Seaspan CORP
Form 20-F
March 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

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

o 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

(Address of Principal Executive Offices)

Mark Chu

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Telephone: +852 (2540) 1686

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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 C Preferred 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
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.

98,645,991 Class A Common Shares, par value of $0.01 per share

13,321,774 Series C Preferred 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

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

Yes x No o

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 o No x

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

Yes x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o

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

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

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 o Item 18 o

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 o No x

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). Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “projects,” “forecasts,” “will,” “ma “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 dividend policy and future dividends, including the amount and timing of expected dividend payments, for the four quarters of 2016;
- our primary sources of funds for our short and medium-term liquidity needs;
- 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;
- future time charters and vessel deliveries;
- the repurchase plans for common and preferred shares and repurchases under such plan;
- estimated future capital expenditures needed to preserve our capital base, our expectations regarding future dry-docking and operating expenses, including ship operating expenses, insurance costs and general and administrative expenses;
- 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;
- our expectations as to impairments of our vessels, including the timing and amount of potential impairments;
- the future valuation of goodwill;
- availability of crew, number of off-hire days and, dry-docking requirements;
- general market conditions and shipping market trends, including charter rates and factors affecting supply and demand;
- 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 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 TEU newbuilding containerships;
- the potential for early termination or renegotiation of long-term contracts and our potential inability to enter into, renew or replace long-term contracts;

- conditions in the public equity market and the price of our shares;
- 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;
- the financial condition of our shipbuilders, customers, lenders, refund guarantors and other counterparties and their ability to perform their obligations under their agreements with us;
  - 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;
- 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;
- any potential acquisitions involving GCI; 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—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" ref to Seaspan Corporation and its subsidiaries. References to our Manager are to our wholly-owned subsidiary Seaspan Management Services Limited and its wholly-owned subsidiaries (including Seaspan Ship Management Ltd., or SSML), which provide us with all of our technical, administrative and strategic services.

References to shipbuilders are as follows:

Shipbuilder	Reference
CSBC Corporation, Taiwan	CSBC
Hyundai Heavy Industries Co., Ltd.	HHI
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
China Shipping Container Lines (Asia) Co., Ltd.(1)	CSCL Asia
COSCO Container Lines Co., Ltd.(2)	COSCON
Hanjin Shipping Co., Ltd.	Hanjin
Hapag-Lloyd AG	Hapag-Lloyd
Hapag-Lloyd USA, LLC (3)	HL USA
Kawasaki Kisen Kaisha Ltd.	K-Line
Maersk Line A/S (4)	Maersk
Mediterranean Shipping Company S.A.	MSC
Mitsui O.S.K. Lines, Ltd.	MOL
Pacific International Lines (Pte) Ltd.	PIL
Yang Ming Marine Transport Corp.	Yang Ming Marine
ZIM Integrated Shipping Services Ltd.	ZIM

(1) A subsidiary of China Shipping Container Lines Co., Ltd., or CSCL.
(2) A subsidiary of China COSCO Holdings Company Limited.
(3) A subsidiary of Hapag-Lloyd.
(4) A subsidiary of A.P. Moeller Maersk A/S.

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.

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,				
	2015	2014	2013	2012	2011
Statements of operations data (in thousands of USD):					
Revenue	$819,024	$717,170	$677,090	$660,794	$565,610
Operating expenses:					
Ship operating	193,836	166,097	150,105	138,655	135,696
Cost of services, supervision fees	1,950	—	—	—	—
Depreciation and amortization	204,862	181,527	172,459	165,541	140,354
General and administrative	27,338	30,462	34,783	24,617	16,818
Operating leases	40,270	9,544	4,388	3,145	—
(Gain) loss on vessels	—	—	—	(9,773)	16,237
Operating earnings	350,768	329,540	315,355	338,609	256,505
Other expenses (income):					
Interest expense	97,008	88,159	60,496	71,996	50,849
Interest income	(11,026)	(10,653)	(2,045)	(1,190)	(854)
Undrawn credit facility fee	3,100	3,109	2,725	1,516	4,282
Amortization of deferred charges	11,685	10,342	9,477	8,574	3,421
Refinancing expenses and costs	5,770	70	4,038	—	—
Change in fair value of financial instruments(1)	54,576	105,694	(60,504)	135,998	281,027
Equity (income) loss on investment	(5,107)	(256)	670	259	1,180
Other (income) expenses	(4,629)	1,828	1,470	151	—
Net earnings (loss)	$199,391	$131,247	$299,028	$121,305	$(83,400)
Common shares outstanding:	98,622,160	96,662,928	69,208,888	63,042,217	69,620,060
Per share data (in USD):					
Basic earnings (loss) per Class A common share	$1.46	$0.80	$3.36	$0.84	$(2.04)
Diluted earnings (loss) per Class A common share	1.46	0.79	2.93	0.81	(2.04)
Dividends paid per Class A common share	1.4700	1.3475	1.1880	0.9380	0.6880
Statement of cash flows data (in thousands of USD):					
Cash flows provided by (used in):					
Operating activities	$335,872	$342,959	$327,669	$311,183	$239,864
Financing activities(2)	394,527	73,621	62,491	(181,364)	832,293
Investing activities(2)	(716,634)	(691,205)	(295,158)	(229,564)	(625,253)

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
Selected balance sheet data (at year end, in thousands of USD):					
Cash and cash equivalents	$215,520	$201,755	$476,380	$381,378	$481,123
Current assets	540,163	516,926	600,113	463,930	519,998
Vessels[3]	5,278,348	5,095,723	4,992,271	4,863,273	4,697,249
Deferred charges	92,640	64,655	53,971	43,816	45,917
Gross investment in lease	—	37,783	58,953	79,821	95,798
Goodwill	75,321	75,321	75,321	75,321	—
Other assets	89,056	67,308	106,944	83,661	88,754
Fair value of financial instruments, asset	33,632	37,677	60,188	41,031	—
Total assets	6,109,160	5,895,393	5,947,761	5,650,853	5,447,716
Current liabilities	425,489	416,937	520,406	180,306	189,788
Long-term deferred revenue	2,730	7,343	4,143	7,903	12,503
Long-term debt	3,099,849	3,084,409	2,853,459	3,024,288	2,914,247
Other long-term liabilities	468,023	253,542	572,673	613,049	583,263
Fair value of financial instruments, long-term liability	336,886	387,938	425,375	606,740	564,490
Total shareholders' equity	1,776,183	1,745,224	1,571,705	1,218,567	1,183,425
Other data:					
Number of vessels in operation at year end	85	77	71	69	65
TEU capacity at year end	578,300	474,300	414,300	405,100	352,700
Fleet utilization[4]	98.5 %	99.0 %	98.0 %	98.9 %	99.3 %

(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) 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.

Risks Inherent in Our Business

Our ability to obtain additional debt 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, dilution of our equity holders' interests or our decreased ability to meet our payment obligations.

As of February 29, 2016, we have contracted to purchase an additional nine newbuilding containerships with scheduled delivery dates through October 2017. As of February 29, 2016, the total purchase price of the nine containerships remaining to be paid was estimated to be approximately $667.1 million. Our obligation to purchase the nine containerships is not conditional upon our ability to obtain financing for such purchases. 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 or to redeem our preferred shares. Incurring additional debt may significantly increase our interest expense and financial leverage, and 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 shares or redeem our preferred shares.

Restrictive covenants in our credit and lease facilities, 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 facilities and our ability to satisfy our payment obligations related to our securities.

To borrow funds under our credit facilities, we must, among other things, meet specified financial covenants. For example, under certain of our existing credit facilities, we are prohibited 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 differ from those used in preparing our consolidated financial statements, which are prepared in accordance with U.S. GAAP. To the extent we are not able to satisfy the requirements in our credit facilities, we may not be able to borrow additional funds under the facilities, and if we are not in compliance with specified financial ratios or other requirements, we may be in breach of the facilities, which could require us to repay outstanding amounts. We may also be required to prepay amounts borrowed under our credit facilities if we experience a change of control.

Our credit and lease facilities 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 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
- 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 or lessors 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' or lessors' consent when and if needed. In addition, we are subject to covenants for our preferred shares and Notes. If we do not comply with the restrictions and covenants in our credit or lease facilities, our Notes or in our preferred shares, our business, results of operations and financial condition will be harmed.

We may not be able to timely repay or be able to refinance indebtedness incurred under our credit and lease facilities.

We intend to finance a substantial portion of our fleet expansion with secured indebtedness drawn under our existing and future credit and lease facilities. We have significant repayment obligations under our credit and lease facilities, both prior to and at maturity. Please read "Item 5. Operating and Financial Review and Prospects—A. General—Management's Discussion and Analysis of Financial Condition and Results of Operations—2015 Developments—Loan and Lease Facility Transactions." If we are not able to refinance outstanding indebtedness 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 indebtedness, which could reduce our ability to satisfy payment obligations related to our securities and our credit and lease facilities or may require us to delay certain business activities or capital expenditures. If we are not able to satisfy these obligations (whether or not refinanced) under our credit or lease facilities with cash flow from operations, we may have to seek to restructure our indebtedness, 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 obligations, or if we otherwise default under our credit facilities, our lenders could declare all outstanding indebtedness to be immediately due and payable and foreclose on the vessels securing such indebtedness. The 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, 2015, we had an aggregate of approximately $3.4 billion outstanding under our credit facilities and our Notes and capital lease obligations of approximately $342.8 million. The amounts outstanding under our credit facilities and our lease obligations will further increase following the completion of our acquisition of the nine newbuilding containerships that we have contracted to purchase as of February 29, 2016. For the nine newbuilding containerships that we have contracted to purchase, we have entered into credit facilities for two of the vessels and plan to enter into additional credit facilities or lease obligations to finance the remaining seven 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, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- 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 operations, future business opportunities and dividends to our shareholders;
- our debt level could make us more vulnerable to competitive pressures or 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 dividends, 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.

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.

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 credit markets.

Our current vessels are, and we anticipate that those that we acquire in the future will be, primarily chartered to customers under long-term time charters. Payments to us under those charters currently, and are expected to continue to, account for nearly all of our revenue. Many of our customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. During the financial and economic crises, 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 declines in world trade, 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 the significant financial and economic disruption of 2007 and 2008 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.

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, 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 financial 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 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 credit 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.

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, 2015, 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, 2015:

Customer	Number of Vessels in our Operating Fleet Chartered to Such Customer	Percentage of Total Revenue for the Year Ended December 31, 2015	
COSCON	18	36.5	%
CSCL Asia	17	15.4	
Hapag-Lloyd[1]	16	12.1	
MOL	10	12.9	
K-Line	7	9.1	
Yang Ming Marine	6	6.3	
Other	11	7.7	
Total	85	100.0	%

(1) 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. The loss of any of these charters or any material decrease in payments thereunder could materially harm our business, results of operations, financial condition and ability to pay dividends on our shares or redeem our preferred shares.

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, 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 we undertake a change of control to which the customer does not consent or 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 significant financial or economic disruption 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.

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. Short-term 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 payable 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.

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

As of February 1, 2016, newbuilding containerships with an aggregate capacity of 3.9 million TEUs, representing approximately 19.6% of the total worldwide containership fleet capacity as of that date, were under construction. The size of the orderbook will 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 March 10, 2016, we had three vessels off-charter following charter expiration; we have an additional 12 and 13 vessels subject to existing charters that are scheduled to expire during the remainder of 2016 and 2017, respectively.

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 operations and financial condition.

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 29, 2016, a total of 17 of the 90 vessels in our current and contracted fleet were chartered to CSCL Asia, and 18 vessels are chartered to COSCON. On March 1, 2016, the parent entities of CSCL Asia and COSCON entered into a series of agreements to merge their businesses, including their containership business. Integration of the containership business is expected to take several months. Our vessels that are chartered to Chinese customers and our four 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 China's 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. Specifically, 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 China, (b) the length of time required to deliver goods from China and (c) the risks associated with exporting goods from China. 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 trade, especially trade with China and Asia, 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, financial condition, results of operations and ability to pay dividends on our shares or redeem our preferred shares.

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.

In particular, 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 2016. Additionally, the European Union, or the EU, and certain of its member states are facing significant economic and political challenges. Our business, results of operations, financial condition and ability to satisfy our payment obligations will likely be harmed by any significant economic downturn in the Asia Pacific region, including China, or in the EU or the United States.

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 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.

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 possibly 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 are 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 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.

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 early, we may be unable to re-deploy the related vessel on terms as favorable to us, if at all. In the worst case, we may not receive any revenue from that vessel, but be required to continue to pay financing costs for the vessel and expenses necessary to maintain the vessel in proper operating condition. Please read "Item 4. Information on the Company—B. Business Overview—Time Charters and Bareboat Charters."

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

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.

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. We may not be adequately insured to cover losses from these incidents, which could harm our business, results of operations, financial condition and ability to pay dividends on our shares or redeem our preferred shares. 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, 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 timely obtain a replacement vessel. Our credit facilities and lease agreements 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.

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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.

The European Commission is conducting investigations of certain major container liner companies, including some of our existing customers, related to potential violations of EU competition (antitrust) rules. Although we have no basis for assessing the outcome of these investigations, 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, financial condition and ability to pay dividends on our shares or redeem our preferred shares. In addition, any significant financial penalties arising from these or similar investigations could reduce the ability of our customers to make charter payments to us, which likewise could harm our business, results of operations and financial condition.

Over time, containership values may fluctuate substantially, which could adversely affect our results of operations or our ability to raise capital.

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 in the supply of 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 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.

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 discretion and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts 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 make no assurances, however, as to whether our estimates of future cash flows, particularly future vessel charter rates or vessel values, will be accurate. Vessels that are currently 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, require us to repay outstanding amounts, or increase the dividend rate of our Series C preferred shares. 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. This could harm our business, results of operations and financial condition.

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If time charter rates do not improve meaningfully from current market rates during the next three to six months, we expect that our average estimated daily time charter rate used in future impairment analyses will decline resulting in reduced estimated undiscounted future net cash flows to an amount which is less than the carrying value of certain vessels up to 5000 TEUs. In accordance with our accounting policy, if this occurs we will be required to recognize a non-cash impairment charge equal to the excess of the impacted vessels' carrying value over their fair value. Based on information available at December 31, 2015 about the fair value of vessels and the estimated future carrying value of such vessels, an estimate of such impairment charge would be in a range of between approximately $250 million to $290 million during fiscal 2016, commencing in the quarter ending September 30, 2016. The determination of the fair value of vessels will depend on various market factors, including charter and discount rates 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 and vessel values, which may differ materially from those used in our estimates at December 31, 2015.

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 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 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 harm our business.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention. 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 nine 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 time charters for the containerships and, if the delay is prolonged, could permit our customers to terminate the newbuilding containership time charter. 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 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 fluctuations may result in fluctuations in our results of operations and financial condition and ability to pay dividends on our shares or redeem our preferred shares.

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.

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;

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- 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 90 vessels. 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. 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 to 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, an entity owned and controlled by one of our directors, Graham Porter, and in which Mr. Wang has an indirect interest (or the Tiger Member), and GCI and certain of their respective affiliates, in addition to the services that he provides to us. In addition, Mr. Wang is the chairman of the board of managers of GCI. Please read “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Certain Relationships and Transactions.”

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, financial condition and ability to pay dividends may be significantly harmed as a result. Although Mr. Wang has an employment agreement with us through the termination of our right of first refusal with GCI (which is scheduled to expire on March 31, 2016, 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. We are in discussions with Mr. Wang regarding a new employment agreement that would extend beyond March 31, 2016. We can provide no assurances as to whether we and Mr. Wang will enter into a new employment agreement or the terms of any such agreement.

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We may not achieve expected benefits from our participation in GCI.

In March 2011, we agreed to participate in GCI, which invests in containership assets, primarily newbuilding vessels strategic to the People’s Republic of China, Taiwan, Hong Kong and Macau, or Greater China. We believe that the combined scale of our business and GCI, together with current excess capacity at shipyards, allows us to realize volume discounts for newbuilding orders and to negotiate fuel-efficient design improvements from shipyards that are attractive to our customers. To the extent excess shipyard capacity decreases, we may be unable to achieve these benefits. In addition, we may be unable to obtain more attractive vessel financing through GCI than otherwise available to us on our own.

GCI intends to compete in our markets, and its entry into 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 intends to invest 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. The involvement of Carlyle in GCI and the amount of funds that GCI may invest in containerships could result in GCI becoming the owner of a significant fleet of containerships, which could compete with us for growth opportunities, subject to certain rights of first refusal in our favor that may continue up to March 31, 2016, subject to earlier termination. Please read “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Our Investment in Carlyle Containership-Focused Investment Vehicle—Rights of First Refusal and First Offer.” Our business, results of operations and financial condition could be harmed to the extent GCI successfully competes against us for containership opportunities.

We have reduced the fiduciary duties of Gerry Wang and Graham Porter in relation to certain growth opportunities that become subject to our right of first refusal with GCI, which may limit our rights in such growth opportunities to our rights under the right of first refusal.

Pursuant to agreements between us and each of our chief executive officer and co-chairman of our board of directors, Gerry Wang, and one of our directors, Graham Porter, we have reduced the fiduciary duties of Mr. Wang and Mr. Porter in relation to certain containership vessel and business opportunities to the extent such opportunities are subject to our right of first refusal with GCI and (a) the conflicts committee of our board of directors decides to reject such opportunity or we fail to exercise our right of first refusal to pursue such opportunity, (b) we exercise such right but fail to pursue such opportunity or (c) we do not have the right under our right of first refusal to pursue such opportunity. Our rights to such opportunities may be limited to our rights under our right of first refusal with GCI, which would be more restrictive than the rights based on fiduciary duties we otherwise would have relating to such opportunities.

If our right of first refusal with GCI expires, our chief executive officer and one of our directors may be subject to increased conflict of interest situations relating to growth opportunities due to their dual capacities with us and GCI.

Our chief executive officer and co-chairman, Gerry Wang, is also an executive officer and director of GCI. Our director Graham Porter is also a director of GCI. If our right of first refusal with GCI expires, which is scheduled for March 31, 2016, conflicts of interest of Messrs. Wang and Porter relating to any potential containership acquisition and chartering opportunities may increase, particularly if they become aware of such opportunities while acting in their capacities as an officer or as directors of GCI. Any such conflicts could cause Messrs. Wang or Porter to decide to terminate their fiduciary roles with us or GCI, and may complicate our and GCI's claims to such opportunities.

In order to timely exercise our right of first refusal from GCI, we may be required to enter into containership construction contracts without financing arrangements or charter contracts then being in place, which may result in financing on less favorable terms or employment of the vessels other than on long-term, fixed-rate charters, if at all.

Under our right of first refusal with GCI relating to containership acquisition opportunities, we generally must exercise our right of first refusal within 12 business days of receiving a notice from GCI of the acquisition opportunity. At the time we must exercise our right of first refusal, there may be no financing arrangement or charter commitment relating to the newbuilding or existing containership to be acquired. If we elect to acquire the vessel without a financing arrangement or charter commitment then in place, we may be unable subsequently to obtain financing or charter the vessel on a long-term, fixed-rate basis, on terms that will result in positive cash flow to us from operation of the vessel, or at all. Accordingly, our business, results of operations and financial condition may be harmed.

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

One of our directors, Graham Porter, through his interest in the Tiger Member, is an indirect investor in Greater China Industrial Investments LLC, or 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. Mr. Wang is the chairman of the board of managers of GCI. Messrs. Wang and Porter are members of GCI's transaction committee, which will be primarily responsible for approving the purchase, newbuild contracting, chartering, financing and technical management of new and existing investments for GCI. Kyle R. Washington, co-chairman of our board of directors, is a non-voting member of GCI's transaction committee. 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;
- 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 our Manager, 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.

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.

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:

- the rates we obtain from our charters or re-charters and the ability of our customers to perform their obligations under their time charters;
- the level of our operating costs;
- the number of 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; 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.

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, 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 and 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.

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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. 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 will likely determine at some future date to reduce, or possibly eliminate, our dividend to provide reasonable assurance that we are retaining funds necessary to preserve our capital base.

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.”

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 29, 2016, we have grown to an operating fleet of 85 containerships and we have entered into contracts for the purchase of an additional nine 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 29, 2016, we operated a fleet of 85 containerships and have entered into contracts for the purchase of an additional nine newbuilding containerships which have scheduled delivery dates through October 2017. Of our nine newbuilding containerships, seven 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 near future. The average age of the 85 vessels in our operating fleet was approximately eight years as of February 29, 2016.

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 29, 2016, the charters on the 85 vessels in our operating fleet had an average remaining term of approximately four years, excluding the effect of charterers' options to extend certain time charters.

Customers for our operating fleet as at February 29, 2016 were as follows:

Customers for Current Fleet
COSCON
CSCL Asia
HL USA
Hanjin
Hapag-Lloyd
K-Line
Maersk
MSC
MOL
PIL
Yang Ming Marine
ZIM

Customers for Additional Seven Vessel Deliveries Subject to Charter Contracts
Maersk
MOL
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 85 operating vessels as of February 29, 2016:

Vessel Name	Vessel Class (TEU)	Year Built	Charter 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	
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	
Hanjin Buddha	10000	2014	3/25/14	Hanjin	10 years + one 2-year option	43.0	(2)
Hanjin Namu	10000	2014	6/5/14	Hanjin	10 years + one 2-year option	43.0	(2)
Hanjin Tabul	10000	2014	7/2/14	Hanjin	10 years + one 2-year option	43.0	(2)
MOL Bravo(1)	10000	2014	7/18/14	MOL	8 years + one 2-year option	37.5	(3)
MOL Brightness(1)	10000	2014	10/31/14	MOL	8 years + one 2-year option	37.5	(3)
MOL Breeze(1)	10000	2014	11/14/14	MOL	8 years + one 2-year option	37.5	(3)
MOL Beacon(1)	10000	2015	4/10/15	MOL	8 years + one 2-year option	37.5	(3)
Maersk Guayaquil	10000	2015	9/21/15	Maersk		37.2	(4)

					5 years + two 1-year options		
CSCL Zeebrugge	9600	2007	3/15/07	CSCL Asia	12 years	34.5	(5)
CSCL Long Beach	9600	2007	7/6/07	CSCL Asia	12 years	34.5	(5)
CSCL Oceania	8500	2004	12/4/04	CSCL Asia	12 years + one 3-year option	29.8	(6)
CSCL Africa	8500	2005	1/24/05	CSCL Asia	12 years + one 3-year option	29.8	(6)
COSCO Japan	8500	2010	3/9/10	COSCON	12 years + three 1-year options	42.9	(7)
COSCO Korea	8500	2010	4/5/10	COSCON	12 years + three 1-year options	42.9	(7)
COSCO Philippines	8500	2010	4/24/10	COSCON	12 years + three 1-year options	42.9	(7)
COSCO Malaysia	8500	2010	5/19/10	COSCON	12 years + three 1-year options	42.9	(7)
COSCO Indonesia	8500	2010	7/5/10	COSCON	12 years + three 1-year options	42.9	(7)
COSCO Thailand	8500	2010	10/20/10	COSCON	12 years + three 1-year options	42.9	(7)
COSCO Prince Rupert	8500	2011	3/21/11	COSCON	12 years + three 1-year options	42.9	(7)
COSCO Vietnam	8500	2011	4/21/11	COSCON	12 years + three 1-year options	42.9	(7)
MOL Emerald	5100	2009	4/30/09	MOL	12 years	28.9	
MOL Eminence	5100	2009	8/31/09	MOL	12 years	28.9	

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MOL Emissary	5100	2009	11/20/09	MOL	12 years	28.9	
MOL Empire	5100	2010	1/8/10	MOL	12 years	28.9	
MSC Veronique	4800	1989	11/25/11	MSC	5 years	14.5	(8)
MSC Manu	4800	1988	11/15/11	MSC	5 years	14.5	(8)
MSC Leanne	4800	1989	10/19/11	MSC	5 years	14.5	(8)
MSC Carole	4800	1989	10/12/11	MSC	5 years	14.5	(8)
MOL Excellence	4600	2003	2/20/16	MOL	Up to 3 months(9)	Market rate	(10)
MOL Efficiency	4600	2003	7/15/15	MOL	Up to 9.5 months(11)	Market rate	(10)
Brotonne Bridge(1)	4500	2010	10/25/10	K-Line	12 years + two 3-year options	34.3	(12)
Brevik Bridge(1)	4500	2011	1/25/11	K-Line	12 years + two 3-year options	34.3	(12)
Bilbao Bridge(1)	4500	2011	1/28/11	K-Line	12 years + two 3-year options	34.3	(12)
Berlin Bridge	4500	2011	5/9/11	K-Line	12 years + two 3-year options	34.3	(12)
Budapest Bridge	4500	2011	8/1/11	K-Line	12 years + two 3-year options	34.3	(12)
Seaspan Hamburg	4250	2001	11/3/13	Hapag-Lloyd	Up to 18 months(13)	Market rate	(10)
Seaspan Chiwan	4250	2001	12/29/13	Hapag-Lloyd	Up to 18 months(13)	Market rate	(10)
Seaspan Ningbo	4250	2002	9/7/13	Hapag-Lloyd	Up to 18 months(13)	Market rate	(10)
Seaspan Dalian	4250	2002	1/16/16	Hapag-Lloyd	Up to 18 months	Market rate	(10)
Seaspan Felixstowe	4250	2002	1/24/16	Hapag-Lloyd	Up to 18 months	Market rate	(10)
CSCL Vancouver	4250	2005	2/16/05	CSCL Asia	12 years	17.0	
CSCL Sydney	4250	2005	4/19/05	CSCL Asia	12 years	17.0	
CSCL New York	4250	2005	5/26/05	CSCL Asia	12 years	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	8/19/15	HL USA	Up to 24 months(14)	Market rate	(10)
Dubai Express	4250	2006	11/4/15	HL USA	Up to 24 months(14)	Market rate	(10)
Jakarta Express	4250	2006	2/15/16	HL USA	Up to 12.5 months(15)	18.0	
Saigon Express	4250	2006	1/19/16	HL USA	1.5 months(17)	Market rate	(10)
Lahore Express	4250	2006	7/11/06	HL USA	3 years + seven 1-year extensions + two 1-year options(18)	18.0	(16)
Rio Grande Express	4250	2006	10/20/06	HL USA	3 years + seven 1-year extensions + two 1-year options(18)	18.0	(16)
Seaspan Santos	4250	2006	2/1/16	Hapag-Lloyd	Up to 12 months(19)	Market rate	(10)
Rio de Janeiro Express	4250	2007	3/28/07	HL USA	3 years + seven 1-year extensions + two 1-year options(18)	18.0	(16)
Manila Express	4250	2007	5/23/07	HL USA	3 years + seven 1-year extensions + two 1-year options(18)	18.0	(16)
CSAV Loncomilla	4250	2009	4/28/09	Hapag-Lloyd	7 years(20)	25.9	

CSAV Lumaco	4250	2009	5/14/09	Hapag-Lloyd	7 years[20]	25.9	
Seaspan Lingue	4250	2010	6/16/15	PIL	Up to 12 months[21]	Market rate [10]	
Seaspan Lebu	4250	2010	10/24/15	Hapag-Lloyd	Up to 14 months[22]	Market rate [10]	
Madinah [1]	4250	2009	12/28/15	ZIM	Up to 7 months[23]	Market rate [10]	
COSCO Fuzhou	3500	2007	3/27/07	COSCON	12 years	19.0	
COSCO Yingkou	3500	2007	7/5/07	COSCON	12 years	19.0	
CSCL Panama	2500	2008	5/14/08	CSCL Asia	12 years	16.9	[24]
CSCL São Paulo	2500	2008	8/11/08	CSCL Asia	12 years	16.9	[24]
CSCL Montevideo	2500	2008	9/6/08	CSCL Asia	12 years	16.9	[24]
CSCL Lima	2500	2008	10/15/08	CSCL Asia	12 years	16.9	[24]
CSCL Santiago	2500	2008	11/8/08	CSCL Asia	12 years	16.9	[24]
CSCL San Jose	2500	2008	12/1/08	CSCL Asia	12 years	16.9	[24]
CSCL Callao	2500	2009	4/10/09	CSCL Asia	12 years	16.9	[24]
CSCL Manzanillo	2500	2009	9/21/09	CSCL Asia	12 years	16.9	[24]
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) Hanjin has an initial charter of 10 years with a charter rate of $43,000 per day for the initial term and $44,500 per day during the two-year option.

(3) 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.

(4) 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.

(5) 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.

(6) CSCL Asia has an initial charter of 12 years with a charter rate of $29,500 per day for the first six years, $29,800 per day for the second six years, and $30,000 per day during the three-year option.

(7) 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.

(8) MSC has a bareboat charter of five years with a charter rate of $10,000 per day for the first two years, increasing to $14,500 per day after two years. MSC has agreed to purchase the vessels for $5.0 million each at the end of their respective five-year bareboat charter terms. In addition, we pay a 1.25% commission to a broker on all bareboat charter payments for these charters.

(9) In January 2016, we agreed to a direct continuation of the time charter at market rates for a minimum of one month up to a maximum of three months where the exact period is at MOL's option. This vessel is expected to be re-delivered to us on March 20, 2016 and will be renamed Seaspan Excellence.

(10) Given that the term of the charter is less than three years (excluding any charterers' option to extend the term), the vessel is being chartered at current market rates.

(11) This vessel was re-delivered to us on March 1, 2016 and is currently off-charter. The vessel was also renamed Seaspan Efficiency.

(12) 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.

(13) On expiry of current short-term charters that expire between March and June 2016, the vessel will commence a direct continuation at market rates for a minimum of 11 months up to a maximum of 18 months, where the exact period is at Hapag-Lloyd's option.

(14) In June 2015, we agreed to a direct continuation of the time charter at market rates for a minimum of 18 months up to a maximum of 24 months, where the exact period is at HL USA's option. The new rates were in effect from August 2015 for the New Delhi Express and November 2015 for the Dubai Express.

(15) The term of this time charter has been extended at a rate of $18,000 per day for a minimum of 9.5 months and market rates for the remaining term up to a maximum of 12.5 months.

(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 charters 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 remaining.

(17) In January 2016, we agreed to a direct continuation of the time charter at market rates for a term of approximately 1.5 months. This vessel was re-delivered to us on March 8, 2016. The vessel is currently off-charter and will be renamed Seaspan Saigon.

(18) For these charters, 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 charters with two years' prior written notice. HL USA would have been required to pay a fee of approximately $8.0 million to terminate a charter at the end of the initial term. The termination fee declines by $1.0 million per year per vessel in years four through nine. The initial terms of the charters for these vessels have expired and these charters have been automatically extended pursuant to their terms.

(19) This vessel was re-delivered to us on November 30, 2015 and commenced a time charter with Hapag-Lloyd on February 1, 2016 at market rates for a minimum of six months up to a maximum of 12 months, where the exact period is at Hapag-Lloyd's option.

(20) In February 2016, we agreed to a direct continuation of the time charter at market rates for a minimum of one month up to a maximum of 13 months, where the exact period is at Hapag-Lloyd's option. These direct continuations will commence in April 2016.

(21) This vessel is expected to be re-delivered to us on April 1, 2016.

(22)

In October 2015, we agreed to a direct continuation of the time charter at market rates for a minimum of nine months up to a maximum of 14 months, where the exact period is at Hapag-Lloyd's option.

(23) In December 2015, we agreed to a direct continuation of the time charter at market rates for a minimum of two months up to a maximum of seven months, where the exact period is at ZIM's option. The vessel was re-delivered to us on March 7, 2016 and is currently off-charter.

(24) 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 29, 2016, we have contracted to purchase nine additional newbuilding containerships which have scheduled delivery dates through October 2017. These vessels consist of the following:

Vessel	Vessel Class (TEU)	Length of Time Charter [1]	Charterer	Scheduled Delivery Date	Shipbuilder
Hull No. 1106	10000	8 years + one 2-year option	MOL	2016	New Jiangsu and Jiangsu Xinfu
Hull No. 1120	10000	5 years + two 1-year options	Maersk	2016	New Jiangsu and Jiangsu Xinfu
Hull No. 1037	14000	10 years + one 2-year option	Yang Ming Marine	2016	CSBC
Hull No. 1039	14000	10 years + one 2-year option	Yang Ming Marine	2016	CSBC
Hull No. 1122	10000	— [2]	— [2]	2017	New Jiangsu and Jiangsu Xinfu
Hull No. 1169	10000	— [2]	— [2]	2017	New Jiangsu and Jiangsu Xinfu
Hull No. 145	11000	17 years	MSC	2017	HHIC
Hull No. 147	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 near future.

The following table indicates the estimated number of owned, leased and managed vessels in our fleet based on scheduled delivery dates as of February 29, 2016:

	Scheduled for the Year Ended December 31,		
	2015	2016	2017
Owned and leased vessels, beginning of year	77	85	85
Deliveries	8	4	5
Contractual sale[1]	—	(4)	—
Total, end of year	85	85	90
Managed vessels, beginning of year	5	15	20
Deliveries	10	5	4
Total, end of year	15	20	24
Total Fleet	100	105	114
Total Capacity (TEU)	733,500	824,300	919,300

(1)

Relates to four 4800 TEU vessels that commenced five-year bareboat charters in 2011. The charterer has agreed to purchase the vessels for $5.0 million each at the end of their respective five-year bareboat charter terms.

Our Charters

We charter our vessels primarily under long-term, fixed-rate time charters. We charter four of our vessels under bareboat charters. The following table presents the number of vessels chartered by each of our customers as of February 29, 2016.

Charterer	Number of Vessels in Our Current Operating Fleet	Number of Vessels Scheduled to be Delivered (Sold) through 2017	Total Vessels Upon All Deliveries
COSCON	18	—	18
CSCL Asia	17	—	17
MOL	9	1	10
HL USA	8	—	8
K-Line	7	—	7
Hapag Lloyd	9	—	9
Hanjin	3	—	3
PIL	1	—	1
Maersk	1	1	2
Yang Ming Marine	6	2	8
ZIM	1	—	1
Total time charters	80	4	84
MSC (bareboat charters)	—	3	3
MSC (bareboat charters) [1]	4	(4)	—
No charter	1	2	3
Total fleet	85	5	90

[1] Relates to four 4800 TEU vessels that commenced five-year bareboat charters in 2011. The charterer has agreed to purchase the vessels for $5.0 million each at the end of their respective five-year bareboat charter terms.

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 four 4800 TEU vessels are chartered by MSC under bareboat charters. Our three 11000 TEU vessels will be chartered by MSC under bareboat charters. 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.” Under our bareboat charters with

MSC, MSC has agreed to purchase each vessel for $5.0 million at the end of their respective five-year bareboat charter terms.

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 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

Our Manager operates our vessels and is 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.

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 (our Manager 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.

Termination or Change of Control

We are generally entitled to withdraw a vessel from service to a charterer if the charterer defaults in its payment obligations, without prejudice to other claims for hire against the charterers. Some of our charterers also have the right to terminate the time charters in circumstances other than extended periods of off-hire as noted above. Under some of our time charters, the customer has the right to prior notice of or consent to any material change in our ownership or voting control.

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 three 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 insurance, 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 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 (or IMO)

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. 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.

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, would require the installation of ballast water treatment systems on certain newbuilding vessels for which the keel is or was laid after January 1, 2012 and for existing vessels prior to their first renewal survey after January 1, 2014 or January 1, 2016 (depending on their year of build and their ballast water capacity). The BWM Convention will become effective, on a retroactive basis, 12 months after it has been adopted by a specified threshold of member states representing at least 35% of the world's shipping tonnage As of January 2016, the threshold may have been met as the IMO is recounting the percentage of the world's shipping tonnage owned by the states that have ratified the BWM Convention to determine if the adoption threshold has been met for ratification of the BWM Convention. When the BWM Convention is adopted, we may be required to incur significant costs to install these ballast water treatment plants on all our vessels before the applicable due dates.

The IMO also regulates vessel safety. The International Safety Management Code, or the ISM Code, requires vessel owners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. A Safety Management Certificate is issued under the provisions of the International Convention for the Safety of Life at Sea, or SOLAS, to each vessel with a Safety Management System verified to be in compliance with the ISM Code. The failure of a vessel owner or bareboat charterer to comply with the ISM Code may subject such 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 regulation and 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. Under the CWA, it is unlawful to discharge any pollutant from a point source into navigable waters without a permit. 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. We have submitted appropriate filings to obtain coverage under the VGP.

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. For certain existing vessels, EPA has adopted a staggered implementation schedule to require vessels to meet the ballast water effluent limitations by the first dry-docking after January 1, 2014 or January 1, 2016, depending on the vessel size. Vessels that are constructed after December 1, 2013 are subject to the 2013 VGP ballast water numerical effluent limitations. 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. We comply 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 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. Individual vessel implementation schedules have been extended in cases where vessel owners have demonstrated that compliance is not technologically feasible. As there are no U.S. Coast Guard approved ballast water treatment systems, all vessels who apply for an extension receive one. The U.S. Coast Guard regulations also require vessels to maintain a ballast water management plan that is specific for that vessel and assigns responsibility to the master or appropriate official to understand and execute the ballast water management strategy for that vessel. 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 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 are being 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.

European Union Requirements

In waters of the EU, our vessels are subject to regulation by EU-level directives implemented by the various nations 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.

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 vessels 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 earlier than December 31, 2015 and not later than December 31, 2018, although certain of its provisions will begin to apply from December 31, 2014 and certain others from December 31, 2020.

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 legitimate 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 was adopted in 2015. This agreement governs carbon dioxide reduction measures that go into effect in 2020 and seek to limit the global average temperature increase. International shipping was not included in this agreement.

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 was published in the Official Journal on May 19, 2015 and went into effect on July 1, 2015. 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 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. 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.

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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.

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 C preferred shares, our Series D preferred shares, and our Series E 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 C preferred shares, our Series D preferred shares or our Series E 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 29, 2016.

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 29, 2016 we operated a fleet of 85 vessels and we have entered into contracts for the purchase of an additional nine newbuilding containerships, which have scheduled delivery dates through October 2017. Of our nine newbuilding containerships, seven 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 near future. The average age of the 85 vessels in our fleet was approximately eight years as of February 29, 2016.

Customers for our operating fleet as at February 29, 2016 were COSCON, CSCL Asia, HL USA, Hanjin, Hapag-Lloyd, K-Line, Maersk, MSC, MOL, PIL, Yang Ming Marine and ZIM. The customers for the additional seven newbuilding containerships that are under long-term, fixed-rate charters upon delivery are Maersk, MOL, 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.

2015 Developments

Vessel Deliveries

During the year ended December 31, 2015, we accepted delivery of six 14000 TEU and two 10000 TEU newbuilding containerships, bringing our operating fleet to a total of 85 vessels. The six 14000 TEU vessels were constructed at HHI and the two 10000 TEU vessels were constructed at Jiangsu Xinfu, in each case using our fuel-efficient SAVER design. The vessel deliveries are summarized below:

Vessel	Vessel Class (TEU)	Length of Time Charter	Charterer	Delivery Date
MOL Beacon	10000	8 years + one 2-year option	MOL	March 2015
YM Wish	14000	10 years + one 2-year option	Yang Ming Marine	April 2015
YM Wellhead	14000	10 years + one 2-year option	Yang Ming Marine	April 2015
YM Winner	14000	10 years + one 2-year option	Yang Ming Marine	June 2015
YM Witness	14000	10 years + one 2-year option	Yang Ming Marine	June 2015
YM Wellness	14000	10 years + one 2-year option	Yang Ming Marine	August 2015
Maersk Guayaquil	10000	5 years + two 1-year options	Maersk	September 2015

YM Warmth	14000	10 years + one 2-year option	Yang Ming Marine	October 2015

Newbuilding Containership Orders

On April 13, 2015, we entered into contracts with HHIC for the construction of five 11000 TEU newbuilding containerships for an aggregate purchase price of approximately $467.5 million. These five vessels are scheduled for delivery throughout 2017 and each vessel will be on a 17-year charter with MSC, at the conclusion of which MSC will purchase each vessel for a pre-determined amount. Pursuant to our right of first refusal agreement with GCI, we retained three of the 11000 TEU newbuilding containerships and GCI acquired the remaining two vessels.

On April 27, 2015, we entered into contracts with Jiangsu Xinfu and New Jiangsu for the construction of two 10000 TEU newbuilding containerships for an aggregate purchase price of approximately $186.0 million. These vessels are scheduled for delivery in 2017 and will be constructed using our fuel-efficient SAVER design. Pursuant to our right of first refusal agreement with GCI, we retained one of the 10000 TEU newbuilding containerships and GCI acquired the remaining vessel.

Loan and Lease Facility Transactions

On March 11, 2015, we entered into financing arrangements with Asian special purpose companies to refinance three 4500 TEU containerships for total proceeds of $150.0 million.

On March 24, 2015, we entered into a term loan facility for $115.2 million to finance one 14000 TEU containership. The loan bears interest at LIBOR plus a margin.

On April 10, 2015, we entered into a term loan facility for up to $195.0 million to finance two of our 14000 TEU newbuilding containerships. The facility bears interest at LIBOR plus a margin.

On April 22, 2015, we entered into a 364-day unsecured, revolving loan facility with various banks for up to $200.0 million to be used to fund vessels under construction and for general corporate purposes. The facility bears interest at LIBOR plus a margin.

On April 24, 2015, we entered into a term loan facility for up to $227.5 million to finance one of our 14000 TEU newbuilding containerships and two of our 10000 TEU newbuilding containerships. The facility bears interest at LIBOR plus a margin.

On May 28, 2015, August 12, 2015 and October 2, 2015, we entered into lease financing arrangements with special purpose companies, or the SPCs, for three 14000 TEU newbuilding vessels, the YM Winner, YM Wellness and YM Warmth, which delivered on June 5, 2015, August 17, 2015 and October 8, 2015, respectively. The lease financing arrangements provided gross financing proceeds of $144.0 million upon delivery of each vessel, or $432.0.0 million in total. Under the lease financing arrangements, we sold the vessels to the SPCs and leased the vessels back from the SPCs over an initial term of 9.5 years, with an option to purchase the vessels 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 will be automatically extended for an additional 2.5 years. The lease financing arrangements provide financing at market rates.

On September 18, 2015, we entered into a term loan facility for up to $75.0 million to finance one 10000 TEU containership. The loan bears interest at LIBOR plus a margin.

In September 2015, we signed a Framework Cooperation Agreement with the Export-Import Bank of China, or CEXIM, for up to $1.0 billion in export credit facilities which would be made available to us for the purchase and construction of vessels from shipyards in China within the next three years. The CEXIM credit facilities are subject to approvals by CEXIM, customary closing conditions and the execution of definitive documentation.

On December 9, 2015, we entered into a term loan facility for up to $90.0 million to re-finance four 4250 TEU containerships. The loan bears interest at LIBOR plus a margin.

Common and Preferred Share Repurchase Plans

On April 1, 2015, we renewed our Rule 10b5-1 common share repurchase plan, which now expires in March 2018, for the repurchase of up to $50.0 million of our Class A common shares. We repurchased 944,524 Class A common shares during the year ended December 31, 2015 under this plan.

In June 2015, our board of directors authorized the repurchase of up to $150.0 million of our 9.5% Series C preferred shares. In September 2015, our board of directors authorized the repurchase of up to $25.0 million of each of our 7.95% Series D preferred shares and 8.25% Series E preferred shares. In September 2015, we entered into Rule 10b5-1 repurchase plans for up to $75.0 million of our Series C preferred shares and up to $7.5 million for each of our Series D preferred shares and Series E preferred shares. The share repurchase plans for the preferred shares expired in December 2015. We repurchased 303,757 Series C preferred shares, 123,971 Series D preferred shares, and 29,400 Series E preferred shares under these plans during the year ended December 31, 2015.

In addition, during the year ended December 31, 2015, we repurchased 40,000 of our 9.5% Series C preferred shares at $25.50 per share for a total of approximately $1.0 million, including expenses, in the open market.

Please read "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers" for additional information.

Results of Annual Meeting of Shareholders

We held our annual meeting of shareholders on April 24, 2015. In addition to electing Class I directors and ratifying the appointment of our auditors in the ordinary course, we held a vote on separate proposals to (a) amend our articles of incorporation to declassify the board of directors and provide for the annual election of the members of the board of directors, (b) amend our articles of incorporation to increase the size of the board of directors from nine to 11 directors and (c) amend our articles of incorporation and bylaws to reduce the supermajority voting requirements therein from 80% to 66-2/3%. Each of these proposals was approved by our shareholders.

Expiration of Shareholder Rights Plan

On July 24, 2015, our board of directors approved an extension of the expiration date of our amended and restated shareholder rights Agreement, dated April 19, 2011, from August 8, 2015 to November 6, 2015. The amended and restated shareholder rights agreement expired without renewal on November 6, 2015.

Market Conditions

The containership charter market was volatile during 2015, with time charter rates for benchmark 4000 TEU containerships declining from a high of nearly $15,000 per day to approximately $6,000 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 1.7% in 2015, and the delivery of larger vessels that are causing a cascading effect as vessel classes previously serving long-haul trades are displaced. As an example, while the number of container vessels in the global fleet increased by only 118 vessels during 2015, the total global capacity of container vessels increased by approximately 8.5%, or over 1500000 TEU. 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.

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 6600 TEU containership, which peaked at $108.0 million in the period June to September 2008, fell to $58.0 million by the end of 2012, and then increased to approximately $66.5 million as of the end of 2015.

B. Results of Operations

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.

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	97,008	88,159
Interest income	(11,026)	(10,653)
Undrawn credit facility fee	3,100	3,109
Amortization of deferred charges	11,685	10,342
Refinancing expenses and costs	5,770	70
Change in fair value of financial instruments[(1)]	54,576	105,694
Equity income on investment	(5,107)	(256)
Other (income) 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	615,292	597,915
Total assets	$6,109,160	$5,895,393
Current liabilities	$425,489	$416,937
Deferred revenue	2,730	7,343
Long-term debt	3,099,849	3,084,409
Other long-term liabilities	468,023	253,542

Fair value of financial instruments	336,886	387,938
Shareholders’ equity	1,776,183	1,745,224
Total liabilities and shareholders’ equity	$6,109,160	$5,895,393
Other data:		
Number of vessels in operation at year end	85	77
Average age of fleet in years at year end	7.4	7.1
TEU capacity at year end	578,300	474,300
Average remaining initial term on outstanding charters	4.5	4.8
Fleet utilization[4]	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) 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 December 31,		Increase	
	2015	2014	Days	%
Operating days	27,717	25,157	2,560	10.2%
Ownership days	28,133	25,408	2,725	10.7%

Financial Summary (in thousands of USD)

	Year Ended December 31,		Change	
	2015	2014	$	%
Revenue	$819,024	$717,170	$101,854	14.2 %
Ship operating expense	193,836	166,097	27,739	16.7 %
Depreciation and amortization expense	204,862	181,527	23,335	12.9 %
General and administrative expense	27,338	30,462	(3,124)	(10.3 %)
Operating lease expense	40,270	9,544	30,726	321.9 %
Interest expense	97,008	88,159	8,849	10.0 %
Amortization of deferred charges	11,685	10,342	1,343	13.0 %
Refinancing expenses and costs	5,770	70	5,700	8142.9%
Change in fair value of financial instruments	54,576	105,694	(51,118)	(48.4 %)
Equity income on investment	(5,107)	(256)	4,851	1894.9%

Revenue

Revenue increased by 14.2% to $819.0 million for the year ended December 31, 2015 from $717.2 million in 2014. This increase is due primarily to the delivery of eight vessels in 2015 and a full year of contribution from the delivery of six vessels in 2014. These increases were partially offset by lower average charter rates for vessels which were on short-term charters and an increase in scheduled and unscheduled off-hire.

The increase in operating days and the related financial impact for the year ended December 31, 2015 relative to 2014 is attributable to the following:

	Operating Days Impact	$ Impact (in millions of USD)
2015 vessel deliveries	1,488	$ 65.5
Full year contribution for 2014 deliveries	1,237	48.7
Change in daily charter hire rate and re-charters	—	(9.2)
Scheduled off-hire	(134)	(3.8)
Unscheduled off-hire	(31)	(2.2)
Vessel management revenue	—	1.7
Supervision fee revenue	—	2.0
Other	—	(0.8)
Total	2,560	$ 101.9

Vessel utilization was 98.5% for the year ended December 31, 2015, compared to 99.0% for the prior year. The decrease in vessel utilization was primarily due to a 134-day increase in scheduled off-hire as a result of an increase in scheduled five-year dry-dockings and a 31-day increase in unscheduled off-hire. During the year ended December 31, 2015, we completed 26 scheduled dry-dockings, which resulted in 266 days of scheduled off-hire compared to the completion of 10 scheduled dry-dockings that resulted in 132 days of scheduled off-hire in the prior year. During the year ended December 31, 2015, there were 150 days of unscheduled off-hire, which included 73 off-charter days, compared to 119 days of unscheduled off-hire, which included 86 off-charter days, in the same period of 2014.

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

Vessel Class (TEU)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31, 2015
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

During the year ended December 31, 2014 we completed dry-dockings for 10 vessels:

Vessel Class (TEU)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31, 2014
2500	—	1	1	—	2
4250	—	2 [(1)]	—	—	2
8500	—	—	—	2	2
5100	—	1	—	3	4
	—	4	1	5	10

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

Ship Operating Expense

Ship operating expense increased by 16.7% to $193.8 million for the year ended December 31, 2015, compared to 2014. The increase in ship operating expense was due primarily to an increase in ownership and managed days of

10.7%, related to the delivery of eight vessels in 2015 and six vessels in 2014. In 2015, we also purchased more stores and spares and incurred higher repairs and maintenance expense for our older vessels. We expect ship operating expense to continue to increase as our fleet expands and ages and as the average size of our vessels increases.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by 12.9% to $204.9 million for the year ended December 31, 2015, compared to 2014. The increase in depreciation and amortization expense was due to the increase in fleet size from vessel deliveries in 2014 and 2015, write-offs of replaced vessel equipment and an increase in dry-dock amortization due to an increase in the number of vessels dry-docking.

General and Administrative Expense

General and administrative expense decreased by 10.3% to $27.3 million for the year ended December 31, 2015, compared to 2014. The decrease of $3.1 million was primarily due to a $4.9 million decrease in share-based compensation primarily relating to the grants of share appreciation rights and restricted stock units of $4.2 million. This decrease was partially offset by increased costs relating to general corporate expenditures.

Operating Lease Expense

Operating lease expense increased to $40.3 million for the year ended December 31, 2015 from $9.5 million in 2014. The increase was due primarily to the purchase of three vessels in 2014 and four vessels in 2015 that were financed through new lease financing arrangements. Under these lease financing arrangements, we sold the vessels to the SPCs and are leasing the vessels back over an initial term of approximately 8.5 or 9.5 years, with an option to purchase the vessels at the end of the lease term for a pre-determined fair value purchase price. If the purchase option is not exercised, the lease terms will be automatically extended for an additional two or 2.5 years. The sale of these seven vessels resulted in a deferred gain totaling $174.8 million which is being recorded as a reduction of operating lease expense over 10.5 or 12 years, representing the initial lease term plus extensions.

Interest Expense

The following table summarizes our borrowings:

(in millions of US dollars)	As at December 31,		Change	
	2015	2014	$	%
Long-term debt	$3,387.2	$3,382.4	$4.8	0.1 %
Other long-term liabilities, excluding deferred gains	342.8	214.5	128.3	59.8
Total borrowings	3,730.0	3,596.9	133.1	3.7
Less: Vessels under construction	(209.1)	(282.0)	72.9	25.9
Operating borrowings	$3,520.9	$3,314.9	$206.0	6.2 %

Interest expense is comprised primarily of interest incurred on long-term debt and other long-term liabilities, excluding deferred gains, 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 other long-term liabilities for our vessels under construction is capitalized to the cost of the respective vessels under construction.

The increase in interest expense for the year ended December 31, 2015 of $8.8 million, compared to 2014 primarily relates to vessels delivered in 2014 and 2015, as the interest incurred on these vessels in 2014 was capitalized to vessels under construction and the issuance of our fixed-rate senior unsecured notes issued in April 2014, which have a higher interest rate than our other borrowings. These increases were partially offset by repayment of a fixed-rate term loan in the second quarter of 2014, repayments made on operating borrowings, and the termination of the lease financing structure related to five 4500 TEU vessels which were refinanced in December 2014 and March 2015.

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.

Amortization of Deferred Charges

During the year ended December 31, 2015, amortization of deferred charges relating to our financing fees increased to $11.7 million, from $10.3 million in 2014, primarily due to amortization of financing fees associated with new facilities entered into in 2014 and 2015. To the extent that the amortization of the deferred financing fees related to our operating credit or lease facilities, the amortization is expensed while the amortization of the deferred financing fees relating to our construction facilities is capitalized to the related vessels under construction.

Refinancing Expenses and Costs

During the year ended December 31, 2015, we incurred net refinancing expenses of $5.8 million, compared to $0.1 million in 2014. The costs in 2015 related to the termination and repayment of term loans. In 2014, we wrote-off deferred financing fees related to the repayment of a fixed-rate loan and recognized a net gain of $3.8 million realized on the early termination of the lease financing structure related to five 4500 TEU vessels.

Change in Fair Value of Financial Instruments

The change in fair value of financial instruments resulted in a loss of $54.6 million for the year ended December 31, 2015, compared to a loss of $105.7 million for 2014. The change in fair value was primarily due to decreases in the forward LIBOR curve for instruments with terms greater than four years and the effect of the passage of time. 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 $77.0 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 $9.0 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.

Equity Income on Investment

We had a 10.8% investment in GCI, which invests equity capital in containership assets strategic to Greater China. We agreed to make a minority investment in GCI of up to $100.0 million during the investment period, which is anticipated to be until March 2016. The equity income of $5.1 million for the year ended December 31, 2015 represents our share of income in GCI. Our equity income in 2014 was $0.3 million.

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

The following discussion of our financial condition and results of operations is for the years ended December 31, 2014 and 2013. 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.

The following table presents our operating results for the years ended December 31, 2014 and 2013.

Year Ended December 31,	2014	2013
Statement of operations data (in thousands of USD):		
Revenue	$717,170	$677,090
Operating expenses:		
Ship operating	166,097	150,105
Depreciation and amortization	181,527	172,459
General and administrative	30,462	34,783
Operating leases	9,544	4,388
Operating earnings	329,540	315,355
Other expenses (income):		
Interest expense	88,159	60,496
Interest income	(10,653)	(2,045)
Undrawn credit facility fee	3,109	2,725
Amortization of deferred charges	10,342	9,477
Refinancing expenses and costs	70	4,038
Change in fair value of financial instruments(1)	105,694	(60,504)
Equity (income) loss on investment	(256)	670
Other expenses	1,828	1,470
Net earnings	$131,247	$299,028
Common shares outstanding at year end:	96,662,928	69,208,888
Per share data (in USD):		
Basic earnings per Class A common share	$0.80	$3.36
Diluted earnings per Class A common share	0.79	2.93
Dividends paid per Class A common share	1.3475	1.1880
Statement of cash flows data (in thousands of USD):		
Cash flows provided by (used in):		
Operating activities	$342,959	$327,669
Financing activities(2)	73,621	62,491
Investing activities(2)	(691,205)	(295,158)
Net increase (decrease) in cash and cash equivalents	$(274,625)	$95,002
Selected balance sheet data (at year end, in thousands of USD):		
Cash and cash equivalents	$201,755	$476,380
Vessels(3)	5,095,723	4,992,271
Other assets	597,915	479,110
Total assets	$5,895,393	$5,947,761
Current liabilities	$416,937	$520,406
Deferred revenue	7,343	4,143
Long-term debt	3,084,409	2,853,459
Other long-term liabilities	253,542	572,673
Fair value of financial instruments	387,938	425,375
Shareholders’ equity	1,745,224	1,571,705
Total liabilities and shareholders’ equity	$5,895,393	$5,947,761

Other data:		
Number of vessels in operation at year end	77	71
Average age of fleet in years at year end	7.1	6.7
TEU capacity at year end	474,300	414,300
Average remaining initial term on outstanding charters	4.8	5.5
Fleet utilization[4]	99.0 %	98.0 %

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

At the beginning of 2014, we had 71 vessels in operation. We accepted delivery of six vessels during 2014, bringing our fleet to a total of 77 vessels as of December 31, 2014. During the year ended December 31, 2013, we accepted delivery of two secondhand 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 December 31, 2014	2013	Increase Days	%
Operating days	25,157	23,632	1,525	6.5%
Ownership days	25,408	24,109	1,299	5.4%

Financial Summary (in thousands of USD)

	Year Ended December 31, 2014	2013	Change $	%
Revenue	$717,170	$677,090	$40,080	5.9 %
Ship operating expense	166,097	150,105	15,992	10.7 %
Depreciation and amortization expense	181,527	172,459	9,068	5.3 %
General and administrative expense	30,462	34,783	(4,321)	(12.4)%
Operating lease expense	9,544	4,388	5,156	117.5 %
Interest expense	88,159	60,496	27,663	45.7 %
Amortization of deferred charges	10,342	9,477	865	9.1 %
Refinancing expenses and costs	70	4,038	(3,968)	(98.3)%
Change in fair value of financial instruments	105,694	(60,504)	166,198	274.7 %
Equity (income) loss on investment	(256)	670	(926)	(138.2)%

Revenue

Revenue increased by 5.9% to $717.2 million for the year ended December 31, 2014 over 2013. This increase is due primarily to the delivery of six 10000 TEU vessels in 2014, a full year of contribution from the delivery of two 4600

TEU secondhand vessels in mid-2013 and a decrease in unscheduled off-hire. These increases were partially offset by lower average charter rates for three of our vessels which were on short-term charters during the year ended December 31, 2014, an increase in scheduled off-hire and a decrease in vessel management revenue.

The increase in operating days and the related financial impact for the year ended December 31, 2014 relative to 2013 is attributable to the following:

	Operating Days Impact	$ Impact (in millions of USD)
2014 vessel deliveries	952	$ 39.4
Full year contribution for 2013 secondhand vessel deliveries	347	6.8
Change in daily charter hire rate and re-charters	—	(3.8)
Scheduled off-hire	(84)	(2.7)
Unscheduled off-hire	310	3.4
Vessel management revenue	—	(2.1)
Other	—	(0.9)
Total	1,525	$ 40.1

Vessel utilization was 99.0% for the year ended December 31, 2014, compared to 98.0% for the prior year. The increase in vessel utilization was primarily due to a 310-day decrease in unscheduled off-hire. During the year ended December 31, 2014, there were 119 days of unscheduled off-hire, which included 86 off-charter days, compared to 429 days of unscheduled off-hire, which included 386 off-charter days for six 4250 TEU vessels in 2013. During the year ended December 31, 2014, we completed 10 scheduled dry-dockings, which resulted in 132 days of scheduled off-hire compared to the completion of five scheduled dry-dockings that resulted in 48 days of scheduled off-hire in the prior year.

During the year ended December 31, 2014 we completed dry-dockings for 10 vessels:

Vessel Class (TEU)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31, 2014
2500	—	1	1	—	2
4250	—	2 (1)	—	—	2
8500	—	—	—	2	2
5100	—	1	—	3	4
	—	4	1	5	10

During the year ended December 31, 2013 we completed dry-dockings for five vessels:

Vessel Class (TEU)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended December 31, 2013

2500	— 2	3	— 5
	— 2	3	— 5

Our cumulative vessel utilization since our initial public offering in August 2005 through December 31, 2014 was approximately 99.0%, or 99.3% if the impact of off-charter days is excluded.

Ship Operating Expense

Ship operating expense increased by 10.7% to $166.1 million for the year ended December 31, 2014, compared to 2013. The increase in ship operating expense was due primarily to an increase in ownership and managed days of 5.4%, related to the delivery of six 10000 TEU vessels in 2014 and two 4600 TEU vessels in mid-2013.

Ship operating expense also rose due to increases in crew wages that occurred in the third quarter of 2013 and in the first quarter of 2014. In 2014, we purchased more stores and spares and incurred higher repairs and maintenance expense for our older vessels. We also incurred higher ship management infrastructure costs to support our expanding fleet. We expect ship operating expense to increase as our fleet expands and ages and as the average size of our vessels increases.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by 5.3% to $181.5 million for the year ended December 31, 2014, compared to 2013. The increase in depreciation and amortization expense was due to the increase in the size of the fleet from the 2014 deliveries and a full period of depreciation was taken for two secondhand vessels that delivered during 2013.

General and Administrative Expense

General and administrative expense decreased by 12.4% to $30.5 million for the year ended December 31, 2014, compared to 2013. The decrease of $4.3 million was primarily due to a net reduction in stock-based compensation expense of $6.3 million. The majority of this reduction was due to a decrease in non-cash stock appreciation rights, or SARs, expense of $7.2 million, partially offset by an increase in other non-cash stock-based awards of $0.9 million. During 2013, $2.6 million of accelerated stock-based compensation was recognized relating to the vesting of the first tranche of SARs. These decreases were partially offset by increases in executive compensation and general corporate expenses of $2.0 million, which included costs relating to the evaluation of strategic options for our investment in GCI.

Operating Lease Expense

Operating lease expense increased to $9.5 million for the year ended December 31, 2014 from $4.4 million in 2013. The increase was due primarily to financing the purchase of three 10000 TEU vessels through new lease financing arrangements in July, October and November 2014. Under these lease financing arrangements, we sold the vessels to the SPCs and are leasing the vessels back over an initial term of approximately 8.5 years, with an option to purchase the vessels 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 will be automatically extended for an additional two years. Upon the sale of these vessels, there was a deferred gain of $59.1 million that is being recorded as a reduction of operating leases expense over 10.5 years, representing the initial lease term of 8.5 years plus the two year extension. These new lease financing arrangements are in addition to the Madinah, which we sold to a U.S. bank on June 27, 2012 and since that date we have been leasing the vessel back over a nine-year term. Prior to June 27, 2012, we owned the Madinah and financed it with a term loan of $53.0 million, which was repaid using the proceeds from the sale to the bank.

Interest Expense

The following table summarizes our borrowings:

(in millions of US dollars)	As at December 31,		Change	
	2014	2013	$	%
Long-term debt	$3,382.4	$3,241.6	$140.8	4.3 %
Other long-term liabilities, excluding deferred gains	214.5	611.6	(397.1)	(64.9)
Total borrowings	3,596.9	3,853.2	(256.3)	(6.7)
Less: Vessels under construction	(282.0)	(321.4)	39.4	12.3
Operating borrowings	$3,314.9	$3,531.8	$(216.9)	(6.1)%

Interest expense is comprised primarily of interest incurred on long-term debt and other long-term liabilities, excluding deferred gains, 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 other long-term liabilities for our vessels under construction is capitalized to the cost of the respective vessels under construction.

The increase in interest expense for the year ended December 31, 2014 of $27.7 million, compared to 2013 was primarily due to an increase in the cost of borrowings. The increase in the cost of borrowings were due to the refinancing of our $1.0 billion credit facility in January 2014 at a higher margin than under the original facility, certain of our term loans which have higher margins than the facilities outstanding for the comparative prior periods and our Notes that were issued in April 2014 which have higher interest rates than our other 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.

Amortization of Deferred Charges

During the year ended December 31, 2014, amortization of deferred charges relating to our financing fees increased to $10.3 million, from $9.5 million in 2013, primarily due to amortization of financing fees associated with new facilities entered in 2014. Financing fees on credit facilities and leases are deferred and amortized using the effective interest rate method over the term of the facility based on amounts available under the facility or over the term of the underlying obligation. To the extent that the amortization of the deferred financing fees related to our operating credit facilities, the amortization is expensed while the amortization of the deferred financing fees relating to our construction facilities is capitalized to the related vessels under construction.

Refinancing Expenses and Recoveries

During the year ended December 31, 2014, we incurred net refinancing expenses of $0.1 million, compared to $4.0 million in 2013. The costs in 2014 were primarily related to the repayment of a $125.0 million credit facility, partially offset by a net gain of $3.8 million realized on the early termination of the lease financing structure related to five 4500 TEU vessels. The costs in 2013 related to refinancing our $1.0 billion credit facility.

Change in Fair Value of Financial Instruments

The change in fair value of financial instruments resulted in a loss of $105.7 million for the year ended December 31, 2014, compared to a gain of $60.5 million for 2013. The change in fair value was primarily due to decreases in the forward LIBOR curve for instruments with terms greater than eight years and the effect of the passage of time. 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 $93.0 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 $11.0 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.

Equity Income/Loss on Investment

We had a 10.8% investment in GCI, which invests equity capital in containership assets strategic to Greater China. We agreed to make a minority investment in GCI of up to $100.0 million during the investment period, which is anticipated to be until March 2016. The equity income of $0.3 million for the year ended December 31, 2014 represents our share of income in GCI. Our equity loss in 2013 was $0.7 million.

C. Liquidity and Capital Resources

Liquidity and Cash Needs

At December 31, 2015, our cash and cash equivalents and short-term investments totaled $218.9 million. Our primary short-term liquidity needs are to fund our operating expenses, debt repayments, lease payments, open market repurchases of our common shares, payment of our quarterly dividends, the purchase of the containerships we have contracted to build and the potential redemption of our Series C preferred shares. The Series C preferred shares carry an annual dividend rate of 9.5% per $25.00 of liquidation preference per share, which is subject to increase if, among other things, we do not redeem the shares in whole by January 30, 2017. The Series C preferred shares are redeemable by us at any time on or after January 30, 2016. Our medium-term liquidity needs primarily relate to the purchase of the containerships we have contracted to build, debt repayments, lease payments and open market repurchases of common shares. Our long-term liquidity needs primarily relate to potential future vessel acquisitions, debt repayments, lease payments, open market repurchases of common shares and the future potential redemption of our Series D preferred shares, Series E preferred shares and our Notes. The Series D preferred shares carry an annual dividend rate of 7.95% per $25.00 of liquidation preference per share and the Series D preferred shares are redeemable by us at any time on or after January 30, 2018. The Series E preferred shares carry an annual dividend rate of 8.25% per $25.00 of liquidation preference per share and are redeemable by us at any time on or after February 13, 2019.

We anticipate that our primary sources of funds for our short and medium-term liquidity needs will be our committed financings, new credit facilities, new lease obligations, additional equity offerings as well as our cash from operations, while our long-term sources of funds will be from cash from operations and debt or equity financings. As of February 29, 2016, the estimated remaining installments on the nine vessels we had contracted to purchase was approximately $667.1 million, which we expect to fund primarily from our existing and future credit facilities, future lease facilities, cash from operations and proceeds from additional equity offerings. Future debt or equity issuances may be considered for growth.

Our dividend policy impacts our future liquidity needs. Since our initial public offering, our board of directors adopted a dividend policy to pay a regular quarterly dividend on our Class A common shares while reinvesting a portion of our operating cash flow in our business. Retained cash may be used to, among other things, fund vessel or fleet acquisitions, other capital expenditures, debt repayments, lease payments, and open market repurchases of securities, as determined by our board of directors. This dividend policy reflects our judgment that by retaining a portion of our cash in our business over the long-term, we will be able to provide better value to our shareholders by enhancing our longer term dividend paying capacity. In February 2011, our board of directors adopted a dividend policy aimed at increasing our dividends on our Class A common shares in a controlled and sustainable manner that preserves our long-term financial strength and ability to expand our fleet. We expect this policy to increase dividends paid to holders of our Class A common shares over time. For more information, please read “Item 8. Financial Information—A. Financial Statements and Other Financial Information—Dividend Policy.”

Financing Facilities

The following table summarizes our long-term debt and lease obligations as of December 31, 2015. In addition, our long-term debt and lease obligations are described in notes 8 and 9, respectively, within our consolidated financial statements included in this Annual Report.

	Amount Outstanding[1] (millions)	Amount Committed (millions)	Amount Available (millions)
Long-Term Debt			
Revolving credit facilities[2]	$ 1,057.1	$ 1,227.1	$ 170.0
Term loan credit facilities	1,985.1	2,216.4	231.3
Senior unsecured notes	345.0	345.0	—
Total Long-Term Debt	3,387.2	3,788.5	401.3
Lease Facilities			
COSCO Faith – 13100 TEU vessel (non-recourse to Seaspan Corporation)	83.4	83.4	—
COSCO Pride – 13100 TEU vessel (non-recourse to Seaspan Corporation)	116.4	116.4	—
Leases for three 4500 TEU vessels	143.0	143.0	—
Total Lease Facilities	342.8	342.8	—
Total Long-Term Debt and Lease Facilities[3]	$ 3,730.0	$ 4,131.3	$ 401.3

(1) Includes amounts owed by wholly-owned subsidiaries of Seaspan Corporation which are non-recourse to Seaspan Corporation.
(2) Includes a $5.0 million line of credit which was undrawn as at December 31, 2015.
(3) At December 31, 2015, our operating borrowings were $3.5 billion (2014 — $3.3 billion). The remaining amount of our borrowings related to the construction of newbuilding vessels.

Our Credit Facilities

We primarily use our credit facilities to finance the construction and acquisition of vessels. Our credit facilities are, or will be upon vessel delivery, secured by first-priority mortgages granted on 73 of our vessels, together with other related security, such as assignments of shipbuilding contracts and refund guarantees for the vessels, assignments of time charters and earnings for the vessels, assignments of insurances for the vessels and assignments of management agreements for the vessels.

As of December 31, 2015, our revolving credit facilities, term loan credit facilities and our Notes provided for borrowings of up to approximately $3.8 billion, of which approximately $3.4 billion was outstanding and $401.0 million was available to be drawn by us. Interest payments on the revolving credit facilities are based on LIBOR plus margins, which ranged between 0.5% and 1.25% as of December 31, 2015. We may prepay certain loans under our revolving credit facilities without penalty, other than breakage costs and opportunity costs in certain circumstances.

We are required to prepay a portion of the outstanding loans under certain circumstances, such as the sale or loss of a vessel where we do not substitute another appropriate vessel. Amounts prepaid in accordance with these provisions may be re-borrowed, subject to certain conditions.

Interest payments on our term loans are based on either LIBOR plus margins, which ranged between 0.4% and 4.8% as of December 31, 2015 or, for a portion of one of our term loans, the commercial interest reference rate of KEXIM plus a margin, which was 0.7% as of December 31, 2015. We may prepay all term loans without penalty, other than breakage costs in certain circumstances and in one case a prepayment fee under certain circumstances. We are required to prepay a portion of the outstanding loans under certain circumstances, including the sale or loss of a vessel if we do not substitute another appropriate vessel. Amounts prepaid in accordance with these provisions may not be re-borrowed.

Our Notes

Our Notes mature on April 30, 2019 and bear interest at a fixed rate of 6.375% per year, payable quarterly in arrears. In the event of certain changes in withholding taxes, at our option, we may redeem our Notes in whole, but not in part, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest, if any.

Our Lease Facilities

We use our lease facilities to finance the construction and acquisition of vessels. Our lease facilities, which do not include our operating leases, are provided by bank financial leasing owners who own our five leased vessels. These banks are also granted other related security, such as assignments of time charters and earnings for the vessels, assignments of insurances for the vessels and assignments of management agreements for the vessels.

At December 31, 2015, we had lease and other long-term obligations of approximately $342.8 million. Under our lease agreements, subject to payment of a termination fee in certain circumstances, we may voluntarily terminate a lease agreement. We are also required to prepay rental amounts, broken funding costs and other costs to the lessor in certain circumstances.

Certain Terms under our Long-Term Debt and Lease Facilities

We are subject to customary conditions before we may borrow under our credit and lease facilities, including, among others, that no event of default is outstanding and that there has been no material adverse change in our ability to make all required payments under the facilities.

Our credit and lease facilities also contain various covenants limiting our ability to, among other things:

- allow liens to be placed on the collateral securing the facility;
- enter into mergers with other entities;
- conduct material transactions with affiliates; or
- change the flag, class or management of the vessels securing the facility.

Our credit and lease facilities also contain certain financial covenants, including, among others, that require Seaspan Corporation to maintain minimum tangible net worth, interest coverage ratios, interest and principal coverage ratios, and debt to assets ratios, as defined. We were in compliance with these covenants as at December 31, 2015. We are also subject to similar financial covenants in our Notes.

Cash Flows

The following table summarizes our sources and uses of cash for the years presented:

Year Ended December 31,			
(in thousands of USD)	2015	2014	2013
Net cash flow from operating activities	$335,872	$342,959	$327,669
Net cash flow from financing activities	394,527	73,621	62,491
Net cash flow used in investing activities	(716,634)	(691,205)	(295,158)

Operating Cash Flows

Net cash flows from operating activities were $335.9 million for the year ended December 31, 2015, a decrease of $7.1 million compared to 2014. The decrease in net cash flows from operating activities for the year ended December 31, 2015, compared to the prior year, was primarily due to a decrease in cash related to working capital of $37.9 million, partially offset by an increase in net earnings, excluding non-cash items, of $30.8 million. The decreases in cash related to working capital resulted primarily from timing differences, which are in the normal course of our operations. The increase in net earnings, excluding non-cash items, was primarily due to an increase in revenue and a decrease in general and administrative expense, partially offset by an increase in operating lease expenses, ship operating expense, interest expense and refinancing expenses and costs.

Net cash flows from operating activities were $343.0 million for the year ended December 31, 2014, an increase of $15.3 million compared to 2013. The increase in net cash flows from operating activities for the year ended December 31, 2014, compared to the prior year, was primarily due to an increase in net earnings, excluding non-cash items, of $14.4 million, and an increase in cash related to working capital of $0.9 million. The increase in net earnings, excluding non-cash items, was primarily due to an increase in revenue and interest income, partially offset by an increase in ship operating expense and interest expense. The increase in cash related to working capital resulted primarily from timing differences, which are in the normal course of our operations.

For further discussion of changes in revenue and expenses, please read "Results of Operations."

Financing Cash Flows

Net cash flows from financing activities were $394.5 million for the year ended December 31, 2015, an increase in cash from financing activities of $320.9 million, compared to 2014. The increase in cash from financing activities for the year ended December 31, 2015, compared to 2014, was primarily due to a reduction in repayment of a lease financing structure, lower repayments of credit facilities, proceeds from the sale leaseback of four vessels and the refinancing of three 4500 TEU vessels. These increases were partially offset by a reduction in debt and equity financings and an increase in dividend payments on our common and preferred shares. Cash dividends on our common shares increased by $43.4 million due to an increase in our common share dividend from $0.345 per share to $0.375 per share and a decrease in reinvestments of cash dividends in our dividend reinvestment program. We also paid $3.3 million more in preferred share dividends, primarily due to the issuance of 5.4 million Series E preferred shares in February 2014.

Net cash flows from financing activities were $73.6 million for the year ended December 31, 2014, an increase in cash from financing activities of $11.1 million, compared to 2013. The increase in cash from financing activities for the year ended December 31, 2014, compared to 2013, was primarily due to drawdown of our credit facilities, proceeds from the issuance of our Notes and Series E preferred shares, and proceeds from the sale-leaseback of three 10000 TEU vessels, partially offset by an increase in repayments on credit facilities, early termination of the lease financing structure related to five 4500 TEU vessels, an increase in dividend payments and a reduction in common share issuances.

Investing Cash Flows

Net cash flows used in investing activities were $716.6 million for the year ended December 31, 2015, an increase in cash used of $25.4 million, compared to 2014. The increase in cash used in investing activities for the year ended December 31, 2015, compared to the prior year, was due primarily to an increase in vessel expenditures due to the increased size of our newbuilding fleet, the release of restricted cash associated with the early termination of the lease financing structure for five 4500 TEU vessels in the prior year and an increase in cash used to purchase short-term investments. The increases in cash used were partially offset by the repayment of loans by GCI.

Net cash flows used in investing activities were $691.2 million for the year ended December 31, 2014, an increase in cash used of $396.0 million, compared to 2013. The increase in cash used in investing activities for the year ended December 31, 2014, compared to the prior year, was due primarily to an increase in vessel expenditures due to the increased size of our newbuilding fleet, an increase in loans to GCI related primarily to newbuilding installment payments paid by us on behalf of GCI, and an increase in purchases of other assets. The increases in cash used were partially offset by cash flows from the release of restricted cash associated with the early termination of the lease financing structure for five 4500 TEU vessels and a reduction in cash used to purchase short-term investments.

Ongoing Capital Expenditures and Dividends

The average age of the vessels in our operating fleet is approximately eight years. Capital expenditures primarily relate to our regularly scheduled dry-dockings. In 2015 we completed 26 dry-dockings, compared to 10 dry-dockings in 2014. In 2015, a total of 26 vessels dry-docked, of which 16 vessels, eight vessels and two vessels underwent their first five-year, 10-year and 15-year drydockings. In 2016, we expect nine vessels and five vessels to undergo their five-year and 10-year dry-dockings, respectively.

We must make substantial capital expenditures over the long-term to preserve our capital base, which is comprised of our net assets, to continue to refinance our indebtedness and to maintain our dividends. We will likely need to retain additional funds at some time in the future to provide reasonable assurance of maintaining our capital base over the long-term. We believe it is not possible to determine now, with any reasonable degree of certainty, how much of our operating cash flow we should retain in our business and when it should be retained to preserve our capital base. Factors that will impact our decisions regarding the amount of funds to be retained in our business to preserve our capital base, include the following:

- the remaining lives of our vessels;
- the returns that we generate on our retained cash flow, which will depend on the economic terms of any future acquisitions and charters, which are currently unknown;
- future market charter rates for our vessels, particularly when they come off-charter, which are currently unknown;
- future operating and interest costs;
- future operating and financing costs are unknown and we use foreign currency forward contracts and interest rate swaps to manage certain foreign currency and interest rate risks;
- our future refinancing requirements and alternatives and conditions in the relevant financing and capital markets at that time;
- capital expenditures to comply with environmental regulations; and
- unanticipated future events and other contingencies. Please read “Item 3. Key Information—D. Risk Factors.”

Our board of directors periodically considers these factors in determining our need to retain funds rather than pay them out as dividends. 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 will likely determine at some future date to reduce, or possibly eliminate, our dividend for reasonable assurance that we are retaining the funds necessary to preserve our capital base.

The following dividends were paid or accrued:

	Year Ended December 31,	
	2015	2014
	(in thousands of USD, except per share amounts)	
Dividends on Class A common shares		
Declared, per share	$1.4700	$1.3475
Paid in cash	105,691	62,310
Reinvested in common shares through our dividend reinvestment program	38,862	64,696
	$144,553	$127,006
Dividends on preferred shares		
Series A, accrued(1)	$—	$3,395
Series C, paid in cash	$32,396	$32,456
Series D, paid in cash	$10,124	$10,146
Series E, paid in cash	$11,135	$7,951

(1) On January 30, 2014, our Series A preferred shares converted into a total of 23,177,175 Class A common shares.

Our board of directors has adopted a dividend policy aimed at increasing our dividends on our Class A common shares in a controlled and sustainable manner that preserves our long-term financial strength and ability to expand our fleet. We expect this policy to increase dividends paid to holders of our Class A common shares over time. For more information, please read “Item 8. Financial Information—A. Financial Statements and Other Financial Information—Dividend Policy.”

Dividends on our Series C preferred shares accrue at a rate of 9.5% per annum. This rate is subject to adjustment pursuant to our articles of incorporation. Dividends on our Series D and E preferred shares accrue at a rate per annum of 7.95% and 8.25%, respectively.

D. Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. Our estimates affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. We base our estimates on historical experience and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties.

Senior management has discussed with our audit committee the development, selection and disclosure of accounting estimates used in the preparation of our consolidated financial statements.

Amortization of Dry-Docking Activities

We defer costs incurred for dry-docking activities until the next scheduled dry-docking. Dry-docking of our vessels is performed every five years and includes major overhaul activities that are comprehensive and all encompassing. We have adopted the deferral method of accounting for dry-dock activities whereby costs incurred are deferred and amortized on a straight-line basis over the period until the next scheduled dry-dock activity.

The major components of routine dry-docking costs include: (a) yard costs, which may include riggers, pilot/tugs, yard fees, hull painting service, deck repairs (such as steel work, anchors, chains, valves, tanks, and hatches) and engine components (such as shafts, thrusters, propeller, rudder, main engine and auxiliary machinery); (b) non-yard costs which include the paint, technician service costs and parts ordered specifically for dry-dock; and (c) other costs associated with communications, pilots, tugs, survey fees, port fees and classification fees.

Repairs and maintenance normally performed on an operational vessel either at port or at sea are limited to repairs to specific damages caused by a particular incident or normal wear and tear, or minor maintenance to minimize the wear and tear to the vessel. Above the water line repairs, minor deck maintenance and equipment repairs may be performed to the extent the operations and safety of the crew and vessel are not compromised. All repairs and maintenance costs are expensed as incurred.

Vessel Lives

The carrying value of each of our vessels represents its original cost at the time of delivery or purchase, including acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage, less accumulated depreciation. We depreciate our vessels using the straight-line method over their estimated useful lives. Secondhand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. We review the estimate of our vessels' useful lives on an ongoing basis to ensure they reflect current technology, service potential, and vessel structure. We estimate the useful life of the vessels will be 30 years from the date of initial completion. Should certain factors or circumstances cause us to revise our estimate of vessel service lives in the future, depreciation expense could be materially lower or higher. Such factors include, but are not limited to, the extent of cash flows generated from future charter arrangements, changes in international shipping requirements, and other factors, many of which are outside of our control.

Impairment of Long-lived Assets

We review our long-lived 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. Examples of such events or changes in circumstances related to our long-lived assets include, among others: a significant adverse change in the extent or manner in which the asset is being used or in its physical condition; a significant adverse change in legal factors or in the business climate that could affect the asset's value, including an adverse action or assessment by a foreign government that impacts the use of the asset; or a current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the asset's use. If there has been a general decline in the market value of vessels, we analyze our vessels for impairment to the extent that the decline in market value is expected to impact the future cash flows of the vessel. In cases where the vessel being analyzed is under a long-term time charter contract, a decline in the current market value of the vessel may not impact the recoverability of its carrying value.

If the estimated undiscounted future cash flows of an asset, excluding interest charges, expected to be generated by the use of the asset over its useful life exceeds the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated undiscounted future cash flows are less than its carrying amount, an impairment charge is recorded for the amount by which the net book value of the asset exceeds its fair value. Fair value is calculated as the net present value of estimated future cash flows, which, in certain circumstances, will approximate the estimated market value of the vessel.

Estimates

Our estimates of future cash flows involve assumptions about future charter rates, vessel utilization, operating expenses, dry-docking expenditures, vessel residual values and the remaining estimated useful lives of our vessels.

Revenue assumptions are based on contracted time charter rates up to the end of the life of the current contract of each vessel, as well as an estimated time charter rate, adjusted for future inflation, for the remaining life of the vessel after the completion of its current contract. The estimated time charter rates for non-contracted revenue days are based on 10-year average time charter rates incorporating historical time charter rate data from an independent third-party maritime research service provider, as well as recent market charter rates relevant to future periods.

Our estimates of vessel utilization, including estimated off-hire time for dry-docking, off-hire time between time charters and equipment or machinery breakdown, are based on historical experience.

Our estimates of operating expenses are based on historical and budgeted operating and dry-docking costs and our expectations of future inflation and operating requirements. Expenses, including dry-dock expenses, are impacted by the economic conditions of our industry, including, among other things, crewing costs, insurance and bunker costs and availability of shipyards for dry-docking.

Vessel residual values are a product of a vessel's lightweight tonnage and an estimated scrap rate which takes into consideration historical average scrap prices based on information from third-party maritime research services. Although we believe that the assumptions used to determine the scrap rate are reasonable and appropriate, such assumptions are highly subjective because of the cyclical nature of future demand for scrap steel.

The remaining lives of our vessels used in our estimates of future cash flows are consistent with those used in our calculations of depreciation.

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 judgment and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts, ongoing operating costs and vessel residual values, due to factors such as the volatility in vessel charter rates and vessel values. We believe the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can make no assurances however, as to whether our estimates of future cash flows, particularly future vessel charter rates or vessel values, will be accurate.

Impairment Analysis

Based on our analysis, we believe the estimated undiscounted future net cash flows for each vessel were in excess of each vessel's carrying value, and accordingly, no impairment was recorded for vessels held for use as of December 31, 2015 and 2014.

Based on current market conditions, we intend to continue to hold and operate our vessels. Our impairment risk is higher for our vessels under 5000 TEUs due to the low current market values relative to the vessel prices we paid to acquire them. We expect that 15 and 13 vessels will come off charter in 2016 and 2017, of which six and eight vessels will come off their long-term charters in 2016 and 2017, respectively.

If time charter rates do not improve meaningfully from current market rates during the next three to six months, we expect that our average estimated daily time charter rate used in future impairment analyses will decline, resulting in reduced estimated undiscounted future net cash flows to an amount which is less than the carrying value of certain vessels up to 5000 TEUs. In accordance with our accounting policy, if this occurs we will be required to recognize a non-cash impairment charge equal to the excess of the impacted vessels' carrying value over their fair value. Based on information available at December 31, 2015 about the fair value of vessels and the estimated future carrying value of such vessels, an estimate of such impairment charge would be in a range of between approximately $250 million to $290 million during fiscal 2016, commencing in the quarter ending September 30, 2016. The determination of the fair value of vessels will depend on various market factors, including charter and discount rates 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 and vessel values, which may differ materially from those used in our estimates at December 31, 2015.

The following table presents information with respect to the carrying amount of the vessels owned by us and indicates whether their estimated charter-free market values are below their carrying values as of December 31, 2015. The charter-free valuations assume that our vessels are in good and seaworthy condition without need for repair, and, if inspected, they would be certified in class without notations of any kind. Because vessel values can be highly volatile, these charter-free valuations may not be indicative of either the current or future prices that we could achieve if we were to sell any of the vessels. We would not record an impairment for any of the vessels for which the charter-free market value is below its carrying value unless we determine that the vessel's carrying amount is not recoverable. We believe that the projected undiscounted cash flows exceed the carrying values for those vessels that have carrying values in excess of the charter-free market values as of December 31, 2015 and, accordingly, have not recorded an impairment charge as of that date.

Vessel Name	Vessel Class (TEU)	Year Built	Vessel Carrying Value at December 31, 2015[1] (in millions of USD)	Vessel Carrying Value at December 31, 2014 (in millions of USD)
YM Wish	14000	2015	$ 111.5	$ —
YM Wellhead	14000	2015	111.4	—
YM Witness	14000	2015	108.0	—
COSCO Glory	13100	2011	149.0	154.1
COSCO Pride	13100	2011	150.4	155.2
COSCO Development	13100	2011	150.6	156.0
COSCO Harmony	13100	2011	150.5	155.9
COSCO Excellence	13100	2012	154.9	160.3
COSCO Faith	13100	2012	155.0	160.4
COSCO Hope	13100	2012	154.6	159.9
COSCO Fortune	13100	2012	154.6	160.2
Hanjin Buddha	10000	2014	97.6	100.2
Hanjin Namu	10000	2014	97.9	100.4
Hanjin Tabul	10000	2014	97.9	100.3
Maersk Guayaquil	10000	2015	90.4	—
CSCL Zeebrugge	9600	2007	85.1	88.6
CSCL Long Beach	9600	2007	86.6	90.1
CSCL Oceania	8500	2004	50.4	52.4
CSCL Africa	8500	2005	50.6	52.7
COSCO Japan	8500	2010	105.1	108.5
COSCO Korea	8500	2010	105.7	108.7
COSCO Philippines	8500	2010	105.2	108.8
COSCO Malaysia	8500	2010	105.6	109.2
COSCO Indonesia	8500	2010	106.7	109.8
COSCO Thailand	8500	2010	109.0	111.9
COSCO Prince Rupert	8500	2011	111.4	114.4
COSCO Vietnam	8500	2011	110.7	114.7
MOL Emerald	5100	2009	64.9	67.3
MOL Eminence	5100	2009	65.7	68.2
MOL Emissary	5100	2009	66.1	68.6
MOL Empire	5100	2010	66.8	69.2
MOL Excellence	4600	2003	22.2	23.0
MOL Efficiency	4600	2003	22.3	23.2
Brotonne Bridge	4500	2010	79.9	82.9
Brevik Bridge	4500	2011	81.3	84.3
Bilbao Bridge	4500	2011	80.8	83.7
Berlin Bridge	4500	2011	83.4	86.4
Budapest Bridge	4500	2011	85.0	88.1
Seaspan Hamburg	4250	2001	24.1	25.3
Seaspan Chiwan	4250	2001	24.7	25.9
Seaspan Ningbo	4250	2002	26.7	28.0
Seaspan Dalian	4250	2002	27.6	29.0
Seaspan Felixstowe	4250	2002	27.8	29.3

CSCL Vancouver	4250	2005	27.8	28.9
CSCL Sydney	4250	2005	28.1	29.3
CSCL New York	4250	2005	28.3	29.4
CSCL Melbourne	4250	2005	36.2	37.8
CSCL Brisbane	4250	2005	36.3	37.8
New Delhi Express	4250	2005	39.4	41.0

Dubai Express	4250	2006	39.6	41.3
Jakarta Express	4250	2006	39.8	41.5
Saigon Express	4250	2006	40.2	41.7
Lahore Express	4250	2006	40.5	42.2
Rio Grande Express	4250	2006	41.0	42.7
Seaspan Santos	4250	2006	41.1	42.8
Rio de Janeiro Express	4250	2007	42.2	43.8
Manila Express	4250	2007	42.0	43.7
CSAV Loncomilla	4250	2009	51.6	53.6
CSAV Lumaco	4250	2009	51.2	53.2
Seaspan Lingue	4250	2010	53.5	55.4
Seaspan Lebu	4250	2010	53.8	55.7
COSCO Fuzhou	3500	2007	36.9	38.5
COSCO Yingkou	3500	2007	37.7	39.2
CSCL Panama	2500	2008	33.7	34.9
CSCL São Paulo	2500	2008	34.1	35.3
CSCL Montevideo	2500	2008	34.0	35.4
CSCL Lima	2500	2008	34.1	35.4
CSCL Santiago	2500	2008	34.1	35.4
CSCL San Jose	2500	2008	34.2	35.5
CSCL Callao	2500	2009	34.7	36.0
CSCL Manzanillo	2500	2009	35.2	36.5
Guayaquil Bridge	2500	2010	36.0	37.2
Calicanto Bridge	2500	2010	36.2	37.5
Total			$5,069.2	$4,813.7

(1) At December 31, 2015, except for the YM Wish, YM Wellhead, YM Witness and Maersk Guayaquil, the vessel's charter-free market value is lower than its carrying value. The aggregate carrying value of those vessels whose charter-free market value is lower than its carrying value is $4.6 billion. The estimated aggregate charter-free market value of these vessels is $2.5 billion. Although the charter-free market values are lower than the carrying values of those vessels, we expect the difference would be less using charter-attached values since the majority of those vessels are on long-term time charters. Based on our assumptions discussed above, the projected undiscounted future cash flows for each of those vessels exceed their carrying values at December 31, 2015.

Goodwill

We allocate the cost of acquired companies to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Our future operating performance may be affected by the potential impairment charges related to goodwill. Accordingly, the allocation of the purchase price to goodwill may significantly affect our future operating results. Goodwill is not amortized, but reviewed for impairment annually, or more frequently if impairment indicators arise. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis.

The allocation of the purchase price of acquired companies requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. In addition, the process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgment at many points during the analysis. The fair value of our reporting unit is estimated based on discounted expected future cash flows using a weighted-average cost of capital rate. The estimates and assumptions regarding expected cash flows and the appropriate discount rates require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions.

Our goodwill of $75.3 million that resulted from our January 2012 acquisition of our Manager, which is tested annually for impairment, was tested for impairment at November 30, 2015. Based on the results of this test, the discounted cash flows substantially exceeded the carrying value of the reporting unit, which is considered to be our business as a whole. Key assumptions that impact the fair value of the reporting unit include the charter rates our vessels earn when employed, our ability to utilize the vessels in our fleet, the operating life of our vessels, the inflation rate and our cost of capital.

Derivative Instruments

Our hedging policies permit the use of various derivative financial instruments to manage interest rate risk. Interest rate swap and swaption agreements have been entered into to reduce our exposure to market risks from changing interest rates. We recognize the interest rate swap and swaption agreements on the balance sheet at their fair values.

The fair values of the interest rate swap and swaption agreements have been calculated by discounting the future cash flows of both the fixed rate and variable rate interest rate payments. The interest rate payments and discount rates were derived from a yield curve created by nationally recognized financial institutions adjusted for the associated credit risk related to the credit risk of the counterparties or our non-performance risk. The inputs used to determine the fair values of these agreements are readily observable. Accordingly, we have classified the fair value of the interest rate swap and swaption agreements within Level 2 of the fair value hierarchy as defined by U.S. GAAP. Changes in the fair value of our interest rate swaps are recorded in earnings.

We evaluate whether any of the previously hedged interest payments are remote of occurring. We have concluded that the previously hedged interest payments are not remote of occurring. Therefore, unrealized gains or losses in accumulated other comprehensive income associated with the previously designated interest rate swaps are recognized in earnings when and where the interest payments are recognized. If such interest payments were to be identified as being remote of occurring, the accumulated other comprehensive income balance pertaining to these amounts would be reversed through earnings immediately.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update, or ASU, 2016-02, “Leases”. ASU 2016-02 will require lessees to recognize all leases, including operating leases, with a term greater than 12 months on the balance sheet, for the rights and obligations created by those leases. The accounting for lessors will remain largely unchanged from the existing accounting standards. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the new guidance to determine the impact it will have on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016 -01, “Recognition and Measurement of Financial Assets and Financial Liabilities”. ASU 2016-01 changes the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The standard does not apply to equity method investments or investments in consolidated subsidiaries. For entities that elect the fair value option for financial liabilities, the change in fair value that is attributable to instrument-specific credit risk must be recognized in other comprehensive income instead of net income. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the new guidance to determine the impact it will have on our consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-Of-Credit Arrangements." The guidance in ASU 2015-03 (as described below) does not address the presentation or subsequent measurement of debt issuance costs related to line of credit, or LOC, arrangements. ASU 2015-15 states that the SEC staff would not object to an entity deferring and presenting debt issuance costs. We are currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In July 2015, the FASB delayed the effective date of ASU 2014-09, "Revenue from Contracts with Customers", by one year. Reporting entities may choose to adopt the standard as of the original effective date. The FASB decided, based on its outreach to various stakeholders and the forthcoming amendments to ASU 2014-09, that a deferral is necessary to provide adequate time to effectively implement the new revenue standard. ASU 2014-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," as part of its simplification initiative. ASU 2015-03 changes the presentation of debt issuance costs in financial statements such that an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.

In February 2015, the FASB issued ASU 2015-02, "Consolidation – Amendments to the Consolidation Analysis." ASU 2015-02 changes the evaluation of whether limited partnerships, and similar legal entities, are variable interest entities, or VIEs, and eliminates the presumption that a general partner should consolidate a limited partnership that is a voting interest entity. The new guidance also alters the analysis for determining when fees paid to a decision maker or service provider represent a variable interest in a VIE and how interests of related parties affect the primary beneficiary determination. ASU 2015-02 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. The new standard allows early adoption, including early adoption in an interim period. We are currently evaluating the new guidance to determine the impact it will have on our consolidated financial statements.

Glossary

We use a variety of operational terms and concepts in this Annual Report. These include the following:

Annual Survey. The inspection of a vessel pursuant to international conventions, by a classification society surveyor, on behalf of the flag state, that takes place every year.

Ballast. A voyage during which the ship is not laden with cargo.

Bareboat Charter. A charter of a vessel under which the shipowner is usually paid a fixed amount for a certain period of time during which the charterer is responsible for the vessel operating expenses, including crewing, and voyage expenses of the vessel and for the management of the vessel. A bareboat charter is also known as a "demise charter" or a "time charter by demise."

Bunkers. Heavy fuel and diesel oil used to power a vessel's engines.

Charter. The hire of a vessel for a specified period of time or a particular voyage to carry a cargo from a loading port to a discharging port. The contract for a charter is commonly called a charterparty.

Charterer. The party that charters a vessel.

Charter hire. A sum of money paid to the shipowner by a charterer for the use of a ship. Charter hire paid under a voyage charter is also known as "freight."

Classification society. An independent organization that certifies that a vessel has been built and maintained according to the organization's rules for that type of vessel and complies with the applicable rules and regulations of the flag state and the international conventions of which that country is a member. A vessel that receives its certification is referred to as being “in-class.”

Dry-docking. The removal of a vessel from the water for inspection and, if needed, repair of those parts of a vessel that are below the water line. During dry-dockings, which are required to be carried out periodically, certain mandatory classification society inspections are carried out and relevant certifications are issued. Dry-dockings for containerships are generally required once every five years, one of which must be a “special survey.”

Flag State. The country of a vessel’s registry.

Hire rate. The payment to the shipowner from the charterer for the use of the vessel.

Hull. Shell or body of a vessel.

IMO. International Maritime Organization, a United Nations agency that issues international standards for shipping.

Intermediate survey. The inspection of a vessel by a classification society surveyor that takes place 24 to 36 months after each “special survey.”

Newbuilding. A new ship under construction or just completed.

Off-charter. The period in which a vessel is not in service under a time charter and, accordingly, we do not receive hire.

Off-hire. The period in which a vessel is not available for service under a time charter and, accordingly, the charterer generally is not required to pay the hire rate. Off-hire periods can include days spent on repairs, dry-docking and surveys, whether or not scheduled.

Protection and indemnity insurance. Insurance obtained through a mutual association formed by shipowners to provide liability indemnification protection from various liabilities to which they are exposed in the course of their business, and which spreads the liability costs of each member by requiring contribution by all members in the event of a loss.

Scrapping. The sale of a ship as scrap metal.

Ship operating expense. The costs of operating a vessel, primarily consisting of crew wages and associated costs, insurance premiums, management fee, lubricants and spare parts, and repair and maintenance costs. Ship operating expenses exclude fuel cost, port expenses, agents’ fees, canal dues and extra war risk insurance, as well as commissions, which are included in “voyage expenses.”

Special survey. The inspection of a vessel by a classification society surveyor that takes place every five years, as part of the recertification of the vessel by a classification society.

Spot market. The market for immediate chartering of a vessel, usually for single voyages.

TEU. Twenty-foot equivalent unit, the international standard measure for containers and containership capacity.

Time charter. A charter under which the shipowner hires out a vessel for a specified period of time. The shipowner is responsible for providing the crew and paying vessel operating expenses, while the charterer is responsible for paying the voyage expenses and additional voyage insurance. The shipowner is paid the hire rate, which accrues on a daily basis.

Voyage expenses. Expenses incurred due to a ship’s traveling from a loading port to a discharging port, such as fuel (bunkers) cost, port expenses, agents’ fees, canal dues, extra war risk insurance and commissions.

Vessel operating expenses. The costs of operating a vessel, primarily consisting of crew wages and associated costs, insurance premiums, management fees, lubricants and spare parts, and repair and maintenance costs.

E. Research and Development

Not applicable.

F. Off-Balance Sheet Arrangements

As at December 31, 2015, we do not have any off-balance sheet arrangements.

G. Contractual Obligations

As of December 31, 2015, our long-term undiscounted contractual obligations consist of the following:

	Payments Due by Period (in thousands of USD)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Fixed-rate long-term debt obligations	$448,832	$12,772	$25,545	$370,545	$39,970
Variable-rate long-term debt obligations(1)	2,938,363	274,574	544,670	900,618	1,218,501
Purchase obligations for additional vessels	667,147	373,247	293,900		
Lease obligations(2)	408,675	36,898	79,968	169,496	122,313
Operating leases(3)	827,126	76,993	156,112	157,545	436,476
Total	$5,290,143	$774,484	$1,100,195	$1,598,204	$1,817,260

(1) Represents principal payments on amounts drawn on our credit facilities that bear interest at variable rates of LIBOR or KEXIM plus margins ranging from 0.35% to 4.75% per annum. We have entered into interest rate swap agreements under certain of our credit facilities to swap the variable interest rates for fixed interest rates ranging from 5.170% to 5.945% per annum. For purposes of this table, principal payments are determined based on contractual repayments in commitment reduction schedules for each related facility. The amounts exclude expected interest payments of $60.0 million (less than one year), $101.4 million (one to three years), $59.0 million (three to five years) and $60.7 million (more than five years). Expected interest payments are based on LIBOR plus margins at December 31, 2015. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable-rate debt.

(2) Represents payments, including expected interest payments, on amounts drawn on our lease facilities that bear interest at variable rates of LIBOR plus margins ranging from 2.60% to 3.00% per annum. Expected interest payments are based on LIBOR plus margins at the date our lease facilities were entered into.

(3) Represents payments under our operating leases for vessels and office space. We entered into sale-leaseback transactions for certain of our vessels where the lease term commenced upon the delivery dates of the vessels. These operating lease payments include expected interest payments that bear interest at variable rates of LIBOR plus margins ranging from 1.50% to 3.00% per annum. Expected interest payments are based on either LIBOR plus margins at the date our operating leases were entered into, or at December 31, 2015.

Item 6. Directors, Senior Management and Employees

A. Directors, Senior Management and Key Employees

Our directors, senior management and key employees as of February 29, 2016, and their ages as of December 31, 2015 are listed below:

Name	Age	Position

Kyle R. Washington	46	Co-Chairman of the board of directors and Co-Founder
Gerry Wang	53	Chief Executive Officer, Co-Chairman of the board of directors and Co-Founder
Peter Curtis	57	Chief Operating Officer
Mark Chu	48	Interim Chief Financial Officer, General Counsel and Vice President, Corporate Development
John C. Hsu	52	Director
Harald H. Ludwig	61	Director
David Lyall	59	Director
Nicholas Pitts-Tucker	65	Director
Graham Porter	45	Director and Co-Founder
Peter S. Shaerf	61	Deputy Chair of the board of directors

Kyle R. Washington. Kyle R. Washington was appointed as chairman of our board in May 2005 and in February 2011 became co-chairman with Gerry Wang. From 2005 to 2011 he served as chairman of Seaspan Marine Services Ltd., our Manager and certain of our Manager's operating subsidiaries. From 1998 to 2006, Mr. Washington was a director and executive chairman of the Seaspan ULC (formerly Washington Marine Group), a marine transportation company that is involved in shipdocking, barging and shipyard enterprises. From 2007 to 2010, Mr. Washington was a general partner in CopperLion Capital, a private equity fund. In 2009, Mr. Washington returned as a director and executive chairman of Seaspan ULC and was appointed as a dir