BIO IMAGING TECHNOLOGIES INC
Form 10-K
March 05, 2009

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008
Commission File No. 001-11182
BIO-IMAGING TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	11-2872047
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
826 Newtown-Yardley Road, Newtown, Pennsylvania	18940-1721
(Address of principal executive offices)	(Zip Code)

(267) 757-3000
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.00025 par value per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes: o No: þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes: o No: þ

Indicate by check mark if 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: þ No: o

Indicate by check mark if the registrant if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

	Non-accelerated filer o	Smaller reporting company þ

Large accelerated filer o	Accelerated filer o

(Do not check if a smaller reporting company)

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes: o No: þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was $85.3 million on June 30, 2008, the last business day of the Registrant s most recently completed second fiscal quarter, based on the average bid and asked prices on that date.

Indicate the number of shares outstanding of each of the Registrant s classes of common equity, as of February 28, 2009:

Class	Number of Shares
Common Stock, $.00025 par value	14,341,403

The following documents are incorporated by reference into the Annual Report on Form 10-K: Portions of the Registrant s definitive Proxy Statement for its 2009 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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PART I

Item 1. Business.

Overview

Bio-Imaging Technologies, Inc., referred to herein as we , us and our , is a global clinical trials service organization, providing medical image management and eClinical services, including electronic data capture and clinical data management solutions, to pharmaceutical, biotechnology and medical device companies and other organizations, including contract research organizations (CROs), engaged in clinical trials.

Our medical image management services assist our clients in the design and management of the medical imaging component of clinical trials. We have developed specialized services and proprietary software applications that enable independent radiologists and other medical specialists involved in clinical trials to review medical image data in an entirely digital format and make highly precise measurements and biostatistical inferences to evaluate the efficacy and safety of pharmaceuticals, biologics or medical devices. Medical imaging is used for clinical development of therapeutic modalities for use in oncology, disorders of the musculoskeletal, central nervous, cardiovascular systems, and in a variety of other disease categories.

Our core laboratory imaging services include the collection, processing, analysis and regulatory submission of medical images and related clinical data. Medical images are received from a wide variety of imaging modalities including computerized tomography (CT), magnetic resonance imaging (MRI), radiography, dual energy x-ray absorptiometry (DXA/DEXA), positron emission tomography (PET), single photon emission computerized tomography (SPECT), quantitative coronary angiography (QCA), cardiac MRI and CT, intravascular ultrasound (IVUS), peripheral quantitative angiography (QVA), central nervous system (CNS) MRI and ultrasound. The resulting data enables our clients and regulatory reviewers, primarily the U.S. Food and Drug Administration and comparable European agencies, to evaluate product efficacy and safety.

On March 24, 2008, we completed the acquisition of Phoenix Data Systems, referred to herein as PDS , a provider of electronic data capture (EDC) services offering a comprehensive array of eClinical data solutions to the pharmaceutical and biotechnology industries. PDS is engaged in providing full service EDC, a combination of electronic data capture, interactive voice response, reporting and data management solutions and is focused on making the process of collecting and analyzing data from clinical trials faster, easier and more reliable.

Our eClinical services offer a variety of customizable proprietary software solutions that enhance pharmaceutical and biotech companies ability to process and store clinical data through the use of customized proprietary software and hosting service. This technology improves data quality and allows our sponsors to see the results of their clinical trials faster and more accurately than with conventional paper-based methods.

On January 6, 2009, we sold our CapMed division to MBI Benefits, Inc., an indirectly owned subsidiary of Metavante Technologies, Inc. This division included the Personal Health Record (PHR) software and the patent-pending Personal HealthKey technology. The sale of CapMed enables us to focus on our core clinical trials services business.

We were incorporated in Delaware in 1987 under the name Wise Ventures, Inc. Our name was changed to Bio-Imaging Technologies, Inc. in 1991. The address of our principal executive offices is 826 Newtown-Yardley Road, Newtown, Pennsylvania, 18940, and our telephone number is 267-757-3000. Our Internet website is www.bioimaging.com. We make available on our Internet website all of our public filings with the Securities and Exchange Commission, or SEC. However, nothing on our Internet website is intended to be incorporated by

reference into this Form 10-K or any other filing made by us with the SEC. The public may read or copy any filings that Bio-Imaging, Technologies, Inc. files with the SEC at the SEC Public Reference Room at 100 F. Street, N.E., Washington, D.C. 20549. The SEC maintains an internet site that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC. The website is http://www.sec.gov. The public can also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Business Services

Medical Image Management Services

We are a leading provider of medical imaging management services for clinical development purposes. Our medical image management services assist our clients in the design and management of the medical imaging component of clinical trials for all modalities, which includes computerized tomography (CT), magnetic resonance imaging (MRI), radiography, dual energy x-ray absorptiometry (DXA/DEXA), positron emission tomography (PET), single photon emission computerized tomography (SPECT), quantitative coronary angiography (QCA), cardiac MRI and CT, intravascular ultrasound (IVUS), peripheral quantitative angiography (QVA), central nervous system (CNS) MRI and ultrasound. Our services include the processing and analysis of medical images and the regulatory submission of medical images and related quantitative data. Our imaging core laboratory facilities in the United States and Europe provide centralized image data collection, processing, analysis and archival services for clinical trials conducted worldwide. The facilities are designed for efficient and accurate high-volume processing of film and digital image data in a secure environment that complies with regulatory guidelines for clinical data management.

Medical image data are received by us from clinical trial sites located throughout the world. We have developed procedures for data tracking and quality control that we believe to be of significant value to our clients. Our facilities contain specialized hardware and software for the digitization of films and translation of digital data, enabling data to be standardized, regardless of its source. We believe our ability to handle most commercially available image file formats is a valuable technical asset and an important competitive advantage in gaining new business from large, global, multi-center clinical trials.

We have developed image analysis software to measure key indicators of drug efficacy in different organs and disease states. The results from image analysis derived in our facilities can be transmitted electronically to our clients for regulatory submission. In addition, clients can use our image analysis software to determine patient eligibility for their clinical trials.

Our information management services focus on providing specialized solutions for improving the quality, speed and flexibility of image data management for clinical trials. We believe that our computer assisted masked reading systems, (BioReadÔ systems), offer numerous advantages over conventional film-based medical image reading scenarios, including increased reading speed, greater standardization of image reading, and reduced error in the capture of reader interpretations.

Using our BioReadÔ systems, independent medical specialists can review medical image data from clinical trials in a digital format. The BioReadÔ systems display all modalities of medical image data, regardless of source equipment. In addition, the systems display either translated digital data or digitized films. Such image reviews are often required during clinical trials to evaluate patients responses to therapy or to determine if patients qualify for studies. By using the BioReadÔ systems to read and evaluate image data, medical specialists achieve greater reading speed than is possible with a manual film-based system and perform evaluations in a more objective, reproducible manner.

We have also developed remote BioReadÔ systems that are located on the premises, either home or office, of the individual medical specialists who are engaged by the sponsor to perform the analysis of the medical image data. Historically, the BioReadÔ systems have been utilized to determine efficacy of the compounds being studied. More recently, clients are requesting us to provide rapid turn-around reads for inclusion/exclusion criteria. We believe that the remote BioReadÔ system is the optimal tool for this work because it allows us, at our client s discretion, to provide the images to an expert in the field to facilitate the review of the images from the expert s office or home.

We provide technical consulting in the evaluation of the sites that may participate in clinical trials. We also provide consulting services to our client regarding regulatory issues involved in the design, execution, analysis and submission of medical image data in clinical trials.

eClinical Services

We offer electronic data capture (EDC) technology and data management services designed to offer our customers automation of time-consuming, paper-based clinical trial processes and to scale securely, reliably and cost-effectively for clinical trials involving substantial numbers of clinical sites and patients worldwide. Using our proprietary software, we can centrally collect and organize clinical data in electronic format. This technology improves data quality and allows our sponsors to see the results of their clinical trials faster than conventional paper-based methods. We design and build electronic case report forms (eCRF) with logic and data validation checks and programmatic queries for more accurate and reliable data. The eCRF is made available to each research site participating in the clinical trial via the Internet. The export feature of our software allows completed data and reports to be transmitted directly to a clinical trial sponsor s in-house database. This process allows research data to be collected quicker and with greater accuracy than with physical management of paper reports. In addition, our technology allows the sponsor to have complete and continuous access to their data at all times.

Our products are supported by comprehensive consulting and training services and application hosting and support capabilities. We offer customer and site support 24 hours per day, seven days per week via our call center.

We offer an IVR system that is integrated with electronic data capture technology for improved clinical trial management. Our system is extremely useful for obtaining mutilingual study subject randomization codes and can initiate call backs to issue reminders (such as patient visits) and integrate fully with the central database, for a full electronic data collection mechanism.

Target Markets

Our primary target market is comprised of global pharmaceutical, biotechnology and medical device companies with products currently in the clinical development pipeline.

We focus our marketing on the following stages of clinical development:

Phase I Clinical Trials

Phase I clinical trials are generally conducted over six to twelve months to determine drug safety, including how drugs should be administered, dose levels and potential side effects of exposing approximately five to 80 patients to the drug.

Phase II Clinical Trials

Phase II clinical trials are generally conducted over six months to two years and involve basic efficacy, safety and dose-range testing in approximately 50 to 400 patients suffering from the disease or condition under study. Such trials help determine the best effective dose, confirm that the drug works as expected, and provide initial safety data.

Phase III Clinical Trials

Phase III clinical trials are generally conducted over one to four years and involve efficacy and safety studies in broader populations of hundreds or thousands of patients and many investigational sites, such as hospitals and clinics. These trials are sometimes referred to as pivotal studies for submission to the regulatory agencies. Generally, Phase III studies are intended to provide additional information on drug safety and efficacy, and the evaluation of the risk-benefit of the drug and information for the adequate labeling of the product.

Phase IV Post Approval Studies

Phase IV studies are studies conducted after a pharmaceutical drug or device has been approved for use. These studies are generally conducted over a two to four year period and involve either a continuation of a Phase III patient population or the recruitment of a new patient population. As there continues to be pressure to expedite approval of pharmaceuticals and medical devices, there is an increase in the number of conditional approvals based on the conduct of additional Phase IV studies.

In addition, our experience spans a wide range of therapeutic areas with a concentration in the following for our medical image management services:

Cancer Therapeutics

Many pharmaceutical companies are currently developing new therapies for the treatment of cancer. For solid tumor studies, medical imaging modalities are used to determine the response of treated and untreated tumors. These medical images are evaluated by medical specialists during the course of oncology clinical trials to determine the extent of disease and changes in tumor size over time.

The FDA guidelines aimed at accelerating access to new drugs for the review and approval of new cancer therapies place greater emphasis on shrinkage of tumors as an early indicator of anti-tumor efficacy. We believe that these FDA guidelines may have a favorable impact on our business as pharmaceutical and biotechnology companies may have an increased need for regulatory-compliant medical imaging services to conduct their oncology clinical trials.

Musculoskeletal Therapeutics

Anti-inflammatory clinical trials, such as those focused on arthritis, include radiologic evaluation of the bones and joints to determine drug efficacy. We believe that demand among pharmaceutical companies for our services will increase as new classes of biotechnology-derived drugs enter and progress through the clinical development pipeline.

Osteoporosis is a disease characterized by diminished bone density, which leads to pathologic bone fractures in the elderly. The FDA guidance document for developing treatments for this disease recognized

DEXA as one of the primary efficacy and safety measurement tools available. Furthermore, all data needs to be processed by a quality assurance laboratory. This is now standard practice in all studies using DEXA instruments for assessing therapies for osteoporosis, oncology, obesity, or muscle wasting diseases.

Central Nervous System and Neurovascular Therapeutics

Many pharmaceutical companies are developing drugs for treatment of neurovascular diseases and conditions of the central nervous system, referred to as CNS, such as multiple sclerosis, infectious diseases that target the CNS, stroke and Alzheimer s disease. For many of these diseases, the diagnosis is largely dependent upon imaging, particularly MRI. We believe that the central nervous system clinical trials business may increase as more of these therapies progress through the research pipeline.

Cardiovascular Therapeutics

We provide our services to clients developing drugs and medical devices for the diagnosis and treatment of cardiovascular diseases and conditions that are evaluated with the aid of medical imaging. We offer various cardiovascular, quantitative, image-analysis services including: quantitative coronary angiography (QCA), cardiac MRI and CT, ultrasound, intravascular ultrasound (IVUS) and peripheral quantitative angiography (QVA). We have participated in numerous multinational trials for leading pharmaceutical, biotechnology and medical device companies throughout the world. As research continues to advance, our collective knowledge base of the underlying pathophysiology of cardiovascular disease will grow as well as the need for advanced imaging technology to be used in cardiovascular trials. For example, CT may be used to identify coronary calcifications, which are considered to be a predictor of cardiovascular risk. It follows that clinical trials involving therapeutic interventions targeting coronary calcifications will require imaging as an endpoint of efficacy.

Diagnostic Imaging Agents

We provide our services to clients developing diagnostic imaging agents that are designed to diagnose disease conditions more quickly and accurately in their development in order to facilitate earlier and more accurate treatment.

Intellectual Property

Proprietary intellectual property protection for our computer-imaging programs processes and expertise is important to our business. We have developed certain technically-derived procedures and computer software applications that are intended to increase the effectiveness and quality of our services. We rely upon patents, trademarks, copyrights, trade secrets, know-how and continuing technological innovation to develop and maintain our competitive position. We have claimed trademark protection for BioReadÔ and Intelligent ImagingÔ. We hold patents for the two DEXA phantoms, titled Spine and Variable Composition Phantoms, which we sell to trial sites. We have registered our Stylized Man Design with the U.S. Patent and Trademark Office. We cannot assure you that we can limit unauthorized or wrongful disclosures of trade secrets or otherwise confidential information. In addition, to the extent we rely on trade secrets and know-how to maintain our competitive technological position, we cannot assure you that others may not develop independently the same, similar or superior techniques. Although our intellectual property rights are important to the results of our operations, we believe that other factors, such as our independence, process knowledge, technical expertise and experience are more important, and that, overall, these technological capabilities offer significant benefits to our clients.

Government Regulation

It is our view that demand for our software products, services and hosted solutions is largely a function of

the regulatory requirements associated with the investigation and approval of drugs, biologics and medical devices, as well as the monitoring of and reporting on the safety of these products. The clinical testing of drugs, biologics and medical devices is subject to regulation by the U.S. Food and Drug Administration, or FDA, and other governmental authorities worldwide. The use of software and services during the clinical trial process must adhere to the regulations known as Good Clinical Practices and other various codified FDA regulations, and should adhere to regulatory guidance such as the Consolidated Guidance for Industry from the International Conference on Harmonization regarding Good Clinical Practice for Europe, Japan and the United States and other guidance documents. Our products, services and hosted solutions are developed using our domain expertise and are designed to allow compliance with applicable rules and regulations, and conformance with applicable guidance. The foregoing regulations and regulatory guidance are subject to change at any time. Changes in regulations and regulatory guidance to either more or less stringent conditions could adversely affect our business and the software products, services and hosted solutions we make available to our customers. Further, a material violation by us or our customers of Good Clinical Practices could result in a warning letter from the FDA, the suspension or termination of clinical trials, investigator disqualification, debarment, the rejection or withdrawal of a product marketing application, criminal prosecution or civil penalties, any of which could have a material adverse effect on our business, results of operations or financial condition.

In addition to the aforementioned regulations and regulatory guidance, the FDA has developed regulations and regulatory guidance concerning electronic records and electronic signatures. The regulations, codified as 21 CFR Part 11, are interpreted for clinical trials in a guidance document titled Computerized Systems Used in Clinical Trials. This regulatory guidance stipulates that computerized systems used to capture or manage clinical trial data must meet certain standards for attributability, accuracy, retrievability, traceability, inspectability, validity, security and dependability. Other guidance documents have been issued that also help in the interpretation of 21 CFR Part 11. We cannot assure you that the design of our software solutions, will continue to allow customers to maintain conformance with these guidelines as they develop. Any changes in applicable regulations that are inconsistent with the design of any of our software solutions or which reduce the overall level of record-keeping or other controls or performances of clinical trials, may have a material adverse effect on our business and operations. If we fail to offer solutions that allow our customers to comply with applicable regulations, it could result in the suspension or termination of on-going clinical trials, the disqualification of data for submission to regulatory authorities, or the withdrawal of approved marketing applications.

The FDA has established mandatory procedures and safety standards that apply to the clinical testing, manufacturing and marketing of drugs and medical devices. These procedures and safety standards include, among other things, the completion of adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug or device for its recommended conditions or use. We advise our clients in the execution of clinical trials and other drug and device development tasks. We do not administer drugs to or utilize medical devices on patients.

The success of our business is dependent upon continued acceptance by the FDA and other regulatory authorities of the data and analyses generated by our services in connection with the evaluation of the safety and efficacy of new drugs and devices. The FDA has formal guidelines that encourage the use of surrogate measures, through submission of digital image data, for evaluation of drugs to treat life-threatening or debilitating conditions. We cannot assure you that the FDA or other regulatory authorities will accept the data or analyses generated by us in the future and, even assuming acceptance, we cannot assure you that the FDA or other regulatory authorities will require the application of imaging techniques to numbers of patients and over time periods substantially similar to those required of traditional safety and efficacy techniques.

Changes in the FDA s policy for the evaluation of therapeutic oncology agents may have a positive impact on the time to market of such therapeutics. According to FDA guidelines, approval times for new cancer

therapies can be shortened if evidence of tumor shrinkage is verifiable and demonstrable through the use of objective measurement techniques. These guidelines place greater reliance on the use of medical image data to demonstrate objective tumor shrinkage. In addition, the FDA has implemented guidelines aimed at accelerating other therapeutic categories through the use of imaging markers as surrogate endpoints for measuring therapeutic effectiveness. We believe the FDA s initiatives to streamline and accelerate the submission and review process of therapeutic agents has had a favorable impact on our business.

We believe that our ability to achieve continued and sustainable growth will be materially dependent upon, among other factors, the continued stringent enforcement of the comprehensive regulatory framework by various government agencies. Any significant change in these regulatory requirements or the enforcement thereof, especially relaxation of standards, could adversely affect our business.

The current European market regulation is more fragmented than in the United States. However, we believe that our expertise in working with the standards of the FDA provides us with experience when working with the various European regulatory agencies.

Competition

The market for medical image management, electronic data collection, data management and other clinical trial services is highly competitive and rapidly evolving. Our imaging services primarily compete against specialty contract research organizations, or CROs, and to a lesser extent, universities and teaching hospitals. Our eClinical Services competes with internally developed solutions, CRO s, and independent providers of such services. Certain of these competitors are owned by or are divisions of larger organizations, some of which have substantially greater resources than we do. As competition increases, we will look to provide value-added services and undertake marketing and sales programs to differentiate our services based on our expertise and experience in specific therapeutic and diagnostic areas, our technical expertise, our regulatory and clinical development experience, our quality performance and our international capabilities. Our competitive position also depends upon our ability to attract and retain qualified personnel and develop and preserve proprietary technology, processes and know-how. Competition in our industry has resulted in additional pressure being placed on price, service and quality. Although we believe that we are well positioned against our competitors due to our experience in clinical trials and regulatory compliance along with our international presence, we cannot assure you that our competitors or clients will not provide or develop services similar or superior to those provided by us. This competition could have a material adverse impact on us.

Marketing and Sales

We provide and market our services on an international basis primarily to pharmaceutical, biotechnology and medical device companies. We sell our products through a direct sales force and through relationships with CROs. Our direct sales force is operated out of two U.S. field offices and two European field offices, as well as our operational facilities in Pennsylvania and Leiden, The Netherlands. In addition, follow-on sales are accomplished by the efforts of sales professionals, project managers and other consulting services professionals.

Our selling efforts are primarily focused on North America and Western Europe. Our marketing activities include exhibiting at major trade shows, advertising in trade journals and the sponsoring of industry associations. As of December 31, 2008, we had 38 employees in sales and marketing.

Significant Clients

No one client represented more than 10% of our service revenues for the year ended December 31, 2008,

while for the year ended December 31, 2007, one client, Hoffmann-La Roche, which encompassed 11 projects, accounted for 13.4% of our service revenues. For the year ended December 31, 2006, one client, Novartis Pharmaceuticals, Inc., which encompassed 14 projects, accounted for 10.9% of our service revenues. These contracts are terminable by our client at any time and for any reason. The loss of a significant client, or a reduction in services provided to a significant client, would have a material adverse effect on our business, financial condition and results of operations.

Business Segments and Geographic Information

We view our operations and manage our business as one operating segment, clinical trials services.

Our corporate headquarters and operational facilities are in Pennsylvania, in the United States. We also have a European facility in Leiden, the Netherlands. We manage our services for European-based clinical trials from this facility. Our European facility has similar processing and analysis capabilities as our United States headquarters. We also have a facility in Lyon, France that provides product development and research activities.

Employees

As of December 31, 2008, we had 474 employees, four of whom were executive officers.

Of our employees, as of December 31, 2008, 38 were engaged in sales and marketing, 387 were engaged in client-related projects and 49 were engaged in administration and management. A significant number of our management and professional employees have prior industry experience. We believe that we have been successful in attracting skilled and experienced personnel; however, it remains a competitive market for recruiting such personnel. As of February 28, 2009, we have employment agreements with two of our executive officers. See Item 11. Executive Compensation . We consider relations with our employees to be good.

Item 1A. Risk Factors.

The more prominent risks and uncertainties inherent in our business are described below. However, additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. Investing in our common stock involves a high degree of risk. Any of the following factors could harm our business and future results of operations and you could lose all or part of your investment.

Risks Related to Our Company and Business

We may incur financial losses because contracts may be delayed or terminated or reduced in scope for reasons beyond our control.

Our clients may terminate or delay their contracts for a variety of reasons, including, but not limited to:

unexpected or undesired clinical results;

the client s decision to terminate the development of a particular product or to end a particular study;

insufficient patient enrollment in a study;

insufficient investigator recruitment;

failure to perform our obligations under the contract; or

the failure of products to satisfy safety requirements.

In addition, we believe that FDA-regulated companies may proceed with fewer clinical trials or conduct them without assistance of contract service organizations if they are trying to reduce costs as a result of cost containment pressures associated with healthcare reform, budgetary limits or changing priorities. These factors may cause such companies to cancel contracts with contract service organizations.

We cannot assure you that our clients will continue to use our services or that we will be able to replace, in a timely or effective manner, departing clients with new clients that generate comparable revenues. Further, we cannot assure you that our clients will continue to generate consistent amounts of revenues over time.

The loss, reduction in scope or delay of a large contract or the loss or delay of multiple contracts could materially adversely affect our business, although our contracts entitle us to receive all fees earned up to the time of termination.

The current economic downturn may adversely impact our ability to raise capital.

The recent economic downturn and adverse conditions in the national and global markets may negatively affect our operations in the future. The falling equity markets and adverse credit markets may make it difficult for us to raise capital or procure credit in the future to fund the growth of our business, which could have a negative impact on our business and results of operations and limit our ability to pursue acquisitions.

We depend on a small number of industries and clients for all of our business, and the loss of one such significant client could cause revenues to drop quickly and unexpectedly.

We depend on research and development expenditures by pharmaceutical, biotechnology and medical device companies to sustain our business. Our operations could be materially and adversely affected if:

our clients businesses experience financial problems or are affected by a general economic downturn;

consolidation in the pharmaceutical, biotechnology or medical device industries leads to a smaller client base for us; or

clients reduce their research and development expenditures.

No one client represented more than 10% of our service revenues for the year ended December 31, 2008, while for the comparable period last year, one client, Hoffmann-La Roche, which encompassed 11 projects, represented 13.4% of our service revenues for the year ended December 31, 2007. The loss of business from a significant client or our failure to continue to obtain new business to replace completed or canceled projects would have a material adverse effect on our business and revenues.

Our contracted/committed backlog may not be indicative of future results.

Our reported contracted/committed backlog of $92.7 million at December 31, 2008 is based on anticipated service revenue from uncompleted projects with clients. Backlog is the expected service revenue that remains to be earned and recognized on signed and verbally agreed to contracts. Contracts included in backlog are subject to termination by our clients at any time. In the event that a client cancels a contract, we would be entitled to receive payment for all services performed up to the cancellation date and subsequent client authorized services related to the cancellation of the project. The duration of the projects included in our backlog range from less than three months to seven years. We cannot assure that this backlog will be indicative of future results. A number of factors may affect backlog, including:

the variable size and duration of the projects (some are performed over several years);

the loss or delay of projects;

the change in the scope of work during the course of a project; and

the cancellation of such contracts by our clients.

Also, if clients delay projects, the projects will remain in backlog, but will not generate revenue at the rate originally expected. Accordingly, the historical relationship of backlog to revenues may not be indicative of future results.

We recently acquired Phoenix Data Systems, Inc. and may engage in future acquisitions, which may be expensive and time consuming, and from which we may not realize anticipated benefits.

We recently acquired Phoenix Data Systems Inc. (PDS) and may acquire additional businesses, technologies and products if we determine that these additional businesses, technologies and products complement our existing business, or otherwise serve our strategic goals. Either as a result of the acquisition of PDS or future acquisitions undertaken, the process of integrating the acquired business, technology or product may result in operating difficulties and expenditures, and may absorb significant management attention that would otherwise be available for ongoing development of our business. Moreover, we may never realize the anticipated benefits of any such acquisition. Such acquisitions could result in potentially dilutive issuances of our securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets, all of which could adversely affect our results of operations and financial condition.

Loss of key personnel, or failure to attract and retain additional personnel, may cause the success and growth of our business to suffer.

Future success depends on the personal efforts and abilities of the principal members of our senior management to provide strategic direction, develop business, manage operations and maintain a cohesive and stable environment. Specifically, we are dependent upon Mark L. Weinstein, President and Chief Executive Officer, Ted I. Kaminer, Executive Vice President of Finance and Administration and Chief Financial Officer, David A. Pitler, Executive Vice President, Bio-Imaging Services and Peter Benton, Executive Vice President, eClinical. Although we have employment agreements with Mr. Weinstein, Mr. Kaminer and Mr. Benton, this does not necessarily mean that they will remain with us. Although we have executive retention agreements with our officers, we do not have employment agreements with any other key personnel. Furthermore, our performance also depends on our ability to attract and retain management and qualified professional and technical operating staff. Competition for these skilled personnel is intense. The loss of services of any key executive, or inability to continue to attract and retain qualified staff, could have a material adverse effect on our business, results of operations and financial condition. We do not maintain any key employee insurance on any of our executives.

Our revenues, earnings and operating costs are exposed to exchange rate fluctuations.

During fiscal 2008, a portion of our service revenues were denominated in foreign currency. Our financial statements are denominated in United States dollars. In the event a greater portion of our service revenues are denominated in a foreign currency, changes in foreign currency exchange rates could affect our results of operations and financial condition. Fluctuations in foreign currency exchange rates could materially impact the operating costs of our European facility in Leiden, the Netherlands, which are primarily Euro denominated. We hedge our foreign currency exposure when and as appropriate to mitigate the adverse impact of fluctuating exchange rates.

Our investments may be exposed to credit risk.

Financial instruments that potentially subject us to significant credit risk consist principally of cash. As part of our risk management processes, we continuously evaluate the relative credit standing of all of the financial institutions that service us and monitor actual exposures versus established limits. We have not sustained credit losses from instruments held at financial institutions. We maintain cash and cash equivalents, comprised of savings accounts, short-term certificate of deposits and money market funds with various financial institutions. These financial institutions are generally highly rated and the company has a policy to limit the dollar amount of credit exposure with any one institution.

We may be required to record additional significant charges to earnings if our goodwill becomes impaired.

Under accounting principles generally accepted in the United States, we review our goodwill for impairment each year as of December 31 and when events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of our goodwill may not be recoverable due to factors such as a decline in stock price and market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. Estimates of future cash flows are based on an updated long-term financial outlook of our operations. However, actual performance in the near-term or long-term could be materially different from these forecasts, which could impact future estimates. For example, a significant decline in our stock price and/or market capitalization may result in impairment of our goodwill valuation. We may be required to record a charge to earnings in our financial statements during a period in which an impairment of our goodwill is determined to exist, which may negatively impact our results of operations.

Risks Related to Our Industry

Our failure to compete effectively in our industry could cause our revenues to decline.

Significant factors in determining whether we will be able to compete successfully include:

consultative and clinical trials design capabilities;

reputation for on-time quality performance;

expertise and experience in specific therapeutic areas;

the scope of service offerings;

strength in various geographic markets;

the price of services;

ability to acquire, process, analyze and report data in a time-saving and accurate manner;

ability to manage large-scale clinical trials both domestically and internationally;

our size; and

the service and product offerings of our competitors.

If our services are not competitive based on these or other factors, our business, financial condition and results of operations could be materially harmed.

The biopharmaceutical services industry is highly competitive, and we face numerous competitors in our business, including hundreds of contract research organizations. If we fail to compete effectively, we will lose clients, which would cause our business to suffer. We primarily compete against in-house departments of pharmaceutical companies, full service contract research organizations, (CROs), small specialty CROs, and to a lesser extent, universities and teaching hospitals. Some of these competitors have substantially greater capital, technical and other resources than we do. In addition, certain of our competitors that are smaller specialized companies may compete effectively against us because of their concentrated size and focus.

Changes in outsourcing trends in the pharmaceutical and biotechnology industries could adversely affect our operating results and growth rate.

Service revenues depend greatly on the expenditures made by the pharmaceutical and biotechnology industries in research and development. Accordingly, economic factors and industry trends that affect our clients in these industries also affect our business. For example, the practice of many companies in these industries has been to hire outside organizations like us to conduct clinical research projects. This practice has grown significantly in the last decade, and we have benefited from this trend. However, if this trend were to change and companies in these industries were to reduce the number of research and development projects they outsource, our business could be materially adversely affected.

Additionally, numerous governments have undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and pharmaceutical companies. If future regulatory cost containment efforts limit the profits that can be derived from new drug sales, our clients might reduce their research and development spending, which could reduce our business.

Consolidation among our customers could cause us to lose customers, decrease the market for our products and result in a reduction of our revenues.

Our customer base could decline because of industry consolidation, and we may not be able to expand sales of our products and services to new customers. Consolidation in the pharmaceutical, biotechnology and medical device industries has accelerated in recent years, and we expect this trend to continue. As these industries consolidate, competition to provide products and services to industry participants will become more intense and the importance of establishing relationships with large industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our products and services. Also, if consolidation of larger current customers occurs, the combined organization may represent a larger percentage of business for us and, as a result, we are likely to rely more significantly on the combined organization s revenues to continue to achieve growth.

The current economic downturn coupled with the current regulatory environment could have a negative impact on the pharmaceutical, biotechnology and medical device industries.

The recent economic downturn and adverse conditions in the national and global markets may negatively affect our operations in the future. Our revenues are contingent upon the research and development expenditures by pharmaceutical, biotechnology and medical device companies. Some companies in these industries have found it difficult to raise capital in the equity and debt markets or through traditional credit markets to fund research and development. In addition, increased regulatory scrutiny from the FDA may have increased the costs of research and development for these companies. These companies have responded to the general economic downturn and regulatory environment, by postponing, attenuating or cancelling clinical trials projects, or portions thereof, which may reduce the need for our services. As a result, our revenues may be similarly decreased. Furthermore, while our revenues may decrease, our costs may remain relatively fixed, resulting in decreased earnings.

Failure to comply with existing regulations could result in increased costs to complete clinical trials.

Our business is subject to numerous governmental regulations, primarily relating to pharmaceutical product development and the conduct of clinical trials. In particular, we are subject to 21 CFR Part 11 of the Code of Federal Regulations that provides the criteria for acceptance by the FDA of electronic records. If we fail to comply with these governmental regulations, it could result in the termination of ongoing clinical research or the disqualification of data for submission to regulatory authorities. We also could be barred from providing clinical

trial services in the future or be subjected to fines. Any of these consequences would harm our reputation, our prospects for future work and our operating results.

Changes in governmental regulation could decrease the need for the services we provide, which would negatively affect our future business opportunities.

In recent years, the United States Congress and state legislatures have considered various types of healthcare reform in order to control growing healthcare costs. The United States Congress and state legislatures may again address healthcare reform in the future. We are unable to predict what legislative proposals will be adopted in the future, if any. Similar reform movements have occurred in Europe and Asia.

Implementation of healthcare reform legislation that results in additional costs could limit the profits that can be made by clients from the development of new products. This could adversely affect our clients research and development expenditures, which could, in turn, decrease the business opportunities available to us both in the United States and abroad. In addition, new laws or regulations may create a risk of liability, increase costs or limit service offerings. We cannot predict the likelihood of any of these events.

In addition to healthcare reform proposals, the expansion of managed care organizations in the healthcare market may result in reduced spending on research and development. Managed care organizations efforts to cut costs by limiting expenditures on pharmaceuticals and medical devices could result in pharmaceutical, biotechnology and medical device companies spending less on research and development. If this were to occur, we would have fewer business opportunities and our revenues could decrease, possibly materially.

Governmental agencies throughout the world, but particularly in the United States, strictly regulate the drug development/approval process. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as relaxation in regulatory requirements or the introduction of simplified drug approval procedures or an increase in regulatory requirements that we may have difficulty satisfying could eliminate or substantially reduce the need for our services. If these changes in regulations were to occur, our business, results of operations and financial condition could be materially adversely affected. These and other changes in regulation could have a material adverse impact on our available business opportunities.

If governmental agencies do not accept the data and analyses generated by our services, the need for our services would be eliminated or substantially reduced.

The success of our business is dependent upon continued acceptance by the FDA and other regulatory authorities of the data and analyses generated by our services in connection with the evaluation of the safety and efficacy of new drugs and devices. The FDA has formal guidelines that encourage the use of surrogate measures through submission of digital image data, for evaluation of drugs to treat life-threatening or debilitating conditions. We cannot assure you that the FDA or other regulatory authorities will accept the data or analyses generated by us in the future and, even assuming acceptance, the FDA or other regulatory authorities may not require the application of imaging techniques to the number of patients and over time periods substantially similar to those required of traditional safety and efficacy techniques. If the governmental agencies do not accept data and analyses generated by our services in connection with the evaluation of new drugs and devices, the need for our services would be eliminated or substantially reduced, and, as a result, our business, results of operations and financial condition could be materially adversely affected.

We may be exposed to liability claims as a result of our involvement in clinical trials.

We may be exposed to liability claims as a result of our involvement in clinical trials. We cannot assure you that liability claims will not be asserted against us as a result of work performed for our clients. We maintain liability insurance coverage in amounts that we believe are sufficient for the pharmaceutical services industry. Furthermore, we cannot assure you that our clients will agree to indemnify us, or that we will have sufficient insurance to satisfy any such liability claims. If a claim is brought against us and the outcome is unfavorable to us, such outcome could have a material adverse impact on us.

Risks Related to Our Common Stock

Your percentage ownership and voting power and the price of our common stock may decrease as a result of events that increase the number of our outstanding shares.

As of December 31, 2008, we had the following capital structure (in thousands):

Common stock outstanding	14,341
Common stock issuable upon:	
Exercise of options which are outstanding	1,718
Exercise of options which have not been granted	1,133
Total common stock outstanding assuming exercise or conversion of all of the above	17,192

As of December 31, 2008, we had outstanding options to purchase 1,718,173 shares of common stock at exercise prices ranging from $0.63 to $8.06 per share (exercisable at a weighted average of $4.58 per share), of which 1,176,843 options were then exercisable. Exercise of our outstanding options into shares of our common stock may significantly and negatively affect the market price for our common stock as well as decrease your percentage ownership and voting power. In addition, we may conduct future offerings of our common stock or other securities with rights to convert the securities into shares of our common stock. As a result of these and other events, such as future acquisitions, that increase the number of our outstanding shares, your percentage ownership and voting power and the price of our common stock may decrease.

Shares of our common stock eligible for public sale may have a negative impact on its market price.

Future sales of shares of our common stock by existing holders of our common stock or by holders of outstanding options, upon the exercise thereof, could have a negative impact on the market price of our common stock. As of December 31, 2008, we had 14.3 million shares of our common stock issued and outstanding, substantially all of which are currently freely tradable. In addition, the sale of a significant number of shares of our common stock in the public market following the effectiveness of the registration statement we recently filed to register shares issued in connection with our acquisition of PDS could harm the market price of our common stock. As additional shares of common stock become available for resale in the public market pursuant to the registration statement and releases of lock-up agreements, the market supply of shares of common stock will increase, which could also decrease its market price.

We are unable to estimate the number of shares that may be sold because this will depend on the market price for our common stock, the personal circumstances of the sellers and other factors. Any sale of substantial amounts of our common stock or other securities in the open market may adversely affect the market price of the securities offered hereby and may adversely affect our ability to obtain future financing in the capital markets as well as create a potential market overhang.

There are a limited number of stockholders who have significant control over our common stock, allowing them to have significant influence over the outcome of all matters submitted to our stockholders for approval, which may conflict with our interests and the interests of our other stockholders.

Our directors, officers and principal stockholders (stockholders owning 10% or more of our common stock), including Covance Inc., beneficially owned 23.9% of the outstanding shares of common stock and stock options that could have been converted to common stock at December 31, 2008, and such stockholders will have significant influence over the outcome of all matters submitted to our stockholders for approval, including the election of our directors and other corporate actions. In addition, such influence by these affiliates could have the effect of discouraging others from attempting to take us over, thereby increasing the likelihood that the market price of the common stock will not reflect a premium for control.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance further research and development and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Trading in our common stock may be volatile, which may result in substantial declines in its market price.

The market price of our common stock has experienced historical volatility and might continue to experience volatility in the future in response to quarter-to-quarter variations in:

operating results;

analysts reports;

market conditions in the industry;

changes in governmental regulations; and

changes in general conditions in the economy or the financial markets.

The overall market (including the market for our common stock) has also experienced significant decreases in value in the past. This volatility and potential market decline could affect the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and may adversely affect the price of our common stock. Between January 1, 2008 and December 31, 2008, our common stock has traded at a low of $2.15 per share and a high of $8.98 per share. Between January 1, 2009 and February 28, 2009, our common stock has traded at a low of $2.96 per share and a high of $3.72 per share.

Our common stock began trading on the NASDAQ Global Market, formerly called the NASDAQ National Market, on December 18, 2003 and has a limited trading market. We cannot assure that an active trading market will develop or, if developed, will be maintained. As a result, our stockholders may find it difficult to dispose of shares of our common stock and, as a result, may suffer a loss of all or a substantial portion of their investment.

Certain provisions of our charter and Delaware law could make a takeover difficult and may prevent or frustrate attempts by our stockholders to replace or remove our management team.

We have an authorized class of 3,000,000 shares of undesignated preferred stock, of which 1,250,000 shares were previously issued and converted to common stock. The remaining 1,750,000 shares may be issued by our board of directors, on such terms and with such rights, preferences and designation as the board of directors may determine. Issuance of such preferred stock, depending upon the rights, preferences and designations thereof, may have the effect of delaying, deterring or preventing a change in control of our company. In addition, we are subject to provisions of Delaware corporate law which, subject to certain exceptions, will prohibit us from engaging in any business combination with a person who, together with affiliates and associates, owns 15% or more of our common stock for a period of three years following the date that the person came to own 15% or more of our common stock, unless the business combination is approved in a prescribed manner.

These provisions of our certificate of incorporation, and of Delaware law, may have the effect of delaying, deterring or preventing a change in control of our company, may discourage bids for our common stock at a premium over market price and may adversely affect the market price, and the voting and other rights of the holders, of our common stock. In addition, these provisions make it more difficult to replace or remove our current management team in the event our stockholders believe this would be in the best interest of our company and our stockholders.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease 58,700 square feet of office space located in Newtown, Pennsylvania. This lease expires December 2018 and provides for a fixed base rent of $95,350 per month with an annual inflation increase. We lease 9,300 square feet of additional office space located in Newtown, Pennsylvania for $8,500 per month in base rent, which expires May 2014. We also lease 34,275 square feet of office space in King of Prussia, Pennsylvania for $55,884 per month in base rent, which expires January 31, 2010. In addition, we lease 23,750 square feet of office space in Leiden, the Netherlands and another 6,265 square feet in Lyon, France. These leases are denominated in the Euro and expire in April 2013 and May 2017, respectively. The base rent for the Netherlands is $45,400 per month and Lyon s base rent is $12,600, based upon the conversion rate as of December 31, 2008, with an annual inflation increase. We periodically review our office space requirements and may increase the amount of office space we lease as needed.

Item 3. Legal Proceedings.

In the normal course of business, we may be a party to legal proceedings. We are not currently a party to any material legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock began trading on the NASDAQ Global Market, formerly called the NASDAQ National Market, on December 18, 2003 under the symbol BITI . Prior to listing on the NASDAQ Global Market, our common stock was traded on the American Stock Exchange under the symbol BIT from February 25, 2003 until December 18, 2003. Our common stock was quoted on the NASD OTC Bulletin Board under the symbol BITI prior to being listed on the American Stock Exchange.

The following table sets forth the high and low bid quotations for our common stock as reported on the NASDAQ Global Market for each full quarterly period within the two most recent fiscal years. Such quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Quarter Ended	Common Stock High	Low
March 31, 2007	9.40	5.84
June 30, 2007	7.45	5.75
September 30, 2007	8.00	6.03
December 31, 2007	9.95	6.83
March 31, 2008	8.98	6.57
June 30, 2008	8.20	6.18
September 30, 2008	8.00	6.48
December 31, 2008	7.58	2.15

As of February 28, 2009, the number of holders of record of our common stock was 90 and the approximate number of beneficial holders of our common stock was 1,700.

On March 24, 2008, we acquired Phoenix Data Systems Inc. (PDS) to expand our pharmaceutical services in the area of electronic data capture and other eClinical data solutions to our clients. Under the terms of the Merger Agreement, the Company acquired all of PDS s outstanding capital stock. The total consideration paid by the Company, adjusted for a decrease to Tangible Net Worth of $64,000 in cash as described below, to PDS s stockholders was $23.9 million, comprised of $6.9 million in cash and 2.3 million shares of common stock, par value $0.00025 per share, of the Company, with an average closing price per share over the last 30 trading days ending and including March 19, 2008 of $7.42 (Common Stock). The aggregate purchase price was subject to a post-closing adjustment based on the Tangible Net Worth (as defined in the Merger Agreement) of PDS on the Closing Date (as defined in the Merger Agreement). Pursuant to the terms of the Merger Agreement, five percent of the aggregate consideration was held in escrow for the finalization of the Closing Tangible Net Worth Statement (as defined in the Merger Agreement). On June 13, 2008, Bio-Imaging and the Stockholders Representative agreed to a decrease of $230,000 to the purchase price due to the minimum threshold to the Closing Tangible Net Worth Statement not being achieved. Bio-Imaging received $64,000 in cash back in June 2008 and 22,453 shares of our common stock back in July 2008 from the purchase price escrow. Additionally, ten percent of the aggregate consideration is to be held in escrow to cover any potential indemnification claims under the Merger Agreement for a period ending no later than March 31, 2009. We also incurred approximately $1.1 million in acquisition costs. At the acquisition date, the stock was recorded at an average price of $7.04 per share.

On February 6, 2007, we acquired 100% of the outstanding securities of Theralys S.A., a company headquartered in Lyon, France to expand our therapeutic expertise in the Central Nervous System and Neurovascular areas. The aggregate purchase price was 2,958,000 Euros ($3,853,000 as determined by an agreed upon exchange rate), of which 2,375,000 Euros ($3,093,000) was paid in cash and $760,000 in value was paid with 93,000 shares of our common stock. We also incurred approximately $615,000 in acquisition costs.

On February 26, 2008, in connection with his employment agreement dated March 1, 2006, we issued 16,335 shares of restricted stock to our President and Chief Executive Officer, which was net of 11,165 shares withheld for withholding taxes associated with the issuance of the shares.

We believe that the issuance of the foregoing securities was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving a public offering. Each of the recipients were sophisticated or accredited investors, acquired the securities for investment purposes only and not with a view to distribution and had adequate information about our company.

We have neither paid nor declared dividends on our common stock since our inception and do not plan to pay dividends on our common stock in the foreseeable future. We expect that any earnings which we may realize will is guaranteed by the lender and the Company has no repayment obligation during the five year term. Amounts borrowed under the 2005 Credit Facility bear interest at an annual rate equal to LIBOR plus a margin between 0.7% and 1.2% (depending on the loan to vessel value ratio). We are obligated to pay a commitment fee of 30% of the applicable margin on any undrawn amounts. In September 2006, we increased our 2005 Credit Facility to $500 million; the other material terms of the 2005 Credit Facility were not amended. At December 31, 2006 we have drawn $173.5 million from this facility. Borrowings under the 2005 Credit Facility are secured by mortgages over our existing and new vessels and assignments of earnings and insurances, and drawings will be available subject to loan to vessel value ratios. We are subject to mandatory prepayment upon the occurrence of certain events. The terms and conditions of the 2005 Credit Facility require compliance with certain restrictive covenants, which we feel are consistent with loan facilities incurred by other shipping companies. Under the 2005 Credit Facility, we are, among other things, required to: o maintain certain loan to vessel value ratios, o maintain a book equity of no less than $150.0 million, o remain listed on a recognized stock exchange, and o obtain the consent of the lenders prior to creating liens on or disposing of our vessels. The 2005 Credit Facility provides that we may not pay dividends if following such payment we would not be in compliance with certain financial covenants or there is a default under the 2005 Credit Facility. YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005 Cash flows provided by operating activities increased by 109.7% in fiscal year 2006 to $107.1 million from $51.1 million in fiscal year 2005 primarily due to the addition of four vessels as described above. Cash flows provided by financing activities decreased 8.1% in fiscal year 2006 to $208.2 million compared to $226.6 million in fiscal year 2005. The net decrease was attributable to (i) proceeds from two follow-on offerings of $288.3 million, (ii) net proceeds from drawdowns under the 2005 Credit Facility of $43.5 million offset by (iii) dividends paid of $122.6 million, and (iv) the payment of credit facility costs of $0.6 million related to the increase in the 2005 Credit Facility from $300 million to $500 million. Cash flows used in investing activities increased by 8.0% in fiscal year 2006 to $317.8 million compared to $294.1 million in fiscal year 2005. The increase was primarily due to higher vessel acquisition costs in fiscal year 2006 compared to fiscal year 2005. In March 2006, the Company sold 4,297,500 shares (including the over-allotment) in a public offering in the U.S. to repay outstanding debt and to finance the acquisition of the ninth vessel that was delivered to us in April 2006. The offering was priced at $28.50 per share, and net proceeds to the Company were $115.2 million. In October 2006, the Company sold 5,750,000 shares (including the over-allotment) in a public offering in the U.S. to partly finance the acquisition of the tenth, eleventh and twelfth vessels that were delivered to us in November 2006 and December 2006. The offering was priced at $32.00 per share, and net proceeds to the Company were $173.1 million. The Company believes that its borrowing capacity under the 2005 Credit Facility, together with its working capital, are sufficient to fund its ongoing operations and commitment for capital expenditures. YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004 Cash flows provided by operating activities decreased by 18.7% in 2005 to $51.1 million compared to $62.8 million in 2004 primarily derived from the growth of the Company as described above. Cash flow provided from financing activities was $226.6 million for 2005 compared to $33.5 million for the same period in 2004. The increase was due to (i) increase in proceeds from 2004 to 2005 of $49.8

million from a follow-on offering, (ii) increase from 2004 to 2005 in net proceeds from the drawdown of the credit facility of $160.0 million, offset by (iii) increased dividends paid from 2004 to 2005 of $17.1 million and (iv) decrease from 2004 to 2005 in payment of loan facility costs of $0.4 million in respect of our $300 million Credit Facility. Cash flow used in investing activities increased by 344.7% in 2005 to $294.2 million compared to $66.1 million in 2004. The increase represents the acquisition costs of the four vessels acquired during 2005. C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC. Not applicable D. TREND INFORMATION The oil tanker industry has been highly cyclical, experiencing volatility in charterhire rates and vessel values resulting from changes in the supply of and demand for crude oil and tanker capacity. See Item 4. Information on the Company - Business Overview - The Tanker Market 2006. E. OFF BALANCE SHEET ARRANGEMENTS We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationship with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of capital resources. F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS As of December 31, 2006 significant contractual obligations consisted of our obligations as borrower under our 2005 Credit Facility and our obligations under the Management Agreement with Scandic American Shipping Ltd. The following table sets out long-term financial and other commercial obligations outstanding as of December 31, 2006 (all figures in USD '000) Payment Due by Period: 2008 2011 2014 Contractual Obligations Total 2007 -2010 -2013 -2019 ---------- ----- ---- ----- ----- ----- Credit Facility (1) 173,500 0 173,500 0 0 Interest Payments (2) 35,994 9,710 26,284 0 0 Commitment Fees (3) 2,577 695 1,882 0 0 Management Fees (4) 3,463 163 675 675 1,950 Total 215,534 10,568 202,341 675 1,950 Notes: (1) Refers to our obligation to repay indebtedness outstanding as of December 31, 2006. (2) Refers to estimated interest payments over the term of the indebtedness outstanding as of December 31, 2006 assuming a weighted average interest rate of 5.52% per annum. (3) Refers to estimated committment fees over the term of the indebtedness outstanding as of December 31, 2006. (4) Refers to the management fees payable to Scandic American Shipping Ltd. under the Management Agreement with the Manager. CRITICAL ACCOUNTING ESTIMATES We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP). Following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application. For a further description of our material accounting policies, please read Item 18 - Financial Statements-- Note 1 - Summary of Significant Accounting Policies. Revenue recognition We generate a majority of our revenues from vessels operating in pools and from spot charters. Within the shipping industry, the two methods used to account for voyage revenues and expenses are the percentage of completion and the completed voyage methods. Most shipping companies, including our pool managers and spot charter managers are using the percentage of completion method. In applying the percentage of completion method, we believe that in most cases the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, whereas at the time of loading we are normally less certain what the next load port will be. If actual results are not consistent with our estimates in applying the percentage of completion method, our revenues could be overstated or understated for any given period by the amount of such difference. Long-lived assets and impairment A significant part of the Company's total assets consists of our vessels. The oil tanker market is highly cyclical and the useful lives of our vessels are principally dependent on the technical condition of our vessels and other factors, such as future market demand for oil and future market supply of tanker capacity. Our vessels are evaluated for impairment whenever indicators of impairment exist. When an impairment indicator is present, the Company must evaluate whether the carrying amounts of the vessels are recoverable. If an impairment test is warranted, we assess whether the undiscounted cash flows expected to be generated by our long-lived assets exceed their carrying value. If this assessment indicates that the long-lived assets are impaired, the assets are written down to their fair value. These assessments are based on our judgment, which includes the estimate of future cash flows from long-lived assets. We are not aware of any indicators of impairments nor any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations. Depreciable lives Management uses considerable judgment when establishing the depreciable lives of our vessels. In order to estimate useful lives of our vessels, Management must make assumptions about future market conditions in the oil tanker market. The Company considers the establishment of depreciable lives to be a critical accounting estimate. We are not aware of any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future

operations. Drydocking Generally, we drydock each vessel every two and a half to five years. We capitalize a substantial portion of the costs we incur during drydocking and amortize those costs on a straight-line basis from the completion of a drydocking to the estimated completion of the next drydocking. We expense costs related to routine repairs and maintenance incurred during drydocking that do not improve or extend the useful lives of the assets. If we change our estimate of the next drydock date we will adjust our annual amortization of drydocking expenditures. RECENT ACCOUNTING PRONOUNCEMENTS In July 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the criteria that must be met prior to recognition of the financial statement benefit of a position taken in a tax return. FIN 48 provides a benefit recognition model with a two-step approach consisting of a "more-likely-than-not" recognition criteria, and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 also requires the recognition of liabilities created by differences between tax positions taken in a tax return and amounts recognized in the financial statements. FIN 48 is effective as of the beginning of the first annual period beginning after December 15, 2006. The Company is currently assessing the impact of adopting FIN 48 on the financial condition, results of operations, and cash flows of the Company In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for the Company as of December 31, 2006. There was no impact as a result of the Company's adoption of SAB 108 on its consolidated financial statements. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," ("SFAS 157") which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. This Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 157, and has not yet determined the impact that its adoption will have on its results of operations and financial position. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 157, and has not yet determined the impact that its adoption will have on its results of operations and financial position. ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES A. DIRECTORS AND SENIOR MANAGEMENT Directors and Senior Management of the Company and the Manager Pursuant to the Management Agreement with Scandic American Shipping Ltd., or the Manager, the Manager provides management, administrative and advisory services to us. The Manager is owned by Herbjorn Hansson, our Chairman and Chief Executive Officer, and Andreas Ove Ugland, one of our directors, and may engage in business activities other than with respect to the Company. Set forth below are the names and positions of the directors of the Company and executive officers of the Company and the Manager. The directors of the Company are elected annually, and each director elected holds office until a successor is elected. Officers of both the Company and the Manager are elected from time to time by vote of the respective board of directors and hold office until a successor is elected. The Company ---------- Name Age Position ---- --- -------- Herbjorn Hansson 59 Chairman, Chief Executive Officer, President and Director Turid M. Sorensen 47 Chief Financial Officer Rolf Amundsen 62 Chief Investor Relations Officer Hon. Sir David Gibbons 79 Director Andreas Ove Ugland 52 Director Torbj0rn Glads0 60 Director Andrew W. March 51 Director Paul J. Hopkins 59 Director George C. Lodge 79 Director The Manager ---------- Name Age Position ---- --- -------- Herbjorn Hansson 59 Director, President and Chief Executive Officer Turid M. Sorensen 47 Chief Financial Officer Rolf Amundsen 62 Chief Investor Relations Officer Frithjof Bettum 45 Vice President Technical Operations & Chartering Jan Erik Langangen 57 Executive Vice President--Business Development and Legal Certain biographical information with respect to each director and executive officer of the Company and the Manager listed above is set forth below. Herbjorn Hansson earned his M.B.A. at the Norwegian School of Economics and Business Administration and Harvard Business School. In 1974 he was employed by the Norwegian Shipowners' Association. In the period from 1975 to 1980, he was Chief Economist and Research Manager of INTERTANKO, an

industry association whose members control about 70% of the world's independently owned tanker fleet, excluding state owned and oil company fleets. During the 1980s, he was Chief Financial Officer of Kosmos/Andres Jahre, at the time one of the largest Norwegian based shipping and industry groups. In 1989, Mr. Hansson founded Ugland Nordic Shipping AS, or UNS, which became one of the world's largest owners of specialized shuttle tankers. He served as Chairman in the first phase and as Chief Executive Officer as from 1993 to 2001 when UNS, under his management, was sold to Teekay Shipping Corporation, or Teekay, for an enterprise value of $780.0 million. He continued to work with Teekay, most recently as Vice Chairman of Teekay Norway AS, until he started working full-time for the Company on September 1, 2004. Mr. Hansson is the founder and has been Chairman and Chief Executive Officer of the Company since its establishment in 1995. He also is a member of various governing bodies of companies within shipping, insurance, banking, manufacturing, national/international shipping agencies including classification societies and protection and indemnity associations. Mr. Hansson is fluent in Norwegian and English, and has a command of German and French for conversational purposes. Turid M. Sorensen was appointed Chief Financial Officer by the Board of Directors on February 6, 2006. She has a bachelor degree in Business Administration from the Norwegian School of Management. Ms. Sorensen has 20 years of experience in the shipping industry. During the period from 1984 to 1987, she worked for Anders Jahre AS and Kosmos AS in Norway and held various positions within accounting and information technology. In the period from 1987 to 1995, Ms. Sorensen was Manager of Accounting and IT for Skaugen PetroTrans Inc., in Houston, Texas. After returning to Norway she was employed by Ugland Nordic Shipping ASA and Teekay Norway AS as Vice President, Accounting. From October 2004 until her appointment as Chief Financial Officer in February 2006, she served as our Treasurer and Controller. Rolf Amundsen was appointed Chief Investor Relations Officer and Advisor to the Chairman by the Board of Directors on February 6, 2006 and prior to that time served as our Chief Financial Officer from June 2004. Mr. Admundsen has an M.B.A. in economics and business administration, and his entire career has been in international banking. Previously, Mr. Amundsen has served as the president of the financial analysts society in Norway. Mr. Amundsen served as the chief executive officer of a Nordic investment bank for many years, where he established a large operation for the syndication of international shipping investments. Andreas Ove Ugland has been a director of the Company since February 1997. Mr. Ugland has also served as director and Chairman of Ugland International Holding plc, a shipping/transport company listed on the London Stock Exchange, Andreas Ugland & Sons AS, Grimstad, Norway, H0egh Ugland Autoliners AS, Oslo and Buld Associates Inc., Bermuda. Mr. Ugland has had his whole career in shipping in the Ugland family owned shipping group. Andrew W. March has been a director of the Company since June 2005. Mr. March also currently serves in a management position with Vitol S.A., an international oil trader, involved in supply, logistics and transport and as a director for Imarex, an electronic trading platform for freight derivatives. From 1978 to 2004, Mr. March served in various positions with subsidiaries of BP p.l.c., an international oil major company. Most recently, from January 2001 to 2004, Mr. March was Commercial Director of BP Shipping Ltd., responsible for all aspects of the business including long term strategy. From 1986 to 2000, Mr. March was employed in various positions with BP Trading, serving as Global Product Trading Manager from 1999. Mr. March received his MBA from Liverpool University. Sir David Gibbons has been a director of the Company since September 1995. Sir David served as the Premier of Bermuda from August 1977 to January 1982. Sir David has served as Chairman of The Bank of N.T. Butterfield and Son Limited from 1986 to 1997, Chairman of Colonial Insurance Co. Ltd. since 1986 and as Chief Executive Officer of Edmund Gibbons Ltd. since 1954. Sir David Gibbons is a member of our Audit Committee. George C. Lodge has been a director of the Company since September 1995. Professor Lodge has been a member of the Harvard Business School faculty since 1963. He was named associate professor of business administration at Harvard in 1968 and received tenure in 1972. Paul J. Hopkins has been a director of the Company since June 2005. Mr. Hopkins is also a Vice President and a director of Corridor Resources Inc., a Canadian publicly traded exploration and production company. From 1989 through 1993 he served with Lasmo as Project Manager during the start-up of the Cohasset/Panuke oilfield offshore Nova Scotia, the first offshore oil production in Canada. Earlier, Mr. Hopkins served as a consultant on frontier engineering and petroleum economic evaluations in the international oil industry. Mr. Hopkins was seconded to Chevron UK in 1978 to assist with the gas export system for the Ninian Field. From 1973, he was employed with Ranger Oil (UK) Limited, being involved in the drilling and production testing of oil wells in the North Sea. Through the end of 1972 he worked with Shell Canada as part of its offshore Exploration Group. Torbj0rn Glads0 has been a director of the Company since October 2003. Mr. Gladso is a partner in Saga Corporate Finance AS. He has extensive experience within investment banking since 1978. He has

been the Chairman of the Board of the Norwegian Register of Securities and Vice Chairman of the Board of Directors of the Oslo Stock Exchange. Mr. Glads0 is Chairman of our Audit Committee. Jan Erik Langangen is the Executive Vice President, Business Development and Legal, of the Manager. Mr. Langangen previously served as the Chief Financial Officer from 1979 to 1983, and as Chairman of the Board from 1987 to 1992, of Statoil, an oil and gas company that is controlled by the Norwegian government and that is the largest company in Norway. He also served as Chief Executive Officer of UNI Storebrand from 1985 to 1992. Mr. Langangen was also Chairman of the Board of the Norwegian Governmental Value Commission from 1998 to 2001. Mr. Langangen is a partner of Langangen & Helset, a Norwegian law firm and previously was a partner of the law firm Langangen & Engesaeth from 1996 to 2000 and of the law firm Thune & Co. from 1994 to 1996. Mr. Langangen received a Masters of Economics from The Norwegian School of Business Administration and his law degree from the University of Oslo. Frithjof Bettum was appointed Vice President--Technical Operations & Chartering of the Manager on October 1, 2005. Mr. Bettum has a Mechanical Engineering degree from Vestfold University College. Mr. Bettum has 21 years of experience in the shipping and the offshore business. From 1984 to 1992, Mr. Bettum was employed by Allum Engineering AS in Sandefjord, Norway where he served as project manager. At Allum Engineering AS Mr. Bettum worked on projects in the areas of engineering, the new building and conversion management of shuttle tankers, Floating Production, Storage and Offloading (FPSO), semi-submersible drilling units and the shore based manufacturer industry. From 1993 to 2001, Mr. Bettum was employed by Nordic American Shipping AS (which later became Ugland Nordic Shipping ASA) where he served as Vice President--Offshore. In 2004, Mr. Bettum joined Teekay Norway AS as Vice President Offshore where he was responsible for business development, the daily operations of the company and the conversion of shuttle tankers and offshore units. B. COMPENSATION Compensation of Directors and Officers During 2006, the six non-employee directors received, in the aggregate, approximately $280,000 in cash fees for their services as directors. The Board consists of seven directors of which each of the non-employee directors receives a fee at the annual rate of $60,000 effective from December 1, 2006. We do not pay director fees to employee directors. We do, however, reimburse our directors for all reasonable expenses incurred by them in connection with serving on our board of directors. Directors may receive restricted shares or other grants under our 2004 Stock Incentive Plan described below. We have an employment agreement with Herbjorn Hansson, our Chairman, President and Chief Executive Officer, Turid M. Sorensen, our Chief Financial Officer, and Rolf Amundsen, our Chief Investor Relations Officer and Advisor to the Chairman. Mr. Hansson does not receive any additional compensation for serving as a director or the Chairman of the Board. The aggregate compensation of our executive officers during 2006 was $1.1 million. The aggregate compensation of our executive officers is expected to be approximately $1.2 million during 2007. On certain terms the employment agreement with Mr. Hansson may be terminated by us or Mr. Hansson upon six months' written notice to the other party. The employment agreement with Ms. Sorensen may be terminated by us or by Ms. Sorensen upon six months' written notice to the other party. The employment agreement with Mr. Amundsen may be terminated by us or Mr. Amundsen upon three months' written notice to the other party. 2004 Stock Incentive Plan Under the terms of the Company's 2004 Stock Incentive Plan, the directors, officers and certain key employees of the Company and the Manager are eligible to receive awards which include incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and performance shares. A total of 400,000 common shares are reserved for issuance upon exercise of options, as restricted share grants or otherwise under the plan. Included under the 2004 Stock Incentive Plan are options to purchase common shares at an exercise price equal to $38.75, subject to annual downward adjustment if the payment of dividends in the related fiscal year exceed a 3% yield calculated based on the initial strike price. During 2005 the Company granted, under the terms of the Company's 2004 Stock Incentive Plan, an aggregate of 320,000 stock options that the Board of Directors had agreed to issue during 2004. These options will vest in equal installments on each of the first four anniversaries of the grant dates. During 2006, the Company granted an aggregate of 16,700 restricted shares. No stock options were granted in 2006. C. BOARD PRACTICES The members of the Company's board of directors serve until the next annual general meeting following his or her election to the board. The members of the current board of directors were elected at the annual general meeting held in 2006. The Company's Board of Directors has established an Audit Committee, consisting of two independent directors, Messrs. Glads0 and Gibbons. Mr. Glads0 serves as the audit committee financial expert. The members of the Audit Committee receive additional remuneration of $25,000 in aggregate for serving on the Audit Committee. The Audit Committee provides assistance to the Company's board of directors in fulfilling their responsibility to shareholders, and investment community

relating to corporate accounting, reporting practices of the Company, and the quality and integrity of the financial reports of the Company. The Audit Committee, among other duties, recommends to the Company's board of directors the independent auditors to be selected to audit the financial statements of the Company; meets with the independent auditors and financial management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be utilized; reviews with the independent auditors, and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company; and reviews the financial statements contained in the annual report to shareholders with management and the independent auditors. Pursuant to an exemption for foreign private issuers, we are not required to comply with many of the corporate governance requirements of the New York Stock Exchange that are applicable to U.S. listed companies. A description of the significant differences between our corporate governance practices and the New York Stock Exchange requirements is available on our website www.nat.bm under "Corporate Governance". D. EMPLOYEES As at December 31, 2006, the Company had two full-time employees and one part-time employee. E. SHARE OWNERSHIP The following table sets forth information regarding the share ownership of the Company as of June 26, 2007 by its directors and officers. All of the shareholders are entitled to one vote for each share of common stock held. Title Identity of Person No. of Shares Percent of Class ----- ------------------ ------------- ---------- Common Herbjorn Hansson(1) 538,282 2.00% Hon. Sir David Gibbons * Thorbjorn Gladso * Andrew W. March * Paul J. Hopkins * George C. Lodge * Andreas Ove Ugland * Turid M. Sorensen * Rolf Amundsen * (1) Represents shares held by the Manager, of which Mr. Hansson is the sole shareholder. * Less than 1% of our outstanding shares of common stock. ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS A. MAJOR SHAREHOLDERS The Company is not aware of any shareholder who beneficially owns 5% or more of the Company's outstanding common stock. B. RELATED PARTY TRANSACTIONS Since May 30, 2003, Scandic American Shipping Ltd., which is owned by Messrs. Ugland and Hansson, has been our Manager pursuant to the Management Agreement with the Company. See Item 4--Information on the Company -- Business Overview -- The Management Agreement. Mr. Jan Erik Langangen, Executive Vice President of the Manager, is a partner of Langangen & Helset Advokatfirma AS which in the past has also provided and may continue to provide legal services to us. C. INTERESTS OF EXPERTS AND COUNSEL Not Applicable ITEM 8. FINANCIAL INFORMATION A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION See Item 18 Legal Proceedings To the best of the Company's knowledge, the Company is not currently involved in any legal or arbitration proceedings that would have a significant effect on the Company's financial position or profitability and no such proceedings are pending or known to be contemplated by governmental authorities. Dividend Policy Our policy is to declare quarterly dividends to shareholders, substantially equal to our net operating cash flow during the previous quarter after reserves as the Board of Directors may from time to time determine are required, taking into account contingent liabilities, the terms of our New Credit Facility, our other cash needs and the requirements of Bermuda law. However, if we declare a dividend in respect of a quarter in which an equity issuance has taken place, we calculate the dividend per share as our net operating cash flow for the quarter (after taking into account the factors described above) divided by the weighted average number of shares over that quarter. Net operating cash flow represents net income plus depreciation and non-cash administrative charges. The dividend paid is the calculated dividend per share multiplied by the number of shares outstanding at the end of the quarter. Total dividend paid out in 2006 was $122.6 million or $5.85 per share. The dividend payments per share in 2006, 2005, 2004, 2003 and 2002 have been as follows: Period 2006 2005 2004 2003 2002 ------ ---- ---- ---- ---- ---- 1st Quarter 1.88 $1.62 $1.15 $0.63 $0.36 2nd Quarter 1.58 1.15 1.70 1.27 0.34 3rd Quarter 1.07 0.84 0.88 0.78 0.33 4th Quarter 1.32 0.60 1.11 0.37 0.32 Total 5.85 $4.21 $4.84 $3.05 $1.35 The dividend paid out in a quarter is based on the results of the previous quarter. The Company declared a dividend of $1.00 per share for the first quarter of 2007 which was paid to shareholders in March 2007. In addition, the Company declared a dividend of $1.248 per share for the second quarter of 2007, which was paid to shareholders in May 2007. B. SIGNIFICANT CHANGES Not applicable ITEM 9. THE OFFER AND LISTING Not applicable except for Item 9.A.4. and Item 9.C Price Range of Common Shares Since November 16, 2004, the primary trading market for our common shares has been the New York Stock Exchange, or the NYSE, on which our shares are listed under the symbol "NAT." The primary trading market for our common shares was the American Stock Exchange, or the AMEX, until November 15, 2004, at which time trading of our common shares on the AMEX ceased. The secondary trading market for our common shares was the Oslo Stock Exchange, or the OSE, until January 14, 2005, at which time trading of our common share on the OSE ceased. The following table sets forth the high and low closing prices for shares of our common stock as reported by

the New York Stock Exchange, the American Stock Exchange and the Oslo Stock Exchange: NYSE NYSE AMEX AMEX OSE OSE The year ended: HIGH LOW HIGH LOW HIGH LOW ---------- ---- --- ---- --- ---- --- 2002 N/A N/A $16.55 $ 9.86 NOK 145.00 NOK 90.00 2003 N/A N/A $16.90 $11.25 NOK 125.00 NOK 90.00 2004 $41.30 $35.26 $41.59 $15.00 NOK 300.00 NOK 115.00 2005 (1) $56.68 $28.60 N/A N/A NOK 225.00 NOK 205.00 2006 $41.70 $27.90 N/A N/A N/A N/A AMEX AMEX NYSE NYSE OSE OSE For the quarter ended: HIGH LOW HIGH LOW HIGH LOW ---------- ---- --- ---- --- ---- --- March 31, 2005 (1) N/A N/A $56.68 $35.95 NOK 225.00 NOK 205.00 June 30, 2005 N/A N/A $49.79 $37.48 N/A N/A September 30, 2005 N/A N/A $46.48 $37.30 N/A N/A December 31, 2005 N/A N/A $37.90 $28.60 N/A N/A March 31, 2006 N/A N/A $36.92 $27.90 N/A N/A June 30, 2006 N/A N/A $36.60 $28.50 N/A N/A September 30, 2006 N/A N/A $41.70 $31.95 N/A N/A December 31, 2006 N/A N/A $36.40 $31.00 N/A N/A ---------- (1) The OSE numbers for 2005 are based on trading through January 14, 2005 The high and low market prices for our common shares by month since December 2006 have been as follows: For the month: NYSE NYSE HIGH LOW ---- --- January 2007 $35.75 $32.26 February 2007 $37.53 $32.50 March 2007 $36.99 $32.06 April 2007 $39.54 $35.79 May 2007 $41.24 $36.91 June 1 - June 27, 2007 $40.63 $37.48 C. MARKETS See Item 9A above. ITEM 10. ADDITIONAL INFORMATION A. SHARE CAPITAL Not Applicable B. MEMORANDUM AND ARTICLES OF ASSOCIATION The following description of our capital stock summarizes the material terms of our Memorandum of Association and our bye-laws. Under our Memorandum of Association, as amended, our authorized capital consists of 51,200,000 common shares having a par value of $0.01 per share. The purposes and powers of the Company are set forth in Items 6 and 7 of our Memorandum of Association and in paragraphs (b) to (n) and (p) to (u) of the Second Schedule of the Bermuda Companies Act of 1981 (the "Companies Act") which is attached as an exhibit to our Memorandum of Association. These purposes include the entering into of any guarantee, contract, indemnity or suretyship and to assure, support, secure, with or without the consideration or benefit, the performance of any obligations of any person or persons; and the borrowing and raising of money in any currency or currencies to secure or discharge any debt or obligation in any manner. Our bye-laws provide that our board of directors shall convene and the Company shall hold annual general meetings in accordance with the requirements of the Companies Act at such times and places as the Board shall decide. Our board of directors may call special meetings at its discretion or as required by the Companies Act. Under the Companies Act, holders of one-tenth of our issued common shares may call special meetings of shareholders. Bermuda law permits the bye-laws of a Bermuda company to contain a provision eliminating personal liability of a director or officer to the company for any loss arising or liability attaching to him by virtue of any rule of law in respect of any negligence default, breach of duty or breach of trust of which the officer or person may be guilty. Bermuda law also grants companies the power generally to indemnify directors and officers of the company if any such person was or is a party or threatened to be made a party to a threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was a director and officer of the company or was serving in a similar capacity for another entity at the company's request. Our bye-laws do not prohibit a director from being a party to, or otherwise having an interest in, any transaction or arrangement with the Company or in which the Company is otherwise interested. Our bye-laws provide that a director who has an interest in any transaction or arrangement with the Company and who has complied with the provisions of the Companies Act and with our bye-laws with regard to disclosure of such interest shall be taken into account in ascertaining whether a quorum is present, and will be entitled to vote in respect of any transaction or arrangement in which he is so interested. Our bye-laws provide our board of directors the authority to exercise all of the powers of the Company to borrow money and to mortgage or charge all or any part of our property and assets as collateral security for any debt, liability or obligation. Our directors are not required to retire because of their age, and our directors are not required to be holders of our common shares. Directors serve for one year terms, and shall serve until re-elected or until their successors are appointed at the next annual general meeting. Our bye-laws provide that each director, alternate director, officer, person or member of a committee, if any, resident representative, or his heirs, executors or administrators, which we refer to collectively as an indemnitee, will be indemnified and held harmless out of our funds to the fullest extent permitted by Bermuda law against all liabilities, loss, damage or expense (including liabilities under contract, tort and statute or any applicable foreign law or regulation and all reasonable legal and other costs and expenses properly payable) incurred or suffered by him as such director, alternate director, officer, person or committee member or resident representative (or in his reasonable belief that he is acting as any of the above). In addition, each indemnitee shall be indemnified against all liabilities incurred in defending any proceedings, whether civil or criminal, in which judgment is given in such indemnitee's favor, or in which he is

acquitted. There are no pre-emptive, redemption, conversion or sinking fund rights attached to our common shares. The holders of common shares are entitled to one vote per share on all matters submitted to a vote of holders of common shares. Unless a different majority is required by law or by our bye-laws, resolutions to be approved by holders of common shares require approval by a simple majority of votes cast at a meeting at which a quorum is present. Special rights attaching to any class of our shares may be altered or abrogated with the consent in writing of not less than 75% of the issued and outstanding shares of that class or with the sanction of a resolution passed at a separate general meeting of the holders of such shares voting in person or by proxy. Our Memorandum of Association and our bye-laws may be amended upon the consent of not less than two-thirds of the issued and outstanding common shares. In the event of our liquidation, dissolution or winding up, the holders of common shares are entitled to share in our assets, if any, remaining after the payment of all of our debts and liabilities, subject to any liquidation preference on any outstanding preference shares. Our bye-laws provide that our board of directors may, from time to time, declare and pay dividends out of contributed surplus. Each common share is entitled to dividends if and when dividends are declared by our board of directors, subject to any preferred dividend right of the holders of any preference shares. There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote our common shares. Our bye-laws permit the Company to refuse to register the transfer of any common shares if the effect of that transfer would result in 50% or more of our aggregated issued share capital, or 50% or more of the outstanding voting power being held by persons who are resident for tax purposes in Norway or the United Kingdom. Our bye-laws permit the Company to increase its capital, from time to time, with the consent of not less than two-thirds of the outstanding voting power of the Company's issued and outstanding common shares. C. MATERIAL CONTRACTS For a description of our New Credit Facility, see Item 4 -- Information on the Company -- Business Overview -- Our Credit Facility. Otherwise, the Company has not entered into any material contracts outside the ordinary course of business during the past two years. D. EXCHANGE CONTROLS The Company has been designated as a non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority, whose permission for the issue of the Common Shares was obtained prior to the offering thereof. The transfer of shares between persons regarded as resident outside Bermuda for exchange control purposes and the issuance of Common Shares to or by such persons may be effected without specific consent under the Bermuda Exchange Control Act of 1972 and regulations thereunder. Issues and transfers of Common Shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Bermuda Exchange Control Act 1972. Subject to the foregoing, there are no limitations on the rights of owners of the Common Shares to hold or vote their shares. Because the Company has been designated as non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of the Common Shares, other than in respect of local Bermuda currency. In accordance with Bermuda law, share certificates may be issued only in the names of corporations or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, the Company is not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust. The Company will take no notice of any trust applicable to any of its shares or other securities whether or not it had notice of such trust. As an "exempted company", the Company is exempt from Bermuda laws which restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company, the Company may not participate in certain business transactions including: (i) the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy for terms of not more than 21 years) without the express authorization of the Bermuda legislature; (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of $50,000 without the consent of the Minister of Finance of Bermuda; (iii) the acquisition of securities created or issued by, or any interest in, any local company or business, other than certain types of Bermuda government securities or securities of another "exempted company, exempted partnership or other corporation or partnership resident in Bermuda but incorporated abroad; or (iv) the carrying on of business of any kind in Bermuda, except in so far as may be necessary for the carrying on of its business outside Bermuda or under a license granted by the Minister of Finance of Bermuda. There is a statutory remedy under Section 111 of the Companies Act 1981 which provides that a shareholder may seek redress in the Bermuda courts as long as such shareholder can establish that the Company's affairs are being conducted, or have been conducted, in a manner oppressive or prejudicial to the interests of some part of the shareholders, including such shareholder. However, this

remedy has not yet been interpreted by the Bermuda courts. The Bermuda government actively encourages foreign investment in "exempted" entities like the Company that are based in Bermuda but do not operate in competition with local business. In addition to having no restrictions on the degree of foreign ownership, the Company is subject neither to taxes on its income or dividends nor to any exchange controls in Bermuda. In addition, there is no capital gains tax in Bermuda, and profits can be accumulated by the Company, as required, without limitation. There is no income tax treaty between the United States and Bermuda pertaining to the taxation of income other than applicable to insurance enterprises. E. TAXATION The Company is incorporated in Bermuda. Under current Bermuda law, the Company is not subject to tax on income or capital gains, and no Bermuda withholding tax will be imposed upon payments of dividends by the Company to its shareholders. No Bermuda tax is imposed on holders with respect to the sale or exchange of Shares. Furthermore, the Company has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, including any dividend or capital gains withholding tax, or computed on any capital asset, appreciation, or any tax in the nature of an estate, duty or inheritance tax, then the imposition of any such tax shall not be applicable. The assurance further provides that such taxes, and any tax in the nature of estate duty or inheritance tax, shall not be applicable to the Company or any of its operations, nor to the shares, debentures or other obligations of the Company, until March 2016. F. DIVIDENDS AND PAYING AGENTS Not Applicable G. STATEMENT BY EXPERTS Not Applicable H. DOCUMENTS ON DISPLAY The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits may be inspected and copied at the public reference facilities maintained by the Commission at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates from the Public Reference Section of the Commission at its principal office in Washington, D.C. The SEC maintains a website (http://www.sec.gov.) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. In addition, documents referred to in this annual report may be inspected at the Company's headquarters at LOM Building, 27 Reid Street, Hamilton, HM11, Bermuda. We furnish holders of our common shares with annual reports containing audited financial statements and a report by our independent public accountants, and intend to make available quarterly reports containing selected unaudited financial data for the first three quarters of each fiscal year. The audited financial statements will be prepared in accordance with United States generally accepted accounting principles. As a "foreign private issuer," we are exempt from the rules under the Securities Exchange Act prescribing the furnishing and content of proxy statements to shareholders. While we intend to furnish proxy statements to shareholders in accordance with the rules of the New York Stock Exchange, those proxy statements do not conform to Schedule 14A of the proxy rules promulgated under the Exchange Act. All reports, proxy statements and other information filed by us with the New York Stock Exchange may be inspected at the New York Stock Exchange's offices at 20 Broad Street, New York, New York 10005. In addition, as a "foreign private issuer," we are exempt from the rules under the Exchange Act relating to short swing profit reporting and liability. I. SUBSIDIARY INFORMATION Not applicable. ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The Company is exposed to market risk from changes in interest rates related to the variable rate of the Company's borrowings, or the Loan under our 2005 Credit Facility. Amounts borrowed under the 2005 Credit Facility bears interest at a rate equal to LIBOR plus a margin between 0.70% to 1.20% per year (depending on the loan to vessel value ratio). Increasing interest rates could affect our future profitability. In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. A 100 basis point increase in LIBOR would have resulted in an increase of approximately $0.9 million in our interest expense for the year ended December 31, 2006. The Company is exposed to the spot market. Historically, the tanker markets have been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. Changes in demand for transportation of oil over longer distances and supply of tankers to carry that oil may materially affect our revenues, profitability and cash flows. Eleven of our twelve vessels are currently operated in the spot market or on spot market related time charters. We believe that over time, spot employment generates premium earnings compared to longer-term employment. We estimate that during 2006, a $1,000 per day decrease in the spot market rate would have decreased our voyage revenue by approximately $2.9 million. ITEM 12. DESCRIPTION OF SECURITIES

OTHER THAN EQUITY SECURITIES Not Applicable PART II ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES Not Applicable ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS On February 13, 2007, the Board of Directors adopted a shareholders' rights agreement and declared a dividend of one preferred share purchase right to purchase one one-thousandth of a share of the Company's Series A Participating Preferred Stock for each outstanding share of the Company's common stock, par value $0.01 per share. The dividend was payable on February 27, 2007 to stockholders of record on that date. Each right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Participating Preferred Stock at an exercise price of $115, subject to adjustment. The Company can redeem the rights at any time prior to a public announcement that a person has acquired ownership of 15% or more of the company's common stock. This shareholder rights plan was designed to enable the Company to protect shareholder interests in the event that an unsolicited attempt is made for a business combination with or takeover of the Company. The Company believes that the shareholder rights plan should enhance the Board's negotiating power on behalf of shareholders in the event of a coercive offer or proposal. The Company is not currently aware of any such offers or proposals. ITEM 15. CONTROLS AND PROCEDURES (a) Disclosure Controls and Procedures. Pursuant to Rules 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management, under the supervision and with the participation of the Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2006. The term disclosure controls and procedures means 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 Act is recorded, processed, summarized and reported, within the time periods specified in the Commission'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. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures are effective, as of the end of the period covered by this report, in timely alerting them to material information required to be disclosed in our periodic filings with the Securities and Exchange Commission ("SEC"), and in ensuring that the information required to be disclosed in those filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. (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) or 15d-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of published financial statements for external purposes in accordance with Generally Accepted Accounting Principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2006, our internal control over financial reporting was effective based on those criteria. (c) Attestation report of the registered public accounting firm. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by Deloitte AS, an independent registered public accounting firm, as stated in their report included in this annual report. (d) Changes in internal control over financial reporting. There have been no changes in internal controls over financial reporting (identified in connection with management's evaluation of such internal controls over financial reporting) that occurred during the year covered by this annual report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. ITEM 16. RESERVED. ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT The Board of Directors has determined that Mr. Torbj0rn Glads0 is an audit committee financial expert and the Chairman of the committee. Mr. Glads0 is "independent" as determined in accordance with the rules of the New York Stock Exchange. ITEM 16B. CODE OF ETHICS. The Company has

adopted a code of ethics that applies to all of the Company's employees, including our principal executive officer, principal financial officer, principal accounting officer or controller. The Code may be downloaded at our website (www.nat.bm). Additionally, any person, upon request, may ask for a hard copy of electronic file of the Code. If we make any substantive amendment to the Code of Ethics or grant any waivers, including any implicit waiver, from a provision of our Code of Ethics, we will disclose the nature of that amendment or waiver on our website. During the year ended December 31, 2006, no such amendment was made or waiver granted. ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES. (a) Audit Fees The Company's Board of Directors has established preapproval and procedures for the engagement of the Company's independent public accounting firms for all audit and non-audit services. The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services rendered by our principal accountant, Deloitte AS, for the audit of the Company's annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements for the two most recent fiscal years. FISCAL YEAR ENDED DECEMBER 31, 2006 $199,600 FISCAL YEAR ENDED DECEMBER 31, 2005 $71,400 (1) Included in the amounts are costs associated with the implementation of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for the fiscal years 2006 and 2005 of $36,000 and $0, respectively. (b) Audit-Related Fees (1) FISCAL YEAR ENDED DECEMBER 31, 2006 $132,300 FISCAL YEAR ENDED DECEMBER 31, 2005 $150,455 (1) Audit-Related-Fees consists of accounting consultations related to accounting, financial reporting or disclosure matters not classified as "Audit Services". (c) Tax Fees Not applicable (d) All Other Fees Not applicable. (e) Audit Committee's Pre-Approval Policies and Procedures 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. (f) Not applicable. ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES Not Applicable ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PERSONS. Not Applicable PART III ITEM 17. FINANCIAL STATEMENTS See item 18. ITEM 18. FINANCIAL STATEMENTS See pages F-1 through F-11 NORDIC AMERICAN TANKER SHIPPING LIMITED TABLE OF CONTENTS Page REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS F-2 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING F-3 FINANCIAL STATEMENTS Statements of Operations F-4 Balance Sheets F-5 Statements of Cash Flows F-6 Statements of Shareholders' Equity F-7 Notes to Financial Statements F-8 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders of Nordic American Tanker Shipping Limited We have audited the accompanying balance sheets of Nordic American Tanker Shipping Ltd. (the "Company") as of December 31, 2006 and 2005, and the related statements of operations, shareholders' equity and cash flows for each of the three years ended December 31, 2006. These 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. 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 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 18, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting. /s/ Deloitte AS Oslo, Norway May 18, 2007 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders of Nordic American Tanker Shipping Ltd We have audited management's assessment, included in the accompanying Management's report on internal control over financial reporting, that

Nordic American Tanker Shipping Ltd (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial statements as of and for the year ended December 31, 2006 of the Company and our report dated May 18, 2007 expressed an unqualified opinion on those financial statements. \s\ Deloitte AS Oslo, Norway May 18, 2007 STATEMENTS OF OPERATIONS All figures in USD '000, except share data Year Ended December 31, Notes 2006 2005 2004 ----- ---- ---- ---- Voyage Revenues 3 175,520 117,110 67,452 Voyage Expenses (40,172) (30,981) (4,925) Vessel Operating Expenses - excluding depreciation expense presented below (21,102) (11,221) (1,977) General and Administrative Expenses 2, 5, 7 (12,750) (8,492) (10,852) Depreciation Expense 6 (29,254) (17,529) (6,918) Net Operating Income 72,242 48,887 42,780 Interest Income 1,602 850 143 Interest Expense 9 (6,339) (3,454) (1,971) Other Financial (Expense) Income (112) 34 (136) Total Other Expense (4,849) (2,570) (1,964) Net Income before Tax 67,393 46,317 40,816 Tax Expense 0 0 0 Net Income for the Year 67,393 46,317 40,816 Basic Earnings per Share 3.14 3.03 4.05 Diluted Earnings per Share 3.14 3.03 4.05 Basic Weighted Average Number of Common Shares Outstanding 21,476,196 15,263,622 10,078,391 Diluted Weighted Average Number of Common Shares Outstanding 21,476,196 15,263,622 10,078,391 The footnotes are an integral part of these financial statements. BALANCE SHEETS All figures in USD '000, except share data Notes December 31, 2006 December 31, 2005 ----- ---------- ---------- ASSETS Current Assets Cash and Cash Equivalents 11,729 14,240 Accounts Receivable, net $0 allowance at December 31, 2006 and 2005 3 13,417 19,557 Voyages in Progress 7,853 2,446 Prepaid Expenses and Other Assets 4 11,479 3,147 Total Current Assets 44,478 39,390 Long-term Assets Vessels, Net 6 752,478 463,933

Other Long-term Assets 3,224 2,521 Total Long-term Assets 755,702 466,454 Total Assets 800,180 505,844 LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities Accounts Payable 3,006 1,562 Deferred Revenue 10 537 537 Accrued Liabilities 11 11,191 2,873 Total Current Liabilities 14,734 4,972 Long-term Liabilities Long-term Debt 8 173,500 130,000 Total Long-term Liabilities 173,500 130,000 Total Liabilities 188,234 134,972 Commitments and Contingencies 13 - - SHAREHOLDERS' EQUITY Common Stock, 12 269 166 $0.01 par value; 51,200,000 shares authorized, 26,914,088 shares issued and outstanding and 16,644,496 shares issued and outstanding at December 31, 2006 and December 31, 2005, respectively Additional Paid-in Capital 728,851 432,682 Accumulated Deficit (117,174) (61,976) Total Shareholders' Equity 611,946 370,872 Total Liabilities & Shareholders' Equity 800,180 505,844 The footnotes are an integral part of these financial statements. STATEMENTS OF SHAREHOLDERS' EQUITY All figures in USD '000, except number of shares Accumulated Additional Other Total Total Number of Common Paid-in Accumulated Comprehensive Shareholders' Comprehensive Shares Shares Capital Deficit Loss Equity Income ------ ------ ------- ------- ---- ------ ------ Balance at 12.31.03 9,706,606 97 144,396 (37,635) (1,150) 105,708 Net Income 40,816 40,816 40,816 Common Shares Issued, net of $0 issuance costs 3,361,232 34 112,105 112,139 Compensation - Restricted Shares 9,252 9,252 Unrealized Loss on Derivative (21) (21) (21) Instruments Adjustment for Losses on Derivatives Reclassified to Earnings 1,171 1,171 1,171 Dividend Paid, $4.84 per share (47,196) (47,196) Total Comprehensive Income 41,966 Balance at 12.31.04 13,067,838 131 265,753 (44,015) 0 221,868 Net Income 46,318 46,318 46,318 Common Shares Issued, net of $11.3 million issuance costs 3,576,658 35 161,932 161,967 Compensation - Restricted 3,583 3,583 Shares Stock Options 1,415 1,415 Dividend Paid, $4.21 per share (64,279) (64,279) Total Comprehensive Income 46,318 Balance at 12.31.05 16,644,496 166 432,682 (61,977) 0 370,872 Net Income 67,393 67,393 67,393 Common Shares Issued, net of $16.5 million issuance costs 10,269,592 103 288,254 288,357 Compensation - Restricted 6,369 6,369 Shares Stock Options 1,545 1,545 Dividend Paid, $5.85 per share (122,590) (122,590) Total Comprehensive Income 67,393 Balance at 12.31.06 26,914,088 269 728,851 (117,174) 0 611,946 The footnotes are an integral part of these financial statements. STATEMENTS OF CASH FLOWS All figures in USD '000 Year Ended December 31, 2006 2005 2004 ---- ---- ---- Cash Flows from Operating Activities Net Income 67,393 46,317 40,816 Reconciliation of Net Income to Net Cash from Operating Activities Depreciation Expense 29,254 17,529 6,918 Amortization of Prepaid Finance Costs 402 718 113 Compensation - Restricted Shares & Stock Options 7,914 4,998 9,252 Changes in Operating Assets and Liabilities: Accounts Receivables 6,140 (15,019) 3,603 Accounts Payable and Accrued Liabilities 9,763 2,545 1,011 Prepaid and Other Assets (8,332) (1,667) (182) Deferred Revenue 0 (749) 1,286 Voyages in Progress (5,407) (2,446) 0 Other Long-term Assets (514) (1,171) 0 Net Cash Provided by Operating Activities 106,613 51,056 62,817 Cash Flows from Investing Activities Investment in Vessels (317,800) (294,161) (66,137) Net Cash Used in Investing Activities (317,800) (294,161) (66,137) Cash Flows from Financing Activities Proceeds from Issuance of Common Stock 288,357 161,967 112,138 Proceeds from Use of Credit Facility 274,500 135,000 96,000 Repayments on Credit Facility (231,000) (5,000) (126,000) Credit Facility Costs (591) (1,075) (1,456) Dividends Paid (122,590) (64,279) (47,196) Net Cash Provided by Financing Activities 208,676 226,613 33,486 Net (Decrease) Increase in Cash and Cash Equivalents (2, 511) (16,492) 30,166 Beginning Cash and Cash Equivalents 14,240 30,732 566 Ending Cash and Cash Equivalents 11,729 14,240 30,732 Cash Paid for Interest 5,499 916 1,774 The footnotes are an integral part of these financial statements. NORDIC AMERICAN TANKER SHIPPING LIMITED NOTES TO FINANCIAL STATEMENTS (All amounts in USD '000 except where noted) 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Nature of Business: Nordic American Tanker Shipping Limited (the "Company") was formed on June 12, 1995 under the laws of the Islands of Bermuda. The Company owns and operates crude oil tankers. The Company trades under the symbol "NAT" on the New York Stock Exchange. Basis of Accounting: These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Use of Estimates: Preparation of financial statements in accordance with US GAAP necessarily includes amounts based on estimates and assumptions made by management. Actual results could differ from those amounts. The affects of changes in accounting estimates are accounted for in the same period in which the estimates are changed. Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. Cash and Cash Equivalents: Cash and cash equivalents consist of deposits with original maturities of three months or less. Inventories: Inventories, which comprise principally of bunker fuel, are stated at cost which is determined on a first-in, first-out (FIFO) basis. Vessel and Other Property: Vessel and other property are recorded at cost. Depreciation is calculated based on cost less estimated salvage value and is provided

over estimated useful lives of the related assets using the straight-line method. The estimated useful life of the vessels is 25 years from the date the vessel is delivered from the shipyard. Repairs and maintenance are expensed as incurred. Impairment of Long-Lived Assets: Long-lived assets are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset, the asset is deemed impaired. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset. There have been no impairments recorded for the years ended December 31, 2006, 2005 or 2004. Drydocking: The Company's vessels are required to be drydocked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are in operation. The Company follows the deferral method of accounting for drydocking costs whereby actual costs incurred are deferred and are amortized on a straight-line basis through the expected date of the next drydocking. Ballast tank improvements are capitalized and amortized on a straight-line basis over a period of 8 years. Unamortized drydocking costs of vessels that are sold are written off to income in the year of the vessel's sale. The capitalized and unamortized drydocking costs are included in the book value of the vessels. Amortization expense of the drydocking costs is included in depreciation expense. Fair Value of Financial Instruments: The fair values of cash and cash equivalents, accounts receivable, and accounts payable approximate carrying value because of the short-term nature of these instruments. Deferred Financing costs: Finance costs, including fees, commissions and legal expenses, which are presented as other assets are capitalized and amortized on a straight-line basis over the term of the relevant debt borrowings. Amortization of finance costs is included in interest expense. Revenue and expense recognition: Revenue and expense recognition policies for voyage and time charter agreements are as follows: Bareboat: Revenues from bareboat charters are recorded at a fixed charterhire rate per day over the term of the charter. The charterhire is payable monthly in advance. During the charter period the charterer is responsible for operating and maintaining the vessel and bears all costs and expenses with respect to the vessel. Time charters under spot related terms: Revenues from time charters under spot related terms is based on a formula designed to generate earnings as if the Company had operated the vessels in the spot market on two routes, less 5% in commission to the charterer. The charterhire is payable to the Company monthly. The charterer is responsible for all voyage related costs while the Company is responsible for providing the crew and paying other operating costs. Spot charters: Voyage revenues and voyage expenses are recognized on a pro rata basis based on the relative transit time in each period. Estimated losses on voyages are provided for in full at the time such losses become evident. A voyage is deemed to commence upon the completion of discharge of the vessel's previous cargo and is deemed to end upon the completion of discharge of the current cargo. Voyage expenses primarily include only those specific costs which are borne by the Company in connection with voyage charters which would otherwise have been borne by the charterer under time charter agreements. These expenses principally consist of fuel, canal and port charges. Demurrage income represents payments by the charterer to the vessel owner when loading and discharging time exceed the stipulated time in the voyage charter. Demurrage income is measured in accordance with the provisions of the respective charter agreements and the circumstances under which demurrage claims arise and is recognized on a pro rata basis over the length of the voyage to which it pertains. At December 31, 2006 and 2005, the Company had no reserves against its due from charterers balance associated with demurrage revenues. Pooling arrangements: Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. Formulas used to allocate net pool revenues vary among different pools, but generally, revenues are allocated to pool participants on the basis of the number of days a vessel operates in the pool with weighting adjustments made to reflect each vessels' differing capacities and performance capabilities. The pool managers are responsible for collecting voyage revenue, paying voyage expenses and distribute net pool revenues to the participants. Based on the guidance from Emerging Issuance Task Force ("EITF") No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"), earnings generated from pools in which the Company is the principal of its vessels activities are recorded based on gross method. Earnings generated from pools in which the Company is not regarded as the principal of the vessels activities are recorded per the net method. The Company accounts for the net pool revenues allocated by these pools as "Voyage Revenue" in its statements of operations. Vessel Operating Expenses: Vessel operating expenses include crewing, repair and maintenance, insurance, stores, lube oils and communication expenses. These expenses are recognized when incurred. Segment Information: The Company has identified only one operating segment under

Statement of Financial Accounting Standards ("SFAS") No. 131 "Segments of an Enterprise and Related Information." The Company has only one type of vessel - Suezmax crude oil tankers - operating on time charter contracts at market related rates, in the spot market and on long-term bareboat contract. Geographical Segment: The Company currently operates nine of its vessels in spot market pools with other vessels that are not owned by us. The pools are managed by third party pool administrators. The earnings of all of the vessels are aggregated, or pooled, and divided according to the relative performance capabilities of the vessel and the actual earning days each vessel is available. The pool vessels are operated in the spot market by the pool administrators. As a significant portion of the Company's vessels are operated in pools, it is not practical to allocate geographical data to each vessel nor would it give meaningful information to the reader. Derivative instruments: The Company did not hold any derivative instruments at December 31, 2006 or 2005. Share-Based Compensation: Effective December 31, 2005, the Company adopted SFAS No. 123(R) "Share-Based Payment" ("SFAS 123R"), using the modified prospective application transition method. Because the fair value recognition provisions of SFAS No. 123, "Stock-Based Compensation, and SFAS No. 123(R) were materially consistent under the Company's equity plan, the adoption of SFAS No. 123(R) did not have a significant impact on the Company's financial position or results of operations. See to Note 7 for additional information. Earnings per Share: SFAS No. 128 "Earnings Per Share " requires earnings per share ("EPS") to be computed and reported as both basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted average number of common shares and dilutive common stock equivalents (i.e. stock options, warrants) outstanding during the period. The Company's average stock price during 2006 was above the average exercise price of the option and a dilutive effect on EPS could potentially arise. However, the proceeds of an exercise of all outstanding options calculated as per the Treasury Stock Method would exceed the costs of acquiring stocks at the average 2006 stock price. The potential effect of the outstanding options is therefore anti-dilutive and is not included in the calculation of diluted earnings per share. The average number of potentially dilutive options was 320,000 for the year ended December 31, 2006, and 295,000 for the year ended December 31, 2005, respectively. There were no outstanding options as of December 31, 2004. Concentration of Credit Risk: Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains its cash with reputable financial institutions. The terms of these deposits are on demand to minimize risk. The Company has not experienced any losses related to these cash deposits and believes it is not exposed to any significant credit risk. Accounts receivable consist of uncollateralized receivables from international customers engaged in the international shipping industry. The Company routinely assesses the financial strength of its customers. Accounts receivable are presented net of allowances for doubtful accounts relating to demurrage claims. If amounts become uncollectible, they will be charged to operations when that determination is made. Interest Rate Risk: The Company is exposed to interest rate risk for its debt borrowed under the New Credit Facility. In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. The Company has no outstanding derivatives at December 31, 2006 and has not entered into any such arrangements in 2006. Foreign Currency Risk: The Company's functional currency is the U.S. dollar as all revenues are received in U.S. dollars and the majority of the Company's expenditures are made in U.S. dollars. The Company's reporting currency is U.S. dollars. The Company considers currency risk to be insignificant. Income taxes: The Company is incorporated in Bermuda. Under current Bermuda law, the Company is not subject to corporate income taxes. Recent Accounting Pronouncements: In July 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the criteria that must be met prior to recognition of the financial statement benefit of a position taken in a tax return. FIN 48 provides a benefit recognition model with a two-step approach consisting of a "more-likely-than-not" recognition criteria, and a measurement attribute that measures the position as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 also requires the recognition of liabilities created by differences between tax positions taken in a tax return and amounts recognized in the financial statements. FIN 48 is effective as of the beginning of the first annual period beginning after December 15, 2006. The Company is currently assessing the impact of adopting FIN 48 on the financial condition, results of operations, and cash flows of the Company In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which provides interpretive guidance on the consideration of the effects of prior year

misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for the Company as of December 31, 2006. There was no impact as a result of the Company's adoption of SAB 108 on its consolidated financial statements. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement," ("SFAS 157") which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. This Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 157, and has not yet determined the impact that its adoption will have on its results of operations and financial position. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 157, and has not yet determined the impact that its adoption will have on its results of operations and financial position. 2. RELATED PARTY TRANSACTIONS The Manager, Scandic American Shipping Ltd., is jointly owned by the Chairman and Chief Executive Officer ("CEO") of the Company, Mr. Herbjorn Hansson, and a member of the Board of Directors, Mr. Andreas Ove Ugland. The Manager, under the Management Agreement, assumes commercial and operational responsibility of the Company's vessels and is required to manage the Company's day-to-day business subject to our objectives and policies as established from time to time by the Board of Directors. For its services under the Management Agreement, the Manager is entitled to reimbursement of costs directly related to the Company plus a management fee equal to $100,000 per annum. The Manager also has a right to 2% of the Company's total outstanding shares (see Note 7 "Share-Based Compensation"). The Company recognized $1.6 million, $1.5 million and $0.3 million of total costs for services provided under the Management Agreement for the years ended December 31, 2006, 2005 and 2004, respectively. Additionally the Company recognized $6.3 million, $3.6 million, and $9.2 million in non-cash share-based compensation expense for the years ended December 31, 2006, 2005 and 2004, respectively, related to the issuance of shares to the Manager (see Note 7 "Share-Based Compensation"). The costs are included in general and administrative expenses. The balances included within accounts payable were $491,081 and $396,314 at December 31, 2006 and 2005, respectively. Mr. Jan Erik Langangen, Executive Vice President of the Manager, is a partner of Langangen & Helset Advokatfirma AS, which in the past has provided and may continue to provide legal services to us. The Company recognized $97,071, $77,526 and $33,435 in costs for the years ended December 31, 2006, 2005 and 2004, respectively, for the services provided by Langangen & Helset Advokatfirma AS. These costs are included in general and administrative expenses. There were no amounts included within accounts payable at December 31, 2006 and December 31, 2005, respectively. . 3. REVENUE For the twelve months ending December 31, 2006, the Company's only source of revenue was from the Company's twelve vessels. The table below provides the current employment of the vessels. Charterer*/ Vessel name Employment Commercial Operator ----------- ---------- ---------- Gulf Scandic Bareboat Gulf Navigation* Nordic Hawk Spot / TC(1) BP Shipping* Nordic Hunter Spot / TC(1) BP Shipping* Nordic Freedom Spot Teekay Shipping Nordic Fighter Spot Frontline Nordic Discovery Spot Frontline Nordic Apollo Spot Frontline Nordic Saturn Spot Gemini Tankers Nordic Jupiter Spot Gemini Tankers Nordic Voyager Spot Stena Bulk Nordic Cosmos Spot Stena Bulk Nordic Moon Spot Stena Bulk (1) Spot/TC = Time Charter on spot market related terms. One customer accounted for 23%, 37%, and 97% of the Company's revenues during the year ended December 31, 2006, 2005 and 2004, respectively. Five customers accounted for 23%, 22 %, 21%, 18%, 16% and 27%, 24%, 21%, 15%, 14% of the accounts receivable balance for the year ended December 31, 2006 and December 31, 2005, respectively. 4. PREPAID EXPENSES AND OTHER CURRENT ASSETS All figures in USD '000 2006 2005 ---------- ---- ---- Bunkers and lubricants inventory 5,110 2,136 Other current assets - Managers 3,247 56 Prepaid expenses - Managers 1,716 345 Other 1,406 610 Total as per December 31, 11,479 3,147 The line items "Other current assets - Managers" and "Prepaid expenses - Managers" relate to assets held and prepaid expenses incurred by our technical and commercial managers at our risk. 5. GENERAL AND ADMINISTRATIVE EXPENSES All figures in USD '000 2006 2005 2004 ---------- ---- ---- ---- Management fee 100 100 175 Directors and officers insurance 116 121 113 Salary and wages 1,022 635 165 Audit, legal and consultants 1,171 679 588 Outsourced administrative services 1,564 1,461 313 Compensation - restricted shares (non-cash) 6,369 3,583 9,252 2004 Stock Incentive Plan

1,545 1,415 0 Other fees and expenses 864 498 245 Total as per December 31, 12,750 8,492 10,852 6. VESSEL AND OTHER PROPERTY Vessel and Other Property consist of twelve modern double hull Suezmax crude oil tankers, drydocking charges and ballast tank improvements. Depreciation is calculated on a straight-line basis over the estimated useful life of the vessels. The estimated useful life of a new vessel is 25 years. All figures in USD '000 2006 2005 ---------- ---- ---- Acquisition Costs as per January 1 , 531,074 236,913 Acquisitions 317,800 294,161 Acquisition Costs as per December 31, 848,874 531,074 Accumulated Depreciation as per January 1, (67,141) (49,612) Depreciation (29,254) (17,529) Accumulated Depreciation (96,396) (67,141) Net Book Value as per December 31, 752,478 463,933 Included in the above amounts are drydocking charges and ballast tank improvements with a net book value of $3.2 million and $2.2 million as at December 31, 2006 and 2005, respectively. Depreciation expenses for drydocking and ballast tank improvements were $0.6 million and $0.2 million for the years 2006 and 2005, respectively. Accumulated depreciation for docking and ballast tank improvements were $0.8 million and $0.2 million for the year ended December 31, 2006 and December 31, 2005. 7. SHARE-BASED COMPENSATION The Company has two share-based compensation plans, which are described below. The compensation cost that has been charged against income as part of General and Administrative expenses for those plans was $7.9 million, $5.0 million, and $9.3 million for 2006, 2005, and 2004, respectively. Unrecognized compensation cost related to the Plan is $2.5 million as at December 31, 2006. That cost is expected to be recognized over a weighted-average period of 1.49 years. 2004 Stock Incentive Plan Under the terms of the Company's 2004 Stock Incentive Plan ("Plan"), the directors, officers and certain key employees of the Company and the Manager will be eligible to receive awards which include incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and performance shares. The Company believes that such awards better align the interests of its employees with those of its shareholders. A total of 400,000 common shares are reserved for issuance upon exercise of options, as restricted share grants or otherwise under the plan. A total of 320,000 options and 16,700 restricted shares have been issued as at December 31, 2006. All stock options were issued during fiscal year 2005, while all of the restricted shares were issued during fiscal year 2006. There was no activity during fiscal year 2004. Stock option awards were granted with an exercise price that is subject to adjustment for dividends to share holders exceeding 3% of the initial stock option exercise price. Stock option awards generally vest equally over four years from grant date and have a 10-year contractual term. There have not been any modifications to the terms of the granted awards during the year ended December 31, 2006. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table below. Stock options issued to non-employees are measured at each reporting date and fair value is estimated with the same model used for estimating fair value of the options granted to employees. Because the option valuation model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of the Company's stock and other factors. Expected life of the options is estimated to be equal to the vesting period for employees when calculating the fair value of the options. When calculating the fair value of the options issued to non-employees, the expected life is equal to the actual life of options. The Company recognizes the compensation cost for stock options issued to non-employees over the requisite service period, which is considered to be equal to the vesting period. Stock options to employees are measured at fair value at the grant date and the compensation cost is recognized on a straight-line basis over the vesting period. The assumptions used when estimating the fair value at grant date are specified in the table below. Stock options to non-employees are measured at fair value at the balance sheet date and the assumptions used are specified separately in the table below. The risk-free rate for periods within the contractual life of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant for options to employees. The risk-free rate at year-end is used for stock options issued to non-employees. December 31, 2006 December 31, 2005 Weighted average figures Employees Non-employees Employees Non-employees ---------- --------- ---------- --------- ---------- Volatility 42.60% 40.48% 42.60% 42.08% Dividends yield 3.0% 3.0 % 3.0% 3.0% Expected life 3.81 8.27 3.81 9.27 Risk-free rate (range) 3.52% - 4.43% 4.70% 3.52% - 4.43% 4.53% - 4.61% A summary of option activity under the Plan as of December 31, 2006, and changes during the year then ended is presented below: Options - Options - Weighted-average exercise Options employees non-employees price ------- --------- ---------- ----- Outstanding at January 1, 2006 240,000 80,000 $35.70 Granted - - - Exercised - - - Forfeited or expired - - - Outstanding at December 31, 2006 240,000 80,000 $31.01 Exercisable at December 31, 2006 115,000 32,500 $31.01 Outstanding and exercisable stock options as at December 31, 2006 have a weighted-average remaining term of 8.09 years for employees and 8.31 years for

non-employees. The exercise price for outstanding stock options as at December 31, 2006 is $31.01. Weighted-average Options Weighted-average grant-date Options grant-date fair value - fair value -Employees - Employees Non-employees - Non-employees ---------- ---------- ---------- ---------- Non-vested at January 1, 2006 185,000 $18.38 67,500 $21.75 Granted during the year - - - - Vested during the year (72,500) $17.84 (20,000) $22.93 Forfeited during the year - - - - Estimated forfeitures unvested options - - - - Non-vested at December 31, 2006 112,500 $18.64 47,500 $21.25 Restricted Shares to Employees and Non-Employees Under the terms of the Company's 2004 Stock Incentive Plan, 16,700 shares of restricted stock were granted to certain employees and non-employees during 2006. The restricted shares were granted on May 12, 2006 at a grant date fair value of $31.99 per share. The fair value of restricted shares is estimated based on the market price of the Company's shares. The fair value of restricted shares granted to employees is measured at the grant date and the fair value of restricted shares granted to non-employees is measured at fair value at each reporting date. The shares are considered restricted as the holders of the shares cannot dispose of them for a period of up to four years from issuance, as the restricted shares vest in yearly instalments during this period. The holders of the restricted shares do have ordinary shareholder rights including entitlement to dividends declared during the period and voting rights. The restricted shares vest in four equal amounts in May 2007, May 2008, May 2009 and May 2010. No restricted shares vested fully during in 2006. There were 9,700 restricted shares issued to employees and 7,000 restricted shares to non-employees in 2006. The compensation cost for employees and non-employees are recognized on a straight-line basis over the vesting period. The total compensation cost in 2006 related to restricted shares was $80,319. At December 31, 2006, there were 16,700 restricted shares outstanding at a weighted-average grant date fair value of $31.99 for employees and $31.99 for non-employees. As of December 31, 2006, unrecognized compensation cost related to unvested restricted stock aggregated $470,433, which will be recognized over a weighted average period of 3.4 years. The table below summarizes the Company's restricted stock awards as of December 31, 2006: Weighted-average Weighted-average grant-date Restricted shares grant-date fair value Restricted shares fair value -Employees - Employees - Non-employees - Non-employees ---------- ---------- ---------- ---------- Outstanding at January 1, 2006 - - - - Granted during the year 9,700 $31.99 7,000 $31.99 Vested during the year - - - - Forfeited during the year - - - - Outstanding at December 31, 2006 9,700 $31.99 7,000 $31.99 Restricted Shares to Manager Prior to December 31, 2004 the Management Agreement provided that the Manager would receive 1.25% of any gross charterhire paid to the Company. In order to further align the Manager's interests with those of the Company, the Manager agreed to amend the Management Agreement, effective October 12, 2004, to eliminate this payment, and the Company has issued to the Manager restricted common shares equal to 2% of our outstanding common shares at par value of $0.01 per share. Any time additional common shares are issued, the Manager will receive additional restricted common shares to maintain the number of common shares issued to the Manager at 2% of total outstanding common shares. These restricted shares are non-transferable for three years from issuance. During 2006 the Company has issued to the Manager 205,392 shares at an average fair value of $30.62. The share-based compensation expense related to the issuance of restricted shares to the Manager of $6.3 million in 2006 was classified as general and administrative expenses. 8. LONG-TERM DEBT In September 2005, the Company entered into a $300 million revolving credit facility, which is referred to as the 2005 Credit Facility. The 2005 Credit Facility became effective as of October 2005 and replaced the previous credit facility from October 2004, a portion of which was set to mature in October 2005. The 2005 Credit Facility will mature in September 2010. The 2005 Credit Facility provides funding for future vessel acquisitions and general corporate purposes. The 2005 Credit Facility cannot be reduced by the lender and there is no repayment obligation of the principal during the five year term. Amounts borrowed under the 2005 Credit Facility bear interest at an annual rate equal to LIBOR plus a margin between 0.70% and 1.20% (depending on the loan to vessel value ratio). The Company pays a commitment fee of 30% of the applicable margin on any undrawn amounts. Total commitment fees paid for the year ended December 31, 2006 and December 31, 2005 were $0.7 million and $0.7 million, respectively. In September 2006, the Company increased the 2005 Credit Facility to $500 million. The other material terms of the 2005 Credit Facility were not amended. The undrawn amount of this facility as of December 31, 2006 and 2005 was $326.5 million and $170 million, respectively. Borrowings under the 2005 Credit Facility are secured by mortgages over the Company's vessels and assignment of earnings and insurance. The Company will be able to pay dividends in accordance with its dividend policy as long as it is not in default under the 2005 Credit Facility. Accrued interest as per December 31, 2006 is $1.0 million and was paid during the first quarter of 2007. 9. INTEREST EXPENSE Interest expense consists of interest expense on the long-term debt, the

commitment fee and loan financing costs related to the $500 million 2005 Credit Facility. The $173.5 million drawn on the facility bears interest equal to LIBOR plus a margin between 0.7% and 1.2%. The loan financing costs incurred in connection with the refinancing of the previous credit facility are deferred and amortized over the term of the 2005 Credit Facility on a straight-line basis. Amortization of loan costs is included in the interest expense. The amortization of loan financing costs was for the years 2006, 2005 and 2004 $0.4 million, $0.7 million and $0.1 million respectively. Total capitalized loan financing costs are $1.9 million as per December 31, 2006 and $1.7 million as per December 31, 2005. The amortization of loan financing costs for the years 2007 to 2009 are $0.5 million per year and $0.4 million for the year 2010. 10. DEFERRED REVENUE Deferred revenue of $0.5 million represents prepaid freight received from one of our customers prior to December 31, 2006, for services to be rendered during January 2007. 11. ACCRUED LIABILITIES All figures in USD '000 2006 2005 ---------- ---- ---- Accrued Interest 1,003 1,170 Accrued Expenses 5,054 1,459 Other Current Liabilities 4,808 0 Other 326 244 Total as per December 31, 11,191 2,873 The line item Other Current Liabilities relates to liabilities incurred by our technical and commercial managers at our risk. 12. SHARE HOLDERS' EQUITY Authorized, and issued and outstanding common shares roll-forward is as follows: Authorized Issued and Shares Outstanding Shares ------ ---------- Balance at December 31, 2003 51,200,000 9,706,606 Issuance of Common Shares in Follow-on Offering 3,105,000 Share-based Compensation 256,232 Balance at December 31, 2004 51,200,000 13,067,838 Issuance of Common Shares in Follow-on Offering 3,500,000 Share-based Compensation 76,658 Balance at December 31, 2005 51,200,000 16,644,496 Issuance of Common Shares in Follow-on Offering 4,297,500 Share-based Compensation 87,704 Issuance of Common Shares in Follow-on Offering 5,750,000 Share-based Compensation 117,347 Restricted Shares 16,700 Share-based Compensation 341 Balance at December 31, 2006 51,200,000 26,914,088 The total issued and outstanding shares as of December 31, 2006 were 26,914,088 shares of which 538,282 shares were restricted to the Manager and 16,700 shares were restricted to employees and non-employees as described in Note 7. The total issued and outstanding shares as of December 31, 2005 was 16,644,496 shares of which 332,890 shares were restricted as described in Note 7. 13. COMMITMENTS AND CONTINGENCIES The Company may be a party to various legal proceedings generally incidental to its business and is subject to a variety of environmental and pollution control laws and regulations. As is the case with other companies in similar industries, the Company faces exposure from actual or potential claims and legal proceedings. Although the ultimate disposition of legal proceedings cannot be predicted with certainty, it is the opinion of the Company's management that the outcome of any claim which might be pending or threatened, either individually or on a combined basis, will not have a materially adverse effect on the financial position of the Company, but could materially affect the Company's results of operations in a given year. No claims have been made against the Company for the fiscal year 2006 or 2005. The Company is not a party to any legal proceedings for the year ended December 31, 2006 and December 31, 2005, respectively. 14. SUBSEQUENT EVENTS In February 2007, the Company declared a dividend of $1.00 per share in respect of the fourth quarter of 2006 which was paid to shareholders in March 2007. In May 2007, the Company declared a dividend of $1.24 per share in respect of the first quarter of 2007 which will be paid to shareholders in May 2007. In May 2007, the Board of Directors decided to implement a Pension Plan for the CEO. The features of such a plan are expected to be in place during the second half of 2007. The CEO has no plans at all to retire from his present position. ITEM 19. EXHIBITS 1.1 Memorandum of Association of the Company incorporated by reference to Exhibit 3.1 to the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on August 28, 1995 (Registration No. 33-96268). 1.2 Bye-Laws of the Company incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on November 18, 2004. 2.1 Form of Share Certificate incorporated by reference to Exhibit 4.1 to the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission on August 28, 1995 (Registration No. 33-96268). 4.1 Form of Bareboat Charter between Nordic American Tanker Shipping Limited and BP Shipping Ltd, incorporated by reference to Exhibit 10.3 in the Registration Statement filed on Form F-1, Registration No. 33-96268. 4.2 Amended and Restated Management Agreement dated October 12, 2004, between Scandic American Shipping Ltd. and Nordic American Tanker Shipping Limited incorporated by reference to Form 6-K filed with the Securities and Exchange Commission on October 29, 2004. 4.3 Amendment to Restated Management Agreement dated April 29, 2005, between Scandic American Shipping Ltd. and Nordic American Tanker Shipping. 4.4 2004 Stock Incentive Plan incorporated by reference to Exhibit 4.5 to the Company's annual report on Form 20-F for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission on June 30, 2005. 4.5 Revolving Credit Facility Agreement by and among the

Company and the financial institutions listed in schedule 1 thereto, dated September 14, 2005, incorporated by reference into the Company's annual report on Form 20-F filed June 30, 2006. 4.6 Addendum No. 1 to Revolving Credit Facility Agreement by and among the Company and the financial institutions listed in schedule 2 thereto, dated September 21, 2006. 12.1 Rule 13a-14(a) Certification of the Chief Executive Officer. 12.2 Rule 13a-14(a) Certification of the Chief Financial Officer. 13.1 Certification of the Chief 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 15.1 Consent of Independent Registered Public Accounting Firm. 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. NORDIC AMERICAN TANKER SHIPPING LIMITED By:/s/ Herbjorn Hansson ---------- Name: Herbjorn Hansson Title: Chairman, Chief Executive Officer and President DATED: June 29, 2007 SK 01318 0002 786748