2009 (File No. 000-50859)
  - (3) Incorporated by reference to the Company's Current Report on Form 6-K filed on March 9, 2007
  - (4) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on April 13, 2006 (File No. 000-50589)
  - (5) Incorporated by reference to the Company's Registration Statement on Form 8-A (File No. 000-50859)
  - (6) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on April 12, 2011 (File No. 000-50859)
  - (7) Incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form 8-A (File No. 000-50859)
  - (8) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on April 11, 2012 (File No. 000-50859)
  - (9) Incorporated by reference to the Company's Annual Report on Form 20-F, filed on May 1, 2013 (File No. 000-50859)

SIGNATURES

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

TOP SHIPS INC.  
(Registrant)

Date: February 14, 2014

By:

/s/ Evangelos Pistiolis  
Evangelos Pistiolis  
President, Chief Executive Officer, and  
Director



TOP SHIPS INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Top Ships Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income/(loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

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

February 14, 2014  
Athens, Greece

TOP SHIPS INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2012 AND 2013

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

	December 31, 2012	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	-	9,706
Trade accounts receivable	399	-
Advances to various creditors	47	38
Prepayments and other (Note 9)	1,089	518
Vessel held for sale (Note 6)	25,200	-
<b>Total current assets</b>	<b>26,735</b>	<b>10,262</b>
<b>FIXED ASSETS:</b>		
Advances for vessels acquisitions / under construction (Note 5)	-	14,400
Vessels, net (Notes 4)	177,292	-
Other fixed assets, net	1,851	1,467
<b>Total fixed assets</b>	<b>179,143</b>	<b>15,867</b>
<b>OTHER NON CURRENT ASSETS:</b>		
Restricted cash (Note 18)	5,537	1,739
<b>Total assets</b>	<b>211,415</b>	<b>27,868</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of debt (Note 10)	150,395	-
Debt from related parties (Note 10)	2,632	-
Debt related to vessel held for sale (Note 10)	19,592	-
Derivative financial instruments (Note 18)	5,811	1,135
Due to related parties (Notes 1 and 7)	2,150	807
Accounts payable	3,732	2,082
Accrued liabilities	6,659	4,581
Unearned revenue	2,659	-

Total current liabilities	193,630	8,605
<b>NON-CURRENT LIABILITIES:</b>		
Derivative financial instruments (Note 18)	-	562
Other non-current liabilities (Note 20)	4,706	3,906

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Total non-current liabilities	4,706	4,468
<b>COMMITMENTS AND CONTINGENCIES (Note 11)</b>		
Total liabilities	198,336	13,073
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value; 1,000,000,000 shares authorized; 17,147,534 and 17,287,534 shares issued and outstanding at December 31, 2012 and December 31, 2013 (Note 12)	172	174
Additional paid-in capital (Note 12)	292,961	293,304
Accumulated other comprehensive income	37	-
Accumulated deficit	(280,091 )	(278,683 )
Total stockholders' equity	13,079	14,795
Total liabilities and stockholders' equity	211,415	27,868

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

## TOP SHIPS INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME/ (LOSS)FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013  
(Expressed in thousands of U.S. Dollars - except share and per share  
data)

	2011	2012	2013
<b>REVENUES:</b>			
Revenues	79,723	31,428	20,074
Other income	872	-	-
<b>EXPENSES:</b>			
Voyage expenses (Note 15)	7,743	1,023	663
Charter hire expenses (Note 8)	2,380	-	-
Lease termination expenses (Note 8)	5,750	-	-
Vessel operating expenses (Note 15)	10,368	814	745
Dry-docking costs	1,327	-	-
Vessel depreciation (Note 4)	25,327	11,458	6,429
Management fees-third parties	439	-	-
Management fees-related parties (Notes 1 and 7)	5,730	2,345	1,351
General and administrative expenses	15,364	7,078	3,258
(Gain) on disposal of subsidiaries (Note 19)	-	-	(1,591 )
Loss/(Gain) on sale of vessels (Note 4)	62,543	-	(14 )
Impairment on vessels (Note 4)	114,674	61,484	-
Operating (loss)/income	(171,050 )	(52,774 )	9,233
<b>OTHER INCOME (EXPENSES):</b>			
Interest and finance costs (Notes 10 and 16)	(16,283 )	(9,345 )	(7,443 )
Loss on derivative financial instruments (Note 18)	(1,793 )	(447 )	(171 )
Interest income	95	175	131
Other, net	(81 )	(1,593 )	(342 )
Total other expenses, net	(18,062 )	(11,210 )	(7,825 )
Net income/(loss)	(189,112 )	(63,984 )	1,408
Other comprehensive (loss)/income	-	-	-
Comprehensive (loss)/income	(189,112 )	(63,984 )	1,408
(Loss)/earnings per common share, basic (Note 14)	(30.00 )	(3.77 )	0.08

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(Loss)/earnings per common share, diluted (Note 14)	(30.00 )	(3.77 )	0.08
Weighted average common shares outstanding, basic	6,304,679	16,989,585	17,061,530
Weighted average common shares outstanding, diluted	6,304,679	16,989,585	17,111,530

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

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## TOP SHIPS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

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

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
	# of Shares	Par Value	Capital			
BALANCE, December 31, 2010	3,420,067	34	282,406	37	(26,995 )	255,482
Net Loss	-	-	-	-	(189,112 )	(189,112 )
Stock-based compensation (Note 13)	49,967	-	1,412	-	-	1,412
Equity component of convertible loans	-	-	2,000	-	-	2,000
Cancellation of fractional shares	(17 )	-	-	-	-	-
Issuance of common stock, net	13,677,517	137	6,765	-	-	6,902
BALANCE, December 31, 2011	17,147,534	171	292,583	37	(216,107 )	76,684
Net Loss	-	-	-	-	(63,984 )	(63,984 )
Stock-based compensation (Note 13)	-	1	378	-	-	379
BALANCE, December 31, 2012	17,147,534	172	292,961	37	(280,091 )	13,079
Net Income	-	-	-	-	1,408	1,408
Stock-based compensation (Note 13)	140,000	2	343	-	-	345
Other comprehensive income	-	-	-	(37 )	-	(37 )
BALANCE, December 31, 2013	17,287,534	174	293,304	-	(278,683 )	14,795

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



## TOP SHIPS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

(Expressed in thousands of U.S. Dollars)

	2011	2012	2013
Cash Flows provided by Operating Activities:			
Net (loss)/income	(189,112 )	(63,984 )	1,408
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:			
Depreciation	27,156	12,510	6,763
Amortization and write off of deferred financing costs	2,234	1,437	1,815
Amortization of debt discount	3,965	371	-
Translation gain of foreign currency denominated loan	(294 )	70	-
Provision for service leaving indemnities			(37 )
Stock-based compensation expense	1,412	378	345
Change in fair value of derivative financial instruments (Note 18)	(2,835 )	(2,656 )	(2,313 )
Loss on sale of other fixed assets	81	178	3
Loss/(Gain) on sale of vessels	62,543	-	(14 )
(Gain) on disposal of subsidiaries (Note 19)	-	-	(1,591 )
Vessels impairment charge	114,674	61,484	-
Provision for doubtful accounts	-	256	-
Increase (Decrease) in:			
Trade accounts receivable	(2,189 )	1,281	384
Deferred vessel lease payments	543	-	-
Insurance claims	(876 )	4	-
Inventories	660	-	-
Advances to various creditors	(57 )	105	9
Prepayments and other	632	462	571
Due from related parties	(74 )	74	-
Other long term receivable	(1,841 )	1,841	-
Increase (Decrease) in:			
Due to related parties	(234 )	587	(1,343 )
Accounts payable	2,473	(4,426 )	(1,650 )
Other non-current liabilities	-	4,706	(800 )
Accrued liabilities	(75 )	(136 )	68
Unearned revenue	(3,007 )	587	(548 )
Net Cash provided by Operating Activities	15,779	15,129	3,070
Cash Flows provided by Investing Activities:			
Advances for vessels under construction (Note 5)	-	-	(14,400 )

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Insurance claims recoveries	872	-	-
Decrease in restricted cash	6,158	5,949	2,563
Net proceeds from sale of vessels (Note 4)	118,220	-	25,214
Net proceeds from disposal of subsidiaries (Note 19)	-	-	37,552
Net proceeds from sale of other fixed assets	35	60	65
Acquisition of other fixed assets	(356 )	(7 )	-
Net Cash provided by Investing Activities	124,929	6,002	50,994

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## Cash Flows used in Financing Activities:

Proceeds from convertible debt	2,000	-	-
Proceeds from debt	2,782	500	-
Principal payments of debt	(27,637 )	(16,656 )	(11,120 )
Prepayment of debt	(124,000 )	(4,975 )	(30,326 )
Derivative financial instrument termination payments	(364 )	-	-
Proceeds from issuance of common stock, net of issuance costs	6,833	-	-
Payment of financing costs	(616 )	-	(2,837 )
<b>Net Cash used in Financing Activities</b>	<b>(141,002 )</b>	<b>(21,131 )</b>	<b>(44,283 )</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(294 )</b>	<b>-</b>	<b>9,781</b>
Cash and cash equivalents at beginning of year	-	-	-
Effect of exchange rate changes on cash	294	-	(75 )
Cash and cash equivalents at end of the year	-	-	9,706
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Interest paid net of capitalized interest	10,180	6,837	5,621

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2013

AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

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

## 1. Basis of Presentation and General Information:

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

Top Ships Inc. is the sole owner of all outstanding shares of the following subsidiary companies as of December 31, 2013. The following list is not exhaustive as the Company has other subsidiaries relating to vessels that have been sold.

Companies	Date of Incorporation	Country of Incorporation	Activity
1 TOP Tanker Management Inc.	May 2004	Marshall Islands	Management Company
2 Lyndon International Co.	October 2013	Marshall Islands	Dormant Company

During 2011, 2012 and 2013 the company was the sole owner of all outstanding shares of the following subsidiary shipowning companies:

Shipowning Companies with vessels in operations during year ended December 31, 2011, 2012 and 2013	Date of Incorporation	Country of Incorporation	Vessel
1 Jeke Shipping Company Limited ("Jeke")	July 2007	Liberia	Evian (acquired February 2008, sold October 2013) (Note 4)
2 Warhol Shipping Company Limited ("Warhol")	July 2008	Liberia	Miss Marilena (delivered February 2009, sold October 2013) (Note 4)
3 Lichtenstein Shipping Company Limited ("Lichtenstein")	July 2008	Liberia	Lichtenstein (delivered February 2009, sold October 2013) (Note 4)
4 Indiana R Shipping Company Limited ("Indiana R")	July 2008	Liberia	UACC Shams (delivered March 2009, sold October 2013) (Note 4)
5 Britto Shipping Company Limited ("Britto")	July 2008	Liberia	Britto (delivered May 2009, sold October 2013) (Note 4)
6 Hongbo Shipping Company Limited ("Hongbo")	July 2008	Liberia	Hongbo (delivered August 2009, sold October 2013) (Note 4)
7 Banksy Shipping Company Limited ("Banksy")	July 2008	Liberia	UACC Sila (delivered March 2009, sold April 2013) (Note 4)
8 Ilisos Shipping Company Limited ("Ilisos")	April 2005	Marshall Islands	Ioannis P (acquired November 2005, sold November 2011)
9 Amalfi Shipping Company Limited ("Amalfi")	July 2007	Marshall Islands	Amalfi (acquired December 2007, sold August 2011)

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10 Japan I Shipping Company Limited ("Japan I")	August 2007	Liberia	Pepito (acquired March 2008, sold December 2011)
11 Japan II Shipping Company Limited ("Japan II")	August 2007	Liberia	Astrale (acquired May 2008, sold July 2011)
12 Japan III Shipping Company Limited ("Japan III")	August 2007	Liberia	Cyclades (acquired December 2007, sold November 2011)
Shipowning Companies with vessels under lease during 2011	Date of Incorporation	Country of Incorporation	Vessel
13 Mytikas Shipping Company Limited ("Mytikas")	February 2004	Marshall Islands	Delos (lease started October, 1, 2010, lease terminated October 2011)

The Company is an international provider of worldwide seaborne crude oil and petroleum products transportation services and of drybulk transportation services.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2013

AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

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

On October 16, 2013 the Company sold the shipowning subsidiaries which owned the six vessels of the Company's fleet (namely M/Ts Miss Marilena, Lichtenstein, UACC Shams, Britto, Hongbo and M/V Evian) to an affiliate of the AMCI Poseidon Fund LP, an unrelated party (see Note 19). Following this sale the Company does not own any operating vessels.

During 2011, 2012, and 2013, five, three and three charterers individually accounted for more than 10% of the Company's revenues as follows:

Charterer	Year Ended December 31,					
	2011		2012		2013	
A	11	%	-	-	-	-
B	-		-	-	-	-
C	20	%	51	%	63	%
D	12	%	-	-	-	-
E	12	%	-	-	-	-
F	13	%	-	-	-	-
G	-		21	%	18	%
H	-		17	%	18	%

## Management of Company Vessels

As of December 31 2013, the Company had outsourced to Central Mare Inc. ("Central Mare"), a related party controlled by the family of the Company's Chief Executive Officer, all operational, technical and commercial functions relating to the chartering and operation of the Company's vessels. The Company outsourced the above functions pursuant to a letter agreement concluded between Central Mare and the Company and management agreements concluded between Central Mare and the Company's vessel-owning subsidiaries on July 1, 2010. Furthermore, the letter agreement provided for the provision of services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to the Company's maintenance of proper books and records, services in relation to the financial reporting requirements of the Company under Commission and NASDAQ rules and regulations and information-system related services (see Note 7).

In relation to the vessel M/T Delos in 2010 the Company had outsourced technical management and crewing to Titan Owning Company Ltd ("TMS Tankers"), whereas operational monitoring of the vessel was outsourced to Central Mare, a related party, both agreements were effective from October 1, 2010. On June 1, 2011 the Company transferred the full management of M/T Delos to International Ship Management Inc., a related party (Note 7) up to the date of the vessels lease termination on October 15, 2011.

As of December 31, 2012 and 2013 the net amount due to Central Mare was \$2,150 and \$807 respectively and is included in Due to related parties, which are separately presented in the accompanying consolidated balance sheets (Note 7).

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

	For the year ended		
	December 31, 2011	December 31, 2012	December 31, 2013
Management Fees –Related Parties (Note 7)			
Central Mare Inc	5,575	2,345	1,351
International Shipmanagement Inc	155	-	-
Total	5,730	2,345	1,351
Management Fees –Third Parties			
ST Shipping and Transport Pte. Limited	10	-	-
TMS Tankers	384	-	-
Heidmar Inc	45	-	-
Total	439	-	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2013

AND FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013

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

2. Significant Accounting Policies:

- (a) Principles of Consolidation: The accompanying consolidated financial statements have been prepared in accordance with U.S generally accepted accounting principles ("U.S GAAP") and include the accounts and operating results of Top Ships Inc. and its wholly-owned subsidiaries referred to in Note 1. Intercompany balances and transactions have been eliminated in consolidation.
- (b) Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Critical estimates mainly include impairment of vessels, vessel useful lives and residual values, provision for doubtful accounts and fair values of derivative instruments.
- (c) Foreign Currency Translation: The Company's functional currency is the U.S. Dollar because all vessels operate in international shipping markets, and therefore primarily transact business in U.S. Dollars. The Company's books of accounts are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies are translated to U.S. Dollars based on the year-end exchange rates. Losses from foreign currency translation amounted to \$48 and \$0 for the years ended December 31, 2012 and 2013, respectively and are reflected in General and administrative expenses in the accompanying consolidated statement of comprehensive income/(loss).
- (d) Cash and Cash Equivalents: The Company considers highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents.
- (e) Restricted Cash: The Company considers amounts that are pledged, blocked, held as cash collateral, required to be maintained with a specific bank or be maintained by the Company as an overall cash position as part of a loan agreement, as restricted and these amounts are presented separately on the balance sheets (Note 18).
- (f) Trade Accounts Receivable, net: The amount shown as Trade Accounts Receivable, net at each balance sheet date, includes estimated recoveries from charterers for hire, freight and demurrage billings, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually, combined with the application of a historical recoverability ratio, for purposes of determining the appropriate provision for doubtful accounts. Provision for doubtful accounts at December 31, 2012 and 2013 totaled \$576 and \$574 respectively, and is summarized as follows:

Provision for  
doubtful  
accounts



Balance, December 31, 2011	1,187
—Additions	20
—Reversals / write-offs	(631 )
Balance, December 31, 2012	576
—Additions	18
—Reversals / write-offs	(20 )
Balance, December 31, 2013	574

(g) Insurance Claims: Insurance claims, relating mainly to crew medical expenses and hull and machinery incidents are recorded upon collection or agreement with the relevant party of the collectible amount when collectability is probable.

(h) Inventories: Inventories consist of bunkers, lubricants and consumable stores which are stated at the lower of cost or market. Cost, which consists of the purchase price, is determined by the first in, first out method.

(i) Vessel Cost: Vessels are stated at cost, which consists of the contract price, pre-delivery costs incurred during the construction of new buildings, capitalized interest and any material expenses incurred upon acquisition (improvements and delivery costs). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. Repairs and maintenance are charged to expense as incurred and are included in Vessel operating expenses in the accompanying consolidated statements of comprehensive income/(loss).

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(j) Impairment of Long-Lived Assets: The Company reviews its long-lived assets held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company evaluates the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. In this respect, management regularly reviews the carrying amount of the vessels in connection with the estimated recoverable amount for each of the Company's vessels (Notes 4 and 6).

(k) Vessel Depreciation: Depreciation is calculated using the straight-line method over the estimated useful life of the vessels, after deducting the estimated salvage value. Each vessel's salvage value is equal to the product of its lightweight tonnage and estimated scrap rate. Management estimates the useful life of the Company's vessels to be 25 years from the date of initial delivery from the shipyard. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its useful life is adjusted at the date such regulations are adopted.

(l) Long Lived Assets held for sale and discontinued operations: The Company classifies vessels as being held for sale when the following criteria are met: (a) Management, having the authority to approve the action, commits to a plan to sell the asset, (b) The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, (c) An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated, (d) The sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale, within one year, (e) The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, (f) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Long-lived assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. These vessels are not depreciated once they meet the criteria to be classified as held for sale (Note 6). The results of operations of a component that either has been disposed of or is classified as held for sale, are reported in discontinued operations if both of the following conditions are met: (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the Company as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction (Note 6).

Long-lived assets previously classified as held for sale that are classified as held and used are revalued at the lower of (i) the carrying amount of the asset before it was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as held and used and (ii) the fair value of the asset at the date that the Company decided not to sell the asset (Note 18).

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

leasehold improvements are depreciated over the lease term, as presented below:

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

(n) Accounting for Dry-Docking Costs: All dry-docking costs are accounted for under the direct expense method, under which they are expensed as incurred and are reflected separately in the accompanying consolidated statements of comprehensive income/(loss).

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- (o) **Financing Costs:** Fees incurred and paid to the lenders for obtaining new loans or refinancing existing ones are recorded as a contra to debt and such fees are amortized to interest expense over the life of the related debt using the effective interest method. Unamortized fees relating to loans repaid or refinanced are expensed when a repayment or refinancing is made and charged to interest and finance costs.
- (p) **Convertible Debt:** The Company evaluates debt securities ("Debt") for beneficial conversion features. A beneficial conversion feature is present when the conversion price per share is less than the market value of the common stock at the commitment date. The intrinsic value of the feature is then measured as the difference between the conversion price and the market value multiplied by the number of shares into which the Debt is convertible and is recorded as debt discount with an offsetting amount increasing additional paid-in-capital. The debt discount is accreted to interest expense over the term of the Debt with any unamortized discount recognized as interest expense upon conversion of the Debt. The total intrinsic value of the feature is limited to the proceeds allocated to the Debt instrument. On August 15, 2012 the conversion feature of our bridge loans with Laurasia was terminated and as of December 31, 2013 the Company has no convertible short or long term debt.
- (q) **Pension and Retirement Benefit Obligations—Crew:** The ship-owning companies included in the consolidation employ the crew on board under short-term contracts (usually up to nine months) and accordingly, they are not liable for any pension or post retirement benefits.
- (r) **Staff leaving Indemnities – Administrative personnel:** The Company's employees are entitled to termination payments in the event of dismissal or retirement with the amount of payment varying in relation to the employee's compensation, length of service and manner of termination (dismissed or retired). Employees who resign, or are dismissed with cause are not entitled to termination payments. The Company's liability at December 31, 2012 and 2013 amounted to \$11 and \$4 respectively.
- (s) **Accounting for Revenue and Expenses:** Revenues are generated from bareboat charter, time charter, voyage charter agreements and pool arrangements. A bareboat charter is a contract in which the vessel owner provides the vessel to the charterer for a fixed period of time at a specified daily rate, which is generally payable monthly in advance, and the customer generally assumes all risks and costs of operation during the charter term. A time charter is a contract for the use of a vessel for a specific period of time and a specified daily charter hire rate, which is generally payable monthly in advance. Profit sharing represents the excess between an agreed daily base rate and the actual rate generated by the vessel every quarter, if any, and is settled and recorded on a quarterly basis. Under a voyage charter, revenue, including demurrage and associated voyage costs, with the exception of port expenses which are recorded as incurred, are recognized on a proportionate performance method over the duration of the voyage. A voyage is deemed to commence upon the latest between the completion of discharge of the vessel's previous cargo and the charter party date of the current voyage and is deemed to end upon the completion of discharge of the current cargo. Demurrage income represents payments by the charterer to the Company when loading or discharging time exceeded the stipulated time in the voyage charter. Vessel operating expenses are expensed as incurred. Unearned revenue represents cash received prior to year-end related to revenue applicable to periods after December 31 of each year. Under a pool arrangement, the pool charters-in a vessel on a time charter basis but the daily charter hire is not fixed but it depends on the total return that the pool is able to achieve by

operating all its vessels in the spot market.

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

The Company pays commissions to ship brokers associated with arranging our charters. The commissions that the Company pays range from 1.25% to 3.10% of the total daily charter hire rate of each charter. Commissions are paid by the Company and are recognized over the related charter period and included in voyage expenses.

(t) Stock Incentive Plan: All share-based compensation related to the grant of restricted and/or unrestricted shares provided to employees and to non-employee directors, for their services as directors, is included in General and administrative expenses in the consolidated statements of comprehensive income/(loss). The shares that do not contain any future service vesting conditions are considered vested shares and recognized in full on the grant date. The shares that contain a time-based service vesting condition are considered non-vested shares on the grant date and recognized on a straight-line basis over the vesting period. The shares, vested and non-vested are measured at fair value, which is equal to the market value of the Company's common stock on the grant date. Compensation cost for awards with graded vesting is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards.

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(u) Earnings / (Loss) per Share: Basic earnings/(loss) per share are computed by dividing net income or loss available to common stockholders' by the weighted average number of common shares deemed outstanding during the year. Diluted earnings/(loss) per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised. For purposes of calculating diluted earnings per share the denominator of the diluted earnings per share calculation includes the incremental shares assumed issued under the treasury stock method weighted for the period the non-vested shares were outstanding, with the exception of the 147,244 shares, granted to the Company's CEO, which will vest in the event of change of control. Consequently, those shares are excluded from the remaining non-vested shares (Note 14). The dilutive effect of convertible debt outstanding shall be reflected in diluted EPS by application of the if-converted method. In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be antidilutive.

(v) Related Parties: The Company considers as related parties: the affiliates of the Company; entities for which investments are accounted for by the equity method; principal owners of the Company; its management; members of the immediate families of principal owners of the Company; and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. An Affiliate is a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or has common control with the Company. Control is the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract and otherwise. Immediate Family is family members whom a principal owner or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship. Management is the persons who are responsible for achieving the objectives of the Company and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the CEO, the CFO, Vice President and CTO in charge of principal business functions and other persons who perform similar policy making functions. Persons without formal titles may also be members of management. Principal owners are owners of record or known beneficial owners of more than 10% of the voting interests of the Company.

(w) Derivatives and Hedging: The Company records every derivative instrument (including certain derivative instruments embedded in other contracts) in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivatives' fair value recognized currently in earnings unless specific hedge accounting criteria are met. The Company has not applied hedge accounting for its derivative instruments during the periods presented.

The fair value of derivative liabilities was not adjusted for nonperformance risk as the Company, as one of the parties to a derivative transaction expects to be able to perform under the contractual terms of its derivative agreements, such as making cash payments at periodic net settlement dates or upon termination.

(x) Financial instruments: Financial liabilities are classified as either financial liabilities at 'fair value through the profit and loss' ("FVTPL") or 'other financial liabilities'. Financial instruments classified as FVTPL are recognized at fair value in the balance sheet when the Company has an obligation to perform under the contractual provisions of those instruments. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Changes in the financial instruments are recognized in earnings. Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest rate method.

(y) **Recent Accounting Pronouncements**

There are no recent accounting pronouncements issued during 2013 whose adoption would have a material effect on the Company's consolidated financial statements in the current year or expected to have an impact on future years.

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

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## 3. Going Concern:

As of December 31, 2012, the Company was in breach of loan covenants with certain banks relating to EBITDA, overall cash position (minimum liquidity covenants), adjusted net worth, book equity and asset cover. As a result of these covenant breaches and due to cross default provisions contained in all of the Company's bank facilities, the Company was in breach of all its loan facilities and has classified all its debt and derivative financial instruments as current. The amount of long term debt and derivative financial instruments that have been reclassified and presented together with current liabilities amount to \$172,619 and \$5,811 respectively (Note 10). As of December 31, 2013 the Company had no indebtedness, since all the debt facilities were either fully repaid or transferred to the buyer of the Company's shipowning companies (see Note 10 and 19).

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

## 4. Vessels, net:

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

	Vessel Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2011	296,107	(31,087 )	265,020
—Reclassified from vessel held for sale	10,414	-	10,414
—Depreciation	-	(11,458 )	(11,458 )
—Impairment	(104,029 )	42,545	(61,484 )
— Vessel held for sale	(25,200 )	-	(25,200 )
Balance, December 31, 2012	177,292	-	177,292
—Depreciation	-	(6,429 )	(6,429 )
— Disposals	(177,292 )	6,429	(170,863 )
Balance, December 31, 2013	-	-	-

During 2012, vessel oversupply decreased charter rates and further decreased vessel values. These were conditions that the Company considered to be indicators of potential impairment for its vessels. In December 2012, the Company tested the M/T Miss Marilena, M/T Lichtenstein, M/T UACC Shams, M/T Britto and M/T Hongbo for impairment and assigned a medium probability to sell them. This assumption together with the deteriorating charter rates significantly reduced the probability weighted undiscounted expected cash flows, which were determined to be lower than the vessels carrying values. Consequently, the Company wrote the vessels down to their fair values and recognized an impairment charge of \$46,592 (see Note 18).



In December 2012 the Company reclassified the M/V Evian as held and used resulting from its assessment that the vessel would not be sold and that it would continue to earn revenue within the following year and measured the vessel at its fair value, resulting in a write-up of \$2,086 (see Note 18).

In December 2012 the Company classified the M/T UACC Sila as held for sale and wrote the vessel down to fair value less costs to sell, resulting in an impairment charge of \$16,978 (see Note 6). The vessel was sold on March 27, 2013 to an unrelated third party for a price of \$26,000. The vessel was delivered to its new owners on April 30, 2013. A gain of \$14 was recognized upon vessel's delivery, which is included in the Company's consolidated statement of comprehensive income/ (loss).

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In October 2013 the Company sold the shipowning companies of the M/Ts Miss Marilena, Lichtenstein, UACC Shams, Britto, Hongbo and M/V Evian to an affiliate of the AMCI Poseidon Fund LP (see Note 19).

5. Advances for Vessels Acquisitions / Under Construction:

On December 5, 2013, the Company agreed to acquire a 39,000 dwt ECO-type newbuilding product/chemical tanker with a time charter attached from an entity affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis. The newbuilding is scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the third quarter of 2015. The purchase price of the newbuilding is \$35,000, and is payable as follows: 20% as an initial deposit and 80% on delivery of the vessel. The Company is under discussions with a number of banks regarding the financing of the vessel. The initial deposit was paid in two installments, the first on December 5, 2013 and the second on December 19, 2013 bringing the total to \$7,000 which is included in Advances for vessels acquisitions / under construction, in the accompanying consolidated balance sheets.

On December 16, 2013, the Company agreed to acquire a 50,000 dwt ECO-type newbuilding product/chemical tanker with a time charter attached from an entity affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis. The newbuilding is scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the first quarter of 2015. Upon its delivery the vessel will enter into a time charter with a high quality charterer for 2 years at a rate of \$16,000 per day. The charterer has the option to extend the charter for an additional year at a rate of \$17,250 per day. The purchase price of the newbuilding is \$37,000, and is payable as follows: 20% as an initial deposit and 80% on delivery of the vessel. The Company is under discussions with a number of banks regarding the financing of the vessel. The initial deposit was paid in two installments, the first on December 16, 2013 and the second on December 19, 2013 bringing the total to \$7,400 and it is also included in Advances for vessels acquisitions / under construction, in the accompanying consolidated balance sheets.

6. Assets Held for Sale:

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

7. Transactions with Related Parties:

(a)Pyramis Technical Co. S.A.: Pyramis Technical Co. S.A. is wholly owned by the father of the Company's Chief Executive Officer and has been responsible for the renovation of the Company's premises. From January 2006 up to December 31, 2013 Euro 3,741 or \$4,937 has been paid and relative leasehold improvements with a carrying

value of \$493 are included in renovation works which are included in "Other fixed assets, net", that are separately presented in the accompanying consolidated balance sheets.

(b)Central Mare Inc. ("Central Mare") – Letter Agreement and Management Agreements: On May 12, 2010, the Company's Board of Directors agreed to outsource all of the commercial and technical management of the Company's vessels to Central Mare Inc., or Central Mare, a related party controlled by the family of the Company's Chief Executive Officer. Since July 1, 2010 Central Mare has been performing all operational, technical and commercial functions relating to the chartering and operation of the Company vessels, pursuant to a letter agreement, or the Letter Agreement, concluded between Central Mare and the Company as well as management agreements concluded between Central Mare and the Company's vessel-owning subsidiaries. Furthermore the letter agreement provided for the provision of services in connection with compliance with Section 404 of the Sarbanes-Oxley Act of 2002, services rendered in relation to the Company's maintenance of proper books and records, services in relation to the financial reporting requirements of the Company under Commission and NASDAQ rules and regulations and information-system related services.

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Pursuant to an amendment of the Letter Agreement on January 1, 2013, the Company paid a management fee of \$250 US dollars per day per vessel up to June 30 2013 and \$258 US dollars per day per vessel up to October 16 2013. That fee included all the above mentioned services. On October 16, 2013 the letter agreement was amended again and it now provides for a fixed monthly fee of \$15 for the provision of all the above mentioned services, for the period when the Company doesn't have any shis, for the period when the Company doesn't have any ships.

Also Central Mare will receive a chartering commission of 1.25% on all freight, hire and demurrage revenues; a commission of 1.00% of all gross sale proceeds or the purchase price paid for vessels; a commission of 0.2% on derivative agreements and loan financing or refinancing and a newbuilding supervision fee of Euro 437 or approximately \$603 per newbuilding vessel. All the abovementioned commissions and fees will apply only in the case that the service is provided.

Furthermore, if required, Central Mare will also handle and settle all claims arising out of its duties under the management agreements (other than insurance and salvage claims) in exchange for a fee of Euro 164 or approximately \$226 US Dollars per person per eight-hour day. Finally legal fees for claims and general corporate services incurred by Central Mare on behalf of the Company will be reimbursed to Central Mare at cost.

This letter agreement had an initial term of five years after which it will continue to be in effect until terminated by either party subject to a twelve-month advance notice of termination.

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

On September 1, 2013 we entered into a termination agreement with Central Mare, whereby Central Mare agreed to provide us a 30% discount on the termination fees that were payable as per the shipmanagement agreements between Central Mare and the vessel owning subsidiaries of the six vessels we sold on October 16, 2013, due to early termination without 12 months notice. The termination fees due to Central Mare amounted to \$846.

(c) International Ship Management Inc. ("International"): on June 1, 2011, the Company decided to outsource all of the commercial and technical management of M/T Delos to International Ship Management Inc., or International, a related party controlled by the family of the Company's Chief Executive Officer, with terms similar to the ones between the Company and Central Mare. The management agreement ended in October 15, 2011 when the bareboat charter of the vessel with the Company was terminated. No termination fees were charged for the termination of the said agreement.

(d) Central Mare Inc. ("Central Mare") – Executive Officers and Other Personnel Agreements: On September 1, 2010, the Company entered into separate agreements with Central Mare pursuant to which Central Mare provides the Company with its executive officers. These agreements were entered into in exchange for terminating prior agreements.

Under the terms of the agreement for the Company's Chief Executive Officer, the Company is obligated to pay an annual base salary, a minimum cash bonus and stock compensation of 50,000 common shares of the Company to be issued at the end of each calendar year (see Note 13).

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

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

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

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

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

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

As of December 31, 2013 the net amount due to Central Mare was \$807 and is included in Due to related parties, which is separately presented in the accompanying consolidated balance sheets. The amount concerns \$722 related to executive officers and other personnel expenses, \$37 related to management fees, \$46 related to management agreement termination and \$1 related to commissions on sale and purchase of vessels.

The fees charged by Central Mare for the year ended December 31, 2012 and 2013 are as follows:

	Year Ended December 31,			
	2011	2012	2013	
Management Fees	\$ 5,575	\$ 2,345	\$ 505	Management fees related party - Statement of comprehensive income/ (loss)
Executive officers and other personnel expenses	\$ 5,405	\$ 2,349	\$ 1,760	General and administrative expenses - Statement of comprehensive income/ (loss)
Superintendent Fees	\$ 184	\$ 29	-	Vessel operating expenses - Statement of comprehensive income/ (loss)
Commission for sale of vessels	\$ 39	-	\$ 260	(Gain)/loss on sale of vessels - S t a t e m e n t o f

				comprehensive income/ (loss)
Commission on charter hire agreements	\$ 1,216	\$ 275	\$ 150	Voyage expenses - Statement of comprehensive income/ (loss)
Management agreement termination fees	\$ 672	-	\$ 846	Management fees related party - Statement of comprehensive income/ (loss)
Total	\$ 13,901	\$ 4,998	\$ 3,521	

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

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

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

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

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

(f) Central Shipping Monaco SAM: On September 21, 2011, the Company entered into a lease agreement for one year for the provision of office space in Monaco, effective from October 1, 2011 with Central Shipping Monaco SAM, a related party controlled by the family of the Company's Chief Executive Officer and President. This agreement was extended up to December 12, 2012 and then terminated. This termination did not result in any additional fees or costs.

(g) Central Mare Inc. ("Central Mare") – Credit Facility: On July 16, 2011 the Company entered into an unsecured credit facility with Central Mare for Euro 1,800 (\$2,372 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012) to be used for general working capital purposes. The loan was fully repaid on October 22, 2013.

(h) Shipping Financial Services Inc Credit Facility: On July 1, 2011 the Company entered into an unsecured credit facility with Shipping Financial Services Inc, a related party ultimately controlled by the family of our Chief Executive Officer, for Euro 350 (\$461 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012) to be used for general working capital purposes. The loan was fully repaid on October 24, 2013.

8. Leases:



A. Lease arrangements, under which the company acts as the lessee

i) Operating lease M/T Delos:

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

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During the years ended December 31, 2011, 2012 and 2013, lease payments relating to the bareboat charters of the vessel were \$2,380, \$0 and \$0 respectively and are included in Charter hire expense in the accompanying consolidated statements of comprehensive income/(loss). On October 15, 2011 the Company terminated the bareboat charter agreement resulting in a termination expense of \$5,750 included in "Lease Termination Expense" in the accompanying consolidated statements of comprehensive income/(loss) for the year ended December 31, 2011. As of December 31, 2012 and 2013 the outstanding amount of the termination fee was \$5,306 and \$4,706 respectively (see Note 20).

ii) Office lease:

In January 2006, Top Tanker Management entered into an agreement to lease office space in Athens, Greece, with an unrelated party. In September 2010 the agreement was amended and the new monthly rent starting then was renegotiated down to Euro 41 or \$55 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2010) and it was agreed to revert occupancy in certain areas of the leased office space by the end of April 2011, with all other terms remaining unchanged. On September 1, 2011, the agreement was amended again and the new monthly rent was renegotiated down to Euro 8 or \$10.4 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2011). It was also agreed to revert occupancy in a larger area of the leased office space. In January 1, 2013, the agreement was amended again and the new monthly rent was renegotiated down to Euro 2.5 or \$3.4 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2013) and the annual adjustment for inflation increase plus 1% clause was removed. It was also agreed to revert occupancy in an even larger area of the leased office space and to extend the duration of the lease to December 31, 2024. All other terms of the lease remained unchanged. General and administrative expenses for the years ended December 31, 2011, 2012 and 2013 include \$531, \$127 and \$40, respectively, for rent expense. As a result of the above mentioned agreements for the reversion of occupancy in certain areas of the leased office space the Company made a revision in the useful life of certain leasehold improvements that would have been amortized over the life of the lease, resulting in accelerated depreciation of \$931 and \$621 in 2011 and 2012 respectively which are included in the consolidated statement of comprehensive income/ (loss).

In May 2007, Top Tankers (U.K) Limited entered into a lease agreement for office space in London. The lease agreement was valid from June 2007 and would continue until either party gave to the other one calendar month written notice. The annual lease was GBP 20 or \$32 (based on the U.S. Dollar/GBP exchange rate as of December 31, 2009), payable quarterly in advance. In September 2010, Top Tankers (U.K) Limited entered into a new lease agreement for office space in London. The new lease agreement was valid from September 2010 and would continue until either party gave to the other one calendar month written notice. The new annual lease was GBP 12 or \$19 (based on the U.S. Dollar/GBP exchange rate as of December 31, 2012). This agreement was terminated in September 30, 2012. General and administrative expenses for the years ended December 31, 2011, 2012 and 2013 include \$19, \$14 and \$0, respectively, for rent expense.

In November 2009, Top Ships Inc. entered into a lease agreement for office space in London. The initial agreement was signed on November 15, 2009 and expired on November 14, 2010. The agreement was extended for another year with all terms remaining unchanged. On November 15, 2011 the agreement was extended for another year with all terms remaining unchanged. Finally the agreement was terminated on June 30, 2012. The monthly rent was GBP 26 or

\$42 (based on the U.S. Dollar/GBP exchange rate as of December 31, 2012). General and administrative expenses for the year ended December 31, 2011, 2012 and 2013 include \$498, \$247 and \$0 for rent expense.

In September 2011, Top Ships Inc. entered into a lease agreement for office space in Monaco with Central Shipping Monaco SAM, a Company which is controlled by the Company's Chief Executive Officer and President. The monthly rent was Euro 5 or \$7 (based on the U.S. Dollar/Euro exchange rate as of December 31, 2012). This agreement was extended up to December 2012 and then terminated. This termination did not result in any additional fees. General and administrative expenses for the year ended December 31, 2012 and 2013 include \$87 and \$0 for rent expense respectively.

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## iii) Future minimum lease payments:

The Company's future minimum lease payments required to be made after December 31, 2013, related to the existing at December 31, 2013 leases are as follows:

Year ending December 31,	Office Lease
2014	41
2015	41
2016	41
2017	41
2018	41
2019 and thereafter	246
Total	451

## B. Lease arrangements, under which the company acts as the lessor

## i) Charter agreements:

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

As of December 31, 2013, the Company did not operate any vessels and hence has no future time-charter receipts.

## 9. Prepayments and Other:

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

	December 31, 2012	December 31, 2013
Prepaid expenses	77	54
Other receivables	1,012	464
Total	1,089	518

## 10. Debt:

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

Borrower / Vessel(s)	December 31,	December 31,
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	2012	2013
<b>HSH</b>		
Warhol / Miss Marilena	29,456	-
Indiana / Tyrrhenian Wave	21,224	-
Britto / Britto	26,393	-
Jeke / Evian (ex Papillon)	15,662	-
<b>DVB</b>		
Hongbo / Hongbo	24,289	-
Hongbo / Bridge Loan	3,520	-
<b>ALPHA</b>		
Lichtenstein / Lichtenstein	26,819	-
<b>LAURASIA TRADING</b>		
The Company	3,032	-
Total	150,395	-
Less-current portion	(150,395 )	-
<b>LOANS FROM RELATED PARTIES</b>		
<b>CENTRAL MARE INC</b>		
The Company	2,218	-
<b>SHIPPING FINANCIAL SERVICES INC</b>		
The Company	414	-
Total loans from related parties	2,632	
	December	December
Borrower / Vessel(s)	31,	31,
	2012	2013
Banksy / Ionian Wave*	19,592	-
Debt related to Vessel held for sale	19,592	-

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

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(a) HSH:

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

Bulker Financing

M/V Evian: At December 31, 2012, Jeke had a loan outstanding of \$15,768, maturing in February 2015, excluding unamortized financing fees of \$106.

Product Tanker Financing

Warhol: At December 31, 2012, Warhol had a loan outstanding of \$29,712, maturing in February 2019, excluding unamortized financing fees of \$256.

Indiana: At December 31, 2012, Indiana had a loan outstanding of \$21,527, maturing in March 2019, excluding unamortized financing fees of \$303.

Britto: At December 31, 2012, Britto had a loan outstanding of \$26,658, maturing in May 2019, excluding unamortized financing fees of \$265.

On October 16, 2013, the Company sold the shipowning companies of the vessels M/V Evian, M/T Miss Marilena, M/T UACC Shams and M/T Britto together with all their outstanding loan balances with HSH. For further details, refer to Note 19.

(b) DVB:

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

Tranche A:

Tranche A-Banksy: As of December 31, 2012, Banksy had a loan outstanding of \$20,000, excluding unamortized financing fees of \$408.

Tranche A-Hongbo: As of December 31, 2012, Hongbo had a loan outstanding of \$24,727, excluding unamortized financing fees of \$438.

Tranche B: As of December 31, 2012 the outstanding amount of Tranche B, was \$3,520.

On October 16, 2013, the Company sold the shipowning company of the vessel M/V Hongbo together with its outstanding loan balance with DVB. For further details, refer to Note 19.



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(c) ALPHA:

As of December 31, 2012, the Company's subsidiary Lichtenstein had a loan outstanding of \$27,000, maturing in February 2019, excluding unamortized financing fees of \$181.

On October 16, 2013, the Company sold the shipowning company of the vessel M/V Lichtenstein together with its outstanding loan balance with ALPHA. For further details, refer to Note 19.

Other loans

Laurasia Trading Ltd Credit Facility:

As of December 31, 2012, the outstanding amount under the Laurasia Trading Ltd credit facility was \$3.25 million. The facility was repaid in full on October 17, 2013.

Shipping Financial Services Inc Credit Facility:

As of December 31, 2012, the outstanding amount under the Shipping Financial Services Inc credit facility was Euro 350 (\$462 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012). The facility was repaid in full on October 22, 2013.

Central Mare Inc Credit Facility:

As of December 31, 2012, the outstanding amount under the Central Mare Inc credit facility was Euro 1,800 (\$ 2,375 applying the \$U.S. Dollar/Euro exchange rate as of December 31, 2012). The facility was repaid in full on October 24, 2013.

Debt Covenants:

As of December 31, 2013 the Company had no indebtedness and hence no requirements stemming from loan covenants.

Interest Expense: Interest expense for the years ended December 31, 2011, 2012 and 2013, amounted to \$10,068, \$7,240 and \$4,644 respectively and is included in interest and finance costs in the accompanying consolidated statements of comprehensive income/(loss) (Note 16). Interest expense for 2013 includes \$139 of interest for M/T Delos termination fee (see Note 20).

Financing Costs: The additions in deferred financing costs amounted to \$1,128 and \$724 during the years ended December 31, 2012 and 2013. For 2012 as well as for 2013, these figures are due to the successive one-year extensions of the Laurasia, Central Mare and Shipping Financial Services facilities.



The weighted average interest rates, as of December 31, 2012 and 2013, excluding all swaps, were 3.55% and 3.7%, respectively.

The vessel-owning subsidiary companies with outstanding loans had restricted net assets amounting to \$15,806 and \$0 as of December 31, 2012 and 2013, respectively.

11. Commitments and Contingencies:

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company's vessels. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

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On December 5 and December 16 of 2013, the Company agreed to acquire two newbuilding product/chemical tankers with attached time charters attached from two entities affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis. The newbuilding vessels are scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in the first and third quarter of 2015. The purchase price of the newbuilding vessels is \$35,000 and \$37,000 respectively, and is payable as follows: 20% as an initial deposit and 80% on delivery of the vessels (see Note 5).

The Company accrues for the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

12. Common Stock and Additional Paid-In Capital:

Reverse Stock Split: On June 24, 2011, the Company effected a 1-for-10 reverse stock split of its common stock. There was no change in the number of authorized common shares of the Company. All share and per share amounts in these consolidated financial statements have been adjusted to reflect this stock split. The par value of the Company's common shares remained unchanged at \$0.01 per share.

13. Stock Incentive Plan:

Starting on July 1, 2005 and on various grant dates (the "grant dates") thereafter, as outlined below, the Company granted shares pursuant to the Company's 2005 Stock Incentive Plan as from time to time amended ("the Plan"), which was adopted in April 2005 to provide certain key persons (the "Participants"), on whose initiatives and efforts the successful conduct of the Company's business depends, and who are responsible for the management, growth and protection of the Company's business, with incentives to: (a) enter into and remain in the service of the Company, a Company's subsidiary, or Company's joint venture, (b) acquire a proprietary interest in the success of the Company, (c) maximize their performance, and (d) enhance the long-term performance of the Company (whether directly or indirectly) through enhancing the long-term performance of a Company subsidiary or Company joint venture. The granted shares have no exercise price and constitute a bonus in nature.

In the case where restricted shares were granted, there were signed "Restricted Stock Agreements" between the Company and the Participants on the respective grant dates. Under these agreements, the Participants have the right to receive dividends and the right to vote the shares, subject to the following restrictions:

i. Grants to Company's CEO. The Company's CEO shall not sell, assign, exchange, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the shares other than to a Company, which is wholly owned by the Company's CEO. The restrictions lapse on the earlier of (i) the time specified in the relevant Restricted Stock Agreement or (ii) the termination of the Company's CEO employment with the Company for any reason. As the shares granted to the Company's CEO do not contain any future service vesting conditions, all such shares are considered vested shares on the grant date.

ii. Grants to Other Participants. The Participants (officers, independent and executive members of the Board, Company's employees and consultants) shall not sell, assign, exchange, transfer, pledge, hypothecate or otherwise dispose of or encumber any of the shares. The restrictions lapse on the time specified in the relevant Restricted Stock Agreement conditioned upon the Participant's continued employment with the Company from the date of the agreement until the date the restrictions lapse (the "vesting period").

In the event the Participant's employment with the Company terminates for any reason before the end of the vesting period, that Participant shall forfeit all rights to all Shares that have not yet vested as of such date of termination. Dividends earned during the vesting period will not be returned to the Company, even if the unvested shares are ultimately forfeited. As these Shares granted to other than the CEO Participants contain a time-based service vesting condition, such shares are considered non-vested shares on the grant date.

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The following table presents grants pursuant to the Plan's issuance from 2009 onwards:

Grant Date	Number of Shares	Issued to	Vesting Period (according to the way stock-based compensation is expensed)
December 21, 2009	30,000	New Non-Executive Directors	proportionately over a period of 5 years
December 21, 2009	50,000	CEO	on the grant date
October 29, 2010	24,999	Officer	15 equal monthly installments (1st vesting on the grant date)
October 29, 2010	49,999	Officer	15 equal monthly installments (1st vesting on the grant date)
December 2, 2010	50,000	CEO	on the grant date
December 1, 2011	50,000	CEO	on the grant date
February 12, 2013	50,000	CEO	on the grant date
September 26, 2013	50,000	Officer	on the grant date
September 26, 2013	40,000	Officer	on the grant date
December 18, 2013	50,000	CEO	on the grant date

All share amounts have been adjusted for the 1:3 reverse stock split effected on March 20, 2008 and the 1:10 reverse stock split effected on June 24, 2011.

A summary of the status of the Company's non-vested shares as of December 31, 2013 and movement during the year ended December 31, 2013, is presented below:

	Non-vested Shares	Weighted average grant date fair value
As of January 1, 2013	154,744	\$ 52.25
Granted and issued shares	140,000	\$ 1.52
Granted and non issued shares	50,000	\$ 1.60
Vested	(197,500)	\$ 3.41
As of December 31, 2013	147,244	\$ 52.32

The compensation expense recognized in the years ended December 31, 2011, 2012 and 2013 was \$1,412, \$378 and \$345 and is included in General and administrative expenses in the consolidated statements of comprehensive income/(loss). As of December 31, 2013, the total unrecognized compensation cost related to non-vested share awards is \$0. The weighted average grant date fair value of shares granted, vested and forfeited for the years 2011, 2012 and 2013 was \$47.95, \$52.25 and \$52.32 respectively.

The total fair value of shares vested during the years ended December 31, 2012 and 2013 was \$51 and \$309 respectively.

On December 18, 2013 the Board of Directors granted 50,000 shares to the Company's Chief Executive Officer at a price of \$1.60 per share to be issued to Sovereign Holdings Inc., a company wholly owned by our Chief Executive Officer, in accordance with the CEO's employment contract dated September 1, 2010. The shares vest six months from the date of grant, with any unvested restricted stock vesting upon his termination from the Company for any reason (including resignation). However, as the shares granted to the Company's Chief Executive Officer do not contain any future service vesting conditions, all such shares are considered vested shares on the grant date. The compensation expense of \$80 is included in General and administrative expenses in the consolidated statements of comprehensive income/(loss) for the year ended December 31, 2013. These shares were issued on January 17, 2014.

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

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No dividends were paid in the years ended December 31, 2011, 2012 and 2013.

## 14. Earnings (loss) Per Common Share:

All shares issued (including non-vested shares issued under the Plan) are the Company's common stock and have equal rights to vote and participate in dividends and in undistributed earnings. Non-vested shares do not have a contractual obligation to share in the losses. Dividends declared during the period for non-vested common stock as well as undistributed earnings allocated to non-vested stock are deducted from net income / (loss) attributable to common shareholders for the purpose of the computation of basic earnings per share in accordance with two-class method as required by relevant guidance. The denominator of the basic earnings per common share excludes any non vested shares as such are not considered outstanding until the time-based vesting restriction has elapsed.

For purposes of calculating diluted earnings per share the denominator of the diluted earnings per share calculation includes the incremental shares assumed issued under the treasury stock method weighted for the period the non-vested shares were outstanding, with the exception of the 147,244 shares, granted to the Company's CEO, which will vest in the event of change of control. Consequently, those shares are excluded from the remaining non-vested shares.

The components of the calculation of basic and diluted earnings per share for the years ended December 31, 2011, 2012 and 2013 are as follows:

	Year Ended December 31,		
	2011	2012	2013
Net (loss) income	\$(189,112 )	\$(63,984 )	\$1,408
Net (loss) income available to common shareholders	\$(189,112 )	\$(63,984 )	\$1,408
Weighted average common shares outstanding, basic	6,304,679	16,989,585	17,061,530
Weighted average common shares outstanding, diluted	6,304,679	16,989,585	17,111,530
(Loss) / income per common share, basic and diluted	\$(30.00 )	\$(3.77 )	\$0.08

For the years ended December 31 2011, 2012 and 2013, 180,244, 154,744 and 147,244 shares respectively, of non-vested shares as at the end of each year, were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the periods presented.

## 15. Voyage and Vessel Operating Expenses:

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The amounts in the accompanying consolidated statements of comprehensive income/(loss) are as follows (expressed in thousands of U.S. Dollars):

Voyage Expenses	Year Ended December 31,		
	2011	2012	2013
Port charges	1,141	24	18
Bunkers	4,684	177	125
Commissions	1,918	822	520
Total	7,743	1,023	663

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Vessel Operating Expenses	Year Ended December 31,		
	2011	2012	2013
Crew wages and related costs	5,415	361	-
Insurance	1,165	83	47
Repairs and maintenance	1,356	179	689
Spares and consumable stores	2,369	184	-
Taxes (Note 17)	63	7	9
Total	10,368	814	745

During 2013, the bareboat charterer of the M/V Evian failed to pay operating expenses of the vessel, as per the bareboat charter party. Hence the Company, in order to avoid the detention of M/V Evian, paid a portion of the operating expenses that the bareboat charterer incurred in 2013 and that related mainly to repairs and maintenance expenses

## 16. Interest and Finance Costs:

The amounts in the accompanying consolidated statements of comprehensive income/(loss) are analyzed as follows (expressed in thousands of U.S. Dollars):

Interest and Finance Costs	Year Ended December 31,		
	2011	2012	2013
Interest on debt (Note 10)	10,068	7,240	4,644
Bank charges	16	297	964
Amortization and write-off of financing fees	2,234	1,437	1,835
Amortization of debt discount	3,965	371	-
Total	16,283	9,345	7,443

## 17. Income Taxes:

Marshall Islands, Cyprus and Liberia do not impose a tax on international shipping income. Under the laws of Marshall Islands, Cyprus and Liberia, the countries of the companies' incorporation and vessels' registration, the companies are subject to registration and tonnage taxes, which have been included in vessels' operating expenses in the accompanying consolidated statements of comprehensive income/(loss).

Pursuant to the United States Internal Revenue Code of 1986, as amended (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the Company operating the ships meets both of the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exception to corporations organized in the United States and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (50%



Ownership Test) or (ii) the Company's stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States (Publicly-Traded Test).

Under the regulations, a Company's stock will be considered to be "regularly traded" on an established securities market if (i) one or more classes of its stock representing more than 50 percent of its outstanding shares, by voting power and value, is listed on the market and is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year; and (ii) the aggregate number of shares of stock traded during the taxable year is at least 10% of the average number of shares of the stock outstanding during the taxable year.

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The Marshall Islands, where the Company is incorporated, grants an "equivalent exemption" to United States corporations. Therefore, the Company is exempt from United States federal income taxation with respect to U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met. The Company believes that for periods prior to its initial public offering in July 2004, it satisfied the 50% Ownership Test. The Company also believes that for periods subsequent to its initial public offering, it satisfies the Publicly-Traded Test on the basis that more than 50% of the value of its stock is primarily and regularly traded on the Nasdaq National Market and, therefore, the Company and its subsidiaries are entitled to exemption from U.S. federal income tax, in respect of their U.S. source shipping income.

## 18. Derivative Financial Instruments:

The principal financial assets of the Company consist of cash on hand and at banks and accounts receivable due from charterers. The principal financial liabilities of the Company consist of accounts payable due to suppliers, termination fee outstanding (see Note 20) and an interest rate swap agreement.

- a) Interest rate risk: As of December 31, 2013 the Company bears no interest rate risk relating to the variability of the cash flows since there is no outstanding senior debt and the only interest rate swap arrangement is not pegged to a floating interest rate. The only exposure the Company retains to Floating interest rates relates to the outstanding balance of the termination fee outstanding (see Note 20).
- b) Credit risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and trade accounts receivable.

The Company places its temporary cash investments, consisting mostly of deposits, with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions with which it places its temporary cash investments. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable.

- c) Fair value: The carrying values of cash and cash equivalents, restricted cash, accounts receivable and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The carrying value of the termination fee outstanding approximates its fair value as this represents an interest bearing liability pegged to floating Libor rates. The Company considers its creditworthiness when determining the fair value of the credit facilities. The carrying value approximates the fair market value for the floating rate loans. The fair value of interest rate swaps is determined using a discounted cash flow method taking into account current and future interest rates and the creditworthiness of both the financial instrument counterparty and the Company.

The estimated fair value of the Company's derivatives outstanding as at December 31, 2012 and 2013, as detailed below, approximates their carrying values.

Counterparty	Period	Effective Date	Fair Value - Liability
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	SWAP Number (Nr)	Notional Amount		Interest Rate Payable		December	December
		31, 2013	March 30, 2008			31, 2012**	31, 2013
ALPHA	1	\$20,000	7 years	10.85 %		(2,785 )	(1,697 )

\*\* The total value of the Company's interest rate swap arrangements as of December 31, 2012 was \$5,811. Two of our interest rate swap arrangements as of December 31, 2012 matured on March 27, 2013 and June 30, 2013 respectively and another two were transferred on October 16, 2013 to the new owners of Jeke Shipping Company Limited. (owner of the M/T Evian) in accordance with the stock purchase agreement for the disposal of the subsidiary (see Note 19). The table above presents a comparison of the value of our interest rate swap arrangements as of December 31, 2013 with its corresponding value on December 31, 2012.

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The Company entered into interest rate swap transactions to manage interest costs and the risk associated with changing interest rates with respect to its variable interest rate loans and credit facilities. These interest rate swap transactions fixed the interest rates based on predetermined ranges in current LIBOR rates. As of December 31, 2013, the Company's outstanding interest rate swap had a combined notional amount of \$20,000.

The Company has entered into an agreement with Alpha bank relating to the Alpha bank Swap, according to which, the Company has pledged an amount of \$1,739 as of December 31, 2013 to an account controlled by Alpha bank as a cash collateral for the repayment of interest of the Alpha bank Swap.

The Company follows the accounting guidance for Fair Value Measurements and Disclosures. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data;

Level 3: Unobservable inputs that are not corroborated by market data.

The Company pays a fixed rate and receives a fixed rate for its remaining interest rate swap with Alpha bank. The fair values of those derivatives determined through Level 2 of the fair value hierarchy are derived principally from or corroborated by observable market data. Inputs include quoted prices for similar assets, liabilities (risk adjusted) and market-corroborated inputs, such as market comparables, interest rates, yield curves and other items that allow value to be determined.

As of December 31, 2013, no fair value measurements for assets or liabilities under Level 1 or Level 3 were recognized in the Company's consolidated financial statements.

The following table summarizes the valuation of the Company's assets measured at fair value on a non-recurring basis as of December, 31, 2013. No items were measured at fair value on a non-recurring basis at December 31, 2013.

Items Measured at Fair Value on a Nonrecurring Basis  
Fair Value Measurements

December 31, 2012	Quoted prices in active markets for identical assets	Significant other observable inputs	Unobservable Inputs	Gains/

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Non – Recurring Measurements:		Level 1	Level 2	Level 3	(Losses)
Long-lived assets held for sale	\$25,200		\$25,200		\$(16,978 )
Long-lived assets held and used	\$164,792		\$164,792		\$( 46,592 )
Long-lived assets previously held for sale and currently held and used	\$12,500		\$12,500		\$2,086

In accordance with the provisions of relevant guidance, a long-lived asset held for sale, namely M/T UACC Sila, with a carrying amount of \$42,178 was written down to its fair value of \$25,200, resulting in an impairment charge of \$16,978, which was included in the accompanying consolidated statement of comprehensive income/ (loss) for December 31, 2012 (see Note 4). The fair value of the impaired vessel was determined based on a market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to the Company's vessels. As a result, the Company classified this long-lived asset held for sale as Level 2.

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In accordance with the provisions of relevant guidance, long-lived assets held and used, namely M/T Miss Marilena, M/T Lichtenstein, M/T UACC Schams, M/T Britto and M/T Hongo, with a total carrying amount of \$211,384 were written down to a total fair value of \$164,792, resulting in an impairment charge of \$46,592, which was also included in the accompanying consolidated statement of comprehensive income/ (loss) for December 31, 2012 (see Note 4). The fair value of the impaired vessels was determined by a combination of market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to the Company's vessels, that determined the charter-free vessel value (level 2) and a charter valuation based on the Company's projections employing assumptions used by market participants (level 3). The Company has split its approach in two sections: (i) Charter-free value of the vessel. Charter-free value was determined from quotations from well respected brokers regarding vessels with similar characteristics with the vessels of the Company. This market approach was deemed more objective mainly due to the multitude of transactions of comparable assets in the active and liquid shipping S & P market. Valuation inputs from the market approach are considered Level 2 in the fair value hierarchy, since the Company uses a valuation derived from prices in observed transactions. (ii) Value of the charter. The valuation of the attached timecharter on three of the Company's impaired tankers entailed the discounting of the differential between the current long period timecharter for a similar vessel and the timecharter already attached to the vessel for the duration of the latter. The source of the current long period timecharter rates were third party independent shipbrokers. Apart from the long period timecharter rates, budgeted operating expenses and the discount rate that the Company used, there were no other assumptions used in the discounting model. The discount rate used by the Company took into account the cost of equity of the company, the country risk of the charterer's country and the default rate of the charterer. The operating expenses used were management estimates based on the management's experience in operating this type of vessel. The charter valuation, since it entails the use of judgments and assumptions, was individually considered a level 3 approach. However according to ASC 820-10-35-37 (Applying ASU 2011-04) if the level 3 part of the valuation is deemed insignificant (18.7% of the total value was derived from level 3 inputs) from the Company the prevailing level would be level 2, hence the Company characterized the valuation approach as a Level 2 in its entirety.

In accordance with the provisions ASC 360-10-35-44, long-lived assets previously classified as held for sale that were classified as held and used as of December 31, 2012 with a carrying amount of \$10,414 were valued at \$12,500, resulting in a write-up of \$2,086, which was included in the accompanying consolidated statement of comprehensive income/ (loss) for the year ended December 31, 2012 (see Note 4). According to the provisions of abovementioned guidance the Company measured (i) the carrying amount of the vessel before it was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the vessel been continuously classified as held and used and (ii) the fair value of the vessel on December 31, 2012, which was the date that the Company decided not to sell the asset. The Company determined that the lower value of the two above measurements was the fair value of the vessel on December 31, 2012 and used that as fair value. The fair value of the vessel on December 31, 2012 was determined based on a market approach, which consisted of quotations from well respected brokers regarding vessels with similar characteristics as compared to our vessels. As a result, the Company classified this long-lived asset held and used as Level 2.

The following tables summarize the valuation of our derivative financial instruments as of December 31, 2012 and 2013 respectively:

As of December 31, 2012	Fair Value Measurement at Reporting Date Using Quoted Prices in			
	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Interest rate swaps	\$5,811	-	\$5,811	-

As of December 31, 2013	Fair Value Measurement at Reporting Date Using Quoted Prices in			
	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Interest rate swaps	\$1,697	-	\$1,697	-

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The Company's interest rate swaps did not qualify for hedge accounting. The Company marks to market the fair market value of the interest rate swaps at the end of every period and reflects the resulting unrealized gain or loss during the period in "Gain / (loss) on derivative financial instruments" in its consolidated statement of comprehensive income/ (loss) as well as presents the fair value at the end of each period in the balance sheet. Information on the location and amounts of derivative fair values in the consolidated balance sheets and derivative losses in the consolidated statements of comprehensive income/(loss) are presented below:

Derivatives not designated as hedging instruments	Liability Derivatives					
	December 31, 2012		December 31, 2013			
	Balance Sheet		Balance Sheet		Balance Sheet	
	Location	Fair Value	Location	Fair Value	Location	Fair Value
	Current liabilities –		Current liabilities –		Non Current liabilities –	
Interest rate swaps	Derivative financial instruments	\$5,811	Derivative financial instruments	\$1,135	Derivative financial instruments	\$562
Total Derivatives not designated as hedging instruments		\$5,811		\$1,135		\$562

In year ended December 31, 2012 due to covenant breaches we classified all our derivative financial instruments as current (see Note 3).

Derivative Instruments not designated as hedging instruments	Location of Loss/(Gain) in Income	Loss/(Gain) on derivative financial instruments	Amount of Loss/(Gain) Recognized in Statement of Comprehensive Income/ (Loss)		
			December 31, 2011	December 31, 2012	December 31, 2013
Interest rate swaps			\$(2,835 )	\$(2,656 )	\$(2,313 )
Total Loss/(Gain) on Derivatives			\$(2,835 )	\$(2,656 )	\$(2,313 )

The Company has treated the Sovereign transaction as a freestanding financial instrument settled in the Company's common stock according to guidance under ASC 480-10 and as such the obligation is recognized in the balance sheet at fair value with changes in its fair value recorded in earnings. The Company didn't recognize an obligation deriving from the Sovereign financial instrument as of December 31, 2011 since the Company is not obliged in any way to issue shares further shares or draw down the remaining \$3 million under the Sovereign Transaction and has made no



commitment to Sovereign to do so. Hence the instrument was not valued and hence there were no changes in its fair value to be recorded in earnings. For the same reason, no changes in the Sovereign financial instrument's fair value were recorded in earnings during the year ended December 31, 2012. Finally the Company did not recognize an obligation deriving from the Sovereign financial instrument as of December 31, 2012 since the Sovereign financial instrument matured in August 25, 2012.

19. Gain on disposal of subsidiaries:

On October 16, 2013 the Company sold the shipowning subsidiaries which owned the six vessels of the Company's fleet (namely M/Ts Miss Marilena, Lichtenstein, UACC Shams, Britto, Hongbo and M/V Evian) to an affiliate of the AMCI Poseidon Fund LP, an unrelated party, for an aggregate cash consideration of \$173,000 less \$135,448 in net debt and swap obligations of the Shipowning companies that were assumed by the buyers. A gain from the disposal of subsidiaries of \$1,591 was recognized, which is included in the Company's consolidated statement of comprehensive income/ (loss).

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## 20. Other Non Current Liabilities

On October 1, 2010, the Company entered into a bareboat charter agreement to lease vessel M/T Delos until September 30, 2015 for a variable rate per year. On October 15, 2011 the Company terminated the bareboat charter agreement resulting in a termination expense of \$5,750 included in "Lease Termination Expense" in the accompanying consolidated statements of comprehensive income/(loss) for the year ended December 31, 2011. As of December 31, 2012, the outstanding amount of the termination fee was \$5,306 (see Note 8).

On January 1, 2013 the Company entered into an agreement with the owner of M/T Delos by which the termination fee outstanding as of December 31, 2012 was divided into two tranches, "Tranche A" (\$4,500) that bears interest of 3% plus Libor and "Tranche B" (\$806) that doesn't bear interest. This agreement provides for the repayment of Tranche A and Tranche B according to the following schedule.

Year ending December 31,	Tranche A of the Termination Fee	Tranche B of the Termination Fee
2014	800	
2015	800	
2016	800	
2017	1,500	806
	3,900	806

Finally, according to this agreement the Company pays monthly interest payments. As of December 31, 2013 the non-current part of the termination fee is \$3,906.

## 21. Subsequent Events

On February 6, 2014 the Company agreed to cancel the MOA that it had entered into on December 16, 2013 and entered into a new MOA to purchase another 50,000 dwt newbuilding product/chemical tanker with a time charter from an entity also affiliated with the Company's President, Chief Executive Officer and Director, Evangelos J. Pistiolis, scheduled for delivery from Hyundai Mipo Dockyard Co., Ltd. in May 2014. This cancellation didn't entail any penalties. The purchase price of the newbuilding is \$38,250 payable as follows: \$7,400 already paid on December 16, 2013 for the purchase of the vessel we agreed on in December 16, 2013, which as of December 31, 2013 is recorded under "Advances for Vessels Acquisitions" (see Note 5), \$3,500 payable in cash in February 2014 and \$27,350 payable in cash or shares at the Company's option on delivery of the vessel.

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