

Seaspan CORP
Form 20-F
March 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

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

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

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-32591

SEASPAN CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Republic of the Marshall Islands

(Jurisdiction of Incorporation or Organization)

Unit 2, 2nd Floor, Bupa Centre

141 Connaught Road West

Hong Kong

China

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(Address of Principal Executive Offices)

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

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

Title of Each Class	Name of Each Exchange on which Registered
Class A Common Shares, par value of \$0.01 per share	New York Stock Exchange
Series D Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
Series E Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
Series G Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
Series H Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
6.375% Senior Unsecured Notes due 2019	New York Stock Exchange

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

None

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

None

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

105,749,016 Class A Common Shares, par value of \$0.01 per share

4,981,029 Series D Preferred Shares, par value of \$0.01 per share

5,370,600 Series E Preferred Shares, par value of \$0.01 per share

5,600,000 Series F Preferred Shares, par value of \$0.01 per share

7,800,000 Series G Preferred Shares, par value of \$0.01 per share

9,000,000 Series H Preferred Shares, par value of \$0.01 per share

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP International Financial Reporting Standards as Issued by the International Accounting Standards Board Other

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

Item 17 Item 18

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

Yes No

SEASPAN CORPORATION

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PART I

Our disclosure and analysis in this Annual Report concerning our operations, cash flows, and financial position, including, in particular, the likelihood of our success in developing and expanding our business, include forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “continue,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “projections,” “forecasts,” “will,” “may,” “potential,” “should” and similar expressions are forward-looking statements. Although these statements are based upon assumptions we believe to be reasonable based upon available information, including projections of revenues, operating margins, earnings, cash flow, working capital and capital expenditures, they are subject to risks and uncertainties that are described more fully in this Annual Report in the section titled “Risk Factors.”

These forward-looking statements represent our estimates and assumptions only as of the date of this Annual Report and are not intended to give any assurance as to future results. As a result, you are cautioned not to rely on any forward-looking statements. Forward-looking statements appear in a number of places in this Annual Report. These statements include, among others:

- future operating or financial results;
- future growth prospects;
- our business strategy and other plans and objectives for future operations;
- our primary sources of funds for our short and medium-term liquidity needs;
- our expectations as to impairments of our vessels, including the timing and amount of currently anticipated impairments;
- the future valuation of goodwill;
- potential acquisitions, vessel financing arrangements and other investments, and our expected benefits from such transactions, including any acquisition or construction opportunities, vessel financing arrangements and related benefits relating to our venture with Greater China Intermodal Investments LLC, or GCI;
- discussions regarding a potential transaction involving GCI, including an acquisition of GCI or the assets of GCI;
- general market conditions and shipping market trends, including charter rates and factors affecting supply and demand;
- the financial condition of our customers, lenders, refund guarantors and other counterparties and their ability to perform their obligations under their agreements with us;
- the effect on us, our operating results and charters arising from Hanjin Shipping Co., Ltd.’s bankruptcy in South Korea;
- future time charters and vessel deliveries including future charters for vessels that are currently off- charter or on short-term charters;
- the potential for early termination of long-term contracts and our potential inability to enter into, renew or replace long-term contracts;
- our continued ability to maintain, enter into or renew primarily long-term, fixed-rate time charters with our existing customers or new customers, including, among other vessels, two of our 10000 “twenty foot equivalent unit” newbuilding containerships;
 - the economic downturn in the global financial markets and potential negative effects of any recurrence of such disruptions on our customers’ ability to charter our vessels and pay for our services;
- estimated future capital expenditures needed to preserve our capital base, and comply with regulatory standards, our expectations regarding future dry-docking and operating expenses, including ship operating expenses and general and administrative expenses;

- our financial condition and liquidity, including our ability to borrow funds under our credit facilities, to refinance our existing facilities and to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities;
- our continued ability to meet specified restrictive covenants in our financing and lease arrangements, our senior unsecured notes and our preferred shares;
- conditions in the public equity market and the price of our shares;
- our expectations about the availability of vessels to purchase, the time that it may take to construct new vessels, the delivery dates of new vessels, the commencement of service of new vessels under long-term time charter contracts and the useful lives of our vessels;
- availability of crew, number of off-hire days and, dry-docking requirements;
- our ability to leverage to our advantage our relationships and reputation in the containership industry;
- changes in governmental rules and regulations or actions taken by regulatory authorities, and the effect of governmental regulations on our business;
- taxation of our company and of distributions to our shareholders;
- our exemption from tax on our U.S. source international transportation income;
- potential liability from future litigation; and
- other factors discussed in the section titled “Risk Factors.”

Forward-looking statements in this Annual Report are estimates and assumptions reflecting the judgment of senior management and involve known and unknown risks and uncertainties. These forward-looking statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Accordingly, these forward-looking statements should be considered in light of various important factors, including, but not limited to, those set forth in “Item 3. Key Information—D. Risk Factors.”

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. We expressly disclaim any obligation to update or revise any of these forward-looking statements, whether because of future events, new information, a change in our views or expectations, or otherwise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the Securities and Exchange Commission, or the SEC, that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Unless we otherwise specify, when used in this Annual Report, the terms “Seaspan,” the “Company,” “we,” “our” and “us” refer to Seaspan Corporation and its subsidiaries.

References to shipbuilders are as follows:

Shipbuilder	Reference
CSBC Corporation, Taiwan	CSBC
Jiangsu New Yangzi Shipbuilding Co., Ltd.	New Jiangsu
Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd.	Jiangsu Xinfu
HHIC-PHIL Inc.	HHIC

References to customers are as follows:

Customer	Reference
ANL Singapore Pte. Ltd. ⁽¹⁾	ANL
CMA CGM S.A.	CMA CGM
Cheng Lie Navigation Co., Ltd. ⁽¹⁾	CNC
China Shipping Container Lines (Asia) Co., Ltd. ⁽²⁾⁽³⁾	CSCL Asia
COSCO Shipping Lines Co., Ltd. ⁽³⁾⁽⁴⁾	COSCON
COSCO (Cayman) Mercury Co., Ltd. ⁽⁵⁾	COSCO Mercury
New Golden Sea Pte. Ltd. ⁽⁵⁾	COSCO New Golden Sea
Hanjin Shipping Co., Ltd. ⁽⁶⁾	Hanjin
Hapag-Lloyd AG	Hapag-Lloyd
Hapag-Lloyd USA, LLC ⁽⁷⁾	HL USA
Kawasaki Kisen Kaisha Ltd. ⁽⁸⁾	K-Line
Maersk Line A/S ⁽⁹⁾	Maersk
MSC Mediterranean Shipping Company S.A.	MSC
Mitsui O.S.K. Lines, Ltd. ⁽⁸⁾	MOL
Orient Overseas Container Line Ltd.	OOCL
Simatech Marine S.A.	Simatech Marine
Yang Ming Marine Transport Corp.	Yang Ming Marine
Yang Ming (UK) Ltd. ⁽¹⁰⁾	Yang Ming
ZIM Integrated Shipping Services Ltd.	ZIM

⁽¹⁾ A subsidiary of CMA CGM.

⁽²⁾ A subsidiary of China Shipping Container Lines Co., Ltd., or CSCL.

⁽³⁾ While we continue to charter our vessels to CSCL Asia and COSCON, CSCL Asia and COSCON merged their container shipping businesses in March 2016.

⁽⁴⁾ A subsidiary of China COSCO Holdings Company Limited.

⁽⁵⁾ A subsidiary of COSCO Shipping Lines Co., Ltd.

⁽⁶⁾ Hanjin ceased to be a customer in October 2016. Please read “Item 5. Operating and Financial Review and Prospects—A. General—Management’s Discussion and Analysis of Financial Condition and Results of Operations—2016 Developments—Hanjin Shipping Bankruptcy.”

⁽⁷⁾ A subsidiary of Hapag-Lloyd.

⁽⁸⁾ On October 31, 2016, MOL, K-Line and Nippon Yusen Kabushiki Kaisha announced they will integrate their container shipping businesses under a new joint venture company. This is expected to be effective in April 2018.

⁽⁹⁾ A subsidiary of A.P. Moeller Maersk A/S.

⁽¹⁰⁾ A subsidiary of Yang Ming Marine Transport Corp.

We use the term “twenty foot equivalent unit,” or TEU, the international standard measure of containers, in describing the capacity of our containerships, which are also referred to as “our vessels”. We identify the classes of our vessels by the approximate average TEU capacity of the vessels in each class. However, the actual TEU capacity of a vessel may differ from the approximate average TEU capacity of the vessels in such vessel’s class.

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

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Item 3. Key Information

A. Selected Financial Data

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Statements of operations data					
(in thousands of USD):					
Revenue	\$ 877,905	\$ 819,024	\$ 717,170	\$ 677,090	\$ 660,794
Operating expenses:					
Ship operating	192,327	193,836	166,097	150,105	138,655
Cost of services, supervision fees	7,390	1,950	—	—	—
Depreciation and amortization	216,098	204,862	181,527	172,459	165,541
General and administrative	32,118	27,338	30,462	34,783	24,617
Operating leases	85,910	40,270	9,544	4,388	3,145
Loss (gain) on vessels	31,876	—	—	—	(9,773)
Expenses related to customer					
bankruptcy	19,732	—	—	—	—
Vessel impairments	285,195	—	—	—	—
Operating earnings	7,259	350,768	329,540	315,355	338,609
Other expenses (income):					
Interest expense and amortization					
of deferred financing fees	119,882	108,693	98,501	69,973	80,570
Interest income	(8,455)	(11,026)	(10,653)	(2,045)	(1,190)
Undrawn credit facility fee	2,673	3,100	3,109	2,725	1,516
Refinancing expenses	1,962	5,770	70	4,038	—
Change in fair value of financial					
instruments ⁽¹⁾	29,118	54,576	105,694	(60,504)	135,998
Equity (income) loss on investment	(188)	(5,107)	(256)	670	259
Other expense (income)	1,306	(4,629)	1,828	1,470	151
Net earnings (loss)	\$(139,039)	\$ 199,391	\$ 131,247	\$ 299,028	\$ 121,305
Common shares outstanding:	105,722,646	98,622,160	96,662,928	69,208,888	63,042,217
Per share data (in USD):					
Basic earnings (loss) per Class A					
common share	\$(1.89)	\$ 1.46	\$ 0.80	\$ 3.36	\$ 0.84
Diluted earnings (loss) per Class A					
common share	\$(1.89)	1.46	0.79	2.93	0.81
Dividends paid per Class A common	1.5000	1.4700	1.3475	1.1880	0.9380

share

Statement of cash flows data

(in thousands of USD):

Cash flows provided by (used in):

Operating activities	\$311,087	\$335,872	\$342,959	\$327,669	\$311,183
Financing activities	106,907	394,527	73,621	62,491	(181,364)
Investing activities	(265,613)	(716,634)	(691,205)	(295,158)	(229,564)

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	Year Ended December 31,				
	2016	2015	2014	2013	2012
Selected balance sheet data (at year end, in thousands of USD):					
Cash and cash equivalents	\$367,901	\$215,520	\$201,755	\$476,380	\$381,378
Current assets	510,109	540,163	516,926	600,113	463,930
Vessels ⁽²⁾	4,883,849	5,278,348	5,095,723	4,992,271	4,863,273
Deferred charges	68,099	57,299	26,606	12,247	12,694
Gross investment in lease	—	—	37,783	58,953	79,821
Goodwill	75,321	75,321	75,321	75,321	75,321
Other assets	120,451	89,056	67,308	106,944	83,661
Fair value of financial instruments, asset	—	33,632	37,677	60,188	41,031
Total assets ⁽³⁾	5,657,829	6,073,819	5,857,344	5,906,037	5,619,731
Current liabilities ⁽³⁾	484,844	423,801	415,795	519,175	179,224
Long-term deferred revenue	1,528	2,730	7,343	4,143	7,903
Long-term debt ⁽³⁾	2,569,697	3,072,058	3,052,941	2,820,583	3,004,192
Long-term obligations under capital lease ⁽³⁾	459,395	314,078	196,136	565,057	603,106
Fair value of financial instruments, long-term liability	200,012	336,886	387,938	425,375	606,740
Total shareholders' equity	1,747,249	1,776,183	1,745,224	1,571,705	1,218,567
Other data:					
Number of vessels in operation at year end	87	85	77	71	69
TEU capacity at year end	620,650	578,300	474,300	414,300	405,100
Fleet utilization ⁽⁴⁾	96.0	% 98.5	% 99.0	% 98.0	% 98.9

(1) All of our interest rate swap agreements and swaption agreements are marked to market and the changes in the fair value of these instruments are recorded in earnings.

(2) Vessel amounts include the net book value of vessels in operation and vessels under construction.

(3) Prior to the adoption of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, or ASU 2015-03, all debt issuance costs were presented as other non-current assets in our consolidated balance sheets. With the adoption of ASU 2015-03 on January 1, 2016, we present debt issuance costs related to a recognized debt liability, which includes long-term debt and other long-term obligations under capital lease, as a direct deduction from the carrying amount of that debt liability in our consolidated balance sheets. As a result of adopting ASU 2015-03, total assets and related debt liabilities decreased by \$35.3 million (December 31, 2015), \$38.0 million (December 31, 2014), \$41.7 million (December 31, 2013) and \$31.2 million (December 31, 2012) from the amounts previously presented.

(4) Fleet utilization is based on number of operating days divided by the number of ownership days during the year.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our shares or our 6.375% senior unsecured notes due 2019, or our Notes. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results, ability to pay dividends on our shares, ability to pay interest and principal on our Notes, ability to redeem our preferred shares, or the trading price of our shares or Notes.

Risk Inherent in Our Business

The business and activity levels of many of our customers, shipbuilders and third parties with which we do business and their respective abilities to fulfill their obligations under agreements with us, including payments for the chartering of our vessels, may be hindered by any deterioration in the industry, credit markets or other negative developments.

Our current vessels are primarily chartered to customers under long-term time charters and payments to us under those charters account for the majority of our revenue. Many of our customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. An over-supply of containership capacity and historically low freight rates resulted in many liner companies (including some of our customers) incurring losses in 2016. During the financial and economic crises, commencing in 2007 and 2008, there occurred a significant decline in the credit markets and the availability of credit and other forms of financing. Additionally, the equity value of many of our customers substantially declined during that period. The combination of a reduction of cash flow resulting from low freight rates, a reduction in borrowing bases under reserve-based credit facilities and the limited or lack of availability of debt or equity financing potentially reduced the ability of our customers to make charter payments to us. Any recurrence of significant financial and economic disruption, or any other negative developments affecting our customers generally or specifically (such as the bankruptcy of a customer, decline in global trade, industry over-capacity of containerships, low freight rates, asset write-downs and incurring losses) could result in similar effects on our customers or other third parties with which we do business, which in turn could harm our business, results of operations and financial condition. Please read “Item 5. Operating and Financial Review and Prospects—A. General—Management’s Discussion and Analysis of Financial Condition and Results of Operations—2016 Developments—Hanjin Shipping Bankruptcy.”

Similarly, the shipbuilders with whom we have contracted to construct newbuilding vessels may be affected by future instability of the financial markets and other market conditions or developments, including with respect to the fluctuating price of commodities and currency exchange rates. In addition, the refund guarantors under our shipbuilding contracts (which are banks, financial institutions and other credit agencies that guarantee, under certain circumstances, the repayment of installment payments we make to the shipbuilders), may also be negatively affected by adverse market conditions in the same manner as our lenders and, as a result, be unable or unwilling to meet their obligations to us due to their own financial condition. If our shipbuilders or refund guarantors are unable or unwilling to meet their obligations to us, this will harm our fleet expansion and may harm our business, results of operations and financial condition.

We derive our revenue from a limited number of customers, and the loss of any of such customers would harm our revenue and cash flow.

The following table shows, as at December 31, 2016, the number of vessels in our operating fleet that were chartered to our then 12 customers and the percentage of our total revenue attributable to the charters with such customers for the year ended December 31, 2016:

Customer	Number of Vessels in our Operating Fleet Chartered to Such Customer	Percentage of Total Revenue for the Year Ended December 31, 2016	
COSCON ⁽¹⁾⁽²⁾	21	34.3	%
CSCL Asia ⁽¹⁾	14	14.0	
Yang Ming Marine ⁽³⁾	9	13.8	
MOL ⁽⁴⁾	10	13.4	
K-Line ⁽⁴⁾	7	8.6	
Hapag-Lloyd ⁽⁵⁾	12	7.9	
Other	14	8.0	
Total	87	100.0	%

⁽¹⁾While we continue to charter our vessels to CSCL Asia and COSCON, CSCL Asia and COSCON merged their container shipping businesses on March 1, 2016.

⁽²⁾Includes vessels chartered to COSCON and COSCO Mercury.

⁽³⁾Includes vessels chartered to Yang Ming Marine and Yang Ming.

⁽⁴⁾On October 31, 2016, MOL, K-Line and Nippon Yusen Kabushiki Kaisha announced they will integrate their container shipping businesses under a new joint venture company. This is expected to be effective in April 2018.

⁽⁵⁾Includes vessels chartered to Hapag-Lloyd and HL USA.

The majority of our vessels are chartered under long-term time charters, and customer payments are our primary source of operating cash flow. As the long-term charters terminate, an increasing number of our vessels have been fixed on short-term charters at prevailing spot market rates, which are substantially lower than the rates on our existing long-term charters. In addition, as liner companies, such as our customers, consolidate through merger, joint ventures or alliances, our risk relative to the concentration of our customers may increase and they may also seek to renegotiate the rates payable for the remaining terms of their charters. The loss of any of these long-term charters, the increase in number of vessel on short-term charters or any material decrease in payments thereunder could materially harm our business, results of operations and financial condition.

Under some circumstances, we could lose a time charter or payments under the charter if:

- the customer fails to make charter payments because of its financial inability (including bankruptcy), disagreements with us, defaults on a payment or otherwise;
- at the time of delivery, the vessel subject to the time charter differs in its specifications from those agreed upon under the shipbuilding contract; or
-

the customer exercises certain limited rights to terminate the charter, including (a) if the ship fails to meet certain guaranteed speed and fuel consumption requirements and we are unable to rectify the situation or otherwise reach a mutually acceptable settlement and (b) under some charters if the vessel is unavailable for operation for certain reasons for a specified period of time, or if delivery of a newbuilding is delayed for a prolonged period. Any recurrence of significant financial and economic disruptions could result in our customers being unable to make charter payments to us in the future or seeking to amend the terms of our charters. Any such event could harm our business, results of operations and financial condition.

Charter party-related defaults under certain of our secured credit or capital lease facilities or our operating leases could permit the financiers to accelerate outstanding obligations under and terminate the facilities, or terminate the operating leases and subject us to termination penalties.

Most of our vessel financing credit facilities and capital lease arrangements, as well as our operating leases, are secured by, among other things, the charter parties for the applicable vessels and contain default provisions relating to such charter parties. The prolonged failure of the charterer to fully pay under the charter party or the termination or repudiation of the charter party without our entering into a replacement charter contract within a specified period of time constitute an event of default under certain of our financing agreements. If such a default were to occur, our outstanding obligations under the applicable financing agreements may become immediately due and payable, and the lenders' commitments under the financing agreements to provide additional financing, if any, may terminate. This could also lead to cross-defaults under other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. A default under any financing agreement could also result in foreclosure on certain applicable vessels and other assets securing related loans or financings. Please read "Item 5. Operating and Financial Review and Prospects—A. General—Management's Discussion and Analysis of Financial Condition and Results of Operations—2016 Developments—Hanjin Shipping Bankruptcy."

We may not be able to timely repay or be able to refinance amounts incurred under our credit facilities and capital and operating lease arrangements.

We have financed a substantial portion of our fleet with secured indebtedness drawn under our existing credit and capital and operating lease arrangements. We have significant normal course payment obligations under our credit facilities, our Notes and capital and operating lease arrangements, both prior to and at maturity, including approximately \$956.1 million in 2017 and an additional \$1,360.6 million through to 2019. In addition, under our credit facilities and capital and operating lease arrangements, a payment may be required in certain circumstances as a result of events such as the sale or loss of a vessel, a termination or expiration of a charter (where we do not enter into a replacement charter acceptable to the lenders within a required period of time) or termination of a shipbuilding contract. The amount that must be paid may be calculated based on the loan to market value ratio or some other ratio that takes into account the market value of the relevant vessel (with the repayment amount increasing if vessel values decrease), or may be the entire amount of the financing in regard to a credit facility or a pre-determined termination sum in the case of a capital or operating lease.

If we are not able to refinance outstanding amounts at an interest rate or on terms acceptable to us, or at all, we will have to dedicate a significant portion of our cash flow from operations to repay such amounts, which could reduce our ability to satisfy payment obligations related to our securities, our credit facilities, our Notes and capital and operating lease arrangements or may require us to delay certain business activities or capital expenditures or cease paying dividends. If we are not able to satisfy these obligations (whether or not refinanced) under our credit facilities or capital or operating lease arrangements with cash flow from operations, we may have to seek to restructure our indebtedness and lease arrangements, undertake alternative financing plans (such as additional debt or equity capital) or sell assets, which may not be available on terms attractive to us or at all. If we are unable to meet our debt or lease obligations, or if we otherwise default under our credit facilities or capital or operating lease arrangements, our lenders or lessors could declare all outstanding indebtedness to be immediately due and payable and foreclose on the vessels securing such indebtedness. The market values of our vessels, which fluctuate with market conditions, will also affect our ability to obtain financing or refinancing, as our vessels serve as collateral for loans. Lower vessel values at the time of any financing or refinancing may reduce the amounts of funds we may borrow.

Our substantial debt levels and vessel lease obligations may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

As of December 31, 2016, we had an aggregate of approximately \$2.9 billion outstanding under our credit facilities and our Notes, and capital lease obligations of approximately \$498.8 million. In addition, at December 31, 2016, we had total commitments under vessel operating leases from 2017 to 2028 of approximately \$1.3 billion. The amounts outstanding under our credit facilities and our lease obligations will further increase following the completion of our acquisition of the eight newbuilding containerships that we have contracted to purchase. As of February 20, 2017, for the eight newbuilding containerships that we have contracted to purchase, we have entered into lease facilities for five of the vessels and plan to enter into additional credit facilities or lease obligations to finance the remaining three vessels. Our level of debt and vessel lease obligations could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, potential capital calls related to our investment in GCI, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms, or at all;
- we may need to use a substantial portion of our cash from operations to make principal and interest payments on our debt or make our lease payments, reducing the funds that would otherwise be available for operation and future business opportunities;
- our debt level could make us more vulnerable to competitive pressures, a downturn in our business or the economy generally than our competitors with less debt; and
- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt and vessel lease obligations will depend upon, among other things, our financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our results of operations are not sufficient to service our current or future indebtedness and vessel lease obligations, we will be forced to take actions such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Over time, containership values and charter rates may fluctuate substantially, which could adversely affect our results of operations, our ability to access or raise capital or our ability to pay interest or principal on our Notes or dividends on our shares.

Containership values can fluctuate substantially over time due to a number of different factors, including, among others:

- prevailing economic conditions in the market in which the containership trades;
- a substantial or extended decline in world trade;
- increases or decreases in containership capacity; and
- the cost of retrofitting or modifying existing ships, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise.

If a charter terminates, we may be unable to re-deploy the vessel at attractive rates, or at all and, rather than continue to incur costs to maintain and finance the vessel, may seek to dispose of it. Our inability to dispose of the containership at a reasonable price, or at all, could result in a loss on its sale and harm our business, results of operations and financial condition. As of February 20, 2017, we had nine vessels off-charter. Subsequent to February 20, 2017, eight of these vessels have commenced or will be commencing short-term charters at market rates. We have an additional four vessels subject to existing long-term charters that are scheduled to expire during the remainder of 2017. In addition, we do not have charters for our two newbuilding 10000 TEU vessels scheduled for delivery in

2017. For our vessels that are or will be off-charter, there is no assurance that replacement charters will be secured and if secured, at what rates or for what duration.

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In addition, if we determine at any time that a containership's value has been impaired, we may need to recognize a significant impairment charge that will reduce our earnings and net assets. We review our containership assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, which occurs when the assets' carrying value is greater than the undiscounted future cash flows the asset is expected to generate over its remaining useful life. In our experience, certain assumptions relating to our estimates of future cash flows are more predictable by their nature, including, estimated revenue under existing contract terms and remaining vessel life. Certain assumptions relating to our estimates of future cash flows require more judgement and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts, the amount of time a vessel is off-charter, ongoing operating costs and vessel residual values, due to factors such as the volatility in vessel charter rates and vessel values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can provide no assurances, however, as to whether our estimates of future cash flows, particularly future vessel charter revenues or vessel values, will be accurate. Vessels that currently are not considered impaired may become impaired over time if the future estimated undiscounted cash flows decline at a rate that is faster than the depreciation of our vessels.

A reduction in our net assets could result in a breach of certain financial covenants contained in our credit and lease facilities and our preferred shares, which could limit our ability to borrow additional funds under our credit and lease facilities or require us to repay outstanding amounts. Further, declining containership values could affect our ability to raise cash by limiting our ability to refinance vessels or use unencumbered vessels as collateral for new loans or result in prepayments under certain of our credit facilities or our Notes. This could harm our business, results of operations, financial condition, ability to raise capital or ability to pay dividends.

During the year ended December 31, 2016, we determined that the estimated undiscounted cash flows of certain vessels did not exceed the carrying value of the respective vessel over its remaining useful life and, accordingly, recorded non-cash vessel impairments of \$285.2 million for 16 vessels held for use, including four 4250 TEU, two 3500 TEU and ten 2500 TEU vessels.

If time charter rates do not improve meaningfully from current market rates during the next 12 months, we expect that we would recognize further impairment charges beyond 2016, including 2017, related to certain of our vessels less than 5100 TEU in size. The determination of the fair value of vessels will depend on various market factors, including charter and discount rates, ship operating costs and vessel trading values, and our reasonable assumptions at that time. The amount, if any, and timing of any impairment charges we may recognize in the future will depend upon then current and expected future charter rates, vessel utilization, operating and dry-docking expenditures, vessel residual values, inflation and the remaining expected useful lives of our vessels, which may differ materially from those used in our estimates at December 31, 2016.

An over-supply of containership capacity may lead to reductions in charter hire rates and profitability.

As of February 1, 2017, newbuilding containerships with an aggregate capacity of 3.2 million TEUs, representing approximately 15.6% of the total worldwide containership fleet capacity as of that date, were under construction. The size of the orderbook is expected to result in the increase in the size of the world containership fleet over the next few years. An over-supply of containership capacity, combined with stability or any decline in the demand for containerships, may result in a reduction of charter hire rates, which is currently the case. If such a reduction occurs or exists when we seek to charter newbuilding vessels, our growth opportunities may be diminished. If such a reduction occurs or exists upon the expiration or termination of our containerships' current time charters, we may only be able to re-charter our containerships at unprofitable rates, if at all. As of February 20, 2017, we had nine vessels off-charter. Subsequent to February 20, 2017, eight of these vessels have commenced or will be commencing short-term charters at market rates. We have an additional four vessels subject to existing long-term charters that are scheduled to expire during the remainder of 2017. In addition, we do not have charters for our two newbuilding 10000 TEU vessels

scheduled for delivery in 2017. For our vessels that are or will be off-charter, there is no assurance that replacement charters will be secured and if secured, at what rates or for what duration.

If a more active short-term or spot containership market develops, we may have more difficulty entering into long-term, fixed-rate time charters and our existing customers may begin to pressure us to reduce our charter rates.

One of our principal strategies is to enter into long-term, fixed-rate time charters. As more vessels become available for the short-term or spot market, we may have difficulty entering into additional long-term, fixed-rate time charters for our vessels due to the increased supply of vessels and lower rates in the spot market. As a result, our cash flow may be subject to instability in the long-term. A more active short-term or spot market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flow in periods when the market price for containerships is depressed or insufficient funds available to cover our financing costs for related vessels. In addition, the development of an active short-term or spot containership market could affect rates under our existing time charters as our current customers may begin to pressure us to reduce our rates.

Our ability to obtain additional financing for future acquisitions of vessels may depend upon the performance of our then existing charters and the creditworthiness of our customers.

The actual or perceived credit quality of our customers, and any defaults by them, may materially affect our ability to obtain funds we may require to purchase vessels in the future or for general corporate purposes, or may significantly increase our costs of obtaining such funds. Our inability to obtain additional financing at attractive rates, if at all, could harm our business, results of operations and financial condition.

We will be required to make substantial capital expenditures to complete the acquisition of our newbuilding containerships and any additional vessels we acquire in the future, which may result in increased financial leverage or dilution of our equity holders' interests or decreased ability to redeem our preferred shares.

As of February 20, 2017, we have contracted to purchase an additional eight newbuilding containerships with scheduled delivery dates through October 2017. As of February 20, 2017, the total purchase price of the eight containerships remaining to be paid was estimated to be approximately \$469.0 million. Our obligation to purchase the eight containerships is not conditional upon our ability to obtain financing for such purchases. We have financing for five of the eight containerships for up to \$240.0 million of the purchase price remaining to be paid. We intend to significantly expand the size of our fleet beyond our existing contracted vessel program. The acquisition of additional newbuilding or existing containerships or businesses will require significant additional capital expenditures.

To fund existing and future capital expenditures, we intend to use cash from operations, incur borrowings, raise capital through the sale of additional securities, enter into other sale-leaseback or financing arrangements, or use a combination of these methods. Use of cash from operations may reduce cash available to pay dividends to our shareholders, including holders of our preferred shares, or to redeem our preferred shares. Incurring additional debt may significantly increase our interest expense and financial leverage, and under certain of our debt facilities there are maximum loan to value ratios at time of advance that may restrict our ability to borrow. Issuing additional equity securities may result in significant shareholder dilution, which, subject to the relative priority of our equity securities, could negatively affect our ability to pay dividends. Our ability to obtain or access bank financing or to access the capital markets for future debt or equity financings may be limited by our financial condition at the time of any such financing or offering and covenants in our credit facilities, as well as by adverse market conditions. To the extent that we enter into newbuilding or other vessel acquisition contracts prior to entering into charters for such vessels, our ability to obtain new financing for such vessels may be limited and we may be required to fund all or a portion of the cost of such acquisitions with our existing capital resources. Our failure to obtain funds for our capital expenditures at attractive rates, if at all, could harm our business, results of operations and financial condition.

Over the long-term, we will be required to make substantial capital expenditures to preserve the operating capacity of our fleet.

We must make substantial capital expenditures over the long-term to preserve the operating capacity of our fleet. If we do not retain funds in our business in amounts necessary to preserve the operating capacity of our fleet, over the long-term our fleet and related charter revenues may diminish and we will not be able to continue to refinance our indebtedness. At some time in the future, as our fleet ages, we will likely need to retain additional funds, on an annual basis, to provide reasonable assurance of maintaining the operating capacity of our fleet over the long-term. There are several factors that will not be determinable for a number of years, but which our board of directors will consider in future decisions about the amount of funds to be retained in our business to preserve our capital base. To the extent we use or retain available funds to make capital expenditures to preserve the operating capacity of our fleet, there will be less funds available to pay interest and principal on our Notes, pay dividends on our equity securities or redeem our preferred shares.

We may not have sufficient cash from our operations to enable us to pay dividends on our shares or redeem our preferred shares following the payment of expenses.

We will pay quarterly dividends on our shares from funds legally available for such purpose when, as and if declared by our board of directors. We may not have sufficient cash available each quarter to pay dividends. In addition, we may have insufficient cash available to redeem our preferred shares. The amount of dividends we can pay or the amount we can use to redeem the preferred shares depends upon the amount of cash we generate from and use in our operations, which may fluctuate significantly based on, among other things:

- our ability to charter ships that are currently off-charter, on short-term charter or coming off long-term charter;
- the rates we obtain from our charters or re-charters and the ability of our customers to perform their obligations under their charters;
- the level of our operating costs;
- the number of off-charter or unscheduled off-hire days for our fleet and the timing of, and number of days required for, dry-docking of our containerships;
- delays in the delivery of new vessels and the beginning of payments under charters relating to those ships;
- prevailing global and regional economic and political conditions;
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business;
- changes in the basis of taxation of our activities in various jurisdictions;
- our ability to service and refinance our current and future indebtedness;
- our ability to raise additional debt and equity to satisfy our capital needs;
- dividend and redemption payments applicable to other senior or parity equity securities; and
- our ability to draw on our existing credit facilities and the ability of our lenders and lessors to perform their obligations under their agreements with us.

On February 28, 2017, we announced our intention to reduce our quarterly dividend to \$0.125 per common share commencing with the first quarter of 2017.

The amount of cash we have available to pay dividends on our shares or to redeem our preferred shares will not depend solely on our profitability, and our board of directors may determine to retain cash rather than to use it to pay dividends.

The actual amount of cash we will have available to pay dividends on our shares or to redeem our preferred shares also depends on many factors, including, among others:

- changes in our operating cash flow, capital expenditure requirements, debt and lease repayment requirements, working capital requirements and other cash needs;
- restrictions under our existing or future credit and lease facilities or any future debt securities, including existing restrictions under our credit, capital lease and operating lease facilities on our ability to declare or pay dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default;
- the amount of any reserves established by our board of directors; and
- restrictions under Marshall Islands law, which generally prohibits the payment of dividends other than from surplus (i.e. retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which is affected by non-cash items, and our board of directors in its discretion may elect not to declare any dividends. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

Our board of directors periodically assesses our need to retain funds rather than pay them out as dividends. On February 28, 2017, we announced our intention to reduce our quarterly dividend to \$0.125 per common share commencing with the first quarter of 2017. Unless we are successful in making acquisitions with outside sources of financing that add a material amount to our cash available for retention in our business or unless our board of directors concludes that we will likely be able to re-charter our fleet upon expiration of existing charters at rates higher than the rates in our current charters, our board of directors may determine at some future date to further reduce, or possibly eliminate, our dividend to provide reasonable assurance that we are retaining funds necessary to preserve our capital base.

Restrictive covenants in our financing and lease arrangements, our Notes and our preferred shares impose financial and other restrictions on us, which may limit, among other things, our ability to borrow funds under such financing and lease arrangements and our ability to pay dividends on our shares or redeem our preferred shares.

To borrow funds under our existing debt facilities and capital and operating lease arrangements, we must, among other things, meet specified financial covenants. For example, we are prohibited under certain of our existing credit facilities and capital and operating lease arrangements from incurring total borrowings in an amount greater than 65% of our total assets as defined in the agreement and we must also ensure that certain interest coverage, and interest and principal coverage ratios are met. Total borrowings and total assets are terms defined in our credit facilities and capital and operating lease arrangements and differ from those used in preparing our consolidated financial statements, which are prepared in accordance with U.S. GAAP. To the extent we are unable to satisfy the requirements in our credit facilities and capital and operating lease arrangements, we may be unable to borrow additional funds under the facilities and lease arrangements. If we are not in compliance with specified financial ratios or other requirements in our credit facilities, Notes or lease arrangements, we may be in breach, which could require us to repay outstanding amounts. We may also be required to prepay amounts borrowed under our credit facilities, Notes and lease arrangements if we experience a change of control. These events may result in financial penalties to us under our

leases.

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Our credit and capital lease facilities, Notes and our operating leases, impose operating and financial restrictions on us and require us to comply with certain financial covenants. These restrictions and covenants limit our ability to, among other things:

- pay dividends if an event of default has occurred and is continuing under one of our credit facilities and capital and operating lease arrangements or if the payment of the dividend would result in an event of default;
- incur additional indebtedness under the credit facilities or otherwise, including through the issuance of guarantees;
- create liens on our assets;
- sell our vessels without replacing such vessels or prepaying a portion of our loan or lease arrangements; or
- merge or consolidate with, or transfer all or substantially all our assets to, another person.

Accordingly, we may need to seek consent from our lenders, lessors or holders of our Notes in order to engage in some corporate actions. The interests of our lenders or lessors may be different from ours, and we may be unable to obtain our lenders', lessors' or Note holders' consent when and if needed. In addition, we are subject to covenants for our preferred shares. If we do not comply with the restrictions and covenants in our credit facilities, capital and operating lease arrangements, our Notes or in our preferred shares, our business, results of operations and financial condition and ability to pay dividends on or redeem our preferred shares will be harmed.

Future disruptions in global financial markets and economic conditions or changes in lending practices may harm our ability to obtain financing on acceptable terms, which could hinder or prevent us from meeting our capital needs.

Global financial markets and economic conditions were disrupted and volatile following the events of 2007 and 2008. During this time, the debt and equity capital markets became exceedingly distressed, and it was difficult generally to obtain financing and the cost of any available financing increased significantly. While markets have stabilized since this time, if global financial markets and economic conditions significantly deteriorate in the future, we may be unable to obtain adequate funding under our credit facilities because our lenders may be unwilling or unable to meet their funding obligations or we may not be able to obtain funds at the interest rate agreed in our credit facilities due to market disruption events or increased costs. Such deterioration may also cause lenders to be unwilling to provide us with new financing to the extent needed to fund our ongoing operations and growth. In addition, in recent years, the number of lenders for shipping companies has decreased and ship-funding lenders have generally lowered their loan-to-value ratios and shortened loan terms and accelerated repayment schedules. These factors may hinder our ability to access financing.

If financing or refinancing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to implement our growth strategy, complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could harm our business, results of operations and financial condition.

We will be paying all costs for the newbuilding vessels that we have contracted to purchase and have incurred borrowings to fund, in part, installment payments under the relevant shipbuilding contracts. If any of these vessels are not delivered as contemplated, we may be required to repay all or a portion of the amounts we borrowed.

The construction period currently required for a newbuilding containership similar to those we have ordered is approximately 18 months. For each of the newbuilding vessels that we have agreed to purchase, we are required to make certain payment installments prior to a final installment payment, which final installment payment generally is approximately 50-80% of the total vessel purchase price. We have entered into long-term lease facilities to partially fund the construction of our newbuilding vessels and plan to enter into additional credit facilities or lease obligations to fund the remaining vessels that we have contracted to purchase. We are required to make these payments to the shipbuilder and to pay the debt service cost under the credit facilities in advance of receiving any revenue under the time charters for the vessels, which commence following delivery of the vessels.

If a shipbuilder is unable to deliver a vessel or if we or one of our customers rejects a vessel, we may be required to repay a portion of the outstanding balance of the relevant credit facility. Such an outcome could harm our business, results of operations and financial condition.

Our growth depends upon continued growth in demand for containerships.

Our growth will generally depend on continued growth and renewal in world and regional demand for containership chartering. The ocean-going shipping container industry is both cyclical and volatile in terms of charter hire rates and profitability. Containership charter rates have fluctuated significantly during the last few years, and are expected to continue to fluctuate in the future. Fluctuations in containership charter rates result from changes in the supply and demand for vessel capacity which are driven by global fleet capacity and utilization and changes in the supply and demand for the major products internationally transported by containerships. The factors affecting the supply and demand for containerships, and the nature, timing and degree of changes in industry conditions are unpredictable.

Factors that influence demand for containership capacity include, among others:

- supply and demand for products suitable for shipping in containers;
- changes in global production of products transported by containerships;
- seaborne and other transportation patterns, including the distances over which container cargoes are transported and changes in such patterns and distances;
- the globalization of manufacturing;
- global and regional economic and political conditions;
- developments in international trade;
- environmental and other regulatory developments;
- currency exchange rates; and
- weather.

Factors that influence the supply of containership capacity include, among others:

- the number of newbuilding orders and deliveries;
- the extent of newbuilding vessel deferrals;
- the scrapping rate of containerships;
- newbuilding prices and containership owner access to capital to finance the construction of newbuildings;
- charter rates and the price of steel and other raw materials;
- changes in environmental and other regulations that may limit the useful life of containerships;
- the number of containerships that are slow-steaming or extra slow-steaming to conserve fuel;
- the number of containerships that are idle;
- port congestion and canal closures; and
- demand for fleet renewal.

Our ability to re-charter our containerships upon the expiration or termination of their current time charters and the charter rates under any renewal or replacement charters will depend upon, among other things, the then current state of the containership market. If charter rates are low when our existing time charters expire, we may be required to re-charter our vessels at reduced rates or even possibly a rate whereby we incur a loss, which would harm our results of operations. Alternatively, we may determine to leave such vessels off-charter. The same issues will exist if we acquire additional vessels and seek to charter them under long-term time charter arrangements as part of our growth strategy.

We may be unable to make or realize expected benefits from acquisitions or investments, and implementing our growth strategy through acquisitions of existing businesses or vessels or investments in other containership businesses may harm our business, results of operation, financial condition and ability to pay dividends on our shares or redeem our preferred shares.

Our growth strategy includes selectively acquiring new containerships, existing containerships, containership-related assets and containership businesses as market conditions allow. We may also invest in other containership businesses. Factors that may limit the number of acquisition or investment opportunities in the containership industry include the ability to access capital to fund such transactions, the overall economic environment and the status of global trade and the ability to secure long-term, fixed-rate charters.

Any acquisition of, or investment in, a vessel or business may not be profitable to us at or after the time we acquire or make such acquisition or investment and may not generate cash flow sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and results of operations, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost savings or cash flow enhancements;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions or investments;
 - increase our leverage or dilute existing shareholders to the extent we fund any acquisitions through the assumption or incurrence of indebtedness or the issuance of equity securities;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired;
- have difficulties achieving internal controls effectiveness and integrating an acquired business into our internal controls framework;
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges; or
- not be able to service our debt obligations and other payment obligations related to our securities.

A significant number of our vessels are chartered to Chinese customers and certain of our shipbuilders are based in China. The legal system in China is not fully developed and has inherent uncertainties that could limit the legal protections available to us, and the geopolitical risks associated with chartering vessels to Chinese customers and constructing vessels in China could harm our business, results of operations and financial condition.

As of February 20, 2017, a total of 34 of the 96 vessels in our current and contracted fleet were chartered to Chinese customers. Our vessels that are chartered to Chinese customers and our newbuilding vessels that are being constructed in China are subject to various risks as a result of uncertainties in Chinese law, including (a) the risk of loss of revenues, property or equipment as a result of expropriation, nationalization, changes in laws, exchange controls, war, insurrection, civil unrest, strikes or other political risks and (b) being subject to foreign laws and legal systems and the exclusive jurisdiction of Chinese courts and tribunals.

The Chinese legal system is based on written statutes and their legal interpretation by the standing Committee of the National People's Congress. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

If we are required to commence legal proceedings against a lender, a customer or a charter guarantor based in China with respect to the provisions of a credit facility, a time charter or a time charter guarantee, we may have difficulties in enforcing any judgment obtained in such proceedings in China. Similarly, our shipbuilders based in China provide warranties against certain defects for the vessels that they will construct for us and we have refund guarantees from a Chinese financial institution for installment payments that we will make to the shipbuilders. Although the shipbuilding contracts and refund guarantees are governed by English law, if we are required to commence legal proceedings against these shipbuilders or against the refund guarantor, we may have difficulties enforcing in China any judgment obtained in such proceeding.

A decrease in the level of export of goods or an increase in trade protectionism will harm our customers' business and, in turn, harm our business, results of operations and financial condition.

Most of our customers' containership business revenue is derived from the shipment of goods from the Asia Pacific region, primarily China, to various overseas export markets, including the United States and Europe. Any reduction in or hindrance to the output of China-based exporters could negatively affect the growth rate of China's exports and our customers' business. For instance, the government of China has implemented economic policies aimed at increasing domestic consumption of Chinese-made goods. This may reduce the supply of goods available for export and may, in turn, result in a decrease in shipping demand.

Our international operations expose us to the risk that increased trade protectionism will harm our business. If global economic challenges exist, governments may turn to trade barriers to protect their domestic industries against foreign imports, thereby depressing shipping demand. In particular, the leaders of the United States have indicated the United States may seek to implement more protective trade measures. Increasing trade protectionism in the markets that our customers serve has caused and may continue to cause an increase in (a) the cost of goods exported from Asia Pacific, (b) the length of time required to deliver goods from the region and (c) the risks associated with exporting goods from the region. Such increases may also affect the quantity of goods to be shipped, shipping time schedules, voyage costs and other associated costs.

Any increased trade barriers or restrictions on global trade, especially trade with China, would harm our customers' business, results of operations and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could harm our business, results of operations and financial condition.

Adverse economic conditions, especially in the Asia Pacific region, the European Union or the United States, could harm our business, results of operations and financial condition.

Because a significant number of the port calls made by our vessels involves the loading or discharging of containerships in ports in the Asia Pacific region, economic turmoil in that region may exacerbate the effect of any economic slowdown on us. China has been one of the world's fastest growing economies in terms of gross domestic product, or GDP, which has increased the demand for shipping. However, China's high rate of real GDP growth is forecasted to continue to slow during 2017. The United States have indicated the United States may seek to implement more protectionist trade measures to protect and enhance its domestic economy. Additionally, the European Union, or the EU, and certain of its member states are facing significant economic and political challenges, including a risk of increased protectionist policies. Our business, results of operations and financial condition will likely be harmed by any significant economic downturn in the Asia Pacific region, including China, or in the EU or the United States.

The global economy experienced disruption and volatility following adverse changes in global capital markets commencing in 2007 and 2008. The deterioration in the global economy caused, and any renewed deterioration may cause, a decrease in worldwide demand for certain goods and shipping. Economic instability could harm our business,

results of operations and financial condition.

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Our growth and our ability to re-charter our vessels depends on our ability to expand relationships with existing customers and develop relationships with new customers, for which we will face substantial competition.

We intend to acquire additional containerships as market conditions allow in conjunction with entering primarily into additional long-term, fixed-rate time charters for such ships, and to re-charter our existing vessels following the expiration of their current long-term time charters to the extent we retain those vessels in our fleet. The process of obtaining new long-term time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Containership charters are awarded based upon a variety of factors relating to the vessel operator, including, among others:

- shipping industry relationships and reputation for customer service and safety;
- container shipping experience and quality of ship operations, including cost effectiveness;
- quality and experience of seafaring crew;
- the ability to finance containerships at competitive rates and the shipowner's financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new ships according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

Competition for providing new containerships for chartering purposes comes from a number of experienced shipping companies, including direct competition from other independent charter owners and indirect competition from state-sponsored and other major entities with their own or leased fleets. Some of our competitors have significantly greater financial resources than we do and may be able to offer better charter rates. An increasing number of marine transportation companies have entered the containership sector, including many with strong reputations and extensive resources and experience in the marine transportation industry. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or develop relationships with new customers on a profitable basis, if at all, which would harm our business, results of operations and financial condition. These risks will be heightened to the extent that we enter into newbuilding or other vessel acquisition contracts prior to entering into charters for such vessels.

Our ability to grow may be reduced by the introduction of new accounting rules for leasing.

The U.S. accounting standard-setting organization has issued its new standard on leases which has the effect of bringing most off-balance sheet leases onto a lessee's balance sheet as a right-of-use asset and a lease liability for all leases, including operating leases, with a term greater than 12 months. This change could affect our customers and potential customers and may cause them to breach certain financial covenants. This may make them less likely to enter into time charters for our containerships, which could reduce our growth opportunities. This new standard will become effective for fiscal years beginning after December 15, 2018.

Under the time charters for some of our vessels, if a vessel is off-hire for an extended period, the customer has a right to terminate the charter agreement for that vessel.

Under most of our time charter agreements, if a vessel is not available for service, or off-hire, for an extended period, the customer has a right to terminate the charter agreement for that vessel. If a time charter is terminated, we may be unable to re-deploy the related vessel on terms as favorable to us, if at all. We may not receive any revenue from that vessel, but may be required to continue to pay financing costs for the vessel and expenses necessary to maintain the vessel in proper operating condition.

Risks inherent in the operation of ocean-going vessels could harm our reputation, business, results of operation and financial condition.

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

- marine disaster;
- environmental accidents;
- grounding, fire, explosions and collisions;
- cargo and property losses or damage;
- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions; and
- piracy.

Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenue from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates, and damage to our reputation and customer relationships generally. The involvement of our vessels in an environmental disaster could harm our reputation as a safe and reliable vessel owner and operator. Any of these circumstances or events could harm our business, results of operations and financial condition.

Acts of piracy on ocean-going vessels have increased in frequency, which could harm our business, results of operations and financial condition.

Piracy is an inherent risk in the operation of ocean-going vessels and has historically affected vessels trading in certain regions of the world, including, among other areas, the South China Sea and the Gulf of Aden off the coast of Somalia and, in recent years, certain locations off of the West Coast of Africa. We may not be adequately insured to cover losses from these incidents, which could harm our business, results of operations and financial condition. In addition, crew costs, including for employing onboard security guards, could increase in such circumstances. Any of these events, or the loss of use of a vessel due to piracy, may harm our customers, impairing their ability to make payments to us under our charters, which would harm our business, results of operations and financial condition.

Terrorist attacks and international hostilities could harm our business, results of operations and financial condition.

Terrorist attacks and the continuing response to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets. Conflicts in Afghanistan, Syria, the Middle East and other regions and periodic tensions between North and South Korea (where many shipbuilders are located) may lead to additional acts of terrorism, regional conflict and other armed conflict around the world, which may contribute to further economic instability in the global financial markets or in regions where our customers do business or, in the case of countries in which our shipbuilders are located, affect our access to new vessels. These uncertainties or events could harm our business, results of operations and financial condition, including our ability to obtain additional financing on terms acceptable to us, or at all. In addition, terrorist attacks targeted at sea vessels in the future may negatively affect our operations and financial condition and directly affect our containerships or customers.

Our insurance may be insufficient to cover losses that may occur to our property or result from the inherent operational risks of the shipping industry.

We maintain insurance for our fleet against risks commonly insured against by vessel owners and operators. Our insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We may not be adequately insured against all risks and our insurers may not pay a particular claim. Even if our insurance coverage is adequate to cover any vessel loss, we may not be able to obtain a replacement vessel on a timely basis. Our credit facilities and lease arrangements restrict our use of any proceeds we may receive from claims under our insurance policies. In addition, in the future we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to supplementary or additional calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations, as an industry group, through which we receive indemnity insurance coverage for statutory, contractual and tort liability, due to the sharing and reinsurance arrangements stated in the insurance rules. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe they are standard in the shipping industry, may directly or indirectly increase our costs.

In addition, we do not carry loss-of-hire insurance, which covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled dry-docking due to damage to the vessel from accidents. Accordingly, any loss of a vessel or extended vessel off-hire, due to an accident or otherwise, could harm our business, results of operations and financial condition.

Increased inspection procedures, tighter import and export controls and new security regulations could cause disruption of our business.

International containership traffic is subject to security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. These inspections can result in cargo seizure, delays in the loading, offloading, trans-shipment or delivery of containers and the levying of customs duties, fines or other penalties against exporters or importers and, in some cases, customers.

U.S. and Canadian authorities have increased container inspection rates. Government investment in non-intrusive container scanning technology has grown and there is interest in electronic monitoring technology. It is unclear what changes, if any, to the existing inspection procedures will ultimately be proposed or implemented, or how any such changes will affect the industry. Such changes may impose additional financial and legal obligations on carriers and may render the shipment of certain types of goods by container uneconomical or impractical. Additional costs that may arise from current or future inspection procedures may not be fully recoverable from customers through higher rates or security surcharges. Any of these effects could harm our business, results of operations and financial condition.

Depending on the outcome of an ongoing EU investigation of container liner companies related to potential antitrust violations, our growth, results of operations and our ability to charter our vessels may be reduced.

In July 2016 the European Commission completed its investigations of certain major container liner companies, including some of our existing customers, related to potential violations of EU competition (antitrust) rules. The liner companies under investigation offered to enter into the following binding commitments regarding their future conduct for a period of three years, starting December 7, 2016;

- the carriers will stop publishing and communicating General Rate Increase announcements, i.e., changes to prices expressed solely as an amount or percentage of the change;
- in order for any future price announcements to be useful for customers, the carriers will announce figures that include at least the five main elements of the total price (base rate, bunker charges, security charges, terminal handling charges and peak season charges if applicable);
- price announcements will be binding on the carriers as maximum prices for the announced period of validity (but carriers will remain free to offer prices below these ceilings);
- price announcements will not be made more than 31 days before their entry into force, which corresponds to the period when customers usually start booking in significant volumes (typically, customers plan their shipments between four weeks and one week before they need to move their consignments).

Although we have no basis for assessing the effect of these commitments, it is possible that additional financial and legal obligations may be imposed on one or more of these liner companies. Such obligations may make these customers or similarly situated potential customers less likely to enter into or renew time charters for our containerships, which could reduce our growth opportunities and harm our business, results of operations and financial condition.

We are subject to regulation and liability under environmental laws that could require significant expenditures and affect our operations.

Our business and the operation of our containerships are materially affected by environmental regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which our containerships operate, as well as in the countries of their registration, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, water discharges, ballast water management and vessel recycling. Because such conventions, laws and regulations are often revised, we cannot predict the ultimate cost or effect of complying with such requirements or the effect thereof on the resale price or useful life of our containerships. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business, which may harm our business, results of operations and financial condition.

Environmental requirements can also affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in substantial penalties, fines or other sanctions, including the denial of access to certain jurisdictional waters or ports or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations and natural resource damages, if there is a release of petroleum or other hazardous materials from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of hazardous materials associated with our operations.

In addition, in complying with existing environmental laws and regulations and those that may be adopted, we may incur significant costs in meeting new maintenance and inspection requirements and new restrictions on air emissions from our containerships, in managing ballast water, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety, security and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. Substantial violations of applicable requirements or a catastrophic release of bunker fuel from one or more of our containerships could harm our business, results of operations and financial condition.

Compliance with safety and other vessel requirements imposed by classification societies may be costly and could harm our business, results of operations and financial condition.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the International Maritime Organization's, or IMO, International Convention for the Safety of Life at Sea, or SOLAS. In addition, a vessel generally must undergo annual, intermediate and special surveys to maintain classification society certification. If any vessel does not maintain its class or fails any annual, intermediate or special survey, the vessel will be unable to trade between ports and will be unemployable and we could be in violation of certain covenants in our credit facilities and our lease agreements. This could harm our business, results of operations and financial condition.

Delays in deliveries of our newbuilding containerships could harm our business, results of operations and financial condition.

We are currently under contract to purchase eight newbuilding containerships, which are scheduled to be delivered at various times through October 2017. The delivery of these containerships, or any other containerships we may order, could be delayed, which would delay our receipt of revenue under the charters for the containerships and, if the delay is prolonged, could permit our customers to terminate the newbuilding containership charter. The occurrence of any of such events could harm our business, results of operations and financial condition.

The delivery of the containerships could be delayed because of:

- work stoppages, other labor disturbances or other events that disrupt any of the shipyards' operations;
- quality or engineering problems;
 - changes in governmental regulations or maritime self-regulatory organization standards;
- bankruptcy or other financial crisis of any of the shipyards;
- a backlog of orders at any of the shipyards;
- hostilities, or political or economic disturbances in South Korea, the Philippines, Taiwan or China, where the containerships are being built;
- weather interference or catastrophic event, such as a major earthquake, fire or tsunami;
- our requests for changes to the original containership specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- our inability to obtain requisite permits or approvals;
- a dispute with any of the shipyards;
- the failure of our banks to provide debt financing; or
- a disruption to the financial markets.

In addition, each of the shipbuilding contracts for our newbuilding containerships contains "force majeure" provisions whereby the occurrence of certain events could delay delivery or possibly result in termination of the contract. If delivery of a containership is materially delayed or if a shipbuilding contract is terminated, it could harm our business, results of operations and financial condition.

Due to our lack of diversification, adverse developments in our containership transportation business could harm our business, results of operations and financial condition.

Our articles of incorporation currently limit our business to the chartering or re-chartering of containerships to others and other related activities, unless otherwise approved by our board of directors.

Nearly all of our cash flow is generated from our charters that operate in the containership transportation business. Due to our lack of diversification, an adverse development in the containership industry may more significantly harm our business, results of operations and financial condition than if we maintained more diverse assets or lines of business.

Because each existing and newbuilding vessel in our contracted fleet is or will be built in accordance with standard designs and uniform in all material respects to other vessels in its TEU class, any material design defect likely will affect all vessels in such class.

Each existing and newbuilding vessel in our fleet is built, or will be built, in accordance with standard designs and uniform in all material respects to other vessels in its class. As a result, any latent design defect discovered in one of our vessels will likely affect all of our other vessels in that class. Any disruptions in the operation of our vessels resulting from these defects could harm our business, results of operations and financial condition.

Increased technological innovation in competing vessels could reduce our charter hire rates and the value of our vessels.

The charter hire rates and the value and operational life of a vessel are determined by a number of factors, including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability to be loaded and unloaded quickly. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. Physical life is related to the original design and construction, maintenance and the impact of the stress of operations. If new containerships are built that are more efficient or flexible or have longer physical lives than our vessels, competition from these more technologically advanced containerships could adversely affect the amount of charter hire payments we receive for our vessels once their initial charters end and the resale value of our vessels. As a result, our business, results of operations and financial condition could be harmed.

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

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

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

The government of a ship's registry could requisition for title or seize our containerships. Requisition for title occurs when a government takes control of a ship and becomes the owner. Also, a government could requisition our containerships for hire. Requisition for hire occurs when a government takes control of a ship and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our containerships could harm our business, results of operations and financial condition.

Exposure to currency exchange rate or interest rate fluctuations may result in fluctuations in our results of operations and financial condition.

All of our charter revenues are earned in U.S. dollars. Although a significant portion of our operating and general and administrative costs are incurred in U.S. dollars, we have some exposure to currencies other than U.S. dollars, including Canadian dollars, Indian Rupees, Euros and other foreign currencies. Although we monitor exchange rate fluctuations on a continuous basis, and seek to reduce our exposure in certain circumstances by denominating charter-hire revenue, ship building contracts, purchase contracts and debt obligations in U.S. dollars when practical to

do so, we do not currently fully hedge movements in currency exchange rates. As a result, currency fluctuations may have a negative effect on our results of operations and financial condition.

As at December 31, 2016 we had an aggregate of approximately \$2.9 billion outstanding under our credit facilities and our Notes, and capital lease obligations of approximately \$498.8 million and total commitments under vessel operating leases from 2017 to 2028 of approximately \$1.3 billion. The majority of the credit facilities, capital leases and operating leases are variable rate facilities and leases, under which our payment obligations will increase as interest rates increase. While we have entered into interest rate swaps to manage some of our interest rate risk, interest rate fluctuations may have a negative effect on the results of our operations and financial condition. Please read “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk.”

Damage to our reputation or industry relationships could harm our business.

Our operational success and our ability to grow depend significantly upon our satisfactory performance of technical services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance and financial services). Our business will be harmed if we fail to perform these services satisfactorily. Our ability to compete for and to enter into new charters and expand our relationships with our customers depends upon our reputation and relationships in the shipping industry. If we suffer material damage to our reputation or relationships, it may harm our ability to, among other things:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully interact with shipyards;
- dispose of vessels on commercially acceptable terms;
- obtain financing on commercially acceptable terms;
- maintain satisfactory relationships with our customers and suppliers; or
- grow our business.

If our ability to do any of the things described above is impaired, it could harm our business, results of operations and financial condition.

As we expand our business or provide services to third parties, we may need to improve our operating and financial systems, expand our commercial and technical management staff, and recruit suitable employees and crew for our vessels.

Since our initial public offering in 2005, we have increased the size of our contracted fleet from 23 to 96 vessels as of February 20, 2017. We have also agreed to provide technical management services to third and related parties, including GCI and affiliates of Dennis R. Washington for vessels they may acquire. In addition, we currently manage GCI’s fleet of 15 operating vessels. Our current operating and financial systems may not be adequate if we further expand the size of our fleet or if we provide services to third parties and attempts to improve those systems may be ineffective. In addition, we will need to recruit suitable additional administrative and management personnel to manage any growth. We may not be able to continue to hire suitable employees in such circumstances. If a shortage of experienced labor exists or if we encounter business or financial difficulties, we may not be able to adequately staff our vessels. If we expand our fleet, or as we provide services to third parties and we are unable to grow our financial and operating systems or recruit suitable employees, our business, results of operations and financial condition may be harmed.

Our chief executive officer does not devote all of his time to our business.

Our chief executive officer, Gerry Wang, is involved in other business activities that may result in his spending less time than is appropriate or necessary in order to manage our business successfully. Pursuant to his employment agreement with us, Mr. Wang is permitted to provide services to Tiger Management Limited, or the Tiger Member, an entity owned and controlled by one of our directors, Graham Porter, and in which Mr. Wang has an indirect interest,

and GCI and certain of their respective affiliates, in addition to the services that he provides to us. In addition, Mr. Wang is a member of the board of managers of each of GCI and Greater China Industrial Investments LLC, or GC Industrial.

Our business depends upon certain employees, who may not necessarily continue to work for us.

Our future success depends to a significant extent upon our chief executive officer and co-chairman of our board of directors, Gerry Wang, and certain members of our senior management. Mr. Wang has substantial experience and relationships in the containership industry and has been instrumental in developing our relationships with our customers. Mr. Wang and other members of our senior management are crucial to the development of our business strategy and to the growth and development of our business. If they, and Mr. Wang in particular, were no longer to be affiliated with us, we may fail to recruit other employees with equivalent talent, experience and relationships, and our business, results of operations and financial condition may be harmed. Although Mr. Wang has an employment agreement with us which is scheduled to expire on May 31, 2021, unless earlier terminated, Mr. Wang could terminate his employment at any time. As such, it is possible that Mr. Wang will no longer provide services to us and that our business, results of operations and financial condition may be harmed by the loss of such services.

GCI competes in our markets, and its operation in the containership market may harm our business, results of operations and financial position.

The Carlyle Group, or Carlyle, which controls GCI, is a leading global alternative asset manager. GCI invests equity capital in containership and other maritime assets, primarily newbuilding vessels strategic to Greater China, which is similar to our growth strategy of investing in primarily newbuilding vessels strategic to Greater China. GCI has become the owner of a significant fleet of containerships, which could compete with us for growth opportunities. Our business, results of operations and financial condition could be harmed to the extent GCI successfully competes against us for containership opportunities.

Certain of our officers and directors or their affiliates have separate interests in or related to GCI, which may conflict with those of us and our shareholders relative to GCI.

Our chief executive officer and co-chairman, Gerry Wang and our director, Graham Porter, are members of the board of managers of each of GCI and GC Industrial. Due to these various capacities, potential conflicts of interest of Messrs. Wang and Porter relating to any potential containership acquisition or sale or chartering opportunities may arise.

Graham Porter, through his interest in the Tiger Member, is an indirect investor in GC Industrial, the member with the largest capital commitment in GCI. Blue Water Commerce, LLC, or Blue Water, an affiliate of Dennis R. Washington, or the Washington Member, and our chief executive officer, Gerry Wang, have indirect interests in the Tiger Member. As a result, Messrs. Wang and Porter and the Washington Member will have indirect interests in incentive distributions received by GC Industrial from GCI. These incentive distributions will range between 20% and 30% after a cumulative compounded rate of return of 12% has been generated on all member capital contributions. In addition, affiliates of Messrs. Wang and Porter provide certain transactional and financing services to GCI, for which they receive compensation.

As a result of these interests relating to GCI, the interests of Messrs. Wang, Porter and Kyle R. Washington may conflict with those of us or our shareholders relative to GCI.

Anti-takeover provisions in our organizational documents could make it difficult for our shareholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our securities.

Several provisions of our articles of incorporation and our bylaws could make it more difficult for our shareholders to change the composition of our board of directors, preventing them from changing the composition of management. In

addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue “blank check” preferred shares without shareholder approval;
- prohibiting cumulative voting in the election of directors;

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- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote for those directors;
- prohibiting shareholder action by written consent unless the written consent is signed by all shareholders entitled to vote on the action;
- limiting the persons who may call special meetings of shareholders;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings; and
- restricting business combinations with interested shareholders.

These anti-takeover provisions could substantially impede a potential change in control and, as a result, may adversely affect the market price of our securities.

Substantial future sales of our preferred or common shares in the public market could cause the price of such shares to fall.

The market price of our preferred and common stock could decline due to sales of a large number of shares in the market, including sales of shares by our large shareholders, or the perception that these sales could occur. These sales could also make it more difficult or impossible for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through future share offerings. In connection with our initial public offering, our entry into employment or services agreements with our chief executive officer, Gerry Wang, and an affiliate of one of our directors, Graham Porter, and the acquisition of Seaspan Management Services Limited, or SMSL, we have granted registration rights to the holders of certain of our securities, including common shares or securities convertible into common shares. These shareholders have the right, subject to certain conditions, to require us to file registration statements covering the sale by them of such common shares. Following their sale under an applicable registration statement, any such common shares will become freely tradable. By exercising their registration rights and selling a large number of common shares, these shareholders could cause the price of our common shares to decline.

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

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

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and all of our assets are located outside of the United States. Our principal executive offices are located in Hong Kong and a majority of our directors and officers are residents outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against our directors or our management in the United States if you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict you from enforcing a judgment against our assets or our

directors and officers.

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Our ability to pay dividends on our shares and redeem our preferred shares is limited by the requirements of Marshall Islands law.

Marshall Islands law provides that we may pay dividends on our shares and redeem our preferred shares only to the extent that assets are legally available for such purposes. Legally available assets generally are limited to our surplus, which essentially represents our retained earnings and the excess of consideration received by us for the sale of shares above the par value of the shares. In addition, under Marshall Islands law we may not pay dividends on our shares or redeem our preferred shares if we are insolvent or would be rendered insolvent by the payment of such a dividend or the making of such redemption.

Tax Risks

In addition to the following risk factors, you should read “Item 4. Information on the Company—B. Business Overview—Taxation of the Company,” and “Item 10. Additional Information—E. Taxation,” for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our shares.

U.S. tax authorities could treat us as a “passive foreign investment company,” which could have adverse U.S. federal income tax consequences to U.S. shareholders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a “passive foreign investment company,” or a PFIC, for such purposes in any taxable year for which either (a) at least 75% of its gross income consists of “passive income” or (b) at least 50% of the average value of the corporation’s assets is attributable to assets that produce, or are held for the production of, “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property, rents and royalties (other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business) but does not include income derived from the performance of services.

There are legal uncertainties involved in determining whether the income derived from our time chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Internal Revenue Code of 1986, as amended, or the Code. However, the Internal Revenue Service, or IRS, stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS’s statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on the current composition of our assets and operations (and those of our subsidiaries), we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that this position would be sustained by a court if contested by the IRS, or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations.

If the IRS were to find that we are or have been a PFIC for any taxable year during which a U.S. Holder (as defined below under “Item 10. Additional Information—E. Taxation—Material U.S. Federal Income Tax Considerations”) held shares, such U.S. Holder would face adverse tax consequences. For a more comprehensive discussion regarding our status as a PFIC and the tax consequences to U.S. Holders if we are treated as a PFIC, please read “Item 10. Additional Information—E. Taxation—Material U.S. Federal Income Tax Considerations—U.S. Federal Income Taxation of U.S.

Holders—PFIC Status and Significant Tax Consequences.”

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We, or any of our subsidiaries, may become subject to income tax in jurisdictions in which we are organized or operate, including the United States, Canada and Hong Kong, which would reduce our earnings and potentially cause certain shareholders to be subject to tax in such jurisdictions.

We intend that our affairs and the business of each of our subsidiaries will be conducted and operated in a manner that minimizes income taxes imposed upon us and our subsidiaries. However, there is a risk that we will be subject to income tax in one or more jurisdictions, including the United States, Canada and Hong Kong, if under the laws of any such jurisdiction, we or such subsidiary is considered to be carrying on a trade or business there or earn income that is considered to be sourced there and we do not or such subsidiary does not qualify for an exemption. Please read “Item 4. Information on the Company—B. Business Overview—Taxation of the Company.” In addition, while we do not believe that we are, nor do we expect to be, resident in Canada, in the event that we were treated as a resident of Canada, shareholders who are non-residents of Canada may be or become subject to tax in Canada. Please read “Item 4. Information on the Company—B. Business Overview—Taxation of the Company—Canadian Taxation” and “Item 10. Additional Information—E. Taxation—Canadian Federal Income Tax Considerations.”

Item 4. Information on the Company

A. History and Development of the Company

Seaspan Corporation was incorporated in the Republic of the Marshall Islands in May 2005 to acquire all of the containership business of Seaspan Container Lines Limited. In August 2005, we completed our initial public offering. From an initial operating fleet of 10 vessels, as of February 20, 2017, we have grown to an operating fleet of 88 containerships and we have entered into contracts for the purchase of an additional eight newbuilding containerships, which have scheduled delivery dates through October 2017.

We maintain our principal executive offices at Unit 2, 2nd Floor, Bupa Centre, 141 Connaught Road West, Hong Kong, China. Our telephone number is (852) 2540-1686.

B. Business Overview

General

We are a leading independent charter owner and manager of containerships, which we charter primarily pursuant to long-term, fixed-rate time charters with major container liner companies. As of February 20, 2017, we operated a fleet of 88 containerships and have entered into contracts for the purchase of an additional eight newbuilding containerships which have scheduled delivery dates through October 2017. Of our eight newbuilding containerships, six will commence operation under long-term, fixed-rate charters upon delivery. We expect to enter into long-term time charter contracts for the remaining two newbuilding containerships in the future. As of February 20, 2017, the average age of the 88 vessels in our operating fleet was approximately six years, on a TEU weighted basis.

We primarily deploy our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters. As of February 20, 2017, the charters on the 88 vessels in our operating fleet had an average remaining term of approximately five years, on a TEU weighted basis, excluding the effect of charterers’ options to extend certain time charters.

Customers for our operating fleet as at February 20, 2017 were as follows:

Customers for Current Fleet

ANL

CMA CGM

COSCON

COSCO Mercury

COSCO New Golden Sea

CSCL Asia

HL USA

Hapag-Lloyd

K-Line

Maersk

MOL

Yang Ming Marine

Yang Ming

ZIM

Customers for Additional Six Vessel Deliveries Subject to Charter Contracts

MSC

Yang Ming Marine

Our primary objective is to continue to grow our business through accretive vessel acquisitions as market conditions allow. Please read “—Our Fleet” for more information about our vessels and time charter contracts. Most of our customers’ containership business revenues are derived from the shipment of goods from the Asia Pacific region, primarily China, to various overseas export markets in the United States and in Europe.

Our Fleet

Our Current Fleet

The following table summarizes key facts regarding our 88 operating vessels as of February 20, 2017:

Vessel Name	Vessel Class (TEU)	Charter Year	Charter Period Start Date	Charterer	Length of Charter	Daily Charter Rate (in thousands of USD)
YM Wish	14000	2015	4/7/15	Yang Ming Marine	10 years + one 2-year option	\$46.8
YM Wellhead	14000	2015	4/22/15	Yang Ming Marine	10 years + one 2-year option	46.8
YM Winner ⁽¹⁾	14000	2015	6/10/15	Yang Ming Marine	10 years + one 2-year option	46.8
YM Witness	14000	2015	7/3/15	Yang Ming Marine	10 years + one 2-year option	46.8
YM Wellness ⁽¹⁾	14000	2015	8/21/15	Yang Ming Marine	10 years + one 2-year option	46.8
YM Warmth ⁽¹⁾	14000	2015	10/16/15	Yang Ming Marine	10 years + one 2-year option	46.8
YM Window ⁽¹⁾	14000	2016	5/8/16	Yang Ming Marine	10 years + one 2-year option	46.5
YM Width ⁽¹⁾	14000	2016	5/29/16	Yang Ming Marine	10 years + one 2-year option	46.5
COSCO Glory	13100	2011	6/10/11	COSCON	12 years	55.0
COSCO Pride ⁽¹⁾	13100	2011	6/29/11	COSCON	12 years	55.0
COSCO Development	13100	2011	8/10/11	COSCON	12 years	55.0
COSCO Harmony	13100	2011	8/19/11	COSCON	12 years	55.0
COSCO Excellence	13100	2012	3/8/12	COSCON	12 years	55.0
COSCO Faith ⁽¹⁾	13100	2012	3/14/12	COSCON	12 years	55.0
COSCO Hope	13100	2012	4/19/12	COSCON	12 years	55.0
COSCO Fortune	13100	2012	4/29/12	COSCON	12 years	55.0
Seaspan Ganges ⁽²⁾	10000	2014	—	—	—	—
Seaspan Yangtze	10000	2014	11/20/16	Yang Ming	Minimum 2 months and up to 4 months ⁽³⁾	Market rate
Seaspan Zambezi ⁽²⁾	10000	2014	—	—	—	—
MOL Bravo ⁽¹⁾	10000	2014	7/18/14	MOL	8 years + one 2-year option	37.5
MOL Brightness ⁽¹⁾	10000	2014	10/31/14	MOL	8 years + one 2-year option	37.5

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MOL Breeze ⁽¹⁾	10000	2014	11/14/14	MOL	8 years + one 2-year option	37.5	(5)
MOL Beacon ⁽¹⁾	10000	2015	4/10/15	MOL	8 years + one 2-year option	37.5	(5)
MOL Benefactor ⁽¹⁾	10000	2016	3/28/16	MOL	8 years + one 2-year option	37.5	(5)
MOL Beyond ⁽¹⁾	10000	2016	4/29/16	MOL	8 years + one 2-year option	37.5	(5)
Maersk Guayaquil	10000	2015	9/21/15	Maersk	5 years + two 1-year options	37.2	(6)
Maersk Genoa ⁽¹⁾	10000	2016	9/12/16	Maersk	5 years + two 1-year options	37.2	(6)
CSCL Zeebrugge	9600	2007	3/15/07	CSCL Asia	12 years	34.5	(7)
CSCL Long Beach	9600	2007	7/6/07	CSCL Asia	12 years	34.5	(7)
CSCL Oceania	8500	2004	10/18/16	COSCO Mercury	Minimum 10 months and up to 14 months	Market rate	(4)
CSCL Africa	8500	2005	11/25/16	COSCO Mercury	Minimum 10 months and up to 14 months	Market rate	(4)
COSCO Japan	8500	2010	3/9/10	COSCON	12 years + three 1-year options	42.9	(8)
COSCO Korea	8500	2010	4/5/10	COSCON	12 years + three 1-year options	42.9	(8)
COSCO Philippines	8500	2010	4/24/10	COSCON	12 years + three 1-year options	42.9	(8)
COSCO Malaysia	8500	2010	5/19/10	COSCON	12 years + three 1-year options	42.9	(8)
COSCO Indonesia	8500	2010	7/5/10	COSCON	12 years + three 1-year options	42.9	(8)

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COSCO Thailand	8500	2010	10/20/10	COSCON	12 years + three 1-year options	42.9	(8)
COSCO Prince Rupert						42.9	(8)
COSCO Vietnam	8500	2011	4/21/11	COSCON	12 years + three 1-year options	42.9	(8)
MOL Emerald	5100	2009	4/30/09	MOL	12 years	28.9	
MOL Eminence	5100	2009	8/31/09	MOL	12 years	28.9	
MOL Emissary	5100	2009	11/20/09	MOL	12 years	28.9	
MOL Empire	5100	2010	1/8/10	MOL	12 years	28.9	
Brottonne Bridge ⁽¹⁾	4500	2010	10/25/10	K-Line	12 years + two 3-year options	34.3	(9)
Brevik Bridge ⁽¹⁾	4500	2011	1/25/11	K-Line	12 years + two 3-year options	34.3	(9)
Bilbao Bridge ⁽¹⁾	4500	2011	1/28/11	K-Line	12 years + two 3-year options	34.3	(9)
Berlin Bridge	4500	2011	5/9/11	K-Line	12 years + two 3-year options	34.3	(9)
Budapest Bridge	4500	2011	8/1/11	K-Line	12 years + two 3-year options	34.3	(9)
Seaspan Chiwan	4250	2001	6/29/16	Hapag-Lloyd	Minimum 11 months and up to 18 months	Market rate	(4)
Seaspan Hamburg	4250	2001	5/3/16	Hapag-Lloyd	Minimum 11 months and up to 18 months ⁽¹⁰⁾	Market rate	(4)
Seaspan Ningbo	4250	2002	2/7/17	Hapag-Lloyd	Minimum one month and up to five months	Market rate	(4)
Seaspan Dalian	4250	2002	12/16/16	Hapag-Lloyd	Minimum 2.5 months and up to nine months	Market rate	(4)
Seaspan Felixstowe	4250	2002	12/24/16	Hapag-Lloyd	Minimum two months and up to nine months	Market rate	(4)
CSCL Vancouver	4250	2005	2/19/17	COSCO New Golden Sea	Five months	Market rate	(4)
CSCL Sydney ⁽¹¹⁾	4250	2005	—	—	—	—	
CSCL New York	4250	2005	5/26/05	CSCL Asia	12 years ⁽¹²⁾	17.0	
CSCL Melbourne	4250	2005	8/17/05	CSCL Asia	12 years	17.0	
CSCL Brisbane	4250	2005	9/15/05	CSCL Asia	12 years	17.0	
New Delhi Express	4250	2005	2/1/17	Hapag-Lloyd	Minimum two months and up to seven months	Market rate	(4)
Dubai Express	4250	2006	11/4/15	HL USA	Minimum 18 months and up to 24 months	Market rate	(4)
Jakarta Express	4250	2006	1/29/17	Hapag-Lloyd	Minimum one month and up to 12 months	Market rate	(4)
Seaspan Saigon	4250	2006	1/23/17	Hapag-Lloyd	Minimum one month and up to 12 months	Market rate	(4)
Seaspan Lahore ⁽¹³⁾	4250	2006	—	—	—	—	
Rio Grande Express	4250	2006	12/22/16	Hapag-Lloyd	Minimum two months and up to 13.5 months	Market rate	(4)
Seaspan Santos	4250	2006	2/14/17	CMA CGM	Minimum two months and up to 12 months	Market rate	(4)
Seaspan Rio de Janeiro ⁽¹⁴⁾	4250	2007	—	—	—	—	
Manila Express	4250	2007	5/23/07	HL USA	3 years + seven 1-year extensions + two 1-year options ⁽¹⁵⁾	18.0	(16)
Seaspan Alps	4250	2009	1/29/17	ZIM	Minimum two months and up to 10 months ⁽¹⁷⁾	Market rate	(4)

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Seaspan Kenya ⁽¹⁸⁾	4250	2008	—	—	—	—
Seaspan Grouse ⁽¹⁹⁾	4250	2009	—	—	—	—
Seaspan Mourne ⁽²⁰⁾	4250	2009	—	—	—	—
Seaspan Loncomilla	4250	2009	10/28/16	ANL	Minimum 1.5 months and up to 12 months	Market rate ⁽⁴⁾
Seaspan Lumaco	4250	2009	2/14/17	CMA CGM	Minimum six months and up to 12 months	Market rate ⁽⁴⁾
Seaspan Lingue	4250	2010	1/5/17	CMA CGM	Minimum two months and up to 12 months	Market rate ⁽⁴⁾
Seaspan Lebu	4250	2010	1/12/17	CMA CGM	Minimum two months and up to 12 months	Market rate ⁽⁴⁾
Seaspan Fraser ⁽¹⁾⁽²¹⁾	4250	2009	—	—	—	—
Kota Mawar	3500	2007	3/27/07	COSCON	12 years	19.0
Kota Maju	3500	2007	7/5/07	COSCON	12 years	19.0

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CSCL Panama	2500	2008	5/14/08	CSCL Asia	12 years	16.9 ⁽²²⁾
CSCL São Paulo	2500	2008	8/11/08	CSCL Asia	12 years	16.9 ⁽²²⁾
CSCL Montevideo	2500	2008	9/6/08	CSCL Asia	12 years	16.9 ⁽²²⁾
CSCL Lima	2500	2008	10/15/08	CSCL Asia	12 years	16.9 ⁽²²⁾
CSCL Santiago	2500	2008	11/8/08	CSCL Asia	12 years	16.9 ⁽²²⁾
CSCL San Jose	2500	2008	12/1/08	CSCL Asia	12 years	16.9 ⁽²²⁾
CSCL Callao	2500	2009	4/10/09	CSCL Asia	12 years	16.9 ⁽²²⁾
CSCL Manzanillo	2500	2009	9/21/09	CSCL Asia	12 years	16.9 ⁽²²⁾
Guayaquil Bridge	2500	2010	3/8/10	K-Line	10 years	17.9
Calicanto Bridge	2500	2010	5/30/10	K-Line	10 years	17.9

- (1) This vessel is leased pursuant to a lease agreement, which we used to finance the acquisition of the vessel.
- (2) This vessel will commence a short-term time charter with Hapag-Lloyd in April 2017 at market rates for a minimum of five months up to a maximum of 12 months where the exact period is at Hapag-Lloyd's option. Hapag-Lloyd has an option for an additional period for a minimum of 10 months up to a maximum of 12 months, if 12 months is selected for the firm period.
- (3) This vessel commenced a short-term time charter with Yang Ming in November 2016 at market rates for a minimum of two months up to a maximum of four months where the exact period was at Yang Ming's option. This vessel is expected to be re-delivered to us in March 2017 and will commence a short-term time charter with Hapag-Lloyd in April 2017 at market rates for a minimum of five months up to a maximum of 12 months where the exact period is at Hapag-Lloyd's option. Hapag-Lloyd has an option for an additional period for a minimum of 10 months up to a maximum of 12 months, if 12 months is selected for the firm period.
- (4) Given that the term of the charter is less than three years (excluding any charterers' option to extend the term), this vessel is being chartered at current market rates.
- (5) MOL has an initial charter of eight years with a charter rate of \$37,500 per day for the initial term and \$43,000 per day during the two-year option.
- (6) Maersk has an initial charter of five years with a charter rate of \$37,150 per day for the initial term, \$39,250 per day for the first one-year option and \$41,250 per day for the second one-year option.
- (7) CSCL Asia has a charter of 12 years with a charter rate of \$34,000 per day for the first six years, increasing to \$34,500 per day for the second six years.
- (8) COSCON has an initial charter of 12 years with a charter rate of \$42,900 per day for the initial term and \$43,400 per day for the three one-year options.
- (9) K-Line has an initial charter of 12 years with a charter rate of \$34,250 per day for the first six years, increasing to \$34,500 per day for the second six years, \$37,500 per day for the first three-year option period and \$42,500 per day for the second three-year option period.
- (10) This vessel will commence a direct continuation of the time charter with Hapag-Lloyd in April 2017 at market rates for a minimum of one month up to a maximum of five months, where the exact period is at Hapag-Lloyd's option.
- (11) This vessel re-delivered to us in February 2017 and commenced a short-term time charter with COSCO Mercury in February 2017 at market rates for a minimum of two months up to a maximum of 10 months, where the exact period is at COSCO Mercury's option.
- (12) This vessel will commence a direct continuation of the time charter with COSCO Mercury in March 2017 at market rates for a minimum of two months up to a maximum of 10 months, where the exact period is at COSCO Mercury's option.
- (13) This vessel commenced a short-term time charter with OOCL in March 2017 at market rates for a minimum of 1.5 months up to a maximum of four months, where the exact period is at OOCL's option.
- (14) This vessel commenced a short-term time charter with Hapag-Lloyd in March 2017 at market rates for a minimum of two months up to a maximum of 9.5 months, where the exact period is at Hapag-Lloyd's option. This vessel was

also renamed Seaspan Rio de Janeiro in February 2017.

- (15) For this charter, the initial term was three years, which automatically extends for up to an additional seven years in successive one-year extensions unless HL USA elects to terminate the charter with two years' prior written notice. In February 2017, we agreed to a direct continuation of this time charter at market rates for a minimum of 1.5 months up to a maximum of 2.5 months, where the exact period is at HL USA's option.
- (16) HL USA had an initial charter of three years that automatically extends for up to an additional seven years in successive one-year extensions unless HL USA elects to terminate the charter with two years' prior written notice, with a charter rate of \$18,000 per day for the first one-year option remaining, increasing to \$18,500 per day for the second one-year option.
- (17) This vessel was acquired in January 2017 and commenced a short-term time charter with ZIM in January 2017 at market rates.
- (18) This vessel will commence a short-term time charter with ZIM in March 2017 at market rates for a minimum of two months up to a maximum of nine months, where the exact period is at ZIM's option.
- (19) This vessel was acquired in December 2016 and is currently off-charter.
- (20) This vessel will commence a short-term time charter with Simatech Marine in March 2017 at market rates for a minimum of 2.5 months up to a maximum of six months, where the exact period is at Simatech Marine's option.
- (21) This vessel re-delivered to us in June 2016 and will commence a short-term time charter with CNC in March 2017 at market rates for a minimum of three months up to a maximum of 12 months, where the exact period is at CNC's option. This vessel was renamed Seaspan Fraser in November 2016.
- (22) CSCL Asia has a charter of 12 years with a charter rate of \$16,750 per day for the first six years, increasing to \$16,900 per day for the second six years.

New Vessel Contracts

Our primary objective is to continue to grow our business through accretive vessel acquisitions as market conditions allow.

As of February 20, 2017, we have contracted to purchase eight additional newbuilding containerships which have scheduled delivery dates through October 2017. Details of the newbuilding containerships are as follows:

Vessel				Scheduled	
Class				Delivery	
Vessel	(TEU)	Length of Time Charter ⁽¹⁾	Charterer	Date	Shipbuilder
Hull No. 1039	14000	10 years + one 2-year option	Yang Ming Marine	2017	CSBC
Hull No. 1122	10000	⁽²⁾	⁽²⁾	2017 ⁽³⁾	New Jiangsu and Jiangsu Xinfu
Hull No. 1169	10000	⁽²⁾	⁽²⁾	2017 ⁽³⁾	New Jiangsu and Jiangsu Xinfu
Hull No. 145	11000	17 years	MSC	2017	HHIC
Hull No. 146	11000	17 years	MSC	2017	HHIC
Hull No. 147	11000	17 years	MSC	2017	HHIC
Hull No. 148	11000	17 years	MSC	2017	HHIC
Hull No. 153	11000	17 years	MSC	2017	HHIC

⁽¹⁾Each charter is scheduled to begin upon delivery of the vessel to the charterer.

⁽²⁾We expect to enter into a long-term charter for this vessel in the future.

⁽³⁾We are in discussions with the shipbuilder to defer delivery to 2018.

The following table indicates the estimated number of owned, leased and managed vessels in our fleet based on scheduled delivery dates as of February 20, 2017:

	Scheduled for the Year Ended	
	December 31, 2016	2017
Owned and leased vessels, beginning of year	85	87
Deliveries	8	9
Disposals ⁽¹⁾	(2)	—
Contractual sale ⁽²⁾	(4)	—
Total, end of year	87	96
Managed vessels, beginning of year	15	15
Deliveries	2	3
Disposals	(2)	—
Total, end of year	15	18
Total Fleet	102	114
Total Capacity (TEU)	790,650	917,900

- (1) We sold the Seaspan Excellence and Seaspan Efficiency in August and December 2016, respectively. Please read “Item 5. Operating and Financial Review and Prospects—A. General—Management’s Discussion and Analysis of Financial Condition and Results of Operations—2016 Developments—Vessel Disposals.”
- (2) In October and November 2016, four 4800 TEU vessels, the MSC Manu, MSC Leanne, MSC Carole and MSC Veronique, completed their respective five-year bareboat charter terms and were sold to MSC for \$5.0 million per vessel. Please read “Item 5. Operating and Financial Review and Prospects—A. General—Management’s Discussion and Analysis of Financial Condition and Results of Operations—2016 Developments—Vessel Sales.”

Our Charters

We charter our vessels primarily under long-term, fixed-rate time charters. The following table presents the number of vessels chartered by each of our customers as of February 20, 2017.

Charterer	Number of Vessels in Our Current Operating Fleet	Number of Vessels Scheduled to be Delivered through 2017	Total Vessels Upon All Deliveries
ANL	1	—	1
CMA CGM	4	—	4
COSCON	18	—	18
COSCO Mercury	2	—	2
COSCO New Golden Sea	1	—	1
CSCL Asia	13	—	13
MOL	10	—	10
HL USA	2	—	2
K-Line	7	—	7
Hapag-Lloyd	9	—	9
Maersk	2	—	2
Yang Ming	1	—	1
Yang Ming Marine	8	1	9
ZIM	1	—	1
Total time charters	79	1	80
MSC (bareboat charters)	—	5	5
No charter	9	2	11
Total fleet	88	8	96

Time Charters and Bareboat Charters

A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. Under a time charter, the vessel owner provides crewing and other services related to the vessel's operation, the cost of which is included in the daily rate; the charterer is responsible for substantially all of the vessel voyage expenses, such as fuel (bunkers) cost, port expenses, agents' fees, canal dues, extra war risk insurance and commissions.

Our five 11000 TEU vessels will be chartered by MSC under bareboat charters. Under our bareboat charters with MSC, MSC has agreed to purchase each vessel for a pre-determined fixed price at the end of their respective bareboat charter terms. A bareboat charter is a contract for the use of a vessel for a fixed period of time at a specified amount. Under a bareboat charter, the charterer is responsible for providing crewing and other services related to the vessel's operation, as well as vessel voyage expenses.

The initial term for a time or bareboat charter commences on the vessel's delivery to the charterer. Under all of our time charters, the charterer may also extend the term for periods in which the vessel is off-hire. The current charter periods and any applicable extension options are included above under "—Our Fleet."

With respect to the vessels on charter to HL USA, CP Ships Limited has provided a guarantee of the obligations and liabilities of HL USA under each time charter and Hapag-Lloyd has provided a guarantee of the obligations and liabilities of CP Ships Limited under the original guarantee. For vessels on charter to CSCL Asia, CSCL Hong Kong and CSCL have each provided a guarantee of the obligations and liabilities of CSCL Asia under each time charter.

Hire Rate

“Hire rate” refers to the basic payment from the charterer for the use of the vessel. Under all of our long-term time charters, hire rate is payable, in advance, in U.S. dollars, as specified in the charter. The hire rate is a fixed daily amount that may increase, or decrease, in some cases, at varying intervals during the term of the charter and any extension to the term. Payments generally are made in advance on a monthly or semi-monthly basis. The charter hire rate may be reduced in certain instances as a result of added cost to the charterer due to vessel performance deficiencies in speed or fuel consumption. We have had no instances of such hire rate reductions.

Operations and Expenses

We operate our vessels and are responsible for vessel operating expenses, which include technical management, crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses and capital expenses, including normally scheduled dry-docking of the vessels. The charterer generally pays the voyage expenses, which include all expenses relating to particular voyages, such as fuel (bunkers) cost, port expenses, agents’ fees, canal dues, extra war risk insurance and commissions. Our ship operating expenses have been decreasing due primarily to cost management initiatives.

Off-hire

When a vessel is “off-hire,” or not available for service, the charterer generally is not required to pay the hire rate, and we are responsible for all costs, including the fuel (bunkers) cost, unless the charterer is responsible for the circumstances giving rise to the vessel’s lack of availability. A vessel generally will be deemed to be off-hire when there is an event preventing the full working of the vessel due to, among other things:

- operational deficiencies not due to actions of the charterers or their agents;
- dry-docking for repairs, maintenance or inspection;
- equipment or machinery breakdowns, abnormal speed and construction conditions;
- delays due to accidents for which the vessel owner, operator or manager is responsible, and related repairs;
- crewing strikes, labor boycotts caused by the vessel owner, operator or manager, certain vessel detentions or similar problems; or
- a failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Under most of our time charters, if a vessel is off-hire for a specified number of consecutive days or for a specified aggregate number of days during a 12-month period, the charterer has the right to cancel the time charter with respect to that vessel. Under some charters, if a vessel is off-hire for specified reasons for a prolonged period, we are obligated to charter a substitute vessel and to pay any difference in hire cost of the charter for the duration of the substitution. The periods of off-hire that trigger such termination rights exclude, in addition to any other specific exclusions in the charter, off-hire for routine dry-dockings or non-compliance with regulatory obligations. Our charter contracts generally provide for hire adjustments for vessel performance deficiencies such as those in speed or fuel consumption, with prolonged performance deficiencies giving the charterer a termination right under some charters.

Ship Management and Maintenance

Under each of our time charters, we are responsible for the operation and management of each vessel, including maintaining the vessel, periodic dry-docking, cleaning and painting and performing work required by regulations. We also provide limited ship management services to Dennis R. Washington’s personal vessel owning companies and ship management and construction supervision services to GCI.

We focus on risk reduction, operational reliability and safety. We believe we achieve high standards of technical ship management by, among other methods:

- developing a minimum competency standard for seagoing staff;
- standardizing equipment used throughout the fleet, thus promoting efficiency and economies of scale;
- implementing a voluntary vessel condition and maintenance monitoring program (Seaspan Ship Management Ltd., or SSML was the first in the world to achieve accreditation by vessel classification society Det Norske Veritas on its hull planned maintenance system);
- recruiting officers and ratings through an affiliate based in India that has a record of employee loyalty and high retention rates among its employees;
- implementing an incentive system to reward staff for the safe operation of vessels; and
- initiating and developing a cadet training program.

Our staff has skills in all aspects of ship management and experience in overseeing new vessel construction, vessel conversions and general marine engineering, and has previously worked in various companies in the international ship management industry, including China Merchants Group, Neptune Orient Lines, Teekay Corporation, Safmarine Container Lines and Columbia Ship Management. A number of senior officers also have sea-going experience, having served aboard vessels at a senior rank. In all training programs, we place an emphasis on safety and regularly train our crew members and other employees to meet our high standards. Shore-based personnel and crew members are trained to be prepared to respond to emergencies related to life, property or the environment.

Sale and Purchase of Vessels

Under some of our time charters, the customer has the right to prior notice of or consent to any proposed sale of the applicable vessel, which consent cannot be unreasonably withheld. A limited number of charters provide the charterer with a right of first refusal for the proposed vessel sale, which would require us to offer the vessel to the charterer prior to selling it to another entity. Sub-charters do not affect our ability to sell our time chartered vessels. Our 17-year bareboat charters for five of our newbuilding vessels on order require the charterer to purchase each vessel upon termination of the bareboat charter, at a pre-determined amount.

Hull and Machinery, Loss of Hire and War Risks Insurance

We maintain marine hull and machinery and war risks insurances, which covers the risk of actual or constructive total loss and partial loss, for all of our vessels. Each of our vessels is covered up to at least fair market value with certain deductibles per vessel per claim. We achieve this overall loss coverage by maintaining, as included, nominal increased value coverage for each of our vessels, under which coverage in the event of total loss of a vessel, we will be entitled to recover amounts not recoverable under the hull and machinery policy due to under-insurance. We have not obtained, and do not intend to obtain, loss-of-hire insurance covering the loss of revenue during extended off-hire periods. We believe that this type of coverage is not economical and is of limited value to us. However, we evaluate the need for such coverage on an ongoing basis, taking into account insurance market conditions and the employment of our vessels. The charterer generally pays extra war risk insurance and commissions when the vessel is ordered by the charterer to enter a notified war exclusion trading area.

Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I associations, which insure our third-party and crew liabilities in connection with our shipping activities. Coverage includes third-party liability, crew liability and other related expenses resulting from the abandonment, injury or death of crew, passengers and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other

related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by P&I associations. Subject to the limit for pollution discussed below, our coverage is nearly unlimited, but subject to the rules of the particular protection and indemnity insurer.

Our protection and indemnity insurance coverage for pollution is up to \$1.0 billion per vessel per incident. The 13 P&I associations that comprise the International Group insure approximately 90% of the world's commercial blue-water tonnage and have entered into a pooling agreement to reinsure each association's liabilities. As a member of a mutual P&I association, which is a member or affiliate of the International Group, we are subject to calls payable to the associations based on the International Group's claim records as well as the claim records of all other members of the individual associations.

Competition

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters based upon price, customer relationships, operating and technical expertise, professional reputation and size, age and condition of the vessel.

Competition for providing new containerships for chartering purposes comes from a number of experienced shipping companies, including direct competition from other independent charter owners and indirect competition from state-sponsored and other major entities with their own fleets. Some of our competitors have significantly greater financial resources than we do and can operate larger fleets and may be able to offer better charter rates. An increasing number of marine transportation companies have entered the containership sector, including many with strong reputations and extensive resources and experience. This increased competition may cause greater price competition for time charters.

Seasonality

Our vessels primarily operate under long-term charters and are generally not subject to the effect of seasonal variations in demand, except where such charters have expired and we are seeking to re-charter a vessel on a short-term basis at then current market rates.

Inspection by Classification Societies

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

Each vessel is inspected by a surveyor of the classification society in three surveys of varying frequency and thoroughness: every year for annual surveys, every two to three years for intermediate surveys, and every five years for special surveys. If any defects are found, the classification surveyor will issue a "condition of class" or a "requirement" for appropriate repairs that have to be made by the shipowner within the time limit prescribed. Vessels may be required, as part of the annual and intermediate survey process, to be dry-docked for inspection of the underwater portions of the vessel and for necessary repair stemming from the inspection. Special surveys always require dry-docking. The classification society also undertakes on request other surveys and inspections that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case or to the regulations of the country concerned.

Environmental and Other Regulations

Government regulation significantly affects our business and the operation of our vessels. We are subject to international conventions and codes, and national, state, provincial and local laws and regulations in the jurisdictions in which our vessels operate or are registered, including, among others, those governing the generation, management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions and water discharges.

A variety of government, quasi-government and private entities require us to obtain permits, licenses or certificates for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend the operation of one or more of our vessels in one or more ports.

Increasing environmental concerns have created a demand for vessels that conform to the strictest environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States, Canadian and international regulations and with flag state administrations.

The following is an overview of certain material governmental regulations that affect our business and the operation of our vessels. It is not a comprehensive summary of all government regulations to which we are subject.

International Maritime Organization

The IMO is the United Nations' agency for maritime safety. The IMO has negotiated international conventions that impose liability for pollution in international waters and a signatory's territorial waters. For example, the IMO's International Convention for the Prevention of Pollution from Ships, or MARPOL, imposes environmental standards on the shipping industry relating to, among other things, pollution prevention and procedures, technical standards, oil spills management, transportation of marine pollutants and air emissions. Annex VI of MARPOL, which regulates air pollution from vessels, sets limits on sulfur oxide, nitrogen oxide and particulate matter emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. We believe all of our vessels currently are Annex VI compliant. Annex VI also includes a global cap on the sulfur content of fuel oil with a lower cap on the sulfur content applicable inside Emission Control Areas, or ECAs. Already established ECAs include the Baltic Sea, the North Sea, including the English Channel, the North American area and the U.S. Caribbean Sea area. Additional geographical areas may be designated as ECAs in the future.

Annex VI calls for incremental reductions in sulfur in fuel between 2012 and 2020 (or 2015 in the case of ECAs), and the use of advanced technology engines designed to reduce emissions of nitrogen oxide, with a "Tier II" emission limit applicable to engines installed on or after January 1, 2011 and a more stringent "Tier III" emission limit applicable to engines installed on or after 2016 operating in the North American and U.S. Caribbean Sea nitrogen oxide ECAs and for engines installed on or after 2021 for vessels operating in the Baltic and North Sea. For future nitrogen oxide ECA designations, Tier III standards will apply to engines installed on ships constructed on or after the date of ECA designation, or a later date as determined by the country applying for the ECA designation. These amendments or other changes could require modifications to our vessels to achieve compliance, and the cost of compliance may be significant to our operations.

With regard to greenhouse gas emissions, there have been discussions in the IMO for the adoption of a market-based mechanism for the reduction of carbon emissions from vessels, such as an emissions trading system or an international greenhouse gas contribution fund, with contributions being based on bunker fuel purchases. The IMO adopted technical and operational measures for the reduction of greenhouse gas emissions that became effective on January 1, 2013. These include the "Energy Efficiency Design Index," which is mandatory for newbuilding vessels, and the "Ship Energy Efficiency Management Plan," which is mandatory for all vessels. In October 2016, the IMO approved a measure to require ships of 5,000 gross tonnage or more to record and report their fuel consumption to their flag state at the end of each calendar year. The IMO plans to use this data to adopt an initial greenhouse gas emissions reduction strategy in 2018.

The IMO's International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, imposes, subject to limited exceptions, strict liability on vessel owners for pollution damage in jurisdictional waters of ratifying states, which does not include the United States, caused by discharges of "bunker oil." The Bunker Convention also requires owners of registered vessels over a certain size to maintain insurance for pollution damage in an amount generally equal to the limits of liability under the applicable national or international limitation regime. We believe our vessels comply with the Bunker Convention.

The IMO's International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention requires the installation of ballast water treatment systems on certain newbuilding vessels for which the keel is laid after September 8, 2017 and for existing vessels at the renewal of their International Oil Pollution Prevention Certificate after September 8, 2017. The BWM Convention also requires ships to carry an approved ballast water management plan, record books and statement of compliance. We will be required to incur significant costs to install these ballast water treatment systems on all our vessels before the applicable due dates.

The IMO also regulates vessel safety. The International Safety Management Code, or the ISM Code, provides an international standard for the safe management and operation of ships and for pollution prevention. The ISM Code requires our vessels to develop and maintain an extensive “Safety Management System” that includes the adoption of a safety and environmental protection policy and implementation procedures. A Safety Management Certificate is issued under the provisions of SOLAS to each vessel with a Safety Management System verified to be in compliance with the ISM Code. Failure to comply with the ISM Code may subject a party to increased liability, may decrease available insurance coverage for the affected vessels, and may result in a denial of access to, or detention in, certain ports. All of the vessels in our fleet are ISM Code-certified.

Increasingly, various regions are adopting additional, unilateral requirements on the operation of vessels in their territorial waters. These regulations, such as those described below, apply to our vessels when they operate in the relevant regions’ waters and can add to operational and maintenance costs, as well as increase the potential liability that applies to violations of the applicable requirements.

United States

The United States Oil Pollution Act of 1990 and CERCLA

The United States Oil Pollution Act of 1990, or OPA, establishes an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, governs spills or releases of hazardous substances other than petroleum or petroleum products. Under OPA and CERCLA, vessel owners, operators and bareboat charterers are jointly and, subject to limited exceptions, strictly liable for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil or hazardous substances, as applicable, from their vessels. OPA and CERCLA define these damages broadly to include certain direct and indirect damages and losses, including but not limited to assessment of damages, remediation, damages to natural resources such as fish and wildlife habitat, and agency oversight costs.

Under OPA and CERCLA, the liability of responsible parties is limited to a specified amount, which is periodically updated. Under both OPA and CERCLA, liability is unlimited if the incident is caused by gross negligence, willful misconduct or a violation of certain regulations.

We maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could harm our business, financial condition and results of operation. Vessel owners and operators must establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet their potential aggregate liabilities under OPA and CERCLA. Evidence of financial responsibility may be demonstrated by showing proof of insurance, surety bonds, self-insurance or guarantees. We have obtained the necessary U.S. Coast Guard financial assurance certificates for each of our vessels currently in service and trading to the United States. Owners or operators of certain vessels operating in U.S. waters also must prepare and submit to the U.S. Coast Guard a response plan for each vessel, which plan, among other things, must address a “worst case” scenario environmental discharge and describe crew training and drills to address any discharge. Each of our vessels has the necessary response plans in place.

OPA and CERCLA do not prohibit individual states from imposing their own liability regimes with regard to oil pollution or hazardous substance incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for spills. In some cases, states that have enacted such legislation have not yet issued implementing regulations defining vessel owners’ responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call.

Clean Water Act

The Clean Water Act, or CWA, establishes the basic structure for regulating discharges of pollutants into the waters of the United States and regulating quality standards for surface waters. The CWA authorizes civil and criminal penalties for discharging pollutants without a permit, failure to meet any requirement of a permit, and also allows for citizen suits against violators. The CWA does not prohibit individual states from imposing more stringent conditions, which many states have done.

The U.S. Environmental Protection Agency, or the EPA, requires certain vessels to comply with a Vessel General Permit, or VGP, before the vessel can legally operate and discharge wastewaters, including ballast water, in U.S. waters. The vessel general permit is written to include existing U.S. Coast Guard management and ballast water exchange requirements.

The current “2013 VGP” became effective on December 19, 2013 and expires on December 19, 2018. In addition to the ballast water best management practices required under the prior VGP, the 2013 VGP contains numerical technology-based ballast water effluent limitations that will apply to certain commercial vessels with ballast water tanks. Our vessels are all in compliance with the 2013 VGP, and we do not currently believe that the costs associated with complying with its obligations have had or will have a material impact on our operations or financial results.

In addition, the Act to Prevent Pollution from Ships, or APPS, implements various provisions of MARPOL and applies to larger foreign-flag ships when operating in U.S. waters. The regulatory mechanisms established in APPS to implement MARPOL are separate and distinct from the CWA and other federal environmental laws. Civil and criminal penalties may be assessed under APPS for non-compliance.

Additional Ballast Water Regulations

The United States National Invasive Species Act, or NISA, and the U.S. Coast Guard’s regulations enacted under NISA, impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters, including a limit on the concentration of living organisms in ballast water discharged in such waters. Newbuilding vessels constructed after December 1, 2013 are required to have a U.S. Coast Guard-approved ballast water treatment system installed, and existing vessels are required to have a ballast water treatment system installed on the first scheduled dry-dock after January 1, 2016. As of January 1, 2017, there are three U.S. Coast Guard approved ballast water treatment systems. Consequently, individual vessel implementation schedules have been extended in cases where vessel owners have demonstrated that compliance is not technologically feasible, and most vessels dry-docking in 2017 and 2018 have received extensions until their next dry-dock.

The U.S. Coast Guard regulations also require vessels to maintain a vessel-specific ballast water management plan that addresses training and safety procedures, fouling maintenance and sediment removal procedures. Individual U.S. states have also enacted laws to address invasive species through ballast water and hull cleaning management and permitting requirements. For the vessels that will be subject to the requirements, under CWA or otherwise, the estimated cost to fit a U.S. Coast Guard-approved ballast water treatment system ranges from approximately \$0.4 million to \$0.5 million for a Panamax size vessel and below, and from approximately \$0.7 million to \$0.8 million for a post-Panamax size.

Clean Air Act

The Clean Air Act, or the CAA, and its implementing regulations subject our vessels to vapor control and recovery requirements when cleaning fuel tanks and conducting other operations in regulated port areas and to air emissions standards for our engines while operating in U.S. waters. The EPA has adopted standards that apply to certain engines installed on U.S. vessels and to marine diesel fuels produced and distributed in the United States. These standards, which were implemented in two stages (effective in 2011 and 2016, respectively) are consistent with Annex VI of MARPOL and establish significant reductions for vessel emissions of particulate matter, sulfur oxides and nitrogen oxides.

The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and industrial areas. Several SIPs regulate emissions from degassing operations by requiring the installation of vapor control equipment on vessels. California has enacted regulations

which apply to ocean-going vessels' engines when operating within 24 miles of the California coast and require operators to use low sulfur fuels. California also approved regulations to reduce emissions from diesel auxiliary engines on certain ocean-going vessels while in California ports, including container ship fleets that make 25 or more annual visits to California ports. These federal and state requirements may increase our capital expenditures and operating costs while in applicable ports. As with other U.S. environmental laws, failure to comply with the Clean Air Act may subject us to enforcement action, including payment of civil or criminal penalties and citizen suits.

Canada

Canada has established a complex regulatory enforcement system under the jurisdiction of various ministries and departments for preventing and responding to a marine pollution incident. The principal statutes of this system prescribe measures to prevent pollution, mandate remediation of marine pollution, and create civil, administrative and quasi-criminal liabilities for those responsible for a marine pollution incident.

Canada Shipping Act, 2001

The Canada Shipping Act, 2001, or CSA 2001, is Canada's primary legislation governing marine transport, pollution and safety. CSA 2001 applies to all vessels operating in Canadian waters and in the Exclusive Economic Zone of Canada. CSA 2001 requires shipowners to have in place an arrangement with an approved pollution response organization. Vessels must carry a declaration, which identifies the vessel's insurer and confirms that an arrangement with a response organization is in place. CSA 2001 also makes it a strict liability offense to discharge from a vessel a pollutant, including, among other things, oil. Vessels must have a shipboard oil pollution plan and implement the same in respect of an oil pollution incident. CSA 2001 provides the authorities with broad discretionary powers to enforce its requirements, and violations of CSA 2001 requirements can result in significant administrative and quasi-criminal penalties. CSA 2001 authorizes the detention of a vessel where there are reasonable grounds for believing that the vessel caused marine pollution or that an offense has been committed. Canada's Department of Transport has also enacted regulations on ballast water management under CSA 2001. These regulations require the use of management practices, including mid-ocean ballast water exchange. Each of our vessels is currently CSA 2001 compliant.

Canadian Environmental Protection Act, 1999

The Canadian Environmental Protection Act, or CEPA, regulates water pollution, including disposal at sea and the management of hazardous waste. CEPA prohibits the disposal or incineration of substances at sea except with a permit issued under CEPA, the importation or exportation of a substance for disposal at sea without a permit, and the loading on a ship of a substance for disposal at sea without a permit. Contravention of CEPA can result in administrative and quasi-criminal penalties, which may be increased if damage to the environment results and the person acted intentionally or recklessly. A vessel also may be seized or detained for contravention of CEPA's prohibitions. Costs and expenses of measures taken to remedy a condition or mitigate damage resulting from an offense are also recoverable. CEPA establishes liability to the Canadian government authorities that incur costs related to restoration of the environment, or to the prevention or remedying of environmental damage, or an environmental emergency. Limited defenses are provided but generally do not cover violations arising from ordinary vessel operations.

Marine Liability Act

The Marine Liability Act, or MLA, is the principal legislation dealing with liability of shipowners and operators in relation to passengers, cargo, pollution and property damage. The MLA implements various international maritime conventions and creates strict liability for a vessel owner for damages from oil pollution from a ship, as well as for the costs and expenses incurred for clean-up and preventive measures. Both governments and private parties can pursue vessel owners for damages sustained or incurred as a result of such an incident. Although the act does provide some limited defenses, they are generally not available for spills or pollution incidents arising out of the routine operation of a vessel. The act limits the overall liability of a vessel owner to amounts that are determined by the tonnage of the containership. The MLA also provides for the creation of a maritime lien over foreign vessels for unpaid invoices to ship suppliers operating in Canada.

Wildlife Protection

The Migratory Birds Convention Act, or MBCA, implements Canada's obligations under a bilateral treaty between the United States and Great Britain (on behalf of Canada) designed to protect migrating birds that cross North American land and water areas. The MBCA prohibits the deposit of any substance that is harmful to migratory birds in any waters or area frequented by migratory birds. A foreign vessel involved in a violation may be detained within Canada's Exclusive Economic Zone with the consent of the attorney general. The Fisheries Act prohibits serious harm to fish (which means causing the death of fish or the permanent alteration or destruction of fish habitat or the deposit of a deleterious substance in waters frequented by fish. The owner of a deleterious substance, the person having control of the substance and the person causing the spill must report the spill and must take all reasonable measures to prevent or remedy adverse effects resulting from a spill. The Species at Risk Act protects endangered aquatic species and migratory birds and their designated critical habitat. Violations of these Acts can be committed by a person or a vessel and may result in significant administrative and quasi-criminal penalties.

British Columbia's Environmental Management Act

British Columbia's Environmental Management Act, or EMA, governs spills or releases of waste into the environment within the province in a manner or quantity that causes pollution. EMA imposes absolute, retroactive, joint and separate liability for remediation of a contaminated site. Provincial government authorities have powers to order remediation of contamination and any person, including, among others, the government, who incurs costs remediating contamination caused by others has a civil cause of action for cost recovery against the polluters. Significant administrative and quasi-criminal penalties can also be imposed under EMA if a person causes damage to the aquatic, ambient or terrestrial environment.

China

Pursuant to new regulations that became effective January 1, 2012, prior to our vessels entering any ports in the People's Republic of China, or the PRC, we are required to enter into pollution clean-up agreements with pollution response companies approved by the PRC. Through a local agency arrangement, we have contracted with approved companies. These pollution clean-up agreements are not required if the vessel is only passing through PRC waters.

The PRC has their own Emission Control Areas for 0.5% sulphur fuel and has identified three areas, Pearl River Delta, Yangtzy River Delta and Bohai Rim Area. From 2016 to 2019, the PRC is phasing in requirements in these areas that vessels change over to 0.5% sulphur fuel, beginning in a few key ports in 2016 and expanding over time until this requirement applies to all waters within these three areas during 2019.

European Union Requirements

In waters of the EU, our vessels are subject to regulation by EU-level legislation, including directives implemented by the various member states through laws and regulations of these requirements. These laws and regulations prescribe measures, among others, to prevent pollution, protect the environment and support maritime safety. For instance, the EU has adopted directives that require member states to refuse access to their ports to certain sub-standard vessels, according to various factors, such as the vessel's condition, flag, and number of previous detentions. Member states must, among other things, inspect minimum percentages of vessels using their ports annually (based on an inspection "share" of the relevant member state of the total number of inspections to be carried out within the EU and the Paris Memorandum of Understanding on Port State Control region), inspect all vessels which are due for a mandatory inspection (based, among other things, on their type, age, risk profile and the time of their last inspection) and carry out more frequent inspections of vessels with a high risk profile. If deficiencies are found that are clearly hazardous to safety, health or the environment, the state is required to detain the vessel or stop loading or unloading until the

deficiencies are addressed. Member states are also required to implement their own separate systems of proportionate penalties for breaches of these standards.

Our vessels are also subject to inspection by appropriate classification societies. Classification societies typically establish and maintain standards for the construction and classification of vessels, supervise that construction is according to these standards, and carry out regular surveys of ships in service to ensure compliance with the standards. The EU has adopted directives that provide member states with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of classification societies that are negligent in their duties. The EU requires member states to monitor these organizations' compliance with EU inspection requirements and to suspend any organization whose safety and pollution prevention performance becomes unsatisfactory.

The EU's directive on the sulfur content of fuels restricts the maximum sulfur content of marine fuels used in vessels operating in EU member states' territorial seas, exclusive economic zones and pollution control zones. The directive provides for more stringent rules on maximum sulfur content of marine fuels applicable in specific Sulfur Emission Control Areas, or SECAs, such as the Baltic Sea and the North Sea, including the English Channel. Further sea areas may be designated as SECAs in the future by the IMO in accordance with Annex VI of MARPOL. Under this directive, we may be required to make expenditures to comply with the sulfur fuel content limits in the marine fuel our vessels use in order to avoid delays or other obstructions to their operations, as well as any enforcement measures which may be imposed by the relevant member states for non-compliance with the provisions of the directive. We also may need to make other expenditures (such as expenditures related to washing or filtering exhaust gases) to comply with relevant sulfur oxide emissions levels. Recently, a new directive of the European Parliament and the European Council entered into force, which amends the existing one to bring the above requirements in line with Annex VI of MARPOL. It also makes certain of these requirements more stringent. These and other related requirements may require additional capital expenditures and increase our operating costs.

Another EU directive requires member states to cooperate to detect pollution discharges and impose criminal sanctions for certain pollution discharges committed intentionally, recklessly or by serious negligence and to initiate proceedings against ships at their next port of call following the discharge. Penalties may include fines and civil and criminal penalties. Also, another EU directive requires all ships (except for warships, naval auxiliary or other state-owned or state-operated ships on non-commercial service), irrespective of flag, calling at, or operating within, ports of member states to deliver all ship-generated waste and cargo residues to port reception facilities. Under the directive, a fee is payable by the ships for the use of the port reception facilities, including the treatment and disposal of the waste. The ships may be subject to an inspection for verification of their compliance with the requirements of the directive and penalties may be imposed for their breach.

The EU also authorizes member states to adopt the IMO's Bunker Convention, discussed above, that imposes strict liability on shipowners for pollution damage caused by spills of oil carried as fuel in vessels' bunkers and requires vessels of a certain size to maintain financial security to cover any liability for such damage. Most EU member states have ratified the Bunker Convention.

The EU has recently adopted a regulation which sets forth rules relating to vessel recycling and management of hazardous materials on vessels. The new regulation contains requirements for the recycling of vessels at approved recycling facilities that must meet certain requirements, so as to minimize the adverse effects of recycling on human health and the environment. The new regulation also contains rules for the control and proper management of hazardous materials on vessels and prohibits or restricts the installation or use of certain hazardous materials on vessels. The new regulation seeks to facilitate the ratification of the IMO Recycling Convention. The new regulation applies to vessels flying the flag of a member state and certain of its provisions apply to vessels flying the flag of a third country calling at a port or anchorage of a member state. For example, when calling at a port or anchorage of a member state, a vessel flying the flag of a third country will be required, among other things, to have on board an inventory of hazardous materials which complies with the requirements of the new regulation and the vessel must be able to submit to the relevant authorities of that member state a copy of a statement of compliance issued by the

relevant authorities of the country of the vessel's flag verifying the inventory. The new regulation is to apply not later than December 31, 2018, although certain of its provisions are to apply at different stages, with certain of them applicable from December 31, 2020. Pursuant to this regulation, the EU Commission has recently published the first version of a European List of approved ship recycling facilities meeting the requirements of the regulation, as well as four further implementing decisions dealing with certification and other administrative requirements set out in the regulation.

The EU is currently considering other proposals to further regulate vessel operations. The EU has adopted an Integrated Maritime Policy for the purposes of achieving a more coherent approach to maritime issues through coordination between different maritime sectors and integration of maritime policies. The Integrated Maritime Policy has sought to promote the sustainable development of the European maritime economy and to protect the marine environment through cross-sector and cross-border cooperation of maritime participants. The EU Commission's proposals included, among other items, the development of environmentally sound end-of-life ship dismantling requirements, promotion of the use of shore-side electricity by ships at berth in EU ports to reduce air emissions, and consideration of options for EU legislation to reduce greenhouse gas emissions from maritime transport. The EU, any individual country or other competent authority may adopt additional legislation or regulations applicable to us and our operations.

Other Greenhouse Gas Legislation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change, or the Kyoto Protocol, became effective. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. More than 27 nations, including the United States, have entered into the Copenhagen Accord, which is non-binding but is intended to pave the way for a comprehensive, international treaty on climate change. The Paris Agreement, which was adopted in 2015 by a large number of countries and entered into force on November 4, 2016, deals with greenhouse gas emission reduction measures and targets from 2020 to limit the global average temperature increase to well below 2° Celsius above pre-industrial levels. International shipping was not included in this agreement, but it is expected that its adoption may lead to regulatory changes in relation to curbing greenhouse gas emissions from shipping.

The IMO, EU, Canada, the United States and other individual countries, states and provinces are evaluating various measures to reduce greenhouse gas emissions from international shipping, which may include some combination of market-based instruments, a carbon tax or other mandatory reduction measures. The EU recently adopted Regulation (EU) 2015/757 concerning the monitoring, reporting and verification of carbon dioxide emissions from vessels, or the MRV Regulation, which entered into force on July 1, 2015 (as amended by Regulation (EU) 2016/2071). The MRV Regulation applies to all vessels over 5,000 gross tonnage (except for a few types, including, but not limited to, warships and fish-catching or fish-processing vessels), irrespective of flag, in respect of carbon dioxide emissions released during voyages within the EU as well as EU incoming and outgoing voyages. The first reporting period will commence on January 1, 2018. The monitoring, reporting and verification system adopted by the MRV Regulation may be the precursor to a market-based mechanism to be adopted in the future. The EU is currently considering a proposal for the inclusion of shipping in the EU Emissions Trading System as from 2021 in the absence of a comparable system operating under the IMO.

Any passage of climate control legislation or other regulatory initiatives by the IMO, EU, Canada, the United States or other individual jurisdictions where we operate, that restrict emissions of greenhouse gases from vessels, could require us to make significant capital expenditures and may materially increase our operating costs.

Other Regions

We may be subject to environmental and other regulations that have been or may become adopted in other regions of the world that may impose obligations on our vessels and may increase our costs to own and operate them. Compliance with these requirements may require significant expenditures on our part and may materially increase our operating costs.

Vessel Security Regulations

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

- on-board installation of automatic information systems, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

The United States Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures if such vessels have on board a valid International Ship Security Certificate, that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. Our existing vessels have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

Taxation of the Company

United States Taxation

The following is a discussion of the expected material U.S. federal income tax considerations applicable to us. This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, legislative history, judicial authority and administrative interpretations, as of the date of this Annual Report, all of which are subject to change, possibly with retroactive effect or are subject to different interpretations. Changes in these authorities may cause the U.S. federal income tax considerations to vary substantially from those described below.

The following discussion is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations applicable to us. No ruling has been requested from the IRS regarding any matter affecting us. The statements made herein may not be sustained by a court if contested by the IRS.

Taxation of Operating Income

We expect that substantially all of our gross income will be attributable to the transportation of cargo. For this purpose, gross income attributable to transportation, or Transportation Income, includes income from the use (or hiring or leasing for use) of a vessel to transport cargo and the performance of services directly related to the use of any vessel to transport cargo and, thus, includes time charter and bareboat charter income.

Fifty percent (50%) of Transportation Income attributable to transportation that either begins or ends, but that does not both begin and end, in the United States, or U.S. Source International Transportation Income, is considered to be derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States, or U.S. Source Domestic Transportation Income, is considered to be 100% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S.

destinations is considered to be 100% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally is not subject to U.S. federal income tax.

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We believe that we have not earned any U.S. Source Domestic Transportation Income, and we expect that we will not earn any such income in future years. However, certain of our activities give rise to U.S. Source International Transportation Income, and future expansion of our operations could result in an increase in the amount of our U.S. Source International Transportation Income. Unless the exemption from tax under Section 883 of the Code, or the Section 883 Exemption, applies, our U.S. Source International Transportation Income generally will be subject to U.S. federal income taxation under either the net basis and branch profits tax or the 4% gross basis tax, each of which is discussed below.

The Section 883 Exemption

In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder, or the Section 883 Regulations, it will not be subject to the net basis and branch profits taxes or the 4% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

A non-U.S. corporation will qualify for the Section 883 Exemption if, among other things, it (a) is organized in a jurisdiction outside the United States that grants an exemption from tax to U.S. corporations on international Transportation Income, or an Equivalent Exemption, (b) satisfies one of three ownership tests, or Ownership Tests, described in the Section 883 Regulations and (c) meets certain substantiation, reporting and other requirements.

We are organized under the laws of the Republic of the Marshall Islands. The U.S. Treasury Department has recognized the Republic of the Marshall Islands as a jurisdiction that grants an Equivalent Exemption. We also believe that we will be able to satisfy all substantiation, reporting and other requirements necessary to qualify for the Section 883 Exemption. Consequently, our U.S. Source International Transportation Income will be exempt from U.S. federal income taxation provided we satisfy the Ownership Tests and provided we file a U.S. federal income tax return to claim the Section 883 Exemption. We believe that we currently should satisfy the Ownership Tests because our Class A common shares, our Series D preferred shares, our Series E preferred shares, our Series G preferred shares, and our Series H preferred shares are primarily and regularly traded on an established securities market in the United States (and are not treated as closely held) within the meaning of the Section 883 Regulations. We can give no assurance, however, that changes in the trading, ownership or value of our Class A common shares, our Series D preferred shares, our Series E preferred shares, our Series G preferred shares, or our Series H preferred shares will permit us to continue to qualify for the Section 883 Exemption.

The Net Basis and Branch Profits Tax

If the Section 883 Exemption does not apply, our U.S. Source International Transportation Income may be treated as effectively connected with the conduct of a trade or business in the United States, or Effectively Connected Income, if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of bareboat charter income, is attributable to a fixed place of business in the United States.

We believe that we do not have a fixed place of business in the United States. As a result, we believe that none of our U.S. Source International Transportation Income would be treated as Effectively Connected Income. While we do not expect to acquire a fixed place of business in the United States, there is no assurance that we will not have, or will not be treated as having, a fixed place of business in the United States in the future, which may, depending on the nature of our future operations, result in our U.S. Source International Transportation Income being treated as Effectively Connected Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate currently is 35%) and a 30% branch profits tax imposed under Section 884 of the Code. In addition, a 30% branch interest tax could be imposed on certain interest paid, or deemed paid, by us.

If we were to sell a vessel that has produced Effectively Connected Income, we generally would be subject to the net basis and branch profits taxes with respect to the gain recognized up to the amount of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is not considered to occur in the United States under U.S. federal income tax principles.

The 4% Gross Basis Tax

If the Section 883 Exemption does not apply and we are not subject to the net basis and branch profits taxes described above, we generally will be subject to a 4% U.S. federal income tax on our U.S. Source International Transportation Income without the benefit of deductions. We estimate that the U.S. federal income tax on such U.S. Source International Transportation Income would be approximately \$2 million if the Section 883 Exemption and the net basis and branch profits taxes do not apply, based on the amount of U.S. Source International Transportation Income we have earned in prior years. However, many of our time charter contracts contain provisions in which the charterers would be obligated to bear this cost. The amount of such tax for which we would be liable for in any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

Canadian Taxation

Under the Income Tax Act (Canada), or the Canada Tax Act, a corporation that is resident in Canada is subject to tax in Canada on its worldwide income.

Our place of residence, under Canadian law, would generally be determined on the basis of where our central management and control are, in fact, exercised. It is not our current intention that our central management and control be exercised in Canada but, even if it were, there is a specific statutory exemption under the Canada Tax Act that provides that a corporation incorporated, or otherwise formed, under the laws of a country other than Canada will not be resident in Canada in a taxation year if its principal business in that year is “international shipping” (as defined below), all or substantially all of its gross revenue for that year consists of gross revenue from “international shipping,” and it was not granted articles of continuance in Canada before the end of that year. International shipping is defined as the operation of ships that are owned or leased by an operator and that are used primarily in transporting passengers or goods in international traffic, including the chartering of ships, provided that, one or more persons related to the operator (if the operator and each such person is a corporation), or persons or partnerships affiliated with the operator (in any other case), has complete possession, control and command of the ship. The leasing of a ship by a lessor to a lessee that has complete possession, control and command of the ship is excluded from the international shipping definition, unless the lessor or a corporation, trust or partnership affiliated with the lessor has an eligible interest in the lessee.

The definition of international shipping was introduced following industry consultation, with the intent of providing shipping companies with flexibility in the manner in which they structure their intra-group chartering contracts. Based on our operations and our understanding of the foregoing intention of the definition of international shipping, we do not believe that we are, nor do we expect to be, resident in Canada for purposes of the Canada Tax Act, and we intend that our affairs will be conducted and operated in a manner such that we do not become a resident of Canada under the Canada Tax Act. However, if we were or become resident in Canada, we would be or become subject under the Canada Tax Act to Canadian income tax on our worldwide income and our non-Canadian resident shareholders would be or become subject to Canadian withholding tax on dividends paid in respect of our shares.

Generally, a corporation that is not resident in Canada will be taxable in Canada on income it earns from carrying on a business in Canada and on gains from the disposition of property used in a business carried on in Canada. However, there are specific statutory exemptions under the Canada Tax Act that provide that income earned in Canada by a non-resident corporation from international shipping, and gains realized from the disposition of ships used principally in international traffic, are not included in the non-resident corporation’s income for Canadian tax purposes where the corporation’s country of residence grants substantially similar relief to a Canadian resident. A Canadian resident corporation that carries on an international shipping business, as described in the previous sentence, in the Republic of the Marshall Islands is exempt from income tax under the current laws of the Republic of the Marshall Islands.

Subject to the below assumption, we expect that we will qualify for these statutory exemptions under the Canada Tax Act. Based on our operations, we do not believe that we are, nor do we expect to be, carrying on a business in Canada for purposes of the Canada Tax Act other than a business that would provide us with these statutory exemptions from Canadian income tax. The foregoing is based upon the assumption that we are a resident of the Republic of the Marshall Islands. These statutory exemptions are contingent upon reciprocal treatment being provided under the laws of the Republic of the Marshall Islands. If in the future as a non-resident of Canada, we are carrying on a business in Canada that is not exempt from Canadian income tax, or these statutory exemptions are not accessible due to changes in the laws of the Republic of the Marshall Islands or otherwise, we would be subject to Canadian income tax on our non-exempt income earned in Canada which could reduce our earnings available for distribution to shareholders.

Certain of our subsidiaries are residents of Canada for purposes of the Canada Tax Act. These subsidiaries are subject to Canadian tax on their worldwide income, and we will be subject to Canadian withholding tax on dividends we will receive from those subsidiaries. Based on the nature and extent of the operations of these subsidiaries, we do not expect the amount of Canadian income and withholding tax to be significant in relation to our earnings.

C. Organizational Structure

Please read Exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as of February 20, 2017.

D. Property, Plant and Equipment

For information on our fleet and new vessel contracts, please read “Item 4. Information on the Company—B. Business Overview—Our Fleet.” Other than our vessels, we do not have any material property.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. General

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and notes included elsewhere in this Annual Report.

Overview

We are Seaspan Corporation, a Marshall Islands corporation that was incorporated on May 3, 2005. We are a leading independent charter owner and manager of containerships, which we charter primarily pursuant to long-term, fixed-rate time charters with major container liner companies. We primarily deploy our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters. As of February 20, 2017 we operated a fleet of 88 vessels and we have entered into contracts for the purchase of an additional eight newbuilding containerships, which have scheduled delivery dates through October 2017. Of our eight newbuilding containerships, six will commence operation under long-term, fixed-rate charters upon delivery. We expect to enter into long-term time charter contracts for the remaining newbuilding containerships in the future. As of February 20, 2017, the average age of the 88 vessels in our fleet was approximately six years, on a TEU weighted basis.

Customers for our operating fleet as at February 20, 2017 were ANL, CMA CGM, COSCON, COSCO Mercury, COSCO New Golden Sea, CSCL Asia, HL USA, Hapag-Lloyd, K-Line, Maersk, MOL, Yang Ming, Yang Ming Marine, and ZIM. The customers for the additional six newbuilding containerships that are under long-term, fixed-rate charters upon delivery are Yang Ming Marine and MSC. Our primary objective is to continue to grow our business through accretive vessel acquisitions as market conditions allow. Please read "Item 4. Information on the Company—B. Business Overview—Our Fleet" for more information.

2016 Developments

Vessel Deliveries

During the year ended December 31, 2016, we accepted delivery of two 10000 TEU and one 14000 TEU newbuilding containerships. The two 10000 TEU vessels were constructed at Jiangsu Xinfu and the 14000 TEU vessel was constructed at CSBC, in each case using our fuel-efficient SAVER design.

In April 2016, we entered into a lease financing arrangement with third parties for one 10000 TEU newbuilding vessel, the MOL Beyond. The vessel is being leased from the third parties over a term of 11 years, with an option to purchase the vessel at the nine-year anniversary of the lease for a pre-determined fair value purchase price. We received the eight-year time charter contract with MOL for the MOL Beyond from GCI for no consideration.

In May 2016, we entered into a lease financing arrangement with third parties for one 14000 TEU newbuilding vessel, the YM Window. The vessel is being leased from the third parties over a term of 12 years, with an option to purchase the vessel at the 9.5-year anniversary of the lease for a pre-determined fair value purchase price. We received the 10-year time charter contract with Yang Ming for the YM Window from GCI for no consideration.

In December 2016, we entered into agreements to purchase four 4250 TEU vessels formerly operated by Hanjin and under the control of Hanjin's creditors, for a total purchase price of \$20.8 million. Three of these vessels delivered to us in December 2016 and one vessel delivered to us in January 2017.

The additions to our operating fleet for the year ended December 31, 2016 are summarized below:

Vessel	Vessel Class (TEU)	Length of Time Charter	Charterer	Delivery Date
MOL Benefactor	10000	8 years + one 2-year option	MOL	March 2016
MOL Beyond	10000	8 years + one 2-year option	MOL	April 2016
YM Window	14000	10 years + one 2-year option	Yang Ming Marine	May 2016
YM Width	14000	10 years + one 2-year option	Yang Ming Marine	May 2016
Maersk Genoa	10000	5 years + two 1-year option	Maersk	September 2016
Seaspan Grouse	4250	—	—	December 2016
Seaspan Kenya	4250	—	—	December 2016
Seaspan Mourne	4250	—	—	December 2016

Vessel Acquisitions

In June 2016, we acquired two 11000 TEU newbuilding vessels from GCI for a total purchase price of \$195.6 million. These vessels will commence 17-year bareboat charters with MSC upon their deliveries scheduled in 2017.

MSC is obligated to purchase the vessels for a pre-determined amount at the end of their respective charters. These two vessels are sister ships to our three 11000 TEU vessels also scheduled for delivery in 2017 and chartered to MSC.

Vessel Disposals

In August and December 2016, we sold two 4600 TEU vessels, the Seaspan Excellence and Seaspan Efficiency, for recycling at an ISO certified recycler for total net sale proceeds of approximately \$12.1 million, resulting in a total loss on disposition of approximately \$31.9 million. In connection with these sales, we repaid the outstanding principal balance of a debt facility used to finance the acquisition of these vessels.

Vessel Sales

In 2011, we entered into agreements to bareboat charter four 4800 TEU vessels to MSC, each for a five-year term and MSC agreed to purchase the vessels for \$5.0 million each at the end of the bareboat charters. In the fourth quarter of 2016, all four 4800 TEU vessels, the MSC Manu, MSC Leanne, MSC Carole and MSC Veronique, completed their five-year bareboat charter terms and were sold to MSC for \$5.0 million per vessel.

Equity Financings

In May 2016, we issued to a third-party Asian investor 5,600,000 of our 6.95% Series F preferred shares at a price of \$25.00 per share for net proceeds of \$136.4 million. The holder of the Series F preferred shares has the right to convert these shares into common shares at a conversion price of \$18.00 per share. The dividend rate is initially set at 6.95%, but will increase by 1% annually after the fifth anniversary date up to a maximum of 10.5% by the ninth anniversary date, or will increase to 10.5% on January 1, 2018 if we do not acquire all of the membership interests in GCI or all or substantially all of the assets of GCI by December 31, 2017. We have the right to call the Series F preferred shares at par plus any accumulated and unpaid dividends at any time after the dividend increases above 6.95%.

In May 2016, we issued 5,750,000 of our Class A common shares in a public offering for net proceeds of approximately \$81.1 million before expenses. Concurrently with the closing of the public offering, our chief executive officer and affiliates of one of our directors and of Dennis Washington purchased directly from us, in a private placement and at the public offering price, an aggregate of \$15.0 million of additional Class A common shares.

In June 2016, we issued in a registered public offering 4,600,000 of our 8.2% Series G preferred shares at a price of \$25.00 per share for net proceeds of approximately \$111.4 million before expenses. In August 2016, we issued an additional 3,200,000 Series G preferred shares in a follow-on public offering at a price of \$25.00 per share for net proceeds of approximately \$76.5 million before expenses. Dividends are payable on the Series G preferred shares at a rate of 8.2% per annum on the stated liquidation preference of \$25.00 per share.

In August 2016, we issued 9,000,000 of our 7.875% Series H preferred shares in a public offering at a price of \$25.00 per share for net proceeds of approximately \$217.7 million before expenses. Dividends are payable on the Series H preferred shares at a rate of 7.875% per annum on the stated liquidation preference of \$25.00 per share.

Redemption of Series C Preferred Shares

In June 2016, we redeemed 13,321,774 of our Series C preferred shares, representing all of the issued and outstanding Series C preferred shares, using net proceeds from the Series F preferred share issuance, the Class A common share public offering and concurrent private placement and existing liquidity.

At-the-Market Offering of Preferred Shares

In November 2016, we entered into an equity distribution agreement with our sales agent under which we may, from time to time, issue Series D, Series E, Series G and Series H preferred shares in one or more at-the-market, or ATM, offerings of up to an aggregate of \$150.0 million in gross sales proceeds. During the year ended December 31, 2016, we did not issue any preferred shares under the ATM program.

Revolving Credit Facility

In April 2016, we completed the renewal of our 364-day unsecured, revolving loan facility with various banks to a total commitment of \$150.0 million. In August 2016, we increased this loan facility by \$10.0 million to a total commitment of \$160.0 million. The facility includes features providing for a further commitment of \$20.0 million, enabling a total facility size of up to \$180.0 million. The revolving loan facility bears interest at LIBOR plus a margin.

Lease Financings

In 2016, we entered into 17-year financing arrangements with an Asian-based leasing company, consisting of leases with commitments totaling approximately \$420.8 million to fund the construction and delivery of five 11000 TEU newbuilding containerships. These financing arrangements bear interest at LIBOR plus a margin. The five 11000 TEU newbuilding containerships will commence 17-year bareboat charters upon their deliveries, scheduled during 2017.

In March, May and September 2016, we entered into lease financing arrangements with special purpose companies, or the SPCs, for the MOL Benefactor, YM Width and Maersk Genoa for total gross proceeds of \$354.0 million. Under the leases for the MOL Benefactor and the YM Width, we sold the vessels to the SPCs and leased the vessels back over a term of 11 or 12 years, with an option to purchase the vessels at the nine or 9.5-year anniversary for a pre-determined fair value purchase price. Under the lease for the Maersk Genoa, we sold the vessel to the SPCs and leased the vessel back over a nine-year term, with an option to purchase the vessel at the end of the lease term for a pre-determined fair value purchase price. If the purchase option is not exercised, the lease term may be extended for an additional two years, at the option of the SPCs.

Hanjin Shipping Bankruptcy

On August 31, 2016, Hanjin filed for bankruptcy in South Korea, or the Hanjin Proceeding. As at August 31, 2016, Hanjin chartered three of our 10000 TEU vessels and four of GCI's 10000 TEU vessels under 10-year charter contracts, with options to extend. Hanjin also chartered one of our 4600 TEU vessels, the Seaspan Efficiency. During the quarter ended December 31, 2016, the charters for all eight vessels were cancelled, the vessels were returned and Hanjin ceased to be a customer. In February 2017, Hanjin commenced liquidation proceedings in South Korea.

As at August 31, 2016, we had approximately \$18.9 million of past due accounts receivable from Hanjin. As a result of the Hanjin Proceeding, we recognized a full reserve for these past due accounts receivable, which reduced our net earnings for the year ended December 31, 2016 by approximately \$18.9 million. On September 1, 2016, after Hanjin declared bankruptcy, we stopped recognizing revenue on the vessels chartered to Hanjin.

In addition to the consequences of the Hanjin Proceeding described above, it is possible we may incur costs or liabilities resulting from third party claims for unpaid goods and services provided to the vessels while on charter to Hanjin and from other Hanjin related claims made prior to or after the date of the announcement of the Hanjin Proceeding. In the course of the Hanjin Proceeding, we made a claim against Hanjin for any such costs and

liabilities, and we also intend to make a claim under our insurance policies for recovery; however, some or all of these costs and liabilities ultimately may not be recovered.

We are party to two credit facilities secured by our three 10000 TEU vessels formerly chartered to Hanjin and the related charter contracts. In December 2016, we obtained a waiver from one lender, extending the grace period for securing acceptable replacement charters for two of the vessels to the fourth quarter of 2017. In January 2017, we entered into a supplement to the secured loan agreement with the other lender, extending the grace period for securing an acceptable replacement charter for the third vessel to the fourth quarter of 2018. If acceptable replacement charters are not secured by the fourth quarter of 2017 and the fourth quarter of 2018, as applicable, the loans may become due and payable.

One of these 10000 TEU vessels commenced a short-term charter at market rates in November 2016 and is expected to be redelivered to us in March 2017. All three 10000 TEU vessels will commence time charters with Hapag-Lloyd at market rates in April 2017 for a minimum of five months up to a maximum of 12 months where the exact period is at Hapag-Lloyd's option. Hapag-Lloyd has an option for an additional period for a minimum of ten months up to a maximum of 12 months, if 12 months is selected for the firm period. The Seaspan Efficiency was sold for recycling in December 2016.

Market Conditions

The containership charter market was depressed during 2016, with time charter rates for benchmark 4000 TEU class containerships declining from a high of \$6,000 per day to approximately \$4,200 per day by the end of the year. Charter rates for these vessels remain below long-term historical averages due to a combination of factors, including continued low rates of growth in global container trade, which was approximately 1.5% in 2016, the delivery of larger vessels that are causing a cascading effect as vessel classes previously serving long-haul trades are displaced and an oversupply of containerships of approximately 4000 TEU in size. As an example, while the number of container vessels in the global fleet decreased by 41 vessels during 2016 due to record-high levels of vessel scrapping, the total global capacity of container vessels increased by approximately 1.7%, or over 333000 TEU, due to the delivery of larger vessels. The increase in the average size of containership vessels in the global fleet is driven by a desire for liners to reduce their fleet operating cost on a per TEU basis.

The current desire for large, cost-efficient containership vessels is evidenced by the fact that over 80% of the current containership orderbook is for vessels greater than 7500 TEU. Economies of scale in containership building mean that the cost per TEU in building large containerships is less than for vessels with smaller TEU capacity. The total newbuild price for a theoretical 10000 TEU containership, which peaked at \$109.0 million in September 2010, fell to \$85.3 million by the beginning of 2013, and then increased to approximately \$93.0 million as of the end of 2016.

B. Results of Operations

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

The following discussion of our financial condition and results of operations is for the years ended December 31, 2016 and 2015. The consolidated financial statements have been prepared in accordance with U.S. GAAP and, except where otherwise specifically indicated, all amounts are expressed in U.S. dollars.

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The following table presents our operating results for the years ended December 31, 2016 and 2015.

Year Ended December 31,	2016	2015
Statement of operations data (in thousands of USD):		
Revenue	\$877,905	\$819,024
Operating expenses:		
Ship operating	192,327	193,836
Cost of services, supervision fees	7,390	1,950
Depreciation and amortization	216,098	204,862
General and administrative	32,118	27,338
Operating leases	85,910	40,270
Loss on disposals	31,876	—
Expenses related to customer bankruptcy	19,732	—
Vessel impairments	285,195	—
Operating earnings	7,259	350,768
Other expenses (income):		
Interest expense and amortization of deferred financing fees	119,882	108,693
Interest income	(8,455)	(11,026)
Undrawn credit facility fee	2,673	3,100
Refinancing expenses	1,962	5,770
Change in fair value of financial instruments ⁽¹⁾	29,118	54,576
Equity income on investment	(188)	(5,107)
Other (income) expenses	1,306	(4,629)
Net earnings (loss)	\$(139,039)	\$199,391
Common shares outstanding at year end:	105,722,646	98,622,160
Per share data (in USD):		
Basic and diluted earnings (loss) per Class A common share	\$(1.89)	\$1.46
Dividends paid per Class A common share	1.50	1.47
Statement of cash flows data (in thousands of USD):		
Cash flows provided by (used in):		
Operating activities	\$311,087	\$335,872
Financing activities ⁽²⁾	106,907	394,527
Investing activities ⁽²⁾	(265,613)	(716,634)
Net increase in cash and cash equivalents	\$152,381	\$13,765
Selected balance sheet data (at year end, in thousands of USD):		
Cash and cash equivalents	\$367,901	\$215,520
Vessels ⁽³⁾	4,883,849	5,278,348
Other assets ⁽⁴⁾	406,079	579,951
Total assets ⁽⁴⁾	\$5,657,829	\$6,073,819
Current liabilities ⁽⁴⁾	\$484,844	\$423,801
Deferred revenue	1,528	2,730
Long-term debt ⁽⁴⁾	2,569,697	3,072,058

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Long-term obligations under capital lease ⁽⁴⁾	459,395	314,078
Other long-term liabilities	195,104	148,083
Fair value of financial instruments	200,012	336,886
Shareholders' equity	1,747,249	1,776,183
Total liabilities and shareholders' equity	\$5,657,829	\$6,073,819
Other data:		
Number of vessels in operation at year end	87	85
Average age of fleet (TEU weighted basis) in years at year end	5.6	5.9
TEU capacity at year end	620,650	578,300
Average remaining initial term on outstanding charters		
(TEU weighted basis)	4.9	5.6
Fleet utilization ⁽⁵⁾	96.0	% 98.5 %

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- (1) All of our interest rate swap agreements and swaption agreements are marked to market and the changes in the fair value of these instruments are recorded in earnings.
- (2) The cash flow data for 2014 has been recast to present non-cash debt draws as cash transactions, resulting in a reclassification between financing and investing activities. This reclassification, which is immaterial, had no impact on the consolidated statement of operations data.
- (3) Vessel amounts include the net book value of vessels in operation and vessels under construction.
- (4) Prior to the adoption of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, or ASU 2015-03, all debt issuance costs were presented as other non-current assets in our consolidated balance sheets. With the adoption of ASU 2015-03 on January 1, 2016, we present debt issuance costs related to a recognized debt liability, which includes long-term debt and long-term obligations under capital lease, as a direct deduction from the carrying amount of that debt liability in our consolidated balance sheets. As a result of adopting ASU 2015-03, total assets and related debt liabilities as of December 31, 2015 decreased by \$35.3 million from the amounts previously presented.
- (5) Fleet utilization is based on number of operating days divided by the number of ownership days during the year. At the beginning of 2016, we had 85 vessels in operation. We accepted delivery of three newbuilding vessels, leased in two vessels, acquired three 4250 TEU vessels, sold two 4600 TEU vessels and sold four 4800 TEU vessels upon completion of their five-year bareboat charters, bringing our operating fleet to a total of 87 vessels as at December 31, 2016. Revenue is determined primarily by the number of operating days, and ship operating expense is determined primarily by the number of ownership days.

	Year Ended		Increase	
	2016	2015	Days	%
Ownership days ⁽¹⁾	30,593	28,133	2,460	8.7%
Operating days ⁽¹⁾	29,384	27,717	1,667	6.0%

(1) Operating and ownership days include leased vessels and exclude vessels under bareboat charter.

Financial Summary (in thousands of USD)

	Year Ended December		Change	
	2016	2015	\$	%
Revenue	\$877,905	\$819,024	\$58,881	7.2%
Ship operating expense	192,327	193,836	(1,509)	(0.8%)
Depreciation and amortization expense	216,098	204,862	11,236	5.5%
General and administrative expense	32,118	27,338	4,780	17.5%
Operating lease expense	85,910	40,270	45,640	113.3%

Interest expense and amortization of deferred

financing fees	119,882	108,693	11,189	10.3 %
Refinancing expenses	1,962	5,770	(3,808)	(66.0 %)
Loss on disposals	31,876	—	31,876	100.0%
Expenses related to customer bankruptcy	19,732	—	19,732	100.0%
Vessel impairments	285,195	—	285,195	100.0%
Change in fair value of financial instruments	29,118	54,576	(25,458)	(46.6 %)

Revenue

Revenue increased by 7.2% to \$877.9 million for the year ended December 31, 2016 from \$819.0 million in 2015. This increase is primarily due to the delivery of newbuilding vessels in 2015 and 2016 and the addition of two leased in vessels in 2016. These increases were partially offset by lower average charter rates for vessels that were on short-term charters, a reduction in revenue on three 10000 TEU vessels as we stopped recognizing revenue on these vessels on September 1, 2016 after Hanjin declared bankruptcy and an increase in unscheduled off-hire, primarily relating to vessels being off-charter, including the three vessels previously chartered to Hanjin.

The increase in operating days and the related financial impact for the year ended December 31, 2016 relative to 2015 is attributable to the following:

	Operating Days Impact	\$ Impact (in millions of USD)
2016 vessel deliveries	1,101	\$ 43.5
Full year contribution for 2015 deliveries	1,432	63.3
Change in daily charter hire rate and re-charters	—	(31.4)
Additional days due to leap year	81	2.1
Scheduled off-hire	147	2.0
Unscheduled off-hire ⁽¹⁾	(940)	(20.7)
Supervision fee revenue	—	5.8
Vessel management revenue	—	1.1
Customer bankruptcy	—	(4.5)
Vessel disposals	(154)	(2.3)
Total	1,667	\$ 58.9

⁽¹⁾Unscheduled off-hire includes days related to vessels off-charter.

Vessel utilization was 96.0% for the year ended December 31, 2016, compared to 98.5% for the prior year. The decrease in utilization is primarily due to an increase in off-charter days from a weakened market and the termination of Hanjin charters.

During the year ended December 31, 2016 we completed dry-dockings for 15 vessels:

Vessel Class (TEU)	Year Ended				December 31, 2016
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
2500	—	—	1	—	1
3500	—	—	1	—	1
4250	2	(1) 1	(1) 1	(1) —	4 (1)
4500	1	—	—	—	1
8500	1	—	—	—	1
13100	5	2	—	—	7
	9	3	3	—	15

During the year ended December 31, 2015 we completed dry-dockings for 26 vessels:

Vessel Class (TEU)	Year Ended				December 31, 2015
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
2500	1	1	—	—	2
4250	3	3	(1)2	4	(1)12
4500	—	—	—	4	4
8500	—	3	2	2	7
13100	—	—	—	1	1
	4	7	4	11	26

(1) Dry-docking for certain of these vessels was completed between their time charters.

Ship Operating Expense

Ship operating expense decreased by 0.8% to \$192.3 million for the year ended December 31, 2016, compared to 2015 primarily due to cost savings initiatives. This decrease was partially offset by an 8.7% increase in ownership days due to the delivery of newbuilding vessels in 2015 and 2016, and the addition of two leased in vessels in 2016.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by 5.5% to \$216.1 million for the year ended December 31, 2016, compared to 2015. The increase in depreciation and amortization expense was due to the increase in fleet size from vessel deliveries in 2015, an increase in dry-dock amortization during 2015 and 2016 from increased dry-docking activities and write-off of replaced vessel equipment. The increases were partially offset by lower depreciation due to impairment of ten vessels as of September 30, 2016 and the disposal of two 4600 TEU vessels.

General and Administrative Expense

General and administrative expense increased by 17.5% to \$32.1 million for the year ended December 31, 2016, compared to 2015. The increase was primarily due to an increase in non-cash stock-based compensation expense related to grants of restricted and performance stock units, professional fees and other corporate expenses incurred.

Operating Lease Expense

Operating lease expense increased to \$85.9 million for the year ended December 31, 2016 from \$40.3 million in 2015. The increase was primarily due to the delivery of four vessels in 2015 and three vessels in 2016 that were financed through sale leaseback transactions and the two leases entered into in 2016 with third parties for a 10000 TEU vessel, the MOL Beyond and a 14000 TEU vessel, the YM Window. Under these transactions, we sold the

vessels to SPCs and are leasing the vessels back over a term of 11 or 12 years, with an option to purchase the vessels at the nine or 9.5-year anniversary of the lease for a pre-determined fair value purchase price. The unamortized portion of the deferred gain, which is being amortized as a reduction of the related operating lease expense, on all sale-leasebacks was \$194.3 million as at December 31, 2016.

Interest Expense and Amortization of Deferred Financing Fees

The following table summarizes our borrowings:

(in millions of US dollars)	As at December 31,		Change	
	2016	2015	\$	%
Long-term debt, excluding deferred financing fees	\$2,903.4	\$3,387.2	\$(483.8)	(14.3)%
Long-term obligations under capital lease, excluding				
deferred financing fees	498.8	342.8	156.0	45.5
Total borrowings	3,402.2	3,730.0	(327.8)	(8.8)
Less: Vessels under construction	(306.2)	(209.1)	(97.1)	(46.4)
Operating borrowings	\$3,096.0	\$3,520.9	\$(424.9)	(12.1)%

Interest expense and amortization of deferred financing fees is comprised primarily of interest incurred on long-term debt and long-term obligations under capital lease, relating to operating vessels at either the variable rate calculated by reference to LIBOR plus the applicable margin or at fixed rates. Interest expense also includes a non-cash reclassification of amounts from accumulated other comprehensive loss related to previously designated hedging relationships. Interest incurred on long-term debt and long-term obligations under capital lease for our vessels under construction is capitalized to the cost of the respective vessels under construction.

Interest expense and amortization of deferred financing fees increased by \$11.2 million to \$119.9 million for the year ended December 31, 2016, compared to 2015. The increase in interest expense was due to an increase in operating borrowings primarily related to certain vessels that delivered in 2015, an increase in LIBOR, higher amortization of deferred financing fees and higher interest due to the full period impact of the March 2015 refinancing of three 4500 TEU vessels. The increases were partially offset by repayments made on existing operating borrowings.

Although we have entered into fixed interest rate swaps for much of our variable rate debt, the difference between the variable interest rate and the swapped fixed-rate on operating debt is recorded in our change in fair value of financial instruments rather than in interest expense.

Refinancing Expenses

Refinancing expenses decreased by \$3.8 million to \$2.0 million for the year ended December 31, 2016, compared to 2015. In 2016 and 2015, we wrote-off deferred financing fees related to the termination and repayment of term loans.

Loss on Disposals

Loss on disposals was \$31.9 million for the year ended December 31, 2016 due to the sale of the Seaspan Excellence and Seaspan Efficiency for recycling at an ISO certified recycler, for total net sale proceeds of approximately \$12.1 million.

Expenses Related to Customer Bankruptcy

Expenses related to customer bankruptcy were \$19.7 million for the year ended December 31, 2016, which included a full reserve for \$18.9 million of past due accounts receivables from Hanjin as a result of their bankruptcy filing in

August 2016.

Vessel Impairments

For the year ended December 31, 2016, we recognized non-cash vessel impairments of \$285.2 million, compared to nil for 2015. The impairment related to 16 vessels held for use, including ten 2500 TEU, four 4250 TEU and two 3500 TEU vessels. We performed an impairment test of our vessels at September 30, 2016 and December 31, 2016 due to the continued weakness in current market rates and declines in the vessels' market values. Please read "Item 5. Operating and Financial Review and Prospects — D. Critical Accounting Policies and Estimates — Impairment of Long-lived Assets."

Change in Fair Value of Financial Instruments

The change in fair value of financial instruments resulted in a loss of \$29.1 million for the year ended December 31, 2016, compared to a loss of \$54.6 million for 2015. The change in fair value was primarily due to the impact of swap settlements, partially offset by an increase in the forward LIBOR curve. The fair value of interest rate swap and swaption agreements is subject to change based on our company-specific credit risk and that of the counterparty included in the discount factor and the interest rate implied by the current swap curve, including its relative steepness. In determining the fair value, these factors are based on current information available to us. These factors are expected to change through the life of the instruments, causing the fair value to fluctuate significantly due to the large notional amounts and long-term nature of our derivative instruments. As these factors may change, the fair value of the instruments is an estimate and may deviate significantly from the actual cash settlements realized over the term of the instruments. Our valuation techniques have not changed and they remain consistent with those followed by other valuation practitioners.

The fair value of our interest rate swaps is most significantly impacted by changes in the yield curve. Based on the current notional amount and tenor of our interest rate swap portfolio, a one percent parallel shift in the overall yield curve is expected to result in a change in the fair value of our interest rate swaps of approximately \$60.0 million. Actual changes in the yield curve are not expected to occur equally at all points and changes to the curve may be isolated to periods of time. This steepening or flattening of the yield curve may result in greater or lesser changes to the fair value of our financial instruments in a particular period than would occur had the entire yield curve changed equally at all points.

The fair value of our interest rate swaps is also impacted by changes in our company-specific credit risk included in the discount factor. We discount our derivative instruments with reference to the publicly-traded bond yields for our comparator group in the shipping industry and composite Bloomberg industry yield curves. Based on the current notional amount and tenor of our swap portfolio, a one percent change in the discount factor is expected to result in a change in the fair value of our interest rate swaps of approximately \$6.0 million.

All of our interest rate swap and swaption agreements were marked to market with all changes in the fair value of these instruments recorded in “Change in fair value of financial instruments” in the Statement of Operations.

Please read “Item 11. Quantitative and Qualitative Disclosures About Market Risk” for further discussion.

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

The following discussion of our financial condition and results of operations is for the years ended December 31, 2015 and 2014. The consolidated financial statements have been prepared in accordance with U.S. GAAP and, except where otherwise specifically indicated, all amounts are expressed in U.S. dollars.

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The following table presents our operating results for the years ended December 31, 2015 and 2014.

Year Ended December 31,	2015	2014
Statement of operations data (in thousands of USD):		
Revenue	\$ 819,024	\$ 717,170
Operating expenses:		
Ship operating	193,836	166,097
Cost of services, supervision fees	1,950	—
Depreciation and amortization	204,862	181,527
General and administrative	27,338	30,462
Operating leases	40,270	9,544
Operating earnings	350,768	329,540
Other expenses (income):		
Interest expense and amortization of deferred financing fees	108,693	98,501
Interest income	(11,026)	(10,653)
Undrawn credit facility fee	3,100	3,109
Refinancing expenses and costs	5,770	70
Change in fair value of financial instruments ⁽¹⁾	54,576	105,694
Equity (income) loss on investment	(5,107)	(256)
Other expenses	(4,629)	1,828
Net earnings	\$ 199,391	\$ 131,247
Common shares outstanding at year end:	98,622,160	96,662,928
Per share data (in USD):		
Basic earnings per Class A common share	\$ 1.46	\$ 0.80
Diluted earnings per Class A common share	1.46	0.79
Dividends paid per Class A common share	1.4700	1.3475
Statement of cash flows data (in thousands of USD):		
Cash flows provided by (used in):		
Operating activities	\$ 335,872	\$ 342,959
Financing activities ⁽²⁾	394,527	73,621
Investing activities ⁽²⁾	(716,634)	(691,205)
Net increase (decrease) in cash and cash equivalents	\$ 13,765	\$ (274,625)
Selected balance sheet data (at year end, in thousands of USD):		
Cash and cash equivalents	\$ 215,520	\$ 201,755
Vessels ⁽³⁾	5,278,348	5,095,723
Other assets ⁽⁴⁾	579,951	559,866
Total assets ⁽⁴⁾	\$ 6,073,819	\$ 5,857,344
Current liabilities ⁽⁴⁾		
Deferred revenue	2,730	7,343
Long-term debt ⁽⁴⁾	3,072,058	3,052,941
Long-term obligations under capital lease ⁽⁴⁾	314,078	196,136
Other long-term liabilities	148,083	51,967
Fair value of financial instruments	336,886	387,938
Shareholders' equity	1,776,183	1,745,224

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Total liabilities and shareholders' equity	\$6,073,819	\$5,857,344
Other data:		
Number of vessels in operation at year end	85	77
Average age of fleet (TEU weighted basis) in years at year end	5.9	6.0
TEU capacity at year end	578,300	474,300
Average remaining initial term on outstanding charters		
(TEU weighted basis)	5.6	5.8
Fleet utilization ⁽⁵⁾	98.5	% 99.0 %

⁽¹⁾All of our interest rate swap agreements and swaption agreements are marked to market and the changes in the fair value of these instruments are recorded in earnings.

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- (2) The cash flow data for 2014 has been recast to present non-cash debt draws as cash transactions, resulting in a reclassification between financing and investing activities. This reclassification, which is immaterial, had no impact on the consolidated statement of operations data.
- (3) Vessel amounts include the net book value of vessels in operation and vessels under construction.
- (4) Prior to the adoption of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, or ASU 2015-03, all debt issuance costs were presented as other non-current assets in our consolidated balance sheets. With the adoption of ASU 2015-03 on January 1, 2016, we present debt issuance costs related to a recognized debt liability, which includes long-term debt and other long-term obligations under capital lease, as a direct deduction from the carrying amount of that debt liability in our consolidated balance sheets. As a result of adopting ASU 2015-03, total assets and related debt liabilities decreased by \$35.3 million (December 31, 2015) and \$38.0 million (December 31, 2014) from the amounts previously presented.
- (5) Fleet utilization is based on number of operating days divided by the number of ownership days during the year. At the beginning of 2015, we had 77 vessels in operation. We accepted delivery of eight vessels during 2015, bringing our fleet to a total of 85 vessels as of December 31, 2015. During the year ended December 31, 2014, we accepted delivery of six vessels. Revenue is determined primarily by the number of operating days, and ship operating expense is determined primarily by the number of ownership days.

	Year Ended		Increase	
	December 31,		Days	
	2015	2014	Days	%
Ownership days	28,133	25,408	2,725	10.7%
Operating days	27,717	25,157	2,560	10.2%

Financial Summary (in thousands of USD)

Year	Change
Ended December	
31,	