

Danaos Corp
Form 20-F
March 01, 2013

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 20-F

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

OR

- ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

OR

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

For the transition period from to

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

Commission file number 001-33060

DANAOS CORPORATION

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

**c/o Danaos Shipping Co. Ltd
14 Akti Kondyli
185 45 Piraeus
Greece**

(Address of principal executive offices)

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Evangelos Chatzis
Chief Financial Officer
c/o Danaos Shipping Co. Ltd
14 Akti Kondyli
185 45 Piraeus
Greece
Telephone: +30 210 419 6480
Facsimile: +30 210 419 6489

(Name, Address, Telephone Number and Facsimile Number 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
Common stock, \$0.01 par value per share	New York Stock Exchange
Preferred stock purchase rights	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.

As of December 31, 2012, there were 109,604,040 shares of the registrant's common stock outstanding.

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated
filer

Accelerated
filer

Non-accelerated
filer

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

U.S. GAAP

International
Financial
Reporting Standards

Other

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

Item 17 Item 18

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

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FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements based on beliefs of our management. Any statements contained in this annual report that are not historical facts are forward-looking statements as defined in Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events, including:

future operating or financial results;

pending acquisitions and dispositions, business strategies and expected capital spending;

operating expenses, availability of crew, number of off-hire days, drydocking requirements and insurance costs;

general market conditions and shipping market trends, including charter rates, vessel values and factors affecting supply and demand;

our financial condition and liquidity, including our ability to comply with covenants in our financing arrangements and to service our outstanding indebtedness;

performance by our charterers of their obligations;

the availability of ships to purchase, the time that it may take to construct new ships, or the useful lives of our ships;

our ability to obtain financing in the future to fund acquisitions and other general corporate activities;

our continued ability to enter into multi-year, fixed-rate period charters with our customers;

our ability to leverage to our advantage our manager's relationships and reputation in the containership shipping sector of the international shipping industry;

changes in governmental rules and regulations or actions taken by regulatory authorities;

potential liability from future litigation; and

other factors discussed in "Item 3. Key Information Risk Factors" of this annual report.

The words "anticipate," "believe," "estimate," "expect," "forecast," "intend," "potential," "may," "plan," "project," "predict," and "should" and similar expressions as they relate to us are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. We may also from time to time make forward-looking statements in our periodic reports that we file with the U.S. Securities and Exchange Commission ("SEC") other information sent to our security holders, and other written materials. Such statements reflect our current views and assumptions and all forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. The factors that could affect our future financial results are discussed more fully in "Item 3. Key

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Information "Risk Factors" and in our other filings with the SEC. We caution readers of this annual report not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements.

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PART I

Danaos Corporation is a corporation domesticated in the Republic of The Marshall Islands that is referred to in this Annual Report on Form 20-F, together with its subsidiaries, as "Danaos Corporation," "the Company," "we," "us," or "our." This report should be read in conjunction with our consolidated financial statements and the accompanying notes thereto, which are included in Item 18 to this annual report.

We use the term "Panamax" to refer to vessels capable of transiting the Panama Canal and "Post-Panamax" to refer to vessels with a beam of more than 32.31 meters that cannot transit the Panama Canal. We use the term "twenty foot equivalent unit," or "TEU," the international standard measure of containers, in describing the capacity of our containerships. Unless otherwise indicated, all references to currency amounts in this annual report are in U.S. dollars.

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

Selected Financial Data

The following table presents selected consolidated financial and other data of Danaos Corporation and its consolidated subsidiaries for each of the five years in the five year period ended December 31, 2012. The table should be read together with "Item 5. Operating and Financial Review and Prospects." The selected consolidated financial data of Danaos Corporation is derived from our consolidated financial statements and notes thereto, which have been prepared in accordance with U.S. generally accepted accounting principles, or "U.S. GAAP", and have been audited for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 by PricewaterhouseCoopers S.A., an independent registered public accounting firm.

Our audited consolidated statements of comprehensive income, changes in stockholders'equity and cash flows for the years ended December 31, 2012, 2011 and 2010, and the consolidated balance sheets

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at December 31, 2012 and 2011, together with the notes thereto, are included in "Item 18. Financial Statements" and should be read in their entirety.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
In thousands, except per share amounts and other data					
STATEMENT OF INCOME					
Operating revenues	\$ 589,009	\$ 468,101	\$ 359,677	\$ 319,511	\$ 298,905
Voyage expenses	(13,503)	(10,765)	(7,928)	(7,346)	(7,476)
Vessel operating expenses	(123,356)	(119,127)	(88,271)	(92,327)	(89,246)
Depreciation	(143,938)	(106,178)	(77,045)	(60,906)	(51,025)
Amortization of deferred drydocking and special survey costs	(6,070)	(5,800)	(7,426)	(8,295)	(7,301)
Impairment loss	(129,630)		(71,509)		
Bad debt expense					(181)
General and administrative expenses	(20,379)	(21,028)	(23,255)	(14,541)	(11,617)
Gain on sale of vessels	830		1,916		16,901
Income from operations	152,963	205,203	86,159	136,096	148,960
Interest income	1,642	1,304	964	2,428	6,544
Interest expense	(87,340)	(55,124)	(41,158)	(36,208)	(34,740)
Other finance expenses	(18,107)	(14,581)	(6,055)	(2,290)	(2,047)
Other (expenses)/income, net	811	(1,986)	(5,070)	(336)	(1,060)
Unrealized and realized losses on derivatives	(155,173)	(121,379)	(137,181)	(63,601)	(597)
Total other expenses, net	(258,167)	(191,766)	(188,500)	(100,007)	(31,900)
Net (loss)/income from continuing operations	\$ (105,204)	\$ 13,437	\$ (102,341)	\$ 36,089	\$ 117,060
Net loss from discontinued operations	\$	\$	\$	\$	\$ (1,822)
Net (loss)/income	\$ (105,204)	\$ 13,437	\$ (102,341)	\$ 36,089	\$ 115,238
PER SHARE DATA(i)					
Basic and diluted net (loss)/income per share of common stock from continuing operations	\$ (0.96)	\$ 0.12	\$ (1.36)	\$ 0.66	\$ 2.15
Basic and diluted net loss per share of common stock from discontinued operations	\$	\$	\$	\$	\$ (0.04)
Basic and diluted net (loss)/income per share of common stock	\$ (0.96)	\$ 0.12	\$ (1.36)	\$ 0.66	\$ 2.11
Basic and diluted weighted average number of shares	109,613	109,045	75,436	54,550	54,557
CASH FLOW DATA					
Net cash provided by operating activities	\$ 166,558	\$ 59,492	\$ 78,792	\$ 93,166	\$ 135,489
Net cash used in investing activities	(369,789)	(644,593)	(587,748)	(372,909)	(511,986)
Net cash provided by financing activities	207,497	406,628	616,741	281,073	433,722
Net increase/(decrease) in cash and cash equivalents	4,266	(178,473)	107,785	1,330	57,225
BALANCE SHEET DATA (at period end)					
Total current assets	\$ 98,673	\$ 93,291	\$ 266,830	\$ 300,504	\$ 250,194
Total assets	4,212,045	3,988,104	3,489,130	3,142,711	2,828,464
Total current liabilities, including current portion of long-term debt	365,252	231,693	246,497	2,518,007	122,215
Current portion of long-term debt	125,076	41,959	21,619	2,331,678	42,219
Current portion of Vendor financing	57,388	10,857			
Long-term debt, net of current portion	3,097,472	2,960,288	2,543,907		2,054,635
Vendor financing, net of current portion	121,754	54,288			
Total stockholders' equity	440,304	442,535	392,412	405,591	219,034
Common stock(i)	109,604	109,564	108,611	54,551	54,543

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Common stock at par value	1,096	1,096	1,086	546	546
OTHER DATA					
Number of vessels at period end (containerships)	64	59	50	42	38
TEU capacity at period end (containerships)	363,049	291,149	219,929	172,433	153,174
Ownership days (containerships)	22,910	20,053	16,675	14,794	13,780
Operating days (containerships)	21,297	19,576	16,393	14,589	13,448

- (i) As adjusted for 634 shares, 6,642 shares and 15,000 shares held by the Company and reported as Treasury Stock as of December 31, 2010, 2009 and 2008, respectively. As of December 31, 2012 and 2011, the Company held nil Treasury Stock.

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We paid our first quarterly dividend since becoming a public company in October 2006, of \$0.44 per share, on February 14, 2007, and subsequent dividends of \$0.44 per share, \$0.44 per share, \$0.465 per share and \$0.465 per share on May 18, 2007, August 17, 2007, November 16, 2007 and February 14, 2008. In addition, we paid a dividend of \$0.465 per share on May 14, 2008, August 20, 2008 and November 19, 2008, respectively. In the first quarter of 2009, our board of directors decided to suspend the payment of further cash dividends as a result of market conditions in the international shipping industry. Our payment of dividends is subject to the discretion of our Board of Directors. Our loan agreements and the provisions of Marshall Islands law also contain restrictions that affect our ability to pay dividends and we generally will not be permitted to pay cash dividends under the terms of the bank agreement ("Bank Agreement") and new financing agreements which we entered into in 2011. See "Item 3. Key Information Risk Factors Risks Inherent in Our Business We are generally not permitted to pay cash dividends under our financing arrangements." See "Item 8. Financial Information Dividend Policy."

Capitalization and Indebtedness

The table below sets forth our consolidated capitalization as of December 31, 2012:

On an actual basis; and

on an as adjusted basis to reflect in the period from January 1, 2013 to February 28, 2013 scheduled debt repayment of \$7.0 million, of which \$3.6 million relates to the Hyundai Samho Vendor financing and \$3.4 million to Sinosure-CEXIM-Citi-ABN Amro credit facility.

In addition, from January 1, 2013 to February 28, 2013, we issued 559 new shares of common stock distributed to the employees of our manager in respect of equity awards granted in 2011, as well 13,613 new shares of common stock distributed to our Directors in settlement of shares granted in 2012 (see Note 21, Stock Based Compensation to our consolidated financial statements included elsewhere in this annual report).

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Other than these adjustments, there have been no material changes to our capitalization from debt or equity issuances, re-capitalizations, special dividends, or debt repayments as adjusted in the table below between January 1, 2013 and February 28, 2013.

	As of December 31, 2012	
	Actual	As Adjusted
	(US Dollars in thousands)	
Debt:		
Total debt(1)	\$ 3,401,690	\$ 3,394,724
Stockholders' equity:		
Preferred stock (par value \$0.01, 100,000,000 preferred shares authorized and none issued; actual and as adjusted)		
Common stock, par value \$0.01 per share; 750,000,000 shares authorized; 109,604,040 shares issued and outstanding actual and 109,618,212 shares issued and outstanding as adjusted(2)(3)	1,096	1,096
Additional paid-in capital	546,023	546,023
Accumulated other comprehensive loss	(353,271)	(353,271)
Retained earnings	246,456	246,456
Total stockholders' equity	440,304	440,304
Total capitalization	\$ 3,841,994	\$ 3,835,028

(1) Total debt actual and as adjusted includes \$179.1 million and \$175.5 million of vendor financing, respectively. All of our indebtedness is secured.

(2) Does not include 15 million warrants issued to purchase shares of common stock, at an exercise price of \$7.00 per share, which we issued to lenders participating in our comprehensive financing plan. The warrants, which will expire on January 31, 2019, are exercisable solely on a cashless exercise basis.

(3) We have agreed to issue in 2013 an additional 35,151 new shares of common stock to employees of our manager in respect of equity awards granted in 2012 and 2011.

Reasons for the Offer and Use of Proceeds

Not Applicable.

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RISK FACTORS

Risks Inherent in Our Business

Our business, and an investment in our securities, involves a high degree of risk, including risks relating to the downturn in the container shipping market, which continues to adversely affect the major liner companies which charter our vessels and has had and may continue to have an adverse effect on our earnings and affect our compliance with our loan covenants.

The downturn in the containership market, from which we derive all of our revenues, has severely affected the container shipping industry, particularly the large liner companies to which we charter our vessels, and has adversely affected our business. Since the third quarter 2011 the containership market has deteriorated sharply, after limited recovery in the second half of 2010 and early 2011 from the lows of late 2008 and 2009. The benchmark rates declined in all quoted size sectors, with the deepest decline in the benchmark one-year daily rate of a 4,400 TEU Panamax containership, which was \$36,000 in May 2008 and \$8,900 in December 2012. The decline in charter rates is due to various factors, including the level of global trade, including exports from China to Europe and the United States, and containership capacity. The decline in the containership market has affected the major liner companies which charter our vessels, some of which obtained third party aid and restructured their obligations. It also affects the value of our vessels, which follow the trends of freight rates and containership charter rates, and the earnings on our charters, and similarly, affects our cash flows and liquidity. Before the covenant levels in our financing arrangements were reset in the first quarter of 2011 at levels at which we are now in compliance, we had to obtain waivers from the lenders under all but one of our credit facilities because we had not been in compliance with the covenants contained in our loan agreements. The decline in the containership charter market has had and may continue to have additional adverse consequences for our industry including limited financing for vessel acquisitions and newbuildings, a less active secondhand market for the sale of vessels, charterers not performing under, or requesting modifications of, existing time charters and loan covenant defaults in the container shipping industry. This significant downturn in the container shipping industry could adversely affect our ability to service our debt and other obligations and adversely affect our results of operations and financial condition.

Low containership charter rates and containership vessel values and any future declines in these rates and values can affect our ability to comply with various covenants in our credit facilities.

Our credit facilities, which are secured by mortgages on our vessels, require us to maintain specified collateral coverage ratios and satisfy financial covenants, including requirements based on the market value of our containerships and our net worth. The market value of containerships is sensitive to, among other things, changes in the charter markets with vessel values deteriorating in times when charter rates are falling and improving when charter rates are anticipated to rise. The depressed state of the containership charter market coupled with the prevailing difficulty in obtaining financing for vessel purchases has generally adversely affected containership values since the middle of 2008. These conditions have led to a significant decline in the fair market values of our vessels and the extremely low prevailing interest rates have led to significant declines in the fair value of our interest rate swap agreements. As a result, we had to obtain waivers of breaches of covenants in all but one of our loan agreements. Under the agreement ("Bank Agreement") we entered into in the first quarter of 2011 for the restructuring of our existing credit facilities and new credit facilities, the financial covenants in our financing arrangements were reset to levels that gradually tighten over the period through the maturity of these financing arrangements in 2018.

If we are unable to comply with the financial and other covenants under our credit facilities, our lenders could accelerate our indebtedness and foreclose on the vessels in our fleet, which would impair our ability to continue to conduct our business. Any such acceleration, because of the cross-default

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provisions in our loan agreements, could in turn lead to additional defaults under our other loan agreements and the consequent acceleration of the indebtedness thereunder and the commencement of similar foreclosure proceedings by our other lenders. If our indebtedness were accelerated in full or in part, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our vessels if our lenders foreclose upon their liens, which would adversely affect our ability to continue our business.

We may continue to have difficulty securing profitable employment for our vessels which are not currently employed, as well as other vessels as their charters expire, in the currently depressed containership markets.

As of February 22, 2013, we have not been able to re-charter six of our containerships, aggregating 24,355 TEU in capacity, which had completed their charters, at profitable rates. As a result, those six vessels have been laid-up, since the latter part of 2011 or 2012, as applicable (including the *Henry* which we agreed to sell to a third party). Of our other 57 vessels, eight are deployed on time charters expiring between March 2013 and December 2013. Given the current depressed state of the containership charter market, we may be unable to re-charter these vessels at attractive rates, or at all, when their charters expire. Although we do not receive any revenues from our vessels while not employed, we are required to pay expenses necessary to maintain the vessel in proper operating condition, insure it and service any indebtedness secured by such vessel. If we cannot re-charter our vessels profitably, our results of operations and operating cash flow will be adversely affected.

We are dependent on the ability and willingness of our charterers to honor their commitments to us for all of our revenues and the failure of our counterparties to meet their obligations under our time charter agreements could cause us to suffer losses or otherwise adversely affect our business.

We derive all of our revenues from the payment of charter hire by our charterers. Each of our 63 containerships, excluding six vessels laid-up as of February 22, 2013, are currently employed under time or bareboat charters with nine liner companies, with 91% of our revenues in 2012 generated from six such companies. We could lose a charterer or the benefits of a time charter if:

the charterer fails to make charter payments to us because of its financial inability, disagreements with us, defaults on a payment or otherwise;

the charterer exercises certain specific limited rights to terminate the charter;

we do not take delivery of a contracted newbuilding containership at the agreed time; or

the charterer terminates the charter because 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.

In recent years, a number of major liner companies, including some of our charterers, have announced efforts to obtain third party aid and restructure their obligations and request charter modifications, as well as an intention to reduce the number of vessels they charter-in, which circumstances may increase the likelihood of losing a charterer or the benefits of a time charter.

If we lose a time charter, we may be unable to re-deploy the related vessel on terms as favorable to us or at all. We would not receive any revenues from such a vessel while it remained unchartered, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition, insure it and service any indebtedness secured by such vessel.

Many of the time charters on which we deploy our containerships provide for charter rates that are significantly above current market rates. The ability and willingness of each of our counterparties to perform its obligations under their time charters with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of

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the container shipping industry, which has again experienced severe declines since mid-2011, as it had in the second half of 2008 and 2009 before a limited recovery in the second half of 2010 and early 2011, and the overall financial condition of the counterparty. Furthermore, the combination of a reduction in cash flow resulting from declines in world trade, a reduction in borrowing bases under credit facilities and the reduced availability of debt and equity financing may result in a significant reduction in the ability of our charterers to make charter payments to us, with a number of large liner companies announcing efforts to obtain third party aid and restructure their obligations. The likelihood of a charterer seeking to renegotiate or defaulting on its charter with us may be heightened to the extent such customers are not able to utilize the vessels under charter from us, and instead leave such chartered vessels idle. Should a counterparty fail to honor its obligations under agreements with us, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure may be at lower rates given currently depressed situation in the charter market.

If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, as part of a court-led restructuring or otherwise, we could sustain significant losses which would have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as our ability to pay dividends, if any, in the future, and comply with the covenants in our credit facilities. In such an event, we could be unable to service our debt and other obligations and could ourselves have to restructure our obligations.

We depend upon a limited number of customers for a large part of our revenues. The loss of these customers could adversely affect us.

Our customers in the containership sector consist of a limited number of liner operators. The percentage of our revenues derived from these customers has varied in past years. In the past several years, CMA CGM, Hanjin, Hyundai Merchant Marine Korea (or Hyundai), Yang Ming, China Shipping and Zim have represented substantial amounts of our revenue. In 2012, approximately 91% of our operating revenues were generated by these six customers, while in 2011, approximately 85% of our operating revenues was derived by these customers. As of the date of this filing, we have charters for four of our vessels with China Shipping, for ten of our vessels with CMA CGM, for 15 of our vessels with Hyundai, for eight of our vessels with Hanjin, for six of our vessels with Yang Ming and for six of our vessels with ZIM. We expect that a limited number of liner companies may continue to generate a substantial portion of our revenues, some of which liner companies including CMA CGM and Zim publicly acknowledged the financial difficulties facing them, reported substantial losses in 2009 and obtained third party aid and restructured their obligations, including charter contracts. We contributed to Zim's restructuring by agreeing to the deferred payment of 17.5% of the charter hire due under the charters for six of our vessels for a period ending on December 31, 2012, which arrangement we have agreed to extend until June 30, 2013. Many liner companies reported losses during 2012, although slightly improved from the significant losses they incurred in 2011. If any of these liner operators cease doing business or do not fulfill their obligations under their charters for our vessels, due to the financial pressure on these liner companies from the significant decreases in demand for the seaborne transport of containerized cargo or otherwise, our results of operations and cash flows could be adversely affected. Further, if we encounter any difficulties in our relationships with these charterers, our results of operations, cash flows and financial condition could be adversely affected.

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Our profitability and growth depend on the demand for containerships and the recent economic slowdown, and the impact on consumer confidence and consumer spending, resulted in and may continue to result in a decrease in containerized shipping volume and adversely affect charter rates. Charter hire rates for containerships may continue to experience volatility or settle at depressed levels, which would, in turn, adversely affect our profitability.

Demand for our vessels depends on demand for the shipment of cargoes in containers and, in turn, containerships. The ocean-going container shipping industry is both cyclical and volatile in terms of charter hire rates and profitability. Containership charter rates peaked in 2005 and generally stayed strong until the middle of 2008, when the effects of the recent economic crisis began to affect global container trade, and in 2008 and 2009 the ocean-going container shipping industry experienced severe declines, with charter rates at significantly lower levels than the historic highs of the prior few years. Containership charter rates again declined sharply beginning in the third quarter of 2011, after limited improvement in 2010 and 2011, and remain well below long-term averages. Variations in containership charter rates result from changes in the supply and demand for ship capacity and changes in the supply and demand for the major products transported by containerships. The factors affecting the supply and demand for containerships and supply and demand for products shipped in containers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. The recent global economic slowdown and disruptions in the credit markets significantly reduced demand for products shipped in containers and, in turn, containership capacity.

Factors that influence demand for containership capacity include:

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

Factors that influence the supply of containership capacity include:

- the number of new building deliveries;
- the scrapping rate of older containerships;

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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 out of service; and

port congestion.

Consumer confidence and consumer spending remain relatively weak and uncertain. Consumer purchases of discretionary items, many of which are transported by sea in containers, generally decline during periods where disposable income is adversely affected or there is economic uncertainty and, as a result, liner company customers may ship fewer containers or may ship containers only at reduced

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rates. Any such decrease in shipping volume could adversely impact our liner company customers and, in turn, demand for containerships. As a result, charter rates and vessel values in the containership sector have decreased significantly and the counterparty risk associated with the charters for our vessels has increased.

Our ability to recharter our six containerships that are laid-up as of February 22, 2013 (aside from one such vessel which we have agreed to sell with delivery scheduled to occur by March 5, 2013) and our other containerships upon the expiration or termination of their current charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, the prevailing state of the charter market for containerships. The charters for eight of our existing vessels expire between March 2013 and December 2013. If the charter market is depressed, as it has been with only marginal improvement since the second half of 2008, when our vessels' charters expire, we may be forced to recharter the containerships, if we were able to recharter such vessels at all, at sharply reduced rates and possibly at a rate whereby we incur a loss. If we were unable to recharter our vessels on favorable terms, we may potentially scrap certain of such vessels, which may reduce our earnings or make our earnings volatile. The same issues will exist if we acquire additional containerships, if we are able to recharter such vessels at all, and attempt to obtain multi-year charter arrangements as part of an acquisition and financing plan.

The Bank Agreement in respect of our financing arrangements imposes stringent operating and financial restrictions on us which may, among other things, limit our ability to grow our business.

Under the terms of the Bank Agreement, our credit facilities and financing arrangements impose more stringent operating and financial restrictions on us than those previously contained in our credit facilities. These restrictions, as described in "Item 5. Operating and Financial Review and Prospects," generally preclude us from:

incurring additional indebtedness without the consent of our lenders, except to the extent the proceeds of such additional indebtedness is used to repay existing indebtedness;

creating liens on our assets, generally, unless for the equitable and ratable benefit of our existing lenders;

selling capital stock of our subsidiaries;

disposing of assets without the consent of the lenders with loans collateralized by such assets and, in case of such approval, using the proceeds thereof to repay indebtedness;

using a significant portion of the proceeds from equity issuances for any purpose other than to repay indebtedness;

using more than a minimal amount of our free cash from operations for purposes other than repayment of indebtedness;

engaging in transactions that would constitute a change of control, as defined in such financing agreement, without repaying all of our indebtedness in full;

paying dividends, absent a substantial reduction in our leverage; or

changing our manager or certain members of our management.

As a result we have reduced discretion in operating our business and may have difficulty growing our business beyond our currently contracted newbuilding vessels. In addition, our respective lenders under these financing arrangements will, at their option, be able to require us to repay in full amounts outstanding under such respective credit facilities, upon a "Change of Control" of our company, which for these purposes and as further described in "Item 5. Operating and Financial Review and Prospects Bank Agreement", includes Dr. Coustas ceasing to be our Chief Executive Officer,

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Dr. Coustas and members of his family ceasing to collectively own over one-third of the voting interest in our outstanding capital stock or any other person or group controlling more than 20% of the voting power of our outstanding capital stock.

The Bank Agreement and our financing arrangements contain financial covenants requiring us to:

maintain a ratio of (i) the market value of all of the vessels in our fleet, on a charter-inclusive basis, plus the net realizable value of any additional collateral, to (ii) our consolidated total debt above specified minimum levels gradually increasing from 90% through December 31, 2011 to 130% from September 30, 2017 through September 30, 2018;

maintain a minimum ratio of (i) the market value of the nine vessels (*Hyundai Smart, Hyundai Speed, Hyundai Ambition, Hyundai Together, Hyundai Tenacity, Hanjin Greece, Hanjin Italy, Hanjin Germany* and *CMA CGM Rabelais*) collateralizing the New Credit Facilities, calculated on a charter-free basis, plus the net realizable value of any additional collateral, to (ii) our aggregate debt outstanding under the New Credit Facilities of 100% from September 30, 2012 through September 30, 2018;

maintain minimum free consolidated unrestricted cash and cash equivalents, less the amount of the aggregate variable principal amortization amounts, described above, of \$30.0 million at the end of each calendar quarter;

ensure that our (i) consolidated total debt less unrestricted cash and cash equivalents to (ii) consolidated EBITDA (defined as net income before interest, gains or losses under any hedging arrangements, tax, depreciation, amortization and any other non-cash item, capital gains or losses realized from the sale of any vessel, finance charges and capital losses on vessel cancellations and before any non-recurring items and excluding any accrued interest due to us but not received on or before the end of the relevant period; provided that non-recurring items excluded from this calculation shall not exceed 5% of EBITDA calculated in this manner) for the last twelve months does not exceed a maximum ratio gradually decreasing from 12:1 on December 31, 2010 to 4.75:1 on September 30, 2018;

ensure that the ratio of our (i) consolidated EBITDA for the last twelve months to (ii) net interest expense (defined as interest expense (excluding capitalized interest), less interest income, less realized gains on interest rate swaps (excluding capitalized gains) and plus realized losses on interest rate swaps (excluding capitalized losses)) exceeds a minimum level of 1.50:1 through September 30, 2013 and thereafter gradually increasing to 2.80:1 by September 30, 2018; and

maintain a consolidated market value adjusted net worth (defined as the amount by which our total consolidated assets adjusted for the market value of our vessels in the water less cash and cash equivalents in excess of our debt service requirements exceeds our total consolidated liabilities after excluding the net asset or liability relating to the fair value of derivatives as reflected in our financial statements for the relevant period) of at least \$400 million.

The provisions of our KEXIM-ABN Amro credit facility, which is not covered by the Bank Agreement, have been aligned with the above covenants through June 30, 2014 and our Sinosure-CEXIM credit facility has similar financial covenants and a collateral coverage covenant of 125% per tranche as described in "Item 5. Operating and Financial Review and Prospects." In addition, under our KEXIM credit facility, we must comply with a collateral coverage covenant of 130%.

If we fail to meet our payment or covenant compliance obligations under the terms of the Bank Agreement covering our credit facilities or our other financing arrangements, our lenders could then accelerate our indebtedness and foreclose on the vessels in our fleet securing those credit facilities, which could result in cross-defaults under our other credit facilities, and the consequent acceleration of

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the indebtedness thereunder and the commencement of similar foreclosure proceedings by other lenders. The loss of any of these vessels would have a material adverse effect on our operating results and financial condition.

Substantial debt levels could limit our flexibility to obtain additional financing and pursue other business opportunities.

As of December 31, 2012, we had outstanding indebtedness of \$3.4 billion and, while we have no remaining borrowing availability under our existing loan agreements, we may incur substantial additional indebtedness, as market conditions warrant over the medium to long-term and to the extent permitted by our existing lenders, further grow our fleet. Although we are not scheduled to make repayments of principal until May 15, 2013 under our credit facilities, other than our KEXIM and KEXIM-ABN Amro credit facilities, Sinasure-CEXIM credit facility and Hyundai Vendor Financing, this level of debt 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 be unavailable on favorable terms;

we will need to use substantially all of our free cash from operations, as required under the terms of our Bank Agreement, to make principal and interest payments on our debt, reducing the funds that would otherwise be available for future business opportunities and, if permitted by our lenders and reinstated, dividends to our stockholders;

our debt level could make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally; and

our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt will depend upon, among other things, our future 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. Due to the restrictions on the use of cash from operations and other sources for purposes other than the repayment of indebtedness, even if we otherwise generate sufficient cash flow to service our debt, we may still be forced to take actions such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt or seeking additional equity capital. We may not be able to effect any of these remedies on satisfactory terms, or at all. In addition, restrictions in the Bank Agreement in respect of our credit facilities and a lack of liquidity in the debt and equity markets could hinder our ability to refinance our debt or obtain additional financing on favorable terms in the future.

Disruptions in world financial markets and the resulting governmental action could have a further material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our common stock to decline further.

Europe, the United States and other parts of the world continue to exhibit weak economic trends. For example, the credit markets in Europe and, to a lesser extent, the United States have experienced significant contraction, de-leveraging and reduced liquidity, and European Union and international organizations, as well as the United States federal government and state governments, have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The U.S. Securities and Exchange Commission, or the SEC, other regulators, self-regulatory organizations and securities exchanges are authorized to take

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extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

Global financial markets and economic conditions were severely disrupted and volatile in 2008 and 2009. Credit markets and the debt and equity capital markets have been distressed. These issues, along with the re-pricing of credit risk and the difficulties being experienced by financial institutions have made, and will likely continue to make, it difficult to obtain financing. As a result of the disruptions in the credit markets, the cost of obtaining bank financing has increased as many lenders have increased interest rates, enacted tighter lending standards, required more restrictive terms, including higher collateral ratios for advances, shorter maturities and smaller loan amounts, refused to refinance existing debt at maturity at all or on terms similar to our current debt. Furthermore, certain banks that have historically been significant lenders to the shipping industry have announced an intention to reduce or cease lending activities in the shipping industry. We cannot be certain that financing will be available on acceptable terms or at all. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due. In the absence of available financing, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our revenues and results of operations.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. Major market disruptions and the current adverse changes in market conditions and the regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition or cash flows, have caused the price of our common stock to decline and could cause the price of our common stock to decline further.

Weak economic conditions throughout the world, particularly in Europe and in the Asia Pacific region, could have a material adverse effect on our business, financial condition and results of operations.

Negative trends in the global economy emerged in 2008 and continued into 2009, and economic conditions remain relatively weak. In particular, concerns regarding the possibility of sovereign debt defaults by European Union member countries, including Greece, and the potential for recession in Europe have resulted in devaluation of the Euro, disruptions of financial markets throughout the world and have led to concerns regarding consumer demand both in Europe and other parts of the world, including the United States. The deterioration in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods and, thus, container shipping. Continuing economic instability could have a material adverse effect on our financial condition and results of operations. In particular, we anticipate a significant number of the port calls made by our vessels will continue to involve the loading or unloading of containers in ports in the Asia Pacific region. As a result, negative changes in economic conditions in any Asia Pacific country, and particularly in China, may exacerbate the effect of the significant downturns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial position and results of operations, as well as our future prospects. In recent years, China has been one of the world's fastest growing economies in terms of gross domestic product, which has had a significant impact on shipping demand. China and other countries in the Asia Pacific region may, however, experience slowed or even negative economic growth in the future. Moreover, the current slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. In particular, the possibility of sovereign debt defaults by European Union member countries, including Greece, and any resulting weakness of the Euro, including against

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the Chinese renminbi, could adversely affect European consumer demand, particularly for goods imported, many of which are shipped in containerized form, from China and elsewhere in Asia, and reduce the availability of trade financing which is vital to the conduct of international shipping. Our business, financial condition, results of operations, ability to pay dividends, if any, as well as our future prospects, will likely be materially and adversely affected by a further economic downturn in any of these countries.

Demand for the seaborne transport of products in containers, which decreased dramatically in 2008 and 2009, has a significant impact on the financial performance liner companies and, in turn, demand for containerships and our charter counterparty risk.

The sharp decline in global economic activity in 2008 and 2009 resulted in a substantial decline in the demand for the seaborne transportation of products in containers, reaching the lowest levels in decades. Consequently, the cargo volumes and freight rates achieved by liner companies, with which all of the existing and contracted newbuilding vessels in our fleet are chartered, have declined sharply, reducing liner company profitability and, at times, failing to cover the costs of liner companies operating vessels on their shipping lines. In response to such reduced cargo volume and freight rates, the number of vessels being actively deployed by liner companies decreased, with almost 12% of the world containership fleet estimated to be out of service at its high point as of December 2009, and the idle capacity of the global containership fleet was 3.4% of total fleet capacity at the end of September 2012. Moreover, newbuilding containerships with an aggregate capacity of 3.5 million TEUs, representing approximately 21% of the world's fleet capacity at the beginning of October 2012, were under construction, which may exacerbate the surplus of containership capacity further reducing charterhire rates or increasing the number of unemployed vessels. Many liner companies, including some of our customers, reported substantial losses in 2011 and 2009, as well as having announced plans to reduce the number of vessels they charter-in as part of efforts to reduce the size of their fleets to better align fleet capacity with the reduced demand for marine transportation of containerized cargo.

The reduced demand and resulting financial challenges faced by our liner company customers has significantly reduced demand for containerships and may increase the likelihood of one or more of our customers being unable or unwilling to pay us the contracted charterhire rates, which are generally significantly above prevailing charter rates, under the charters for our vessels. We generate all of our revenues from these charters and if our charterers fail to meet their obligations to us, we would sustain significant losses which could materially adversely affect our business and results of operations, as well as our ability to comply with covenants in our credit facilities.

An over-supply of containership capacity may prolong or further depress the current low charter rates and adversely affect our ability to recharter our containerships at profitable rates or at all and, in turn, reduce our profitability.

While the size of the containership order book has declined from historic highs since mid-2008, at the beginning of the fourth quarter of 2012 newbuilding containerships with an aggregate capacity of 3.5 million TEUs were under construction representing approximately 21% of existing global fleet capacity. The size of the orderbook is large relative to historic levels and, notwithstanding that some orders may be cancelled or delayed, will likely result in a significant increase in the size of the world containership fleet over the next few years. An over-supply of containership capacity, particularly in conjunction with the currently low level of demand for the seaborne transport of containers, could exacerbate the recent decrease in charter rates or prolong the period during which low charter rates prevail. We do not hedge against our exposure to changes in charter rates, due to increased supply of containerships or otherwise. As such, if the current low charter rate environment persists, or a further reduction occurs, during a period when the current charters for our containerships expire or are terminated, we may only be able to recharter those containerships at reduced or unprofitable rates or

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we may not be able to charter those vessels at all. The charters for eight of our vessels expire between March 2013 and December 2013, and six of our vessels are not currently employed and laid-up.

Our profitability and growth depends on our ability to expand relationships with existing charterers and to obtain new time charters, for which we will face substantial competition from established companies with significant resources as well as new entrants.

One of our objectives over the mid- to long-term is, when market conditions warrant, to acquire additional containerships in conjunction with entering into additional multi-year, fixed-rate time charters for these vessels. We employ our vessels in highly competitive markets that are capital intensive and highly fragmented, with a highly competitive process for obtaining new multi-year time charters that generally involves an intensive screening process and competitive bids, and often extends for several months. Generally, we compete for charters based on price, customer relationship, operating expertise, professional reputation and the size, age and condition of our vessels. In recent months, in light of the dramatic downturn in the containership charter market, other containership owners, including many of the KG-model shipping entities, have chartered their vessels to liner companies at extremely low rates, including at unprofitable levels, increasing the price pressure when competing to secure employment for our containerships. Container shipping charters are awarded based upon a variety of factors relating to the vessel operator, including:

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 financial stability in general;

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.

We face substantial competition from a number of experienced companies, including state-sponsored entities and major shipping companies. Some of these competitors have significantly greater financial resources than we do, and can therefore operate larger fleets and may be able to offer better charter rates. We anticipate that other marine transportation companies may also enter the containership sector, including many with strong reputations and extensive resources and experience. This increased competition may cause greater price competition for time charters and, in stronger market conditions, for secondhand vessels and newbuildings.

In addition, a number of our competitors in the containership sector, including several that are among the largest charter owners of containerships in the world, have been established in the form of a German KG (Kommanditgesellschaft), which provides tax benefits to private investors. Although the German tax law was amended to significantly restrict the tax benefits to taxpayers who invest in these entities after November 10, 2005, the tax benefits afforded to all investors in the KG-model shipping entities continue to be significant, and such entities may continue to be attractive investments. Their focus on these tax benefits allows the KG-model shipping entities more flexibility in offering lower charter rates to liner companies. Further, since the charter rate is generally considered to be one of the principal factors in a charterer's decision to charter a vessel, the rates offered by these sizeable competitors can have a depressing effect throughout the charter market.

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As a result of these factors, we may be unable to compete successfully with established companies with greater resources or new entrants for charters at a profitable level, or at all, which would have a material adverse effect on our business, results of operations and financial condition.

We may have more difficulty entering into multi-year, fixed-rate time charters if a more active short-term or spot container shipping market develops.

One of our principal strategies is to enter into multi-year, fixed-rate containership time charters particularly in strong charter rate environments, although in weaker charter rate environments, such as the one that currently exists, we would generally expect to target somewhat shorter charter terms of three to six years or even shorter periods. As more vessels become available for the spot or short-term market, we may have difficulty entering into additional multi-year, fixed-rate time charters for our containerships due to the increased supply of containerships and the possibility of lower rates in the spot market and, as a result, our cash flows 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 rates, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flows and net income in periods when the market for container shipping is depressed, as it is currently, or insufficient funds are available to cover our financing costs for related containerships.

Delays in deliveries of any newbuilding vessels we may order or any secondhand vessels we may agree to acquire could harm our business.

Delays in the delivery of any newbuilding containerships we may order or any secondhand vessels we may agree to acquire, would delay our receipt of revenues under any arranged time charters and could result in the cancellation of such time charters or other liabilities under such charters, and therefore adversely affect our anticipated results of operations. The delivery of any newbuilding containership could also be delayed because of, among other things:

work stoppages or other labor disturbances or other events that disrupt the operations of the shipyard building the vessels;

quality or engineering problems;

changes in governmental regulations or maritime self-regulatory organization standards;

lack of raw materials;

bankruptcy or other financial crisis of the shipyard building the vessel;

our inability to obtain requisite financing or make timely payments;

a backlog of orders at the shipyard building the vessel;

hostilities or political or economic disturbances in the countries where the containerships are being built;

weather interference or catastrophic event, such as a major earthquake or fire;

our requests for changes to the original vessel specifications;

requests from the liner companies, with which we have arranged charters for such vessels, to delay construction and delivery of such vessels due to weak economic conditions and container shipping demand;

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shortages of or delays in the receipt of necessary construction materials, such as steel;

our inability to obtain requisite permits or approvals; or

a dispute with the shipyard building the vessel.

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The shipbuilders with which we contract for any newbuilding may be affected by the ongoing 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 any newbuilding contracts we enter into, which would be banks, financial institutions and other credit agencies, may also be affected by financial market conditions in the same manner as our lenders and, as a result, may be unable or unwilling to meet their obligations under their refund guarantees. If shipbuilders or refund guarantors are unable or unwilling to meet their obligations to us, this will impact our acquisition of vessels and may materially and adversely affect our operations and our obligations under our credit facilities.

The delivery of any secondhand containership we may agree to acquire could be delayed because of, among other things, hostilities or political disturbances, non-performance of the purchase agreement with respect to the vessels by the seller, our inability to obtain requisite permits, approvals or financing or damage to or destruction of the vessels while being operated by the seller prior to the delivery date.

Certain of the containerships in our fleet are subject to purchase options held by the charterers of the respective vessels, which, if exercised, could reduce the size of our containership fleet and reduce our future revenues.

The chartering arrangements with respect to the *CMA-CGM Moliere*, the *CMA-CGM Musset*, the *CMA-CGM Nerval*, the *CMA CGM Rabelais* and the *CMA CGM Racine* include options for the charterer, CMA-CGM, to purchase the vessels eight years after the commencement of their respective charters, which will fall in September 2017, March 2018, May 2018, July 2018 and August 2018, respectively, each for \$78.0 million. The option exercise prices with respect to these vessels reflect an estimate, made at the time of entry into the applicable charter, of market prices, which are in excess of the vessels' book values net of depreciation, at the time the options become exercisable. If CMA-CGM were to exercise these options with respect to any or all of these vessels, the expected size of our containership fleet would be reduced and, if there were a scarcity of secondhand containerships available for acquisition at such time and because of the delay in delivery associated with commissioning newbuilding containerships, we could be unable to replace these vessels with other comparable vessels, or any other vessels, quickly or, if containership values were higher than currently anticipated at the time we were required to sell these vessels, at a cost equal to the purchase price paid by CMA-CGM. Consequently, if these purchase options were to be exercised, the expected size of our containership fleet would be reduced, and as a result our anticipated level of revenues would be reduced.

Containership values have recently decreased significantly, and may remain at these depressed levels, or decrease further, and over time may fluctuate substantially. Depressed vessel values could cause us to incur impairment charges, such as the \$129.6 million impairment loss we recorded as of December 31, 2012 for thirteen of our older vessels, or to incur a loss if these values are low at a time we are attempting to dispose of a vessel.

Due to the sharp decline in world trade and containership charter rates, the market values of the containerships in our fleet are currently significantly lower than prior to the downturn that began in the second half of 2008. Containership values may remain at current low, or lower, levels for a prolonged period of time and can fluctuate substantially over time due to a number of different factors, including:

prevailing economic conditions in the markets in which containerships operate;

changes in and the level of world trade;

the supply of containership capacity;

prevailing charter rates; and

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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.

We review our vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. As of December 31, 2012, we concluded that events occurred and circumstances had changed, which may trigger the existence of potential impairment of our long-lived assets and we performed impairment testing and we recorded an impairment loss of \$129.6 million for thirteen of our older vessels. In the future, if the market values of our vessels experience further deterioration or we lose the benefits of the existing charter arrangements for any of our vessels and cannot replace such arrangements with charters at comparable rates, we may be required to record additional impairment charges in our financial statements, which could adversely affect our results of operations. Any impairment charges incurred as a result of declines in charter rates could negatively affect our financial condition and results of operations. In addition, if we sell any vessel at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel's carrying amount on our financial statements, resulting in a loss and a reduction in earnings.

We are generally not permitted to pay cash dividends under our financing arrangements.

Prior to 2009, we paid regular cash dividends on a quarterly basis. In the first quarter of 2009, our board of directors suspended the payment of cash dividends as a result of market conditions in the international shipping industry and in particular the sharp decline in charter rates and vessel values in the containership sector. Until such market conditions significantly improve, it is unlikely that we will reinstate the payment of dividends and if reinstated, it is likely that any dividend payments would be at reduced levels. The Bank Agreement, which restructured our credit facilities and provides new financing arrangements, does not permit us to pay cash dividends or repurchase shares of our common stock until the termination of such agreements in 2018, absent a significant decrease in our leverage.

We are a holding company and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations.

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to pay our contractual obligations and, if permitted by our lenders and reinstated, to make any dividend payments in the future depends on our subsidiaries and their ability to distribute funds to us. The ability of a subsidiary to make these distributions could be affected by a claim or other action by a third party, including a creditor, or by the law of their respective jurisdictions of incorporation which regulates the payment of dividends by companies. If we are unable to obtain funds from our subsidiaries, even if our lenders agreed to allow dividend payments, our board of directors may exercise its discretion not to declare or pay dividends. If we reinstate dividend payments in the future, we do not intend to seek to obtain funds from other sources to make such dividend payments, if any.

If we are unable to fund our capital expenditures, we may not be able to continue to operate some of our vessels or grow our fleet, which would have a material adverse effect on our business.

We must make substantial capital expenditures to maintain the operating capacity of our fleet and to grow our fleet. Maintenance capital expenditures include capital expenditures associated with modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet. These expenditures could increase as a result of changes in the cost of labor and materials; customer requirements; increases in our fleet size or the cost of replacement vessels; governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and competitive standards.

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We have no remaining borrowing availability under our existing credit facilities. In order to fund our capital expenditures, we generally plan to use equity financing given the restrictions that are contained in our restructured credit facilities and new financing arrangements on the use of cash from our operations, debt financings and asset sales for purposes other than debt repayment. Our ability to access the capital markets through future offerings may be limited by our financial condition at the time of any such offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Moreover, only a portion of the proceeds from any equity financings that we are able to complete will be permitted to be used for purposes other than debt repayment under our restructured and new financing arrangements. Our failure to obtain the funds for necessary future capital expenditures could limit our ability to maintain the operating capacity of our fleet or grow our fleet and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our ability to obtain additional debt financing for future acquisitions of vessels may be dependent on the performance of our then existing charters and the creditworthiness of our charterers.

We have no remaining borrowing availability under our existing credit facilities. We intend, however, to borrow against vessels we may acquire in the future as part of our medium to long term growth plan to the extent permitted under our existing financing arrangements. The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional capital resources that we will require to purchase additional vessels or may significantly increase our costs of obtaining such capital. Our inability to obtain additional financing or committing to financing on unattractive terms could have a material adverse effect on our business, results of operations and financial condition.

The derivative contracts we have entered into to hedge our exposure to fluctuations in interest rates could result in higher than market interest rates and reductions in our stockholders' equity, as well as charges against our income.

We have entered into interest rate swaps, in an aggregate notional amount of \$3.1 billion as of December 31, 2012, generally for purposes of managing our exposure to fluctuations in interest rates applicable to indebtedness under our credit facilities, which were advanced at floating rates based on LIBOR, as well as two interest rate swap agreements, in an aggregate notional amount of \$39.3 million as of December 31, 2012, converting fixed interest rate exposure under our credit facilities advanced at a fixed rate of interest to floating rates based on LIBOR. Our hedging strategies, however, may not be effective and we may again incur substantial losses, as we did in 2012 and prior years.

Since our discontinuation of hedge accounting for interest rate swaps and any other derivative instruments from July 1, 2012, we recognize all fluctuations in the fair value of such contracts in our consolidated statements of comprehensive income. Recognition of such fluctuations in our income statement may increase the volatility of our earnings.

Our financial condition could also be materially adversely affected to the extent we do not hedge our exposure to interest rate fluctuations under our financing arrangements under which loans have been advanced at a floating rate based on LIBOR. Although relatively stable from 2009 through 2012, LIBOR was volatile in prior years, during which the spread between LIBOR and the prime lending rate widened, at times significantly.

The United Kingdom's Financial Services Authority (the "FSA") has recently proposed changes that would increase government oversight of the calculation of LIBOR and reduce the currencies and increase the number of banks included in its calculation. We cannot predict what effect the FSA's announced changes will have on LIBOR.

Any hedging activities we engage in may not effectively manage our interest rate exposure or have the desired impact on our financial conditions or results of operations.

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

We generate all of our revenues in United States dollars and for the year ended December 31, 2012, we incurred approximately 33.7% of our vessels' expenses in currencies other than United States dollars, mainly Euros. This difference could lead to fluctuations in net income due to changes in the value of the United States dollar relative to the other currencies, in particular the Euro. Expenses incurred in foreign currencies against which the United States dollar falls in value could increase, thereby decreasing our net income. We have not hedged our currency exposure and, as a result, our U.S. dollar-denominated results of operations and financial condition could suffer.

Due to our lack of diversification, adverse developments in the containership transportation business could reduce our ability to meet our payment obligations and our profitability.

We rely exclusively on the cash flows generated from charters for our vessels that operate in the containership sector of the shipping industry. Due to our lack of diversification, adverse developments in the container shipping industry have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets or lines of business.

We may have difficulty properly managing our growth through acquisitions of additional vessels and we may not realize the expected benefits from these acquisitions, which may have an adverse effect on our financial condition and performance.

To the extent market conditions warrant and we are able to obtain sufficient financing for such purposes in compliance with the restrictions in our financing arrangements, we intend to grow our business over the medium to long-term by ordering newbuilding containerships and through selective acquisitions of additional vessels. Future growth will primarily depend on:

locating and acquiring suitable vessels;

identifying and consummating vessel acquisitions or joint ventures relating to vessel acquisitions;

enlarging our customer base;

developments in the charter markets in which we operate that make it attractive for us to expand our fleet;

managing any expansion;

the operations of the shipyard building any newbuilding containerships we may order; and

obtaining required financing, within the restrictions placed on the use of funds by our existing financing arrangements, on acceptable terms.

Although charter rates and vessel values have recently declined significantly, along with the availability of debt to finance vessel acquisitions, during periods in which charter rates are high, vessel values generally are high as well, and it may be difficult to acquire vessels at favorable prices. Moreover, our financing arrangements impose significant restrictions in our ability to use debt financing, or cash from operations, asset sales or equity financing, for purposes, such as vessel acquisitions, other than debt repayment without the consent of our lenders. In addition, growing any business by acquisition presents numerous risks, such as managing relationships with customers and integrating newly acquired assets into existing infrastructure. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with our future growth efforts.

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We are subject to regulation and liability under environmental laws that could require significant expenditures and affect our cash flows and net income.

Our business and the operation of our vessels are materially affected by environmental regulation in the form of international, national, state and local laws, regulations, conventions and standards in force in international waters and the jurisdictions in which our vessels operate, as well as in the country or 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, wastewater discharges and ballast water management. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such requirements or their impact on the resale price or useful life of our vessels. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates and financial assurances with respect to our operations. Many environmental requirements are designed to reduce the risk of pollution, such as from oil spills, and our compliance with these requirements could be costly. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of doing business and which may materially and adversely affect our operations.

Environmental requirements can also affect the resale value or useful lives of our vessels, could require a reduction in cargo capacity, ship modifications or operational changes or restrictions, could lead to decreased availability of insurance coverage for environmental matters or could result in 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 liability, in the event that there is a release of petroleum or hazardous materials from our vessels or otherwise in connection with our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. The 2010 explosion of the *Deepwater Horizon* and the subsequent release of oil into the Gulf of Mexico may result in further regulation of the shipping industry, including modifications to liability schemes. We could also become subject to personal injury or property damage claims relating to the release of hazardous substances associated with our existing or historic operations. Violations of, or liabilities under, environmental requirements can result in substantial penalties, fines and other sanctions, including, in certain instances, seizure or detention of our vessels.

The operation of our vessels is also affected by the requirements set forth in the International Maritime Organization's, or IMO's, International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners 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. Failure to comply with the ISM Code may subject us to increased liability, may decrease available insurance coverage for the affected ships, and may result in denial of access to, or detention in, certain ports.

In connection with a 2001 incident involving the presence of oil on the water on the starboard side of one of our vessels, the *Henry* (ex *CMA CGM Passiflore*) in Long Beach, California, our manager pled guilty to one count of negligent discharge of oil and one count of obstruction of justice, based on a charge of attempted concealment of the source of the discharge. Consistent with the government's practice in similar cases, our manager agreed, among other things, to develop and implement an approved third party consultant monitored environmental compliance plan. Any violation of this environmental compliance plan or any penalties, restitution or heightened environmental compliance plan requirements that are imposed relating to alleged discharges in any other action involving our fleet or our manager could negatively affect our operations and business.

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

International container shipping is subject to security and customs inspection and related procedures in countries of origin, destination, and certain trans-shipment points. These inspection procedures 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, charterers and charter owners.

Since the events of September 11, 2001, U.S. authorities have more than doubled container inspection rates to over 5% of all imported containers. Government investment in non-intrusive container scanning technology has grown and there is interest in electronic monitoring technology, including so-called "e-seals" and "smart" containers, that would enable remote, centralized monitoring of containers during shipment to identify tampering with or opening of the containers, along with potentially measuring other characteristics such as temperature, air pressure, motion, chemicals, biological agents and radiation. Also, as a response to the events of September 11, 2001, additional vessel security requirements have been imposed including the installation of security alert and automatic information systems on board vessels.

It is further unclear what changes, if any, to the existing inspection and security procedures will ultimately be proposed or implemented, or how any such changes will affect the industry. It is possible that such changes could impose additional financial and legal obligations, including additional responsibility for inspecting and recording the contents of containers and complying with additional security procedures on board vessels, such as those imposed under the ISPS Code. Changes to the inspection and security procedures and container security could result in additional costs and obligations on carriers and may, in certain cases, render the shipment of certain types of goods by container uneconomical or impractical. Additional costs that may arise from current inspection or security procedures or future proposals that may not be fully recoverable from customers through higher rates or security surcharges.

Our vessels may call on ports located in countries that are subject to restrictions imposed by the United States government, which could negatively affect the trading price of our shares of common stock.

From time to time on charterers' instructions, our vessels have called and may again call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the United States government as state sponsors of terrorism. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act ("CISADA"), which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to non-U.S. companies, such as the Company, and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, in October 2012, President Obama issued an executive order implementing the Iran Threat Reduction and Syria Human Rights Act of 2012 (the "ITRA") which extends the application of all U.S. laws and regulations relating to Iran to non-U.S. companies controlled by U.S. companies or persons as if they were themselves U.S. companies or persons, expands categories of sanctionable activities, adds additional forms of potential sanctions and imposes certain related reporting obligations with respect to activities of SEC registrants and their affiliates. The ITRA also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person

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is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years. Finally, in January 2013, the U.S. enacted the Iran Freedom and Counter-Proliferation Act of 2012 (the "IFCPA") which expanded the scope of U.S. sanctions on any person that is part of Iran's energy, shipping or shipbuilding sector and operators of ports in Iran, and imposes penalties on any person who facilitates or otherwise knowingly provides significant financial, material or other support to these entities.

From January 2009 through December 2012, vessels in our fleet made a total of 154 calls to ports in Iran, Syria and Sudan, representing approximately 1% of our 16,173 calls on worldwide ports (our vessels had no calls to ports in Cuba). Although we believe that we are in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in the Company. Additionally, some investors may decide to divest their interest, or not to invest, in the Company simply because we do business with companies that do business in sanctioned countries. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. Investor perception of the value of our common stock may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

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

A government of a ship's registry could requisition for title or seize our vessels. 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 vessels may negatively impact our revenues and results of operations.

Terrorist attacks and international hostilities could affect our results of operations and financial condition.

Terrorist attacks such as the attacks on the United States on September 11, 2001 and more recent attacks in other parts of the world, and the continuing response of the United States and other countries to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets and may affect our business, results of operations and financial condition. Events in the Middle East and North Africa, including Egypt and Libya, and the conflicts in Iraq and Afghanistan may lead to additional acts of terrorism, regional conflict and other armed conflicts around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us, or at all.

Terrorist attacks targeted at sea vessels, such as the October 2002 attack in Yemen on the VLCC Limburg, a ship not related to us, may in the future also negatively affect our operations and financial condition and directly impact our containerships or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession affecting the United States or the entire world. Any of these occurrences could have a material adverse impact on our operating results, revenue and costs.

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Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered could affect us. In addition, future hostilities or other political instability in regions where our vessels trade could also affect our trade patterns and adversely affect our operations and performance.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Since 2008, the frequency of piracy incidents has increased significantly, particularly in the Gulf of Aden off the coast of Somalia. For example, in January 2010, the Maran Centaurus, a tanker vessel not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth \$20 million, and was released in January 2010 upon a ransom payment of over \$5 million. In addition, crew costs, including costs due to employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any detention or hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability, of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations and ability to pay dividends.

Risks inherent in the operation of ocean-going vessels could affect our business and reputation, which could adversely affect our expenses, net income and stock price.

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, or adverse weather conditions;

work stoppages or other labor problems with crew members serving on our vessels, substantially all of whom are unionized and covered by collective bargaining agreements; 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 revenues 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. Any of these circumstances or events could increase our costs or lower our revenues, which could result in reduction in the market price of our shares of common stock. The involvement of our vessels in an environmental disaster may harm our reputation as a safe and reliable vessel owner and operator.

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

The operation of any vessel includes risks such as mechanical failure, collision, fire, contact with floating objects, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of a marine disaster, including oil spills and other environmental mishaps. There are also liabilities arising from owning and operating vessels in international trade. We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance

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includes (i) hull and machinery insurance covering damage to our vessels' hull and machinery from, among other things, contact with free and floating objects, (ii) war risks insurance covering losses associated with the outbreak or escalation of hostilities and (iii) protection and indemnity insurance (which includes environmental damage and pollution insurance) covering third-party and crew liabilities such as expenses resulting from the injury or death of crew members, passengers and other third parties, the loss or damage to cargo, third-party 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 and loss of hire insurance for the *CSCL Europe*, the *CSCL America (ex MSC Baltic)*, the *CSCL Pusan* and the *CSCL Le Havre*.

We can give no assurance that we are adequately insured against all risks or that our insurers will pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to obtain a timely replacement vessel in the event of a loss. Under the terms of our credit facilities, we will be subject to restrictions on the use of any proceeds we may receive from claims under our insurance policies. Furthermore, 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 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 through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

In addition, we do not carry loss of hire insurance (other than for the *CSCL Europe*, the *CSCL America (ex MSC Baltic)*, the *CSCL Pusan* and the *CSCL Le Havre* to satisfy our loan agreement requirements). Loss of hire insurance covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents. Accordingly, any loss of a vessel or any extended period of vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our stockholders.

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flows and require us to pay large sums of money to have the arrest lifted.

In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel 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 aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. As our fleet ages, we may incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of a vessel may also require expenditures for alterations or the addition of new equipment to our vessels, and may restrict the type of activities in which our vessels may engage. Although our current fleet of 63 containerships had an average age (weighted by TEU capacity) of approximately 6.6 years as of February 22, 2013, we cannot assure you that, as our vessels age, market conditions will

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justify such expenditures or will enable us to profitably operate our vessels during the remainder of their expected useful lives.

Increased competition in technology and innovation could reduce our charter hire income and the value of our vessels.

The charter 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 and fuel economy. 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 that we receive for our containerships once their current time charters expire and the resale value of our containerships. This could adversely affect our ability to service our debt or pay dividends to our stockholders.

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

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention, and all vessels must be awarded ISM certification.

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Each of the vessels in our fleet is on a special survey cycle for hull inspection and a continuous survey cycle for machinery inspection.

If any vessel does not maintain its class or fails any annual, intermediate or special survey, and/or loses its certification, the vessel will be unable to trade between ports and will be unemployable, and we could be in violation of certain covenants in our loan agreements. This would negatively impact our operating results and financial condition.

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, Dr. John Coustas, and certain members of our senior management and that of our manager. Dr. Coustas has substantial experience in the container shipping industry and has worked with us and our manager for many years. He and others employed by us and our manager are crucial to the execution of our business strategies and to the growth and development of our business. In addition, under the terms of the Bank Agreement, Dr. Coustas ceasing to serve as our Chief Executive Officer, absent a successor acceptable to our lenders, would constitute an event of default under these agreements. If these certain individuals were no longer to be affiliated with us or our manager, or if we were to otherwise cease to receive advisory services from them, we may be unable to recruit other employees with equivalent talent and experience, and our business and financial condition may suffer as a result.

The provisions in our restrictive covenant agreement with our chief executive officer restricting his ability to compete with us, like restrictive covenants generally, may not be enforceable.

Dr. Coustas, our chief executive officer, has entered into a restrictive covenant agreement with us under which he is precluded during the term of our management agreement with our manager, Danaos Shipping, and for one year thereafter from owning and operating drybulk ships or containerships larger than 2,500 TEUs and from acquiring or investing in a business that owns or operates such vessels.

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Courts generally do not favor the enforcement of such restrictions, particularly when they involve individuals and could be construed as infringing on their ability to be employed or to earn a livelihood. Our ability to enforce these restrictions, should it ever become necessary, will depend upon the circumstances that exist at the time enforcement is sought. We cannot be assured that a court would enforce the restrictions as written by way of an injunction or that we could necessarily establish a case for damages as a result of a violation of the restrictive covenants.

We depend on our manager to operate our business.

Pursuant to the management agreement and the individual ship management agreements, our manager and its affiliates provides us with our executive officers from January 1, 2013 and provides us with technical, administrative and certain commercial services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance and financial services). Our operational success will depend significantly upon our manager's satisfactory performance of these services. Our business would be harmed if our manager failed to perform these services satisfactorily. In addition, if the management agreement were to be terminated or if its terms were to be altered, our business could be adversely affected, as we may not be able to immediately replace such services, and even if replacement services were immediately available, the terms offered could be less favorable than the ones currently offered by our manager. Our management agreement with any new manager may not be as favorable.

Our ability to compete for and enter into new time charters and to expand our relationships with our existing charterers depends largely on our relationship with our manager and its reputation and relationships in the shipping industry. If our manager suffers material damage to its reputation or relationships, it may harm our ability to:

renew existing charters upon their expiration;

obtain new charters;

successfully interact with shipyards during periods of shipyard construction constraints;

obtain financing on commercially acceptable terms or at all;

maintain satisfactory relationships with our charterers and suppliers; or

successfully execute our business strategies.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business and affect our profitability.

Our manager is a privately held company and there is little or no publicly available information about it.

The ability of our manager to continue providing services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair our manager's financial strength, and because it is a privately held company, information about its financial strength is not available. As a result, our stockholders might have little advance warning of problems affecting our manager, even though these problems could have a material adverse effect on us. As part of our reporting obligations as a public company, we will disclose information regarding our manager that has a material impact on us to the extent that we become aware of such information.

We are a Marshall Islands corporation, and the Marshall Islands 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 are similar to provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of The Marshall Islands interpreting the BCA. The rights and fiduciary

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responsibilities of directors under the law of the Republic of The Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain U.S. jurisdictions. Stockholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public stockholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling stockholders than would stockholders of a corporation incorporated in a U.S. jurisdiction.

It may be difficult to enforce service of process and enforcement of judgments against us and our officers and directors.

We are a Marshall Islands corporation, and our registered office is located outside of the United States in the Marshall Islands. A majority of our directors and officers reside outside of the United States, and a substantial portion of our assets and the assets of our officers and directors are located outside of the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons. You may also have difficulty enforcing, both in and outside of the United States, judgments you may obtain in the U.S. courts against us or these persons in any action, including actions based upon the civil liability provisions of U.S. federal or state securities laws.

There is also substantial doubt that the courts of the Marshall Islands would enter judgments in original actions brought in those courts predicated on U.S. federal or state securities laws. Even if you were successful in bringing an action of this kind, the laws of the Marshall Islands may prevent or restrict you from enforcing a judgment against our assets or our directors and officers.

We maintain cash with a limited number of financial institutions including financial institutions that may be located in Greece, which will subject us to credit risk.

We maintain all of our cash with a limited number of financial institutions, including institutions that are located in Greece. These financial institutions located in Greece may be subsidiaries of international banks or Greek financial institutions. Economic conditions in Greece have been, and continue to be, severely disrupted and volatile, and as a result of sovereign weakness, Moody's Investor Services Inc. has downgraded the bank financial strength ratings, as well as the deposit and debt ratings, of several Greek banks to reflect their weakening stand-alone financial strength and the anticipated additional pressures stemming from the country's challenged economic prospects.

We do not expect that any of our balances held with Greek financial institutions will be covered by insurance in the event of default by these financial institutions. The occurrence of such a default could therefore have a material adverse effect on our business, financial condition, results of operations and cash flows. If we are unable to fund our capital expenditures, we may not be able to continue to operate some of our vessels, which would have a material adverse effect on our business.

Risks Relating to Our Common Stock

The market price of our common stock has fluctuated widely and the market price of our common stock may fluctuate in the future.

The market price of our common stock has fluctuated widely since our initial public offering in October 2006, reaching a high of \$40.26 per share in 2007 and a low of \$2.44 per share, most recently in the third quarter of 2012, and may continue to do so as a result of many factors, including our actual results of operations and perceived prospects, the prospects of our competition and of the shipping industry in general and in particular the containership sector, differences between our actual financial and operating results and those expected by investors and analysts, changes in analysts' recommendations or projections, changes in general valuations for companies in the shipping industry,

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particularly the containership sector, changes in general economic or market conditions and broad market fluctuations.

If the market price of our common stock remains below \$5.00 per share our stockholders will not be able to use such shares as collateral for borrowing in margin accounts. This inability to use shares of our common stock as collateral may depress demand as certain institutional investors are restricted from investing in shares priced below \$5.00 and lead to sales of such shares creating downward pressure on and increased volatility in the market price of our common stock.

In addition, under the rules of The New York Stock Exchange, listed companies are required to maintain a share price of at least \$1.00 per share and if the share price declines below \$1.00 for a period of 30 consecutive business days, then the listed company would have a cure period of 180 days to regain compliance with the \$1.00 per share minimum. In the event that our share price declines below \$1.00, we may be required to take action, such as a reverse stock split, in order to comply with the New York Stock Exchange rules that may be in effect at the time in order to avoid delisting of our common stock and the associated decrease in liquidity in the market for our common stock.

Future issuances of equity, including upon exercise of outstanding warrants, or equity-linked securities, or future sales of our common stock by existing stockholders, may result in significant dilution and adversely affect the market price of our common stock.

We issued 15 million warrants, for no additional consideration, to our existing lenders participating in the Bank Agreement covering our then existing credit facilities and certain new credit facilities, entitling such lenders to purchase, solely on a cash-less exercise basis, additional shares of our common stock, at an initial exercise price of \$7.00 per share. We have also agreed to register the warrants and underlying common stock for resale under the Securities Act, and have registered 8,044,176 warrants and underlying shares.

We may have to attempt to sell additional shares in the future to satisfy our capital and operating needs, however, under our debt agreements we are prohibited from using a significant portion of the proceeds from equity issuances for purposes other than the repayment of indebtedness. In addition, lenders may be unwilling to provide future financing or may provide future financing only on unfavorable terms. In light of the restrictions on our use of cash from operations, debt financings, equity proceeds and asset sales contained in our Bank Agreement governing our credit facilities, to finance further growth beyond our contracted newbuildings we would likely have to issue additional shares of common stock or other equity securities. If we sell shares in the future, the prices at which we sell these future shares will vary, and these variations may be significant. If made at currently prevailing prices, these sales would be significantly dilutive of existing stockholders. We granted the investors in our \$200 million August 2010 equity transaction certain rights, in connection with any subsequent underwritten public offering that is effected at any time prior to the fifth anniversary of the registration rights agreements, to purchase from us, at the same price per share paid by investors who purchase common stock in any such offering, up to a specified portion of such common stock being issued.

Subsequent resales of substantial numbers of such shares in the public market, moreover, could adversely affect the market price of our shares. We filed with the SEC a shelf registration statements on Form F-3 registering under the Securities Act an aggregate of 88,222,555 shares of our common stock for resale on behalf of selling stockholders, including our executive officers, and granted registration rights in respect of additional shares of our common stock held by certain other investors in our August 2010 equity offering. In the aggregate these 98,372,555 registered shares represent approximately 89.8% of our outstanding shares of common stock as of February 28, 2013. These shares may be sold in registered transactions and may also be resold subject to the requirements of Rule 144 under the Securities Act. Sales or the possibility of sales of substantial amounts of our common stock

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by these shareholders in the public markets could adversely affect the market price of our common stock.

We cannot predict the effect that future sales of our common stock or other equity related securities would have on the market price of our common stock.

The Coustas Family Trust, our principal existing stockholder, controls the outcome of matters on which our stockholders are entitled to vote and its interests may be different from yours.

The Coustas Family Trust, under which our chief executive officer is both a beneficiary, together with other members of the Coustas Family, and the protector (which is analogous to a trustee), through Danaos Investments Limited, a corporation wholly-owned by Dr. Coustas, owned, directly or indirectly, approximately 61.9% of our outstanding common stock as of February 28, 2013. This stockholder is able to control the outcome of matters on which our stockholders are entitled to vote, including the election of our entire board of directors and other significant corporate actions. The interests of this stockholder may be different from yours. Under the terms of the Bank Agreement governing our credit facilities, Dr. Coustas, together with the Coustas Family Trust and his family, ceasing to own over one-third of our outstanding common stock will constitute an event of default in certain circumstances.

We are a "controlled company" under the New York Stock Exchange rules, and as such we are entitled to exemptions from certain New York Stock Exchange corporate governance standards, and you may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

We are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by another company or group is a "controlled company" and may elect not to comply with certain New York Stock Exchange corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that the nominating committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities, (3) the requirement that the compensation committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities and (4) the requirement of an annual performance evaluation of the nominating and corporate governance and compensation committees. We may utilize these exemptions, and currently a non-independent director serves on our compensation committee. As a result, non-independent directors, including members of our management who also serve on our board of directors, may serve on the compensation or the nominating and corporate governance committees of our board of directors which, among other things, fix the compensation of our management, make stock and option awards and resolve governance issues regarding us. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

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

Several provisions of our articles of incorporation and bylaws could make it difficult for our stockholders to change the composition of our board of directors in any one year, preventing them from changing the composition of our management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable.

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These provisions:

authorize our board of directors to issue "blank check" preferred stock without stockholder approval;

provide for a classified board of directors with staggered, three-year terms;

prohibit cumulative voting in the election of directors;

authorize the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66²/₃% of the outstanding stock entitled to vote for those directors;

prohibit stockholder action by written consent unless the written consent is signed by all stockholders entitled to vote on the action;

establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and

restrict business combinations with interested stockholders.

We have adopted a stockholder rights plan pursuant to which our board of directors may cause the substantial dilution of the holdings of any person that attempts to acquire us without the approval of our board of directors. In addition, our respective lenders under our existing credit facilities covered by the Bank Agreement for the restructuring thereof and the new credit facilities will be entitled to require us to repay in full amounts outstanding under such credit facilities, if Dr. Coustas ceases to be our Chief Executive Officer or, together with members of his family and trusts for the benefit thereof, ceases to collectively own over one-third of the voting interest in our outstanding capital stock or any other person or group controls more than 20.0% of the voting power of our outstanding capital stock.

These anti-takeover provisions, including the provisions of our stockholder rights plan, could substantially impede the ability of public stockholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

Tax Risks

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

Under the United States Internal Revenue Code of 1986, as amended, or the Code, 50% of the gross shipping income of a ship owning or chartering corporation, such as ourselves, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S.-source shipping income and as such is subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

Other than with respect to four of our vessel-owning subsidiaries, as to which we are uncertain whether they qualify for this statutory tax exemption, we believe that we and our subsidiaries currently qualify for this statutory tax exemption and we currently intend to take that position for U.S. federal income tax reporting purposes. However, there are factual circumstances beyond our control that could cause us or our subsidiaries to fail to qualify for the benefit of this tax exemption and thus to be subject to U.S. federal income tax on U.S.-source shipping income. There can be no assurance that we or any of our subsidiaries will qualify for this tax exemption for any year. For example, even assuming, as we expect will be the case, that our shares are regularly and primarily traded on an established securities market in the United States, if shareholders each of whom owns, actually or under applicable attribution rules, 5% or more of our shares own, in the aggregate, 50% or more of our shares, then we and our subsidiaries will generally not be eligible for the Section 883 exemption unless we can establish, in accordance with specified ownership certification procedures, either (i) that a sufficient number of the shares in the closely-held block are

owned, directly or under the applicable attribution rules, by

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"qualified shareholders" (generally, individuals resident in certain non-U.S. jurisdictions) so that the shares in the closely-held block that are not so owned could not constitute 50% or more of our shares for more than half of the days in the relevant tax year or (ii) that qualified shareholders owned more than 50% of our shares for at least half of the days in the relevant taxable year. There can be no assurance that we will be able to establish such ownership by qualified shareholders for any tax year. In connection with the four vessel-owning subsidiaries referred to above, we note that qualification under Section 883 will depend in part upon the ownership, directly or under the applicable attribution rules, of preferred shares issued by such subsidiaries as to which we are not the direct or indirect owner of record.

If we or our subsidiaries are not entitled to the exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our gross U.S. source shipping income. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our stockholders. A number of our charters contain provisions that obligate the charterers to reimburse us for the 4% gross basis tax on our U.S. source shipping income.

If we were treated as a "passive foreign investment company," certain adverse U.S. federal income tax consequences could result to U.S. stockholders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if at least 75% of its gross income for any taxable year consists of certain types of "passive income," or at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." In general, U.S. stockholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC. If we are treated as a PFIC for any taxable year, we will provide information to U.S. stockholders to enable them to make certain elections to alleviate certain of the adverse U.S. federal income tax consequences that would arise as a result of holding an interest in a PFIC.

While there are legal uncertainties involved in this determination, including as a result of a recent decision of the United States Court of Appeals for the Fifth Circuit in *Tidewater Inc. and Subsidiaries 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 the foreign sales corporation rules under the U.S. Internal Revenue Code, we believe we should not be treated as a PFIC for the taxable year ended December 31, 2012. However, if the principles of the Tidewater decision were applicable to our time charters, we would likely be treated as a PFIC. Moreover, there is no assurance that the nature of our assets, income and operations will not change or that we can avoid being treated as a PFIC for subsequent years.

The enactment of proposed legislation could affect whether dividends paid by us constitute qualified dividend income eligible for the preferential rate.

Legislation has been introduced that would deny the preferential rate of federal income tax currently imposed on qualified dividend income with respect to dividends received from a non-U.S. corporation, unless the non-U.S. corporation either is eligible for benefits of a comprehensive income tax treaty with the United States or is created or organized under the laws of a foreign country which has a comprehensive income tax system. Because the Marshall Islands has not entered into a comprehensive income tax treaty with the United States and imposes only limited taxes on corporations organized under its laws, it is unlikely that we could satisfy either of these requirements. It is not possible at this time to predict with certainty whether or in what form the proposed legislation will be enacted.

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If we became subject to Liberian taxation, the net income and cash flows of our Liberian subsidiaries and therefore our net income and cash flows, would be materially reduced.

A number of our subsidiaries are incorporated under the laws of the Republic of Liberia. The Republic of Liberia enacted a new income tax act effective as of January 1, 2001 (the "New Act") which does not distinguish between the taxation of "non-resident" Liberian corporations, such as our Liberian subsidiaries, which conduct no business in Liberia and were wholly exempt from taxation under the income tax law previously in effect since 1977, and "resident" Liberian corporations which conduct business in Liberia and are, and were under the prior law, subject to taxation.

The New Act was amended by the Consolidated Tax Amendments Act of 2011, which was published and became effective on November 1, 2011 (the "Amended Act"). The Amended Act specifically exempts from taxation non-resident Liberian corporations such as our Liberian subsidiaries that engage in international shipping (and are not engaged in shipping exclusively within Liberia) and that do not engage in other business or activities in Liberia other than those specifically enumerated in the Amended Act. In addition, the Amended Act made such exemption from taxation retroactive to the effective date of the New Act.

If, however, our Liberian subsidiaries were subject to Liberian income tax under the Amended Act, they would be subject to tax at a rate of 35% on their worldwide income. As a result, their, and subsequently our, net income and cash flows would be materially reduced. In addition, as the ultimate stockholder of the Liberian subsidiaries, we would be subject to Liberian withholding tax on dividends paid by our Liberian subsidiaries at rates ranging from 15% to 20%, which would limit our access to funds generated by the operations of our subsidiaries and further reduce our income and cash flows.

Item 4. Information on the Company

History and Development of the Company

Danaos Corporation is an international owner of containerships, chartering its vessels to many of the world's largest liner companies. We are a corporation domesticated in the Republic of The Marshall Islands on October 7, 2005, under the Marshall Islands Business Corporations Act, after having been incorporated as a Liberian company in 1998 in connection with the consolidation of our assets under Danaos Holdings Limited. In connection with our domestication in the Marshall Islands we changed our name from Danaos Holdings Limited to Danaos Corporation. Our manager, Danaos Shipping Company Limited, or Danaos Shipping, was founded by Dimitris Coustas in 1972 and since that time it has continuously provided seaborne transportation services under the management of the Coustas family. Dr. John Coustas, our chief executive officer, assumed responsibility for our management in 1987. Dr. Coustas has focused our business on chartering containerships to liner companies and has overseen the expansion of our fleet from three multi-purpose vessels in 1987 to the 63 containerships comprising our fleet as of February 22, 2013 (following the sale of the *Independence* on February 13, 2013 but including the *Henry* which we have agreed to sell). In October 2006, we completed an initial public offering of our common stock in the United States and our common stock began trading on the New York Stock Exchange. In August 2010, we completed a common stock sale of 54,054,055 shares for \$200 million and in 2011 we issued warrants to purchase 15 million shares of our common stock. Our principal executive offices are c/o Danaos Shipping Co. Ltd., 14 Akti Kondyli, 185 45 Piraeus, Greece. Our telephone number at that address is +30 210 419 6480.

Our company operates through a number of subsidiaries incorporated in Liberia and Cyprus, all of which are wholly-owned by us and either directly or indirectly owns the vessels in our fleet. A list of our active subsidiaries as of February 28, 2013, and their jurisdictions of incorporation, is set forth in Exhibit 8 to this Annual Report on Form 20-F.

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Business Overview

We are an international owner of containerships, chartering our vessels to many of the world's largest liner companies. As of February 22, 2013, we had a fleet of 63 containerships aggregating 360,004 TEUs (including the *Henry*, which we have agreed to sell), making us among the largest containership charter owners in the world, based on total TEU capacity. Our strategy is to charter our containerships under multi-year, fixed-rate period charters to a diverse group of liner companies, including many of the largest such companies globally, as measured by TEU capacity. As of February 22, 2013, these customers included China Shipping, CMA-CGM, Hanjin, Hyundai, Maersk, MSC, TS Lines, Yang Ming and ZIM Israel Integrated Shipping Services. We believe our containerships provide us with contracted stable cash flows as they are deployed under multi-year, fixed-rate charters with initial terms that range from less than one to 18 years, excluding the six vessels currently laid-up.

Our Fleet

General

In 2012, we completed our extensive new-building program that has established Danaos as one of the largest containership operating lessors in the world. Since going public in 2006, we have more than tripled our TEU carrying capacity, which has grown at a 21% compounded annual growth rate through the end of 2012. Today, our fleet is one of the most modern in the industry and includes some of the largest containerships in the world, which are designed with certain technological advances and customized modifications that make them efficient with respect to both voyage speed and loading capability when compared to many existing vessels operating in the containership sector.

On December 7, 2012, we received the "Ship of the Year" award at the Lloyd's List Greek Shipping Awards 2012. The prize was awarded for the *Hyundai Ambition*, a 13,100 TEU containership built at Hyundai Heavy Industries and delivered to us on June 29, 2012. The *Hyundai Ambition* is the last of a series of five 13,100 TEU containerships delivered to us in 2012 and chartered to Hyundai Merchant Marine for 12 years. The vessel is fitted with an electronically controlled main engine in compliance with Tier II International Maritime Organization ("IMO") nitrogen oxides ("NOx") emissions standards and the phase II IMO Energy Efficiency Design Index ("EEDI") equipped with turbocharger cut-out measures, and is capable of super slow steaming down to 10% of maximum engine load. It is equipped with an advanced performance monitoring system with on line analysis for power measurement and multi-stations alarm monitoring controls. The vessel has undergone extensive trim optimization tests to enhance its performance and is coated with the latest silyl SPC coatings.

We deploy our containership fleet principally under multi-year charters with major liner companies that operate regularly scheduled routes between large commercial ports. As of February 22, 2013, our containership fleet was comprised of 55 containerships deployed on time charters and two containerships deployed on bareboat charter, as well as six containerships which are currently laid-up. The average age (weighted by TEU) of the 63 vessels in our containership fleet was approximately 6.6 years as of February 22, 2013. As of December 31, 2012, the average remaining duration of the charters for our containership fleet, excluding the vessels laid-up, was 9.7 years (weighted by aggregate contracted charter hire).

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Characteristics

The table below provides additional information about our fleet of 63 cellular containerships as of February 22, 2013.

Vessel Name	Year Built	Vessel Size (TEU)	Time Charter Term(1)	Expiration of Charter(1)	Charterer
Post-Panamax					
<i>Hyundai Together</i>	2012	13,100	12 years	February 2024	Hyundai
<i>Hyundai Tenacity</i>	2012	13,100	12 years	March 2024	Hyundai
<i>Hyundai Smart</i>	2012	13,100	12 years	May 2024	Hyundai
<i>Hyundai Speed</i>	2012	13,100	12 years	June 2024	Hyundai
<i>Hyundai Ambition</i>	2012	13,100	12 years	June 2024	Hyundai
<i>Hanjin Germany</i>	2011	10,100	12 years	March 2023	Hanjin
<i>Hanjin Italy</i>	2011	10,100	12 years	April 2023	Hanjin
<i>Hanjin Greece</i>	2011	10,100	12 years	May 2023	Hanjin
<i>CSCL Le Havre</i>	2006	9,580	12 years	September 2018	China Shipping
<i>CSCL Pusan</i>	2006	9,580	12 years	July 2018	China Shipping
<i>CMA CGM Attila</i>	2011	8,530	12 years	April 2023	CMA-CGM
<i>CMA CGM Tancredi</i>	2011	8,530	12 years	May 2023	CMA-CGM
<i>CMA CGM Bianca</i>	2011	8,530	12 years	July 2023	CMA-CGM
<i>CMA CGM Samson</i>	2011	8,530	12 years	September 2023	CMA-CGM
<i>CMA CGM Melisande</i>	2012	8,530	12 years	November 2023	CMA-CGM
<i>CSCL America</i>	2004	8,468	12 years	September 2016	China Shipping
<i>CSCL Europe</i>	2004	8,468	12 years	June 2016	China Shipping
<i>CMA CGM Moliere(2)</i>	2009	6,500	12 years	August 2021	CMA-CGM
<i>CMA CGM Musset(2)</i>	2010	6,500	12 years	February 2022	CMA-CGM
<i>CMA CGM Nerval(2)</i>	2010	6,500	12 years	April 2022	CMA-CGM
<i>CMA CGM Rabelais(2)</i>	2010	6,500	12 years	June 2022	CMA-CGM
<i>CMA CGM Racine(2)</i>	2010	6,500	12 years	July 2022	CMA-CGM
<i>Commodore (ex Hyundai Commodore)(8)</i>	1992	4,651	1 year	February 2014	MSC
<i>Duka (ex Hyundai Duke)(3)</i>	1992	4,651			Laid-up
<i>Hyundai Federal (ex APL Federal)(4)</i>	1994	4,651	0.5 years	April 2013	Hyundai
Panamax					
<i>Marathonas</i>	1991	4,814			Laid-up
<i>Messologi</i>	1991	4,814			Laid-up
<i>Mytilini</i>	1991	4,814	1 year	March 2013	MSC
<i>SNL Colombo (ex YM Colombo)(5)</i>	2004	4,300	12 years	March 2019	Yang Ming
<i>YM Singapore</i>	2004	4,300	12 years	October 2019	Yang Ming
<i>YM Seattle (ex Taiwan Express)(6)</i>	2007	4,253	12 years	July 2019	Yang Ming
<i>YM Vancouver</i>	2007	4,253	12 years	September 2019	Yang Ming
<i>ZIM Rio Grande</i>	2008	4,253	12 years	May 2020	ZIM
<i>ZIM Sao Paolo</i>	2008	4,253	12 years	August 2020	ZIM
<i>ZIM Kingston</i>	2008	4,253	12 years	September 2020	ZIM
<i>ZIM Monaco</i>	2009	4,253	12 years	November 2020	ZIM
<i>ZIM Dalian</i>	2009	4,253	12 years	February 2021	ZIM
<i>ZIM Luanda</i>	2009	4,253	12 years	May 2021	ZIM
<i>Derby D</i>	2004	4,253	3 years	February 2014	Maersk
<i>Deva</i>	2004	4,253	9.5 years	December 2013	Maersk
<i>Honour</i>	1989	3,908			Laid-up
<i>Hope</i>	1989	3,908	1 year	July 2013	MSC
<i>Hanjin Santos</i>	2010	3,400	10 years	May 2020	Hanjin

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Vessel Name	Year Built	Vessel Size (TEU)	Time Charter Term(1)	Expiration of Charter(1)	Charterer
<i>Hanjin Versailles</i>	2010	3,400	10 years	August 2020	Hanjin
<i>Hanjin Algeciras</i>	2011	3,400	10 years	November 2020	Hanjin
<i>Hanjin Buenos Aires</i>	2010	3,400	10 years	March 2020	Hanjin
<i>Hanjin Constantza</i>	2011	3,400	10 years	February 2021	Hanjin
<i>Pride (ex SCI Pride)(7)</i>	1988	3,129			Laid-up
<i>Lotus</i>	1988	3,098	1 year	July 2013	MSC
<i>Henry(9)</i>	1986	3,039			Laid-up
<i>Elbe</i>	1991	2,917	1 year	May 2013	TS Lines
<i>Kalamata</i>	1991	2,917	1 year	August 2013	MSC
<i>Komodo</i>	1991	2,917	1 year	August 2013	MSC
<i>Hyundai Advance</i>	1997	2,200	10 years	June 2017	Hyundai
<i>Hyundai Future</i>	1997	2,200	10 years	August 2017	Hyundai
<i>Hyundai Sprinter</i>	1997	2,200	10 years	August 2017	Hyundai
<i>Hyundai Stride</i>	1997	2,200	10 years	July 2017	Hyundai
<i>Hyundai Progress</i>	1998	2,200	10 years	December 2017	Hyundai
<i>Hyundai Bridge</i>	1998	2,200	10 years	January 2018	Hyundai
<i>Hyundai Highway</i>	1998	2,200	10 years	January 2018	Hyundai
<i>Hyundai Vladivostok</i>	1997	2,200	10 years	May 2017	Hyundai
			Bareboat Charter Term(1)		
<i>YM Mandate</i>	2010	6,500	18 years	January 2028	Yang Ming
<i>YM Maturity</i>	2010	6,500	18 years	April 2028	Yang Ming

- (1) Earliest date charters could expire. Most charters include options for the charterers to extend their terms.
- (2) The charters with respect to the *CMA CGM Moliere*, the *CMA CGM Musset*, the *CMA CGM Nerval*, the *CMA CGM Rabelais* and the *CMA CGM Racine* include an option for the charterer, CMA-CGM, to purchase the vessels eight years after the commencement of the respective charters, which will fall in September 2017, March 2018, May 2018, July 2018 and August 2018, respectively, each for \$78.0 million.
- (3) On October 25, 2012, the *Hyundai Duke* was renamed to *Duka*.
- (4) On January 31, 2012, the *APL Federal* was renamed to *Hyundai Federal* at the request of the charterer of this vessel.
- (5) On March 18, 2012, the *YM Colombo* was renamed to *SNL Colombo* at the request of the charterer of this vessel.
- (6) On April 9, 2012, the *Taiwan Express* was renamed the *YM Seattle* at the request of the charterer of this vessel.
- (7) On July 21, 2012, the *SCI Pride* was renamed to *Pride*.
- (8) On February 6, 2012, the *Hyundai Commodore* was renamed the *Commodore*.
- (9)

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On February 8, 2013, we entered into an agreement to sell the *Henry* and we concluded the sale and delivered the vessel to the buyers on February 28, 2013.

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Charterers

As the container shipping industry has grown, the major liner companies have increasingly contracted for containership capacity. As of February 22, 2013, our diverse group of customers in the containership sector included China Shipping, CMA-CGM, Hanjin, Hyundai, Maersk, MSC, TS Lines, Yang Ming and ZIM Israel Integrated Shipping Services.

The containerships in our fleet are deployed under multi-year, fixed-rate time charters having initial terms that range from less than one to 18 years, other than six containerships, aggregating 24,355 TEUs, laid-up as of February 22, 2013. These charters expire at staggered dates ranging from March 2013 to the second quarter of 2028, with no more than 14 scheduled to expire in any 12-month period. The staggered expiration of the multi-year, fixed-rate charters for our vessels is both a strategy pursued by our management and a result of the growth in our fleet over the past several years. Under our time charters, the charterer pays voyage expenses such as port, canal and fuel costs, other than brokerage and address commissions paid by us, and we pay for vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. We are also responsible for each vessel's intermediate and special survey costs.

Under the time charters, when a vessel is "off-hire" or not available for service, the charterer is generally not required to pay the hire rate, and we are responsible for all costs. A vessel generally will be deemed to be off-hire if there is an occurrence preventing the full working of the vessel due to, among other things, operational deficiencies, drydockings for repairs, maintenance or inspection, equipment breakdown, delays due to accidents, crewing strikes, labor boycotts, noncompliance with government water pollution regulations or alleged oil spills, arrests or seizures by creditors or our failure to maintain the vessel in compliance with required specifications and standards. In addition, under our time charters, if any vessel is off-hire for more than a certain amount of time (generally between 10-20 days), the charterer has a right to terminate the charter agreement for that vessel. Charterers also have the right to terminate the time charters in various other circumstances, including but not limited to, outbreaks of war or a change in ownership of the vessel's owner or manager without the charterer's approval.

Purchase Options

The charters with respect to the *CMA CGM Moliere*, the *CMA CGM Musset*, the *CMA CGM Nerval*, the *CMA CGM Rabelais* and the *CMA CGM Racine* include an option for the charterer, CMA-CGM, to purchase the vessels eight years after the commencement of the respective charters, which will fall in September 2017, March 2018, May 2018, July 2018 and August 2018, respectively, each for \$78.0 million. In each case, the option to purchase the vessel must be exercised 15 months prior to the acquisition dates described in the preceding sentence. The \$78.0 million option prices reflect an estimate, made at the time of entry into the applicable charter, of the fair market value of the vessels at the time we would be required to sell the vessels upon exercise of the options. If CMA-CGM were to exercise these options with respect to any or all of these vessels, the expected size of our combined containership fleet would be reduced, and as a result our anticipated level of revenues after such sale would be reduced.

Management of Our Fleet

Our chief executive officer, chief operating officer, chief financial officer and deputy chief operating officer provide strategic management for our company while these officers also supervise, in conjunction with our board of directors, the management of these operations by Danaos Shipping, our manager. We have a management agreement pursuant to which our manager and its affiliates provide us and our subsidiaries with technical, administrative and certain commercial services for an initial term that expired on December 31, 2008, with automatic one year renewals for an additional 12 years at our

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option. Our manager reports to us and our board of directors through our chief executive officer, chief operating officer and chief financial officer, each of which is appointed by our board of directors.

Our manager is regarded as an innovator in operational and technological aspects in the international shipping community. Danaos Shipping's strong technological capabilities derive from employing highly educated professionals, its participation and assumption of a leading role in European Community research projects related to shipping, and its close affiliation to Danaos Management Consultants, a leading ship-management software and services company.

Danaos Shipping achieved early ISM certification of its container fleet in 1995, well ahead of the deadline, and was the first Greek company to receive such certification from Det Norske Veritas, a leading classification society. In 2004, Danaos Shipping received the Lloyd's List Technical Innovation Award for advances in internet-based telecommunication methods for vessels. Danaos Shipping maintains the quality of its service by controlling directly the selection and employment of seafarers through its crewing offices in Piraeus, Greece, Russia, as well as in Odessa and Mariupol in the Ukraine. Investments in new facilities in Greece by Danaos Shipping enable enhanced training of seafarers and highly reliable infrastructure and services to the vessels.

Historically, Danaos Shipping only infrequently managed vessels other than those in our fleet and currently it does not actively manage any other company's vessels. Danaos Shipping also does not arrange the employment of other vessels and has agreed that, during the term of our management agreement, it will not provide any management services to any other entity without our prior written approval, other than with respect to other entities controlled by Dr. Coustas, our chief executive officer, which do not operate within the containership (larger than 2,500 TEUs) or drybulk sectors of the shipping industry or in the circumstances described below. Other than a participation to a vessel-owning company through Castella Shipping Inc., Dr. Coustas does not currently control any such vessel-owning entity. We believe we have and will derive significant benefits from our exclusive relationship with Danaos Shipping.

Dr. Coustas has also personally agreed to the same restrictions on the provision, directly or indirectly, of management services during the term of our management agreement. In addition, our chief executive officer (other than in his capacities with us) and our manager have separately agreed not, during the term of our management agreement and for one year thereafter, to engage, directly or indirectly, in (i) the ownership or operation of containerships of larger than 2,500 TEUs or (ii) the ownership or operation of any drybulk carriers or (iii) the acquisition of or investment in any business involved in the ownership or operation of containerships of larger than 2,500 TEUs or any drybulk carriers. Notwithstanding these restrictions, if our independent directors decline the opportunity to acquire any such containerships or to acquire or invest in any such business, our chief executive officer will have the right to make, directly or indirectly, any such acquisition or investment during the four-month period following such decision by our independent directors, so long as such acquisition or investment is made on terms no more favorable than those offered to us. In this case, our chief executive officer and our manager will be permitted to provide management services to such vessels.

Danaos Shipping manages our fleet under a management agreement whose initial term expired at the end of 2008. The management agreement automatically renews for a one-year periods if we do not provide 12 months' notice of termination and the fees payable for each renewal period are adjusted by agreement between us and our manager. For 2013 our manager receives the following fees and commissions: (i) a fee of \$675 per day for providing its commercial, chartering and administrative services, (ii) a technical management fee of \$340 per vessel per day for vessels on bareboat charter, pro rated for the number of calendar days we own each vessel, (iii) a technical management fee of \$675 per vessel per day for vessels other than those on bareboat charter, pro rated for the number of calendar days we own each vessel, (iv) a commission of 1.00% on all freight, charter hire, ballast bonus and demurrage for each vessel for chartering services rendered to us by our manager's Hamburg-based

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office, (iv) a commission of 0.5% based on the contract price of any vessel bought or sold by it on our behalf, excluding newbuilding contracts, and (v) a flat fee of \$725,000 per newbuilding vessel, which is capitalized, for the on premises supervision of any newbuilding contracts by selected engineers and others of its staff. In addition, on January 1, 2013, our Manager began to provide us with the services of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Deputy Chief Operating Officer for a fee of Euro 1.4 million per year.

Competition

We operate in markets that are highly competitive and based primarily on supply and demand. Generally, we compete for charters based upon price, customer relationships, operating expertise, professional reputation and size, age and condition of the vessel. Competition for providing containership services comes from a number of experienced shipping companies. In the containership sector, these companies include Zodiac Maritime, Seaspan Corporation and Costamare Inc. A number of our competitors in the containership sector have been financed by the German KG (Kommanditgesellschaft) system, which was based on tax benefits provided to private investors. While the German tax law has been amended to significantly restrict the tax benefits available to taxpayers who invest in such entities after November 10, 2005, the tax benefits afforded to all investors in the KG-financed entities will continue to be significant and such entities may continue to be attractive investments. These tax benefits allow these KG-financed entities to be more flexible in offering lower charter rates to liner companies.

The containership sector of the international shipping industry is characterized by the significant time necessary to develop the operating expertise and professional reputation necessary to obtain and retain customers and, in the past, a relative scarcity of secondhand containerships, which necessitated reliance on newbuildings which can take a number of years to complete. We focus on larger TEU capacity containerships, which we believe have fared better than smaller vessels during global downturns in the containership sector. We believe larger containerships, even older containerships if well maintained, provide us with increased flexibility and more stable cash flows than smaller TEU capacity containerships.

Crewing and Employees

We have four shore-based officers, our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer and our Deputy Chief Operating Officer. In each case, from January 1, 2013, their services are provided under our Management Agreement with our Manager, Danaos Shipping, and prior to that time were directly employed by us, other than our Deputy Chief Operating Officer with whom we previously had a services agreement. As of December 31, 2012, 1,296 people served on board the vessels in our fleet and Danaos Shipping, our manager, employed 138 people, all of whom were shore-based. In addition, our manager is responsible for recruiting, either directly or through a crewing agent, the senior officers and all other crew members for our vessels and is reimbursed by us for all crew wages and other crew relating expenses. We believe the streamlining of crewing arrangements through our manager ensures that all of our vessels will be crewed with experienced crews that have the qualifications and licenses required by international regulations and shipping conventions.

Permits and Authorizations

We are required by various governmental and other agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required by governmental and other agencies depend upon several factors, including the commodity being transported, the waters in which the vessel operates, the nationality of the vessel's crew and the age of a vessel. All permits, licenses and certificates currently required to permit our vessels to operate have been obtained. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of doing business.

Table of Contents**Inspection by Classification Societies**

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

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

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

Annual Surveys. For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable, on special equipment classed at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

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

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

The following table lists the next drydockings and special surveys scheduled for the vessels in our current containership fleet:

Vessel Name	Next Survey	Next Drydocking
Marathonas	August 2013	August 2013
Hyundai Progress	February 2013	September 2017
Hyundai Highway	March 2013	November 2017
Hyundai Bridge	March 2013	October 2017
Kalamata	June 2013	July 2013
CMA CGM Musset	June 2013	March 2015
Pride	August 2013	August 2013
CMA CGM Nerval	August 2013	May 2015
Hanjin Buenos Aires	August 2013	May 2015
Zim Rio Grande	July 2013	July 2013
Zim Sao Paolo	September 2013	September 2013

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Vessel Name	Next Survey	Next Drydocking
Duka	October 2013	October 2013
CMA CGM Rabelais	October 2013	July 2015
Hanjin Santos	October 2013	May 2015
CMA CGM Racine	November 2013	August 2015
Zim Kingston	November 2013	November 2013
CSCL Pusan	December 2013	July 2014
Hanjin Versailles	January 2014	October 2015
Zim Monaco	January 2014	January 2014
CSCL Le Havre	February 2014	August 2014
Deva	March 2014	March 2014
SNL Colombo	March 2014	March 2014
Zim Dalian	March 2014	March 2014
Lotus	April 2014	July 2013
Derby D	April 2014	April 2014
Hanjin Algeciras	April 2014	January 2016
Zim Luanda	June 2014	June 2014
Hope	July 2014	May 2014
Honour	August 2014	August 2014
CSCL Europe	August 2014	August 2014
Elbe	November 2014	March 2014
Komodo	November 2014	March 2014
CSCL America	November 2014	August 2014
CMA CGM Moliere	September 2014	September 2014
YM Singapore	September 2014	September 2014
Messologi	June 2014	January 2016
Hanjin Germany	June 2014	March 2016
Mytilini	June 2014	March 2016
Hanjin Italy	July 2014	April 2016
Hanjin Constantza	July 2014	April 2016
Hanjin Greece	August 2014	May 2016
CMA CGM Attila	October 2014	July 2016
CMA CGM Tancredi	November 2014	August 2016
Henry(1)	January 2015	August 2013
CMA CGM Bianca	January 2015	October 2016
CMA CGM Samson	March 2015	December 2016
CMA CGM Melisande	May 2015	February 2017
Hyundai Smart	August 2015	May 2017
Hyundai Together	May 2015	February 2017
Hyundai Tenacity	June 2015	March 2017
Commodore	September 2015	April 2017
Hyundai Speed	September 2015	June 2017
Hyundai Ambition	September 2015	June 2017
Hyundai Federal	October 2015	February 2017
Hyundai Vladivostok	October 2015	July 2017
Hyundai Advance	October 2015	February 2017
YM Seattle	December 2015	March 2015
Hyundai Stride	December 2015	June 2017
Hyundai Future	December 2015	September 2017
YM Vancouver	February 2016	May 2015

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Vessel Name	Next Survey	Next Drydocking
Hyundai Sprinter	March 2016	December 2017

(1)

On February 8, 2013, we entered into an agreement to sell the *Henry*.

All areas subject to surveys as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are otherwise prescribed. The period between two subsequent surveys of each area must not exceed five years. Vessels under bareboat charter, such as the *YM Mandate*, and *YM Maturity*, are drydocked by their charterers.

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

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies. All of our vessels are certified as being "in class" by Lloyds Register of Shipping, Bureau Veritas, NKK, Det Norske Veritas, the American Bureau of Shipping or RINA SpA.

Risk of Loss and Liability Insurance

General

The operation of any vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. The U.S. Oil Pollution Act of 1990, or OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for shipowners and operators trading in the United States market.

While we maintain hull and machinery insurance, war risks insurance, protection and indemnity coverage for our containership fleet in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe that our insurance coverage will be adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Dr. John Coustas, our chief executive officer, is the Deputy Chairman of the Board of Directors of The Swedish Club, our primary provider of insurance, including a substantial portion of our hull & machinery, war risk and protection and indemnity insurance.

Hull & Machinery, Loss of Hire and War Risks Insurance

We maintain marine hull and machinery and war risks insurance, which covers the risk of particular average, general average, 4/4ths collision liability, contact with fixed and floating objects (FFO) and actual or constructive total loss in accordance with the Nordic Plan for all of our vessels. Our vessels will each be covered up to at least their fair market value after meeting certain deductibles per incident per vessel.

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We carry a minimum loss of hire coverage only with respect to the *CSCL America (ex MSC Baltic)*, the *CSCL Europe*, the *CSCL Pusan* and the *CSCL Le Havre* to cover standard requirements of KEXIM, the bank providing financing for our acquisition of these vessels. We do not and will not obtain loss of hire insurance covering the loss of revenue during extended off-hire periods for the other vessels in our fleet, other than with respect to any period during which our vessels are detained due to incidents of piracy, because we believe that this type of coverage is not economical and is of limited value to us, in part because historically our fleet has had a limited number of off-hire days.

Protection and Indemnity Insurance

Protection and indemnity ("P&I") insurance covers our third-party and crew liabilities in connection with our shipping activities. This includes third-party liability, crew liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, third-party 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. Our protection and indemnity insurance, other than our 4/4ths collision and FFO insurance (which is covered under our hull insurance policy), is provided by mutual protection and indemnity associations, or P&I associations. Insurance provided by P&I associations is a form of mutual indemnity insurance. Unless otherwise provided by the international conventions that limit the liability of shipowners and subject to the "capping" discussed below, our coverage under insurance provided by the P&I associations, except for pollution, will be unlimited.

Our protection and indemnity insurance coverage in accordance with the International Group of P&I Club Agreement for pollution will be \$1.0 billion per vessel per incident. Our P&I Excess war risk coverage limit is \$500.0 million and in respect of certain war and terrorist risks the liabilities arising from Bio-Chem etc, the limit is \$30.0 million. For passengers and seaman risks the limit is \$3.0 billion, with a sub-limit of \$2.0 billion for passenger claims only. The fourteen 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 P&I association that is a member of the International Group, we will be 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.

Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of our vessels. They are subject to international conventions, national, state and local laws, regulations and standards in force in international waters and the countries in which our vessels may operate or are registered, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, wastewater discharges and ballast water management. These laws and regulations include OPA, the U.S. Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), the U.S. Clean Water Act, the International Convention for Prevention of Pollution from Ships, regulations adopted by the IMO and the European Union, various volatile organic compound air emission requirements and various Safety of Life at Sea ("SOLAS") amendments, as well as other regulations described below. Compliance with these laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of governmental and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (U.S. Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry), charterers and, particularly, terminal operators. Certain of these entities require us to obtain permits, licenses, certificates and financial assurances for the operation of our vessels. Failure to maintain necessary

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permits or approvals could require us to incur substantial costs or result in the temporary suspension of operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with U.S. and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations. Because such laws and regulations are frequently changed and may impose increasingly stricter requirements, any future requirements may limit our ability to do business, increase our operating costs, force the early retirement of our vessels, and/or affect their resale value, all of which could have a material adverse effect on our financial condition and results of operations. In addition, a future serious marine incident that causes significant adverse environmental impact, such as the 2010 *Deepwater Horizon* oil spill, could result in additional legislation or regulation that could negatively affect our profitability.

Environmental Regulation International Maritime Organization ("IMO")

Our vessels are subject to standards imposed by the IMO (the United Nations agency for maritime safety and the prevention of pollution by ships). The IMO has adopted regulations that are designed to reduce pollution in international waters, both from accidents and from routine operations. These regulations address oil discharges, ballasting and unloading operations, sewage, garbage, and air emissions. For example, Annex III of the International Convention for the Prevention of Pollution from Ships, or MARPOL, regulates the transportation of marine pollutants, and imposes standards on packing, marking, labeling, documentation, stowage, quantity limitations and pollution prevention. These requirements have been expanded by the International Maritime Dangerous Goods Code, which imposes additional standards for all aspects of the transportation of dangerous goods and marine pollutants by sea.

In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from vessels. Annex VI, which came into effect on May 19, 2005, set limits on sulfur oxide ("SOx") and NOx emissions from vessels and prohibited deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also included a global cap on the sulfur content of fuel oil and allowed for special areas to be established with more stringent controls on sulfur emissions. Annex VI has been ratified by some, but not all IMO member states, including the Marshall Islands. Pursuant to a Marine Notice issued by the Marshall Islands Maritime Administrator as revised in March 2005, vessels flagged by the Marshall Islands that are subject to Annex VI must, if built before the effective date, obtain an International Air Pollution Prevention Certificate evidencing compliance with Annex VI by the first dry docking after May 19, 2005, but no later than May 19, 2008. All vessels subject to Annex VI and built after May 19, 2005 must also have this Certificate. We have obtained International Air Pollution Prevention certificates for all of our vessels. Amendments to Annex VI regarding particulate matter, NOx and SOx emission standards entered into force in July 2010. The amendments provide for a progressive reduction in SOx emissions from ships, with the global sulfur cap reduced initially to 3.50% (from the current 4.50%), effective from 1 January 2012; then progressively to 0.50%, effective from 1 January 2020, subject to a feasibility review to be completed no later than 2018. The Annex VI amendments also establish tiers of stringent NOx emissions standards for new marine engines, depending on their dates of installation. The United States ratified the amendments, and all vessels subject to Annex VI must comply with the amended requirements when entering U.S. ports or operating in U.S. waters. Additionally, more stringent emission standards apply in coastal areas designated by MEPC as Emission

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Control Areas (ECAs). The North American ECA, which includes the area extending 200 nautical miles from the Atlantic/Gulf and Pacific Coasts of the United States and Canada, the Hawaiian Islands, and the French territories of St. Pierre and Miquelon, has been enforceable since August 1, 2012. Fuel used by vessels operating in the ECA cannot exceed a 1.0% sulfur content, dropping to a 0.1% sulfur content in 2015. NO_x after-treatment requirements will apply in 2016. The U.S. Caribbean ECA, which includes the waters of Puerto Rico and the Virgin Islands, will become enforceable on January 1, 2014. We may incur costs to install control equipment on our engines in order to comply with the new requirements. Other ECAs may be designated, and the jurisdictions in which our vessels operate may adopt more stringent emission standards independent of IMO.

The operation of our vessels is also affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code, which was adopted in July 1998. The ISM Code requires shipowners 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. The ISM Code requires that vessel operators obtain a Safety Management Certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a Safety Management System. No vessel can obtain a certificate unless its operator has been awarded a document of compliance, issued by each flag state, under the ISM Code. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, decrease available insurance coverage for the affected vessels and result in a denial of access to, or detention in, certain ports. Currently, each of the vessels in our fleet is ISM code-certified. However, there can be no assurance that such certifications will be maintained indefinitely.

In 2001, the IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, which imposes strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker oil. The Bunker Convention also requires registered owners of ships over a certain size to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). The Bunker Convention entered into force on November 21, 2008. Our entire fleet has been issued a certificate attesting that insurance is in force in accordance with the insurance provisions of the Convention.

Environmental Regulation The U.S. Oil Pollution Act of 1990 ("OPA")

OPA established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. It applies to discharges of any oil from a vessel, including discharges of fuel oil and lubricants. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in U.S. waters, which include the United States' territorial sea and its two hundred nautical mile exclusive economic zone. While we do not carry oil as cargo, we do carry fuel oil (or bunkers) in our vessels, making our vessels subject to the OPA requirements.

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

natural resources damage and the costs of assessment thereof;

real and personal property damage;

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net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage; and

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA preserves the right to recover damages under existing law, including maritime tort law.

OPA liability is limited to the greater of \$1000 per ton or \$854,400 for non-tank vessels, subject to periodic adjustment by the U.S. Coast Guard (USCG). These limits of liability do not apply if an incident was directly caused by violation of applicable U.S. federal safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities.

OPA requires owners and operators of vessels to establish and maintain with the USCG evidence of financial responsibility sufficient to meet their potential liabilities under the OPA. Under the regulations, vessel owners and operators may evidence their financial responsibility by providing proof of insurance, surety bond, self-insurance, or guaranty, and an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessels in the fleet having the greatest maximum liability under OPA. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the USCG regulations by providing a financial guaranty in the required amount.

The USCG's regulations concerning certificates of financial responsibility provide, in accordance with OPA, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility. In the event that such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. Certain organizations, which had typically provided certificates of financial responsibility under pre-OPA 90 laws, including the major protection and indemnity organizations have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses. This requirement may have the effect of limiting the availability of the type of coverage required by the USCG and could increase the costs of obtaining this insurance for us and our competitors.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states which have enacted such legislation have not yet issued implementing regulations defining vessels owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call.

We currently maintain, for each of our vessels, oil pollution liability coverage insurance in the amount of \$1 billion per incident. In addition, we carry hull and machinery and protection and indemnity insurance to cover the risks of fire and explosion. Given the relatively small amount of bunkers our vessels carry, we believe that a spill of oil from the vessels would not be catastrophic. However, under certain circumstances, fire and explosion could result in a catastrophic loss. While we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates. If the damages from a catastrophic spill exceeded our insurance coverage, it would have a severe effect on us and could possibly result in our insolvency.

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Title VII of the Coast Guard and Maritime Transportation Act of 2004, or the CGMTA, amended OPA to require the owner or operator of any non-tank vessel of 400 gross tons or more, that carries oil of any kind as a fuel for main propulsion, including bunkers, to have an approved response plan for each vessel. The vessel response plans include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or substantial threat of such a discharge of oil from the vessel due to operational activities or casualties. We have approved response plans for each of our vessels.

Environmental Regulation CERCLA

CERCLA governs spills or releases of hazardous substances other than petroleum or petroleum products. The owner or operator of a ship, vehicle or facility from which there has been a release is liable without regard to fault for the release, and along with other specified parties may be jointly and severally liable for remedial costs. Costs recoverable under CERCLA include cleanup and removal costs, natural resource damages and governmental oversight costs. Liability under CERCLA is generally limited to the greater of \$300 per gross ton or \$0.5 million per vessel carrying non-hazardous substances (\$5.0 million for vessels carrying hazardous substances), unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations, in which case liability is unlimited. The USCG's financial responsibility regulations under OPA also require vessels to provide evidence of financial responsibility for CERCLA liability in the amount of \$300 per gross ton.

Environmental Regulation The Clean Water Act

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in navigable waters and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under the more recent OPA and CERCLA, discussed above. Under U.S. Environmental Protection Agency, or EPA, regulations we are required to obtain a CWA permit regulating and authorizing any discharges of ballast water or other wastewaters incidental to our normal vessel operations if we operate within the three-mile territorial waters or inland waters of the United States. The permit, which EPA has designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP, incorporated the then-current U.S. Coast Guard requirements for ballast water management, as well as supplemental ballast water requirements and limits for 26 other specific discharges. Regulated vessels cannot operate in U.S. waters unless they are covered by the VGP. To do so, vessel owners must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in U.S. waters. To comply with the VGP vessel owners and operators may have to install equipment on their vessels to treat ballast water before it is discharged or implement port facility disposal arrangements or procedures at potentially substantial cost. The VGP also requires states to certify the permit, and certain states have imposed more stringent discharge standards as a condition of their certification. Many of the VGP requirements have already been addressed in our vessels' current ISM Code SMS Plan. We have submitted NOIs for all of our vessels that operate in U.S. waters. As part of a settlement of a lawsuit challenging the VGP, EPA has proposed a new VGP with numerical restrictions on organisms in ballast water discharges. EPA expects to issue the new VGP by March 15, 2013, and it will become effective on December 19, 2013.

Environmental Regulation The Clean Air Act

The Federal Clean Air Act (CAA) requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to CAA vapor control and recovery standards for cleaning fuel tanks and conducting other operations in regulated port areas and emissions standards for so-called "Category 3" marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are currently limited to new

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engines beginning with the 2004 model year. However, on April 30, 2010, EPA adopted more stringent standards for emissions of particulate matter, sulfur oxides, and nitrogen oxides and other related provisions for new Category 3 marine diesel engines installed on vessels registered or flagged in the U.S. We may incur costs to install control equipment on our vessels to comply with the new standards. Several states regulate emissions from vessel vapor control and recovery operations under federally-approved State Implementation Plans. The California Air Resources Board has adopted clean fuel regulations applicable to all vessels sailing within 24 miles of the California coast whose itineraries call for them to enter any California ports, terminal facilities or internal or estuarine waters. The California regulations require such vessels to either use marine diesel oil with a sulfur content not exceeding 0.5% by weight, or marine gas oil with a sulfur content of no more than 1.5%. By 2014, only marine gas oil or marine diesel oil fuels with 0.1% sulfur will be allowed. If new or more stringent requirements relating to marine fuels or emissions from marine diesel engines or port operations by vessels are adopted by EPA or the states, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

Environmental Regulation Other Environmental Initiatives

The EU has also adopted legislation that: requires member states to impose criminal sanctions for certain pollution events, such as the unauthorized discharge of tank washings. The European Parliament recently endorsed a European Commission proposal to criminalize certain pollution discharges from ships. If the proposal becomes formal EU law, it will affect the operation of vessels and the liability of owners for oil and other polluttional discharges. It is difficult to predict what legislation, if any, may be promulgated by the European Union or any other country or authority.

The Paris Memorandum of Understanding on Port State Control (Paris MoU) to which 27 nations are party adopted the "New Inspection Regime" (NIR) to replace the existing Port State Control system, effective January 1, 2011. The NIR is a significant departure from the previous system, as it is a risk based targeting mechanism that will reward quality vessels with a smaller inspection burden and subject high-risk ships to more in-depth and frequent inspections. The inspection record of a vessel, its age and type, the Voluntary IMO Member State Audit Scheme, and the performance of the flag State and recognized organizations are used to develop the risk profile of a vessel.

The U.S. National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. Under NISA, the USCG adopted regulations in July 2004 imposing mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters. These requirements can be met by performing mid-ocean ballast exchange, by retaining ballast water on board the ship, or by using environmentally sound alternative ballast water management methods approved by the USCG. (However, mid-ocean ballast exchange is mandatory for ships heading to the Great Lakes or Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil.) Mid-ocean ballast exchange is the primary method for compliance with the USCG regulations, since holding ballast water can prevent ships from performing cargo operations upon arrival in the United States, and alternative methods are still under development. Vessels that are unable to conduct mid-ocean ballast exchange due to voyage or safety concerns may discharge minimum amounts of ballast water (in areas other than the Great Lakes and the Hudson River), provided that they comply with record keeping requirements and document the reasons they could not follow the required ballast water management requirements. On March 23, 2012 the USCG adopted ballast water discharge standards that set maximum acceptable discharge limits for living organisms and established standards for ballast water management systems. The regulations became effective on June 21, 2012 and will be phased in between January 1, 2014 and January 1, 2016 for existing vessels, depending on the size of their ballast water tanks and their next drydocking date. Although the USCG ballast water management requirements are consistent with the requirements in EPA's proposed VGP, the USCG intends to review

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the practicability of implementing even more stringent ballast water discharge standards and publish the results of that review no later than January 1, 2016. In the past absence of federal standards, states enacted legislation or regulations to address invasive species through ballast water and hull cleaning management and permitting requirements. Michigan's ballast water management legislation was upheld by the Sixth Circuit Court of Appeals and California enacted legislation extending its ballast water management program to regulate the management of "hull fouling" organisms attached to vessels and adopted regulations limiting the number of organisms in ballast water discharges. Other states may proceed with the enactment of requirements similar to those of California and Michigan or the adoption of requirements that are more stringent than the EPA and USCG requirements. We could incur additional costs to comply with the new VGP and additional USCG or state ballast water management requirements.

At the international level, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. The Convention has not yet entered into force because a sufficient number of states have failed to adopt it. However, in March 2010 MEPC passed a resolution urging the ratification of the Convention and calling upon those countries that have already ratified it to encourage the installation of ballast water management systems.

If the mid-ocean ballast exchange is made mandatory throughout the United States or at the international level, or if water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our business.

The 2005 Kyoto Protocol to the United Nations Framework Convention on Climate Change required adopting countries to implement national programs to reduce emissions of certain greenhouse gases, but emissions from international shipping are not subject to the soon to expire Kyoto Protocol. International negotiations regarding a successor to the Kyoto Protocol are on-going. The IMO's MEPC adopted two new sets of mandatory requirements to address greenhouse gas emissions from vessels at its July 2011 meeting. The EEDI establishes a minimum energy efficiency level per capacity mile and will be applicable to new vessels. The Ship Energy Efficiency Management Plan will be applicable to currently operating vessels of 400 metric tons and above. These requirements entered into force in January 2013 and could cause us to incur additional compliance costs. The IMO is also considering the development of market based mechanisms to reduce greenhouse gas emissions from vessels, as well as sustainable development goals for marine transportation, but it is impossible to predict the likelihood that such measures might be adopted or their potential impacts on our operations at this time. The EU is considering measures including an expansion of the existing EU emissions trading scheme to greenhouse gas emissions from marine vessels, The U.S. EPA Administrator issued a finding that greenhouse gases threaten the public health and safety and has adopted regulations relating to the control of greenhouse gas emissions from certain mobile and stationary sources. Although the EPA findings and regulations do not extend to vessels and vessel engines, the EPA is separately considering a petition from the California Attorney General and environmental groups to regulate greenhouse gas emissions from ocean-going vessels under the CAA. Any passage of climate control legislation or other regulatory initiatives by the IMO, the EU or individual countries in which we operate or any international treaty adopted to succeed the Kyoto Protocol could require us to make significant financial expenditures or otherwise limit our operations that we cannot predict with certainty at this time.

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In connection with a 2001 incident involving the presence of oil on the water on the starboard side of one of our vessels, the *Henry* (ex *CMA CGM Passiflore*) in Long Beach, California, our manager pled guilty to one count of negligent discharge of oil and one count of obstruction of justice, based on a charge of attempted concealment of the source of the discharge. Consistent with the government's practice in similar cases, our manager agreed, among other things, to develop and implement an approved third party consultant monitored environmental compliance plan. Any violation of this environmental compliance plan or any penalties, restitution or heightened environmental compliance plan requirements that are imposed relating to alleged discharges in any other action involving our fleet or our manager could negatively affect our operations and business. In the more than ten years since the detention of the *Henry* (ex *CMA CGM Passiflore*), our vessels have not been subject to any other detentions or enforcement proceedings involving alleged releases of oil. Our manager has instituted a proactive management program designed to prevent future non-compliance.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002 (MTSA) came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security (ISPS) Code.

The ISPS Code is designed to protect ports and international shipping against terrorism. To trade internationally a vessel must obtain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. To obtain an ISSC a vessel must meet certain requirements, including:

on-board installation of automatic identification systems to enhance vessel-to-vessel and vessel-to-shore communications;

on-board installation of ship security alert systems that do not sound on the vessel but alert the authorities on shore;

the development of vessel security plans;

identification numbers to be permanently marked on a vessel's hull;

a continuous synopsis record to be maintained on board showing the vessel's history, including the vessel ownership, flag state registration, and port registrations; and

compliance with flag state security certification requirements.

In addition, as of January 1, 2009, every company and/or registered owner is required to have an identification number which conforms to the IMO Unique Company and Registered Owner Identification Number Scheme. Our Manager has also complied with this amendment to SOLAS XI-1/3-1.

The U.S. Coast Guard regulations are intended to align with international maritime security standards and exempt non-U.S. vessels that have a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code from the requirement to have a U.S. Coast Guard approved vessel security plan. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code and have ensured that our vessels are compliant with all applicable security requirements. Our fleet, as part of our continuous improvement cycle, is reviewing vessels SSPs and is maintaining best Management practices during passage through security risk areas.

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Seasonality

Our containerships primarily operate under multi-year charters, other than the six vessels which were laid-up as of February 22, 2013, and therefore are not subject to the effect of seasonal variations in demand.

Properties

We have no freehold or leasehold interest in any real property. We occupy office space at 14 Akti Kondyli, 185 45 Piraeus, Greece that is owned by our manager, Danaos Shipping, and which is provided to us as part of the services we receive under our management agreement.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this annual report. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Item 3. Key Information Risk Factors" and elsewhere in this annual report, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

Our business is to provide international seaborne transportation services by operating vessels in the containership sector of the shipping industry. Following the completion of our extensive newbuilding program in 2012, as of February 22, 2013, we had a fleet of 63 containerships aggregating 360,004 TEUs (following the sale of the *Independence* in February 2013, but including the *Henry*, which we have agreed to sell), making us among the largest containership charter owners in the world, based on total TEU capacity.

We deploy our containerships on multi-year, fixed-rate charters to take advantage of the stable cash flows and high utilization rates typically associated with multi-year charters. As of February 22, 2013, 55 containerships in our fleet were employed on time charters, two containerships were employed on bareboat charters and six containerships were laid-up. Our containerships are generally deployed on multi-year charters to large liner companies that charter-in vessels on a multi-year basis as part of their business strategies. As of February 22, 2013, our diverse group of customers in the containership sector included China Shipping, CMA-CGM, Hanjin, Hyundai, Maersk, MSC, TS Lines, Yang Ming and ZIM Israel Integrated Shipping Services.

The average number of containerships in our fleet for the years ended December 31, 2012, 2011 and 2010 was 62.6, 54.9 and 45.7, respectively.

Purchase Options

The charters with respect to the *CMA CGM Moliere*, the *CMA CGM Musset*, the *CMA CGM Nerval*, the *CMA CGM Rabelais* and the *CMA CGM Racine* include an option for the charterer, CMA-CGM, to purchase the vessels eight years after the commencement of the respective charters, which will fall in September 2017, March 2018, May 2018, July 2018 and August 2018, respectively, each for \$78.0 million. In each case, the option to purchase the vessel must be exercised 15 months prior to the acquisition dates described in the preceding sentence. The \$78.0 million option prices reflect an estimate, made at the time of entry into the applicable charter, of the fair market value of

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the vessels at the time we would be required to sell the vessels upon exercise of the options. If CMA-CGM were to exercise these options with respect to any or all of these vessels, the expected size of our combined containership fleet would be reduced, and as a result our anticipated level of revenues would be reduced.

Our Manager

Our operations are managed by Danaos Shipping, our manager, under the supervision of our officers and our board of directors. We believe our manager has built a strong reputation in the shipping community by providing customized, high-quality operational services in an efficient manner for both new and older vessels. We have a management agreement pursuant to which our manager and its affiliates provide us and our subsidiaries with technical, administrative and certain commercial services, and, since January 1, 2013, the services of our executive officers. The initial term of this agreement expired on December 31, 2008, and the agreement now renews each year for a one-year term for the next 12 years thereafter unless we give a one-year notice of non-renewal (subject to certain termination rights described in "Item 7. Major Shareholders and Related Party Transactions"). Our manager is ultimately owned by Danaos Investments Limited as Trustee of the 883 Trust, which we refer to as the Coustas Family Trust. Danaos Investments Limited, a corporation wholly-owned by our chief executive officer, is the protector (which is analogous to a trustee) of the Coustas Family Trust, of which Dr. Coustas and other members of the Coustas family are beneficiaries. The Coustas Family Trust is also our largest stockholder.

Factors Affecting Our Results of Operations

Our financial results are largely driven by the following factors:

Number of Vessels in Our Fleet. The number of vessels in our fleet is the primary factor in determining the level of our revenues. Aggregate expenses also increase as the size of our fleet increases. Vessel acquisitions and dispositions will have a direct impact on the number of vessels in our fleet. From time to time we have sold, generally older, vessels in our fleet. For example, on February 13, 2013, we sold and delivered the *Independence*, a vessel over 27 years old and on February 8, 2013, we entered into an agreement to sell the *Henry*. In addition, in April 2012 we sold the *Montreal*, a vessel over 28 years old. Five of our vessels, which have an aggregate capacity of 32,500 TEUs, are subject to arrangements pursuant to which the charterer has options to purchase the vessels at stipulated prices in September 2017, March 2018, May 2018, July 2018 and August 2018, respectively. If these purchase options were to be exercised, the expected size of our combined containership fleet would be reduced, and as a result our anticipated level of revenues would be reduced.

Charter Rates. Aside from the number of vessels in our fleet, the charter rates we obtain for these vessels are the principal drivers of our revenues. Charter rates are based primarily on demand for capacity as well as the available supply of containership capacity at the time we enter into the charters for our vessels. As a result of macroeconomic conditions affecting trade flow between ports served by liner companies and economic conditions in the industries which use liner shipping services, charter rates can fluctuate significantly. Although the multi-year charters on which we deploy our containerships make us less susceptible to cyclical containership charter rates than vessels operated on shorter-term charters, we are exposed to varying charter rate environments when our chartering arrangements expire and we seek to deploy our containerships under new charters. The staggered maturities of our containership charters also reduce our exposure to any stage in the shipping cycle. As of February 22, 2013, six of our vessels were laid up, including the *Henry* which we have agreed to sell, and the charters for 8 of our existing vessels are scheduled to expire between March 2013 and December 2013. With the prevailing low charter rate levels, we expect that we will have to recharter some of these vessels

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at lower rates than under their current chartering arrangements, or potentially lay up some of these vessels.

Utilization of Our Fleet. Due to the multi-year charters under which they are operated, our containerships have consistently been deployed at or near full utilization. During 2012, however, we laid up seven of our vessels, the *Marathonas*, the *Honour*, the *Independence*, the *Pride*, the *Henry*, the *Messologi* and the *Duka*, for 1,349 days in aggregate due to spot charter rates being available in the market at that time at breakeven levels, each of which remained laid up as of February 22, 2013, including the *Henry* which we have agreed to sell, other than the *Independence* which we sold in February 2013. In addition, the amount of time our vessels spend in drydock undergoing repairs or undergoing maintenance and upgrade work affects our results of operations. Historically, our fleet has had a limited number of off-hire days. For example, there were 55 total off-hire days for our entire fleet during 2012 other than for scheduled drydockings and special surveys and excluding laid up vessels compared to 124 total off-hire days for our entire fleet during 2011 other than for scheduled drydockings and special surveys and excluding laid up vessels. However, an increase in annual off-hire days could reduce our utilization. The efficiency with which suitable employment is secured, the ability to minimize off-hire days and the amount of time spent positioning vessels also affects our results of operations. If the utilization patterns of our containership fleet changes our financial results would be affected.

Expenses. Our ability to control our fixed and variable expenses, including those for commission expenses, crew wages and related costs, the cost of insurance, expenses for repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses also affects our financial results. In addition, factors beyond our control, such as developments relating to market premiums for insurance and the value of the U.S. dollar compared to currencies in which certain of our expenses, primarily crew wages, are denominated can cause our vessel operating expenses to increase.

In addition to those factors described above affecting our operating results, our net income is significantly affected by our financing arrangements, including our interest rate swap arrangements, and, accordingly, prevailing interest rates and the interest rates and other financing terms we may obtain in the future.

The following table presents the contractual utilization of our operating fleet as of December 31, 2012.

	2013	2014 - 2015	2016 - 2017	2018 - 2022	2023 - 2028	Total
Contracted revenue (in millions)(1)	\$ 577.0	\$ 1,097.6	\$ 1,045.2	\$ 1,894.8	\$ 303.7	\$ 4,918.3
Number of vessels whose charters are set to expire in the respective period(2)(3)	16	1	8	24	15	64
TEUs on expiring charters in the respective period (including laid up vessels)(3)	61,526	4,253	30,136	115,684	151,450	363,049
Contracted Operating(4) days	18,799	33,938	32,013	48,391	7,485	140,626
Total Operating(4) days	23,125	46,175	44,981	101,639	102,730	318,650
Contracted Operating days/Total Operating days	81.3%	73.5%	71.2%	47.6%	7.3%	44.1%

- (1) Annual revenue calculations are based on an assumed 364 revenue days per annum, based on contracted charter rates from our current charter agreements. Additionally, the revenues above reflect an estimate of off-hire days to perform periodic maintenance. If actual off-hire days are

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greater than estimated, these would decrease the level of revenues above. See " Operating Revenues," including the contracted revenue table presented therein, for more information regarding our contracted revenues.

- (2) Includes the seven vessels laid up as of December 31, 2012, including the *Independence*, which was sold on February 13, 2013, and the *Henry*, which we have agreed to sell.
- (3) Refers to the incremental number of vessels with charters expiring within the respective period.
- (4) Operating days calculations are based on an assumed 364 operating days per annum. Additionally, the operating days above reflect an estimate of off-hire days to perform periodic maintenance. If actual off-hire days are greater than estimated, these would decrease the amount of operating days above.

Operating Revenues

Our operating revenues are driven primarily by the number of vessels in our fleet, the number of operating days during which our vessels generate revenues and the amount of daily charter hire that our vessels earn under time charters which, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and dispositions, the amount of time that we spend positioning our vessels, the amount of time that our vessels spend in drydock undergoing repairs, maintenance and upgrade work, the age, condition and specifications of our vessels and the levels of supply and demand in the containership charter market. Vessels operating in the spot market generate revenues that are less predictable but can allow increased profit margins to be captured during periods of improving charter rates.

Revenues from multi-year period charters comprised substantially all of our revenues for the years ended December 31, 2012, 2011 and 2010. The revenues relating to our multi-year charters will be affected by any additional vessels subject to multi-year charters we may acquire in the future, as well as by the disposition of any such vessel in our fleet. Our revenues will also be affected if any of our charterers cancel a multi-year charter. Our multi-year charter agreements have been contracted in varying rate environments and expire at different times. Generally, we do not employ our vessels under voyage charters under which a shipowner, in return for a fixed sum, agrees to transport cargo from one or more loading ports to one or more destinations and assumes all vessel operating costs and voyage expenses.

Our expected revenues as of December 31, 2012, based on contracted charter rates, from our charter arrangements for our containerships is shown in the table below. Although these expected revenues are based on contracted charter rates, any contract is subject to performance by the counterparties. If the charterers are unable or unwilling to make charter payments to us, our results of operations and financial condition will be materially adversely affected. See "Item 3. Key Information Risk Factors We are dependent on the ability and willingness of our charterers to honor their commitments to us for all of our revenues and the failure of our counterparties to meet their obligations under our time charter agreements could cause us to suffer losses or otherwise adversely affect our business."

Contracted Revenue from Multi-Year Charters as of December 31, 2012(1)
(Amounts in millions of U.S. dollars)

Number of Vessels(2)	2013	2014 - 2015	2016 - 2017	2018 - 2022	2023 - 2028	Total
64	\$ 577.0	\$ 1,097.6	\$ 1,045.2	\$ 1,894.8(3)	\$ 303.7(3)	\$ 4,918.3

- (1) Annual revenue calculations are based on an assumed 364 revenue days per annum representing contracted fees, based on contracted charter rates from our current charter agreements. Although

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these fees are based on contractual charter rates, any contract is subject to performance by the counter parties and us. Additionally, the fees above reflect an estimate of off-hire days to perform periodic maintenance. If actual off-hire days are greater than estimated, these would decrease the level of revenues above.

(2)

Includes the *CMA CGM Moliere* delivered to us in 2009 and the *CMA CGM Musset*, the *CMA CGM Nerval*, the *CMA CGM Rabelais* and the *CMA CGM Racine*, delivered to us in 2010, which are each subject to options for the charterer to purchase the vessels eight years after the commencement of the respective charters, which fall in September 2017, March 2018, May 2018, July 2018 and August 2018, respectively, each for \$78.0 million. The \$78.0 million option prices reflected, at the time we entered into the applicable charter, an estimate of the fair market value of the vessels at the time we would be required to sell the vessels upon exercise of the options. In addition, on February 8, 2013, we entered into an agreement to sell the *Henry*.

(3)

An aggregate of \$242.5 million (\$48.5 million with respect to each vessel) of revenue with respect to the *CMA CGM Moliere*, the *CMA CGM Musset*, the *CMA CGM Nerval*, the *CMA CGM Rabelais* and the *CMA CGM Racine*, following September 2017, March 2018, May 2018, July 2018 and August 2018, respectively, is included in the table because we cannot predict the likelihood of these options being exercised.

We generally do not charter our containerships in the spot market. Vessels operating in the spot market generate revenues that are less predictable than vessels on period charters, although this chartering strategy can enable vessel owners to capture increased profit margins during periods of improvements in charter rates. Deployment of vessels in the spot market creates exposure, however, to the risk of declining charter rates, as spot rates may be higher or lower than those rates at which a vessel could have been time chartered for a longer period.

Voyage Expenses

Voyage expenses include port and canal charges, bunker (fuel) expenses (bunker costs are normally covered by our charterers, except in certain cases such as vessel re-positioning), address commissions and brokerage commissions. Under multi-year time charters and bareboat charters, such as those on which we charter our containerships and under short-term time charters, the charterers bear the voyage expenses other than brokerage and address commissions. As such, voyage expenses represent a relatively small portion of our vessels' overall expenses.

From time to time, in accordance with industry practice and in respect of the charters for our containerships we pay brokerage commissions of approximately 0.75% to 2.5% of the total daily charter hire rate under the charters to unaffiliated ship brokers associated with the charterers, depending on the number of brokers involved with arranging the charter. We also pay address commissions of up to 2.5% to a limited number of our charterers. Our manager will also receive a commission of 0.5% based on the contract price of any vessel bought or sold by it on our behalf, excluding newbuilding contracts. In 2012, we paid commissions to our manager of 1.00% on all freight, charter hire, ballast bonus and demurrage for each vessel. For the years ended December 31, 2011 and 2010, this commission was 0.75%.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses for repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Aggregate expenses increase as the size of our fleet increases. Factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market premiums for insurance, may also cause these expenses to increase. In addition, a substantial portion of our vessel operating expenses, primarily crew wages, are in currencies

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other than the U.S. dollar and any gain or loss we incur as a result of the U.S. dollar fluctuating in value against these currencies is included in vessel operating expenses. We fund our manager monthly in advance with amounts it will need to pay our fleet's vessel operating expenses.

Under multi-year time charters, such as those on which we charter all but two of the containerships in our fleet as of February 22, 2013 (excluding the six vessels laid up as of such date), and under short-term time charters, we pay for vessel operating expenses. Under bareboat charters, such as those on which we chartered the two of our containerships in our fleet, our charterers bear substantially all vessel operating expenses, including the costs of crewing, insurance, surveys, drydockings, maintenance and repairs.

Amortization of Deferred Drydocking and Special Survey Costs

We follow the deferral method of accounting for special survey and drydocking costs, whereby actual costs incurred are deferred and are amortized on a straight-line basis over the period until the next scheduled survey, which is two and a half years. If special survey or drydocking is performed prior to the scheduled date, the remaining unamortized balances are immediately written off. We capitalize the total costs associated with drydockings, special surveys and intermediate surveys and amortize these costs on a straight-line basis over 30 months.

Major overhaul performed during drydocking is differentiated from normal operating repairs and maintenance. The related costs for inspections that are required for the vessel's certification under the requirement of the classification society are categorized as drydock costs. A vessel at drydock performs certain assessments, inspections, refurbishments, replacements and alterations within a safe non-operational environment that allows for complete shutdown of certain machinery and equipment, navigational, ballast (keep the vessel upright) and safety systems, access to major underwater components of vessel (rudder, propeller, thrusters and anti-corrosion systems), which are not accessible during vessel operations, as well as hull treatment and paints. In addition, specialized equipment is required to access and manoeuvre vessel components, which are not available at regular ports.

Repairs and maintenance normally performed during operation either at port or at sea have the purpose of minimizing wear and tear to the vessel caused by a particular incident or normal wear and tear. Repair and maintenance costs are expensed as incurred.

Depreciation

We depreciate our containerships on a straight-line basis over their estimated remaining useful economic lives. We estimated the useful lives of our containerships to be 30 years from the year built. Depreciation is based on cost, less the estimated scrap value of \$300 per ton for all vessels.

General and Administrative Expenses

We will pay our manager the following fees for 2013: (i) a fee of \$675 per day for providing its commercial, chartering and administrative services, (ii) a technical management fee of \$340 per vessel per day for vessels on bareboat charter, pro rated for the number of calendar days we own each vessel, (iii) a technical management fee of \$675 per vessel per day for vessels other than those on bareboat charter, pro rated for the number of calendar days we own each vessel, (iv) a flat fee of \$725,000 per newbuilding vessel, which we capitalize, for the on premises supervision of newbuilding contracts by selected engineers and others of its staff and an annual fee of €1.4 million for the services of our executive officers. For the years ended December 31, 2012, 2011 and 2010, we paid the same fees to our manager, other than the fee for the services of our executive officers, who we previously had directly compensated.

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Furthermore, general and administrative expenses include audit fees, legal fees, board remuneration, executive officers compensation, directors & officers insurance, stock exchange fees and other general and administrative expenses.

Other Income/(Expense), Net

In 2012, we recorded income of \$0.8 million for various non operating items. In 2011, we recorded an expense of \$2.3 million for legal and advisory fees directly related to our comprehensive financing plan. In the fourth quarter of 2010, we became obligated for various advisory fees directly attributed to the Bank Agreement for the restructuring of our then existing credit facilities and new financing arrangements. In this respect, we recorded an expense of \$18.0 million for the year ended December 31, 2010, which was cash settled in 2011. In addition, we recorded income of \$12.6 million in relation to an agreement entered into with the charterer of the three newbuildings cancelled on May 25, 2010 in consideration for the termination of the respective charter parties for which we received payment in cash in 2010. These respective items were recorded under "Other income/(expense), net" as they are separately identifiable, associated with the Bank Agreement and are items not connected with the operation of our vessels.

Interest Expense, Interest Income and Other finance expenses

We incur interest expense on outstanding indebtedness under our credit facilities which we include in interest expenses. We also incurred financing costs in connection with establishing those facilities, which is included in our finance costs. Further, we earn interest on cash deposits in interest bearing accounts and on interest bearing securities, which we include in interest income. We will incur additional interest expense in the future on our outstanding borrowings and under future borrowings.

Unrealized and Realized Loss on Derivatives

The interest rate swap arrangements we entered into were generally based on the forecasted delivery of vessels we contracted for and our debt financing needs associated therewith. A portion of these interest rate swap agreements were effective as hedges prior to June 30, 2012 under the applicable accounting guidance, while a portion were not. Any such resulting hedge ineffectiveness of our swap arrangements was recognized in our consolidated statement of comprehensive income.

On July 1, 2012, we elected to prospectively de-designate cash flow interest rate swaps for which we were obtaining hedge accounting treatment due to the compliance burden associated with this accounting policy. As a result, all changes in the fair value of our cash flow interest rate swap agreements will be recorded in earnings under "Unrealized and Realized Losses on Derivatives" from the de-designation date forward. Discontinuation of hedge accounting increases the potential volatility in our reported earnings due to the recognition of non-cash fair value movements of our cash flow interest rate swaps directly to our earnings. We recorded in our earnings, unrealized gains from changes in the fair value of the cash flow interest rate swaps, an amount of \$62.7 million for the six months ended December 31, 2012.

We evaluated whether it is probable that the previously hedged forecasted interest payments are probable to not occur in the originally specified time period. We have concluded that the previously hedged forecasted interest payments are probable of occurring. Therefore, unrealized gains or losses in accumulated other comprehensive loss associated with the previously designated cash flow interest rate swaps will remain frozen in accumulated other comprehensive loss and recognized in earnings when the interest payments will be recognized. If such interest payments were to be identified as being probable of not occurring, the accumulated other comprehensive loss balance pertaining to these amounts would be reversed through earnings immediately. We reclassified from Accumulated Other Comprehensive Loss to our earnings unrealized losses of \$67.7 million for the six months ended December 31, 2012.

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As of December 31, 2012, the total notional amount of our cash flow interest rate swap arrangements was \$3.1 billion.

Results of Operations

Year ended December 31, 2012 compared to the year ended December 31, 2011

During the year ended December 31, 2012, we had an average of 62.6 containerships compared to 54.9 containerships for the year ended December 31, 2011. During 2012, we took delivery of six vessels, the *Hyundai Together*, on February 16, 2012, the *CMA CGM Melisande*, on February 28, 2012, the *Hyundai Tenacity*, on March 8, 2012, the *Hyundai Smart*, on May 3, 2012, the *Hyundai Speed*, on June 7, 2012, and the *Hyundai Ambition*, on June 29, 2012. Our fleet utilization declined to 93.0% in the year ended December 31, 2012 compared to 97.6% in 2011, mainly due to the 1,349 days for which certain of our vessels were off-charter and laid-up by us in the year ended December 31, 2012 compared to 155 days in the year ended December 31, 2011. During the year ended December 31, 2012, our fleet utilization for the fleet under employment was 98.8% (which excludes the laid up vessels).

Operating Revenues

Operating revenue increased 25.8%, or \$120.9 million, to \$589.0 million in the year ended December 31, 2012, from \$468.1 million in the year ended December 31, 2011. The increase was primarily attributable to the addition to our fleet of six vessels, which collectively contributed revenues of \$88.8 million during the year ended December 31, 2012 (1,564 operating days in total).

Furthermore, operating revenues for the year ended December 31, 2012, reflect:

\$64.0 million of incremental revenues in the year ended December 31, 2012 compared to the year ended December 31, 2011, related to two 3,400 TEU containerships (the *Hanjin Algeciras* and the *Hanjin Constantza*, which were added to our fleet on January 26, 2011 and April 15, 2011, respectively), three 10,100 TEU containerships (the *Hanjin Germany*, the *Hanjin Italy* and the *Hanjin Greece*, which were added to our fleet on March 10, 2011, April 6, 2011 and May 4, 2011, respectively) and four 8,530 TEU containerships (the *CMA CGM Attila*, the *CMA CGM Tancredi*, the *CMA CGM Bianca* and the *CMA CGM Samson*, which were added to our fleet on July 8, 2011, August 22, 2011, October 26, 2011 and December 15, 2011, respectively).

\$2.4 million decrease in revenues in the year ended December 31, 2012 compared to the year ended December 31, 2011, related to the sale of one 2,130 TEU containership, the *Montreal*, on April 27, 2012.

\$29.5 million decrease in revenues in the year ended December 31, 2012 compared to the year ended December 31, 2011. This was mainly attributable to increased off-hire days by 1,136 days, to 1,613 days in the year ended December 31, 2012, from 477 days in the year ended December 31, 2011 (\$18.5 million reduction in revenue in relation to certain vessels that were off-charter and laid up for 1,349 days during the year ended December 31, 2012 compared to 155 days during the year ended December 31, 2011).

Voyage Expenses

Voyage expenses increased by \$2.7 million, to \$13.5 million in the year ended December 31, 2012, from \$10.8 million in the year ended December 31, 2011. The increase was the result of a \$2.4 million increase in commissions to our Manager, due to the increase in the average number of vessels in our fleet and the increase in the commission on gross charter hires to our Manager, to 1.0% from 0.75%, effective January 1, 2012, as well as increased other voyage expenses due to the increase in the average number of vessels in the year ended December 31, 2012 compared to the year ended December 31, 2011.

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Vessel Operating Expenses

Vessel operating expenses increased 3.6%, or \$4.3 million, to \$123.4 million in the year ended December 31, 2012, from \$119.1 million in the year ended December 31, 2011. The increase is mainly attributable to the increased average number of vessels in our fleet during the year ended December 31, 2012 compared to the year ended December 31, 2011. This overall increase was offset in part by the lower average daily operating cost per vessel of \$5,907 for the year ended December 31, 2012 compared to \$6,246 for the year ended December 31, 2011 (excluding vessels on lay-up).

Depreciation

Depreciation expense increased 35.5%, or \$37.7 million, to \$143.9 million in the year ended December 31, 2012, from \$106.2 million in the year ended December 31, 2011. The increase in depreciation expense was due to the increased average number of vessels in our fleet (with higher cost base) during the year ended December 31, 2012 compared to the year ended December 31, 2011.

Amortization of Deferred Drydocking and Special Survey Costs

Amortization of deferred dry-docking and special survey costs increased 5.2%, or \$0.3 million, to \$6.1 million in the year ended December 31, 2012, from \$5.8 million in the year ended December 31, 2011. The increase reflects increased dry-docking and special survey costs incurred and amortized during the year ended December 31, 2012 compared to the year ended December 31, 2011.

General and Administrative Expenses

General and administrative expenses decreased 2.9%, or \$0.6 million, to \$20.4 million in the year ended December 31, 2012, from \$21.0 million in the year ended December 31, 2011. The decrease was mainly the result of a non-cash stock based compensation expense of \$2.2 million recorded in the year ended December 31, 2011 compared to \$0.1 million in the year ended December 31, 2012. This was largely offset by a \$1.9 million increase in fees to our Manager in the year ended December 31, 2012 compared to the year ended December 31, 2011, due to the increase in the average number of vessels in our fleet.

Interest Expense, Interest Income, and Other Finance Expenses

Interest expense increased by 58.4%, or \$32.2 million, to \$87.3 million in the year ended December 31, 2012, from \$55.1 million in the year ended December 31, 2011. The change in interest expense was due to the increase in our average debt by \$495.3 million, to \$3,308.3 million in the year ended December 31, 2012, from \$2,813.0 million in the year ended December 31, 2011, as well as the increased average LIBOR payable on interest under our credit facilities in the year ended December 31, 2012 compared to the year ended December 31, 2011. Furthermore, the financing of our newbuilding program resulted in \$3.7 million of interest being capitalized, rather than such interest being recognized as an expense, for the year ended December 31, 2012 compared to \$16.1 million of capitalized interest for the year ended December 31, 2011.

Interest income was \$1.6 million in the year ended December 31, 2012 compared to \$1.3 million in the year ended December 31, 2011.

Other finance expenses, increased by \$3.5 million, to \$18.1 million in the year ended December 31, 2012, from \$14.6 million in the year ended December 31, 2011. This increase was due to a \$4.6 million increase in amortization in relation to finance fees (which were deferred and are amortized over the term of the respective credit facilities) in the year ended December 31, 2012 compared to the year ended December 31, 2011, as well as a \$1.2 million increase in accrued finance fees (which accrete in our statement of comprehensive income over the term of the respective facilities) in the year ended December 31, 2012 compared to the year ended December 31, 2011, which was partially offset by an

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expense of \$2.3 million recorded in the year ended December 31, 2011, in relation to non-cash changes in fair value of warrants, which did not recur in the year ended December 31, 2012.

Other Income/(Expenses), Net

Other income/(expenses), net, was income of \$0.8 million in the year ended December 31, 2012, compared to an expense of \$2.0 million in the year ended December 31, 2011. This was mainly the result of legal and advisory fees of \$2.3 million related to preparing and structuring the comprehensive financing plan, which were recorded during the year ended December 31, 2011 and did not recur in the year ended December 31, 2012.

Unrealized and Realized Loss on Derivatives

On July 1, 2012, we elected to prospectively de-designate interest rate swaps for which we were applying hedge accounting treatment due to the compliance burden associated with this accounting policy. As a result, all changes in the fair value of our interest rate swaps will be recorded in earnings under "Unrealized (Losses)/Gains on Derivatives" from the de-designation date forward. In addition, unrealized losses in Accumulated Other Comprehensive Loss associated with the previously designated cash flow interest rate swaps will be reclassified to earnings as the respective interest payments are recognized in earnings. Discontinuation of hedge accounting increases the potential volatility in our reported earnings due to the recognition of non-cash fair value movements of our cash flow interest rate swaps directly to our earnings.

Unrealized (loss)/gain on interest rate swap hedges was a loss of \$0.7 million in the year ended December 31, 2012, compared to a gain of \$9.0 million in the year ended December 31, 2011, which is attributable to hedge accounting ineffectiveness, mark to market valuation of our swaps and reclassification of unrealized losses from Accumulated Other Comprehensive Loss to our earnings (due to the discontinuation of hedge accounting from July 1, 2012).

Realized loss on interest rate swap hedges, increased by \$24.1 million, to \$154.4 million in the year ended December 31, 2012, from \$130.3 million in the year ended December 31, 2011. The increase was attributable to the reduction in realized losses being deferred for the respective periods (as discussed below), which was partially offset by the higher floating LIBOR rates during the year ended December 31, 2012 compared to the year ended December 31, 2011.

Realized losses on cash flow hedges of \$7.0 million and \$31.3 million in the year ended December 31, 2012 and 2011, respectively, were deferred in "Accumulated Other Comprehensive Loss", rather than such realized losses being recognized as expenses, and will be reclassified into earnings over the depreciable lives of the vessels under construction which were financed by loans with interest rates that have been hedged by our interest rate swap contracts. The reduction of the deferred realized losses is attributable to the gradual delivery of all our vessels under construction through June 2012, when our newbuilding program was completed.

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The table below provides an analysis of the items discussed above, and which were recorded in the year ended December 31, 2012 and 2011:

	Year ended December 31, 2012	Year ended December 31, 2011
(in millions)		
<i>Cash flow interest rate swaps</i>		
Total realized losses	\$ (159.7)	\$ (163.8)
Realized losses deferred in Other Comprehensive Loss	7.0	31.3
Realized losses expensed in consolidated Statements of Comprehensive Income	(152.7)	(132.5)
Unrealized (gains)/losses	(0.9)	9.2
Amortization of deferred realized losses	(3.5)	(1.6)
Unrealized and realized losses on cash flow interest rate swaps	\$ (157.1)	\$ (124.9)
<i>Fair value interest rate swaps</i>		
Unrealized losses on swap asset	\$ (1.1)	\$ (0.5)
Unrealized gains on fair value of hedged debt	0.6	1.0
Amortization of fair value of hedged debt	0.3	0.8
Reclassification of fair value hedged debt to earnings	0.3	
Realized gains	1.8	2.2
Unrealized and realized gains on fair value interest rate swaps	\$ 1.9	\$ 3.5
Unrealized and realized losses on derivatives	\$ (155.2)	\$ (121.4)

Year ended December 31, 2011 compared to the year ended December 31, 2010

During the year ended December 31, 2011, we had an average of 54.9 containerships compared to 45.7 containerships for the year ended December 31, 2010. During 2011, we took delivery of nine vessels, the *Hanjin Algeciras*, on January 26, 2011, the *Hanjin Germany*, on March 10, 2011, the *Hanjin Italy*, on April 6, 2011, the *Hanjin Constantza*, on April 15, 2011, the *Hanjin Greece*, on May 4, 2011, the *CMA CGM Attila*, on July 8, 2011, the *CMA CGM Tancredi*, on August 22, 2011, the *CMA CGM Bianca*, on October 26, 2011 and the *CMA CGM Samson*, on December 15, 2011. Our fleet utilization declined to 97.6% in the year ended December 31, 2011 compared to 98.3% in 2010, mainly due to the 144 aggregate days for which two of our vessels were off-charter and laid-up in the third and fourth quarter of 2011.

Operating Revenues

Operating revenue increased 30.1%, or \$108.4 million, to \$468.1 million in the year ended December 31, 2011, from \$359.7 million in the year ended December 31, 2010. The increase was primarily attributable to the addition to our fleet of nine vessels, which collectively contributed revenues of \$74.0 million during the year ended December 31, 2011.

Furthermore, operating revenues for the year ended December 31, 2011, reflect:

\$44.7 million incremental revenues in the year ended December 31, 2011 compared to the year ended December 31, 2010, related to six 6,500 TEU containerships (the *CMA CGM Musset*, the *CMA CGM Nerval*, the *CMA CGM Rabelais*, the *CMA CGM Racine*, the *YM Mandate* and the *YM Maturity*, which were added to our fleet on March 12, 2010, May 17, 2010, July 2, 2010, August 16, 2010, May 19, 2010 and August 18, 2010, respectively) and three 3,400 TEU containerships (the *Hanjin Buenos Aires*, the *Hanjin Santos* and the *Hanjin Versailles*, which were added to our fleet on May 27, 2010, July 6, 2010 and October 11, 2010, respectively).

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\$0.1 million reduction in revenues in the year ended December 31, 2011 compared to the year ended December 31, 2010. This was due to the sale of one 1,704 TEU containership, the *MSC Eagle*, on January 22, 2010, that contributed nil revenues in the year ended December 31, 2011 compared to \$0.1 million of revenues in the year ended December 31, 2010.

\$2.2 million reduction in revenues due to an increase in off-hire revenue available days by 51 days, to 333 days in the year ended December 31, 2011, from 282 days in the year ended December 31, 2010.

\$2.3 million reduction in revenues due to 144 off-charter revenue days for two of our vessels, which were laid-up in the third and fourth quarter of 2011.

\$5.7 million reduction in revenues in the year ended December 31, 2011 compared to the year ended December 31, 2010. This was mainly attributable to re-chartering of certain vessels at reduced charter rates in 2010 carried over in 2011.

Voyage Expenses

Voyage expenses increased 36.7%, or \$2.9 million, to \$10.8 million in the year ended December 31, 2011, from \$7.9 million for the year ended December 31, 2010. The increase was the result of increased port expenses, commissions and other voyage expenses due to the increased number of vessels in our fleet in the year ended December 31, 2011 compared to the year ended December 31, 2010. Furthermore, during the year ended December 31, 2011, we incurred an expense of \$0.8 million related to fuel costs due to the repositioning of one of our vessels. Our vessels are not otherwise subject to fuel costs, which are paid by our charterers.

Vessel Operating Expenses

Vessel operating expenses increased 34.9%, or \$30.8 million, to \$119.1 million in the year ended December 31, 2011, from \$88.3 million in the year ended December 31, 2010. The increase is mainly attributable to the increased average number of vessels in our fleet during the year ended December 31, 2011 compared to 2010, as well as increased costs of certain vessels, which were on lay-up for 249 days in aggregate during the year ended December 31, 2011 compared to 1,311 days in 2010. The average daily operating cost per vessel increased to \$6,246 for the year ended December 31, 2011, from \$5,884 for the year ended December 31, 2010 (excluding those vessels on lay-up), which is mainly attributable to the increased daily repair and maintenance and lubricant costs (following the increase of crude oil prices) during the year ended December 31, 2011 compared to 2010, as well as upward cost pressure on Euro-denominated costs resulting from the weaker U.S. Dollar in the year ended December 31, 2011 compared to 2010.

Depreciation

Depreciation expense increased 37.9%, or \$29.2 million, to \$106.2 million in the year ended December 31, 2011, from \$77.0 million in the year ended December 31, 2010. The increase in depreciation expense was due to the increased average number of vessels in our fleet (with higher cost base) during the year ended December 31, 2011, compared to the year ended December 31, 2010.

Amortization of Deferred Drydocking and Special Survey Costs

Amortization of deferred dry-docking and special survey costs decreased 21.6%, or \$1.6 million, to \$5.8 million in the year ended December 31, 2011, from \$7.4 million in the year ended December 31, 2010. During the year ended December 31, 2010, we had written-off the remaining unamortized balances of deferred dry-docking and special survey costs of \$1.4 million related to three of our vessels, as their new dry-docking was performed before the initially scheduled dates.

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General and Administrative Expenses

General and administrative expenses decreased 9.9%, or \$2.3 million, to \$21.0 million in the year ended December 31, 2011, from \$23.3 million in 2010. The decrease was the result of a \$4.9 million reduction in legal and administrative fees recorded in the year ended December 31, 2011 compared to 2010, which was partially offset by increased fees of \$2.1 million to our Manager in the year ended December 31, 2011 compared to 2010, due to the increase in the average number of vessels in our fleet, as well as increased non-cash stock-based compensation of \$0.5 million recorded in the year ended December 31, 2011 compared to 2010.

Interest Expense, Interest Income, and Other Finance Expenses

Interest expense increased 33.7%, or \$13.9 million, to \$55.1 million in the year ended December 31, 2011, from \$41.2 million in the year ended December 31, 2010. The change in interest expense was due to the increase in our average debt by \$406.6 million, to \$2,813.0 million in the year ended December 31, 2011, from \$2,406.4 million in the year ended December 31, 2010, which was partially offset by the decrease in the margin over LIBOR payable on interest under our credit facilities in the year ended December 31, 2011 compared to the year ended December 31, 2010, in accordance with our comprehensive financing plan, which sets the margin at 1.85% (in relation to our credit facilities under our Bank Agreement). Furthermore, the financing of our extensive newbuilding program resulted in \$16.1 million of interest being capitalized, rather than such interest being recognized as an expense, for the year ended December 31, 2011 compared to \$23.9 million of capitalized interest for the year ended December 31, 2010.

Interest income increased by \$0.3 million, to \$1.3 million in the year ended December 31, 2011, from \$1.0 million in the year ended December 31, 2010, which was mainly attributable to higher average cash balances for the year ended December 31, 2011 compared to the year ended December 31, 2010.

Other finance expenses, increased by \$8.5 million, to \$14.6 million in the year ended December 31, 2011, from \$6.1 million in the year ended December 31, 2010. The increase is attributable to increased amortization of finance fees of \$8.4 million (which were deferred and are amortized over the life of the respective credit facilities) and \$1.6 million of finance fees accrued for the year ended December 31, 2011, as well as a non-cash loss in fair value of warrants of \$2.3 million recorded in the year ended December 31, 2011. Furthermore, during the year ended December 31, 2010, we recorded an expense of \$3.8 million of one-time fees related to our comprehensive financing plan.

Other Income/(Expenses), Net

Other income/(expenses), net, was an expense of \$2.0 million in the year ended December 31, 2011, compared to an expense of \$5.1 million in the year ended December 31, 2010. During the year ended December 31, 2011, we recorded an expense of \$2.3 million for fees directly related to our comprehensive financing plan. Furthermore, during the year ended December 31, 2010, we recorded an expense of \$18.0 million for fees directly related to our comprehensive financing plan, which were partially offset by a gain of \$12.6 million in relation to an agreement entered into with the charterer of the three newbuildings cancelled on May 25, 2010 in consideration for the termination of the respective charter parties.

Unrealized and realized loss on Derivatives

Unrealized gain/(loss) on interest rate swap hedges was a gain of \$9.0 million in the year ended December 31, 2011, compared to a loss of \$48.9 million in the year ended December 31, 2010, which positive charge of \$57.9 million is attributable to hedge accounting ineffectiveness and mark to market valuation of two of our swaps not qualifying for hedge accounting.

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Realized loss on interest rate swap hedges increased by \$42.0 million to \$130.3 million in the year ended December 31, 2011, from \$88.3 million in the year ended December 31, 2010, which is mainly attributable to the higher average notional amount of swaps and the persisting low floating LIBOR rates, as well as the reduction in the realized losses being deferred for the respective periods (as discussed below) following the gradual delivery of our vessels under construction.

In addition, realized losses on cash flow hedges of \$31.3 million and \$38.5 million in the year ended December 31, 2011 and 2010, respectively, were deferred in "Accumulated Other Comprehensive Loss", rather than such realized losses being recognized as expenses, and will be reclassified into earnings over the depreciable lives of these vessels under construction, which are financed by loans with interest rates that have been hedged by our interest rate swap contracts.

The table below provides an analysis of the items discussed above which were recorded in the years ended December 31, 2011 and 2010:

	Year ended December 31, 2011	Year ended December 31, 2010
(in millions)		
<i>Cash flow interest rate swaps</i>		
Total realized losses	\$ (163.8)	\$ (129.4)
Realized losses deferred in Other Comprehensive Loss	31.3	38.5
Realized losses expensed in consolidated Statements of Comprehensive Income	(132.5)	(90.9)
Unrealized gains/(losses)	9.2	(45.7)
Amortization of deferred realized losses	(1.6)	(0.5)
Accelerated amortization of deferred realized losses		(4.2)
Unrealized and realized losses on cash flow interest rate swaps	\$ (124.9)	\$ (141.3)
<i>Fair value interest rate swaps</i>		
Unrealized gains/(losses) on swap asset	\$ (0.5)	\$ 0.7
Unrealized gains/(losses) on fair value of hedged debt	1.0	(0.2)
Amortization of fair value of hedged debt	0.8	1.0
Realized gains	2.2	2.6
Unrealized and realized gains on fair value interest rate swaps	\$ 3.5	\$ 4.1
Unrealized and realized losses on derivatives	\$ (121.4)	\$ (137.2)

Liquidity and Capital Resources

Our principal source of funds has been equity provided by our stockholders from our initial public offering in October 2006 and common stock sale in August 2010, operating cash flows, vessel sales, and long-term bank borrowings. Our principal uses of funds have been capital expenditures to establish, grow and maintain our fleet, comply with international shipping standards, environmental laws and regulations and to fund working capital requirements.

Our short-term liquidity needs primarily relate to the funding of our vessel operating expenses, debt interest payments and servicing the current portion of our debt obligations and cash flow interest rate swaps liabilities. Our long-term liquidity needs primarily relate to debt repayment and capital expenditures related to any further growth of our fleet.

We anticipate that our primary sources of funds will be cash from operations and equity or capital markets debt financings, subject to restrictions on uses of such funds, and incurrence of debt under any new credit facilities we arrange.

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On January 24, 2011, we entered into a definitive agreement (the "Bank Agreement"), which became effective on March 4, 2011, in respect of our existing financing arrangements (other than our credit facilities with the Export Import Bank of Korea ("KEXIM") and with KEXIM and ABN Amro), and for new credit facilities (the "New Credit Facilities") from certain of our lenders aggregating \$424.75 million. The Bank Agreement provided for, among other things, the following under our existing bank debt facilities: the amortization and maturities were rescheduled, the interest rate margin was reduced, and the financial covenants, events of default and guarantee and security packages were revised. We were in compliance with the revised financial covenants under the Bank Agreement as of December 31, 2012. On August 12, 2010, we entered into a supplemental agreement which set the financial covenants in our KEXIM-ABN Amro credit facility at the levels set forth in the Bank Agreement, and contemplated in the commitment letter therefore, effective from June 30, 2010 through June 30, 2012, and the interest rate margin was increased by 0.5 percentage points for the same period. On February 9, 2012, we signed a supplemental agreement with KEXIM and ABN Amro, extending the terms discussed above through June 30, 2014. Our KEXIM credit facility contains only a collateral coverage ratio covenant, with which we were in compliance as of December 31, 2012. In addition, on September 27, 2010, we entered into an agreement with Hyundai Samho Shipyard (the "Hyundai Samho Vendor Financing") to finance 15%, or \$190.0 million, of the aggregate purchase price of eight of our newbuilding containerships, and on February 21, 2011, we entered into a bank agreement with Citibank acting as an agent, ABN Amro and the Export-Import Bank of China ("CEXIM") for a new \$203.4 million credit facility (the "Sinasure-CEXIM Credit Facility"), in respect of which the China Export & Credit Insurance Corporation (or Sinasure) will cover certain risks, as well as guarantee our obligations in certain circumstances. See " Credit Facilities" below.

We anticipate that our primary sources of funds described above, including future equity or debt financings in the case of any further growth of our fleet beyond our currently contracted vessels to the extent permitted under our credit facilities, will be sufficient to satisfy all of the short-term and long-term liquidity needs described above, up to the 2018 maturity of the credit facilities under our Bank Agreement, which we expect to refinance at such time.

As of December 31, 2012, we have completed our extensive newbuilding program and we have taken delivery all of our vessels under construction, all of which are under long-term time charters with large liner companies. Under our existing multi-year charters as of December 31, 2012, we had contracted revenues of \$577.0 million for 2013, \$550.0 million for 2014 and, thereafter, approximately \$3.8 billion. Although these expected revenues are based on contracted charter rates, we are dependent on our charterers' ability and willingness to meet their obligations under these charters. See "Risk Factors."

As of December 31, 2012, we had cash and cash equivalents of \$55.6 million and restricted cash of \$3.3 million. As of December 31, 2012, we had no remaining borrowing availability under our credit facilities. As of December 31, 2012, we had \$3.4 billion of outstanding indebtedness (including our vendor financing), of which \$182.5 million is payable within the next twelve months.

Under the Bank Agreement no principal payments are scheduled to be due before May 15, 2013. After that time, however, we are required to apply a substantial portion of our cash from operations to the repayment of principal under our financing arrangements. We currently expect that the remaining portion of our cash from operations will be sufficient to fund all of our other obligations. The Bank Agreement also contains requirements for the application of proceeds from any future vessel sales or financings, as well as other transactions. See " Bank Agreement" and " Credit Facilities" below.

Our board of directors determined in 2009 to suspend the payment of further cash dividends as a result of market conditions in the international shipping industry and in order to conserve cash to be applied toward the financing of our extensive new building program. In addition, under the Bank Agreement relating to our existing credit facilities and various new financing arrangements and the Sinasure-CEXIM credit facility, we are not permitted to pay cash dividends or repurchase shares of our

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capital stock unless (i) our consolidated net leverage is below 6:1 for four consecutive quarters and (ii) the ratio of the aggregate market value of our vessels to our outstanding indebtedness exceeds 125% for four consecutive quarters and provided that an event of default has not occurred and we are not, and after giving effect to the payment of the dividend, in breach of any covenant.

We will not receive any cash upon any exercise of the 15 million warrants to purchase shares of our common stock issued to our lenders participating in our comprehensive financing plan contemplated by our Bank Agreement described herein, as such warrants are only exercisable on a cash-less basis.

Cash Flows

Net Cash Provided by Operating Activities

Net cash flows provided by operating activities increased 180.0%, or \$107.1 million, to \$166.6 million in the year ended December 31, 2012 compared to \$59.5 million in the year ended December 31, 2011. The increase was primarily the result of a favorable change in the working capital position and increased cash from operations of \$141.2 million (before taking into account interest cost) in the year ended December 31, 2012 compared to the year ended December 31, 2011, which was partially offset by increased interest cost of \$32.0 million (including realized losses on our interest rate swaps), as well as increased payments for drydocking of \$2.1 million in the year ended December 31, 2012 compared to the year ended December 31, 2011.

Net cash flows provided by operating activities decreased 24.5%, or \$19.3 million, to \$59.5 million in the year ended December 31, 2011 compared to \$78.8 million in the year ended December 31, 2010. The decrease was primarily the result of increased interest cost of \$48.8 million (including realized losses on our interest rate swaps), as well as increased payments for drydocking of \$4.1 million in the year ended December 31, 2011 compared to the year ended December 31, 2010, which was partially offset by a favorable change in the working capital position and increased cash from operations of \$33.6 million (before taking into account interest cost).

Net Cash Used in Investing Activities

Net cash flows used in investing activities decreased 42.6%, or \$274.8 million, to \$369.8 million in the year ended December 31, 2012 compared to \$644.6 million in the year ended December 31, 2011. The difference between the years ended December 31, 2012 and 2011 reflects installment payments for newbuildings, as well as interest capitalized and other related capital expenditures of \$375.4 million in 2012 as opposed to \$644.6 million during the year ended December 31, 2011. In addition, during the year ended December 31, 2012 we received net proceeds from the sale of the *Montreal* of \$5.6 million.

Net cash flows used in investing activities increased 9.7%, or \$56.9 million, to \$644.6 million in the year ended December 31, 2011 compared to \$587.7 million in the year ended December 31, 2010. The difference between the years ended December 31, 2011 and 2010 reflects installment payments for newbuildings, as well as interest capitalized and other related capital expenditures of \$644.6 million in 2011 as opposed to \$589.5 million during the year ended December 31, 2010. In addition, during the year ended December 31, 2010 we received the remaining net proceeds from sale of *MSC Eagle* of \$1.8 million.

Net Cash Provided by Financing Activities

Net cash flows provided by financing activities decreased by \$199.1 million, to \$207.5 million in the year ended December 31, 2012 compared to \$406.6 million in the year ended December 31, 2011. Net proceeds from long-term debt decreased to \$207.9 million in 2012 compared to \$436.9 million in 2011. In addition, deferred fees decreased to \$0.1 million in 2012 compared to \$30.3 million in 2011 (attributed to our Bank Agreement).

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Net cash flows provided by financing activities decreased by \$210.1 million, to \$406.6 million in the year ended December 31, 2011 compared to \$616.7 million in the year ended December 31, 2010. The decrease is primarily due to proceeds from equity issuance of \$200.0 million in 2010 and a \$195.6 million decrease in restricted cash in 2010. Net proceeds from long-term debt increased to \$436.9 million in 2011 compared to \$228.6 million in 2010. In addition, deferred fees increased to \$30.3 million in 2011 (attributed to our debt restructuring plan) compared to \$7.4 million in 2010.

Non-GAAP Financial Measures

We report our financial results in accordance with U.S. generally accepted accounting principles (GAAP). Management believes, however, that certain non-GAAP financial measures used in managing the business may provide users of this financial information additional meaningful comparisons between current results and results in prior operating periods. Management believes that these non-GAAP financial measures can provide additional meaningful reflection of underlying trends of the business because they provide a comparison of historical information that excludes certain items that impact the overall comparability. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our performance. See the tables below for supplemental financial data and corresponding reconciliations to GAAP financial measures. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

EBITDA and Adjusted EBITDA

EBITDA represents net (loss)/income before interest income and expense, taxes, depreciation, as well amortization of deferred drydocking & special survey costs, amortization of deferred realized losses of cash flow interest rate swaps, amortization of finance costs and finance costs accrued. Adjusted EBITDA represents net (loss)/income before interest income and expense, taxes, depreciation, amortization of deferred drydocking & special survey costs, amortization of deferred realized losses of cash flow interest rate swaps, amortization of finance costs and finance costs accrued, impairment loss, non-cash changes in fair value of warrants, stock based compensation, gain/(loss) on sale of vessels, unrealized (gain)/loss on derivatives, realized gain/(loss) on derivatives, gain on contract termination and other one-time items in relation to the Company's Comprehensive Financing Plan. We believe that EBITDA and Adjusted EBITDA assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance and because they are used by certain investors to measure a company's ability to service and/or incur indebtedness, pay capital expenditures and meet working capital requirements. EBITDA and Adjusted EBITDA are also used: (i) by prospective and current customers as well as potential lenders to evaluate potential transactions; and (ii) to evaluate and price potential acquisition candidates. Our EBITDA and Adjusted EBITDA may not be comparable to that reported by other companies due to differences in methods of calculation.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are: (i) EBITDA/Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and (ii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA/Adjusted EBITDA do not reflect any cash requirements for such capital expenditures. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Because of these limitations, EBITDA/Adjusted EBITDA should not be considered as principal indicators of our performance.

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EBITDA and Adjusted EBITDA Reconciliation to Net Income/(Loss)

	Year ended December 31, 2012	Year ended December 31, 2011
(In thousands)		
Net (loss)/income	\$ (105,204)	\$ 13,437
Depreciation	143,938	106,178
Amortization of deferred drydocking & special survey costs	6,070	5,800
Amortization of deferred realized losses of cash flow interest rate swaps	3,524	1,575
Amortization of finance costs	14,314	9,700
Finance costs accrued (Exit Fee I and II under our Bank Agreement)	2,762	1,592
Interest income	(1,642)	(1,304)
Interest expense	87,340	55,124
EBITDA	\$ 151,102	\$ 192,102
Gain on sale of vessel	(830)	
Comprehensive Financing Plan related fees(1)		2,266
Impairment loss	129,630	
Stock based compensation	139	2,182
Non-cash changes in fair value of warrants		2,253
Realized loss on derivatives	150,910	130,341
Unrealized loss/(gain) on derivatives	739	(10,537)
Adjusted EBITDA	\$ 431,690	\$ 318,607

EBITDA and Adjusted EBITDA Reconciliation to Net Cash Provided from Operating Activities

	Year ended December 31, 2012	Year ended December 31, 2011
(In thousands)		
Net cash provided by operating activities	\$ 166,558	\$ 59,492
Net increase/(decrease) in current and non-current assets	49,375	14,594
Net (increase)/decrease in current and non-current liabilities	(37,194)	19,556
Net interest	85,698	53,820
Written-off of finance and other costs		
Payments for dry-docking and special survey costs deferred	9,308	7,218
Gain on sale of vessel	830	
Impairment loss	(129,630)	
Stock based compensation	(139)	(2,182)
Change in fair value of warrants		(2,253)
Unrealized gain/(loss) on derivatives	(739)	10,537
Realized losses on cash flow hedges deferred in Other Comprehensive Loss	7,035	31,320
EBITDA	\$ 151,102	\$ 192,102
Gain on sale of vessels	(830)	
Comprehensive Financing Plan related fees(1)		2,266
Impairment loss	129,630	
Stock based compensation(2)	139	2,182
Non-cash changes in fair value of warrants		2,253
Realized loss on derivatives	150,910	130,341
Unrealized (gain)/loss on derivatives	739	(10,537)
Adjusted EBITDA	\$ 431,690	\$ 318,607

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- (1) Fees related to our comprehensive financing plan contemplated by our Bank Agreement.
 - (2) Stock based compensation expense was recorded in General and administrative expenses.

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EBITDA decreased by \$41.0 million, to \$151.1 million in the year ended December 31, 2012, from \$192.1 million in the year ended December 31, 2011. The decrease was mainly attributable to an impairment loss of \$129.6 million recorded in the year ended December 31, 2012, increased unrealized and realized losses on derivatives of \$31.8 million in the year ended December 31, 2012 compared to the year ended December 31, 2011 and increased operating expenses of \$4.2 million in the year ended December 31, 2012 compared to the year ended December 31, 2011, which were partially offset by a \$120.9 million increase in operating revenue in the year ended December 31, 2012 compared to the year ended December 31, 2011, a \$0.6 million decline in general and administrative expenses in the year ended December 31, 2012 compared to the year ended December 31, 2011 and a \$0.8 million gain on sale of vessel recorded in the year ended December 31, 2012.

Adjusted EBITDA increased \$113.1 million, to \$431.7 million in the year ended December 31, 2012, from \$318.6 million in the year ended December 31, 2011. The increase is mainly attributable to increased operating revenues of \$120.9 million in the year ended December 31, 2012 compared to the year ended December 31, 2011, which was partially offset by increased operating expenses of \$4.2 million in the year ended December 31, 2012 compared to the year ended December 31, 2011 and increased voyage expenses of \$2.7 million in the year ended December 31, 2012 compared to the year ended December 31, 2011.

EBITDA increased by \$168.0 million, to \$192.1 million in the year ended December 31, 2011, from \$24.1 million in the year ended December 31, 2010. The increase was mainly attributable to a \$108.4 million increase in operating revenue in the year ended December 31, 2011 compared to the year ended December 31, 2010, as well as a \$15.8 million reduction in unrealized and realized losses on derivatives in the year ended December 31, 2011 compared to the year ended December 31, 2010, a \$2.2 million decline in general and administrative expenses in the year ended December 31, 2011 compared to the year ended December 31, 2010, a \$3.1 million reduction in other income (expenses), net in the year ended December 31, 2011 compared to the year ended December 31, 2010 and an impairment loss of \$71.5 million recorded in the year ended December 31, 2010, which were partially offset by increased operating expenses of \$30.9 million in the year ended December 31, 2011 compared to the year ended December 31, 2010 and increased voyage expenses of \$2.8 million in the year ended December 31, 2011 compared to the year ended December 31, 2010.

Adjusted EBITDA increased \$74.8 million, to \$318.6 million in the year ended December 31, 2011, from \$243.8 million in the year ended December 31, 2010. The increase is mainly attributable to increased operating revenues of \$108.4 million in the year ended December 31, 2011 compared to the year ended December 31, 2010, which were partially offset by increased operating expenses of \$30.9 million in the year ended December 31, 2011 compared to the year ended December 31, 2010 and increased voyage expenses of \$2.8 million in the year ended December 31, 2011 compared to the year ended December 31, 2010.

Bank Agreement

As noted above, on January 24, 2011, we entered into an agreement, which is referred to as the Bank Agreement, that, upon its effectiveness on March 4, 2011, superseded, amended and supplemented the terms of each of our then-existing credit facilities ("Pre-existing Credit Facilities") (other than our credit facilities with KEXIM and KEXIM-ABN Amro which are not covered thereby), and provides for, among other things, revised amortization schedules, maturities, interest rates, financial covenants, events of defaults, guarantee and security packages. As of December 31, 2012, we were in compliance with the financial covenants of the Bank Agreement. For additional details, please see Note 13, Long-term Debt, to our consolidated financial statements included elsewhere herein.

Table of Contents**Interest**

Under the terms of the Bank Agreement, borrowings under each of our Pre-existing Credit Facilities, which excludes the KEXIM and KEXIM-ABN Amro credit facilities which are not covered by the Bank Agreement, bear interest at an annual interest rate of LIBOR plus a margin of 1.85%.

Principal Payments

Under the terms of the Bank Agreement, we are not required to repay any outstanding principal amounts under our existing credit facilities, other than the KEXIM and KEXIM-ABN Amro credit facilities which are not covered by the Bank Agreement, until after May 15, 2013; thereafter we will be required to make quarterly principal payments in fixed amounts, in relation to our total debt commitments from our lenders under the Bank Agreement and New Credit Facilities (see " New Credit Facilities" below), as specified in the table below:

	February 15,	May 15,	August 15,	November 15,	December 31,	Total
2013	\$	\$	\$	\$	\$	\$
2014	22,722,970	21,942,530	22,490,232	24,654,040		91,809,772
2015	26,736,647	27,021,750	25,541,180	34,059,102		113,358,679
2016	30,972,971	36,278,082	32,275,598	43,852,513		143,379,164
2017	44,938,592	36,690,791	35,338,304	31,872,109		148,839,796
2018	34,152,011	37,585,306	44,398,658	45,333,618	65,969,274	227,438,867
Total						\$ 786,956,945

*
We may elect to make the scheduled payments shown in the above table three months earlier.

Furthermore, an additional variable payment in such amount that, together with the fixed principal payment (as disclosed above), equals 92.5% of Actual Free Cash Flow for such quarter until the earlier of (x) the date on which our consolidated net leverage is below 6:1 and (y) May 15, 2015; and thereafter through maturity, which will be December 31, 2018 for each covered credit facility, we will be required to make quarterly principal payments in fixed amounts as specified in the Bank Agreement and described above plus an additional payment in such amount that, together with the fixed principal payment, equals 89.5% of Actual Free Cash Flow for such quarter. In addition, any additional amounts of cash and cash equivalents (but during the final principal payment period described above only such additional amounts in excess of the greater of (1) \$50 million of accumulated unrestricted cash and cash equivalents and (2) 2% of our consolidated debt), would be applied first to the prepayment of the New Credit Facilities and after the New Credit Facilities are repaid, to the Pre-existing Credit Facilities. Under the Bank Agreement, "Actual Free Cash Flow" with respect to each credit facility covered thereby would be equal to revenue from the vessels collateralizing such facility, less the sum of (a) interest expense under such credit facility, (b) pro-rata portion of payments under our interest rate swap arrangements, (c) interest expense and scheduled amortization under the Hyundai Samho Vendor Financing and (d) per vessel operating expenses and pro rata per vessel allocation of general and administrative expenses (which are not permitted to exceed the relevant budget by more than 20%), plus (e) the pro-rata share of operating cash flow of any Applicable Second Lien Vessel (which will mean, with respect to a Pre-existing Credit Facility, a vessel with respect to which the participating lenders under such credit facility have a second lien security interest and the first lien credit facility has been repaid in full). The last payment due on December 31, 2018, will also include the unamortized remaining principal debt balances, as such amounts will be determinable following the fixed and variable amortization.

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Under the terms of the Bank Agreement, we will continue to be required to make any mandatory prepayments provided for under the terms of our existing credit facilities and will be required to make additional prepayments as follows:

50% of the first \$300 million of net equity proceeds, including convertible debt and hybrid instruments (excluding the \$200 million of net equity proceeds which were a condition to the Bank Agreement and which were received in August 2010), after entering into the Bank Agreement and 25% of any additional net equity proceeds thereafter until December 31, 2018; and

any debt proceeds (after repayment of any underlying secured debt covered by vessels collateralizing the new borrowings) (excluding the New Credit Facilities, the Sinasure-CEXIM Credit Facility and the Hyundai Samho Vendor Financing), which amounts would first be applied to repayment of amounts outstanding under the New Credit Facilities and then to the Pre-existing Credit Facilities.

Any equity proceeds retained by us and not used within 12 months for certain specified purposes would be applied for prepayment of the New Credit Facilities and then to the Pre-existing Credit Facilities. We would also be required to prepay the portion of a credit facility attributable to a particular vessel upon the sale or total loss of such vessel; the termination or loss of an existing charter for a vessel, unless replaced within a specified period by a similar charter acceptable to the lenders; or the termination of a newbuilding contract. Our respective lenders under our Pre-existing Credit Facilities covered by the Bank Agreement and the New Credit Facilities may, at their option, require us to repay in full amounts outstanding under such respective credit facilities, upon a "Change of Control" of the Company, which for these purposes is defined as (i) Dr. Coustas ceasing to be our Chief Executive Officer, (ii) our common stock ceasing to be listed on the NYSE (or other recognized stock exchange), (iii) a change in the ultimate beneficial ownership of the capital stock of any of our subsidiaries or ultimate control of the voting rights of those shares, (iv) Dr. Coustas and members of his family ceasing to collectively own over one-third of the voting interest in our outstanding capital stock or (v) any other person or group controlling more than 20% of the voting power of our outstanding capital stock.

Covenants and Events of Defaults

Under the Bank Agreement, the financial covenants under each of our existing credit facilities (other than under our KEXIM-ABN Amro credit facility which is not covered thereby, but which, respectively, has been aligned with those covenants below through June 30, 2014 under the supplemental letter signed on August 12, 2010 and the February 9, 2012 amendment thereto and our KEXIM credit facility, which contains only a collateral coverage covenant of 130%), have been reset to require us to:

maintain a ratio of (i) the market value of all of the vessels in our fleet, on a charter-inclusive basis, plus the net realizable value of any additional collateral, to (ii) our consolidated total debt above specified minimum levels gradually increasing from 90% through December 31, 2011 to 130% from September 30, 2017 through September 30, 2018;

maintain a minimum ratio of (i) the market value of the nine vessels (*Hyundai Smart, Hyundai Speed, Hyundai Ambition, Hyundai Together, Hyundai Tenacity, Hanjin Greece, Hanjin Italy, Hanjin Germany* and the *CMA CGM Rabelais*) collateralizing the New Credit Facilities, calculated on a charter-free basis, plus the net realizable value of any additional collateral, to (ii) our aggregate debt outstanding under the New Credit Facilities of 100% from September 30, 2012 through September 30, 2018;

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maintain minimum free consolidated unrestricted cash and cash equivalents, less the amount of the aggregate variable principal amortization amounts, described above, of \$30.0 million at the end of each calendar quarter;

ensure that our (i) consolidated total debt less unrestricted cash and cash equivalents to (ii) consolidated EBITDA (defined as net income before interest, gains or losses under any hedging arrangements, tax, depreciation, amortization and any other non-cash item, capital gains or losses realized from the sale of any vessel, finance charges and capital losses on vessel cancellations and before any non-recurring items and excluding any accrued interest due to us but not received on or before the end of the relevant period; provided that non-recurring items excluded from this calculation shall not exceed 5% of EBITDA calculated in this manner) for the last twelve months does not exceed a maximum ratio gradually decreasing from 12:1 on December 31, 2010 to 4.75:1 on September 30, 2018;

ensure that the ratio of our (i) consolidated EBITDA for the last twelve months to (ii) net interest expense (defined as interest expense (excluding capitalized interest), less interest income, less realized gains on interest rate swaps (excluding capitalized gains) and plus realized losses on interest rate swaps (excluding capitalized losses)) exceeds a minimum level of 1.50:1 through September 30, 2013 and thereafter gradually increasing to 2.80:1 by September 30, 2018; and

maintain a consolidated market value adjusted net worth (defined as the amount by which our total consolidated assets adjusted for the market value of our vessels in the water less cash and cash equivalents in excess of our debt service requirements exceeds our total consolidated liabilities after excluding the net asset or liability relating to the fair value of derivatives as reflected in our financial statements for the relevant period) of at least \$400 million.

We were in compliance with these covenants as of the date of filing of this annual report.

For the purpose of these covenants, the market value of our vessels will be calculated, except as otherwise indicated above, on a charter-inclusive basis (using the present value of the "bareboat-equivalent" time charter income from such charter) so long as a vessel's charter has a remaining duration at the time of valuation of more than 12 months plus the present value of the residual value of the relevant vessel (generally equivalent to the charter free value of an equivalent vessel today at the age such vessel would be at the expiration of the existing time charter). The market value for newbuilding vessels, all of which currently have multi-year charters, would equal the lesser of such amount and the newbuilding vessel's book value.

Under the terms of the Bank Agreement, the existing credit facilities also contain customary events of default, including those relating to cross-defaults to other indebtedness, defaults under our swap agreements, non-compliance with security documents, material adverse changes to our business, a Change of Control as described above, a change in our Chief Executive Officer, our common stock ceasing to be listed on the NYSE (or another recognized stock exchange), a change in, or breach of the management agreement by, the manager for the vessels securing the respective credit facilities and cancellation or amendment of the time charters (unless replaced with a similar time charter with a charterer acceptable to the lenders) for the vessels securing the respective credit facilities.

Under the terms of the Bank Agreement, we generally will not be permitted to incur any further financial indebtedness or provide any new liens or security interests, unless such security is provided for the equal and ratable benefit of each of the lenders party to the intercreditor agreement we entered into with each of the lenders participating under the Bank Agreement, other than security arising by operation of law or in connection with the refinancing of outstanding indebtedness, with the consent, not to be unreasonably withheld, of all lenders with a lien on the security pledged against such outstanding indebtedness. In addition, we would not be permitted to pay cash dividends or repurchase

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shares of our capital stock unless (i) our consolidated net leverage is below 6:1 for four consecutive quarters and (ii) the ratio of the aggregate market value of our vessels to our outstanding indebtedness exceeds 125% for four consecutive quarters and provided that an event of default has not occurred and we are not, and after giving effect to the payment of the dividend, in breach of any covenant.

Collateral and Guarantees

Each of our Pre-existing Credit Facilities and swap arrangements, to the extent applicable, continued to be secured by their previous collateral on the same basis, and received, to the extent not previously provided, pledges of the shares of our subsidiaries owning the vessels collateralizing the applicable facilities, cross-guarantees from each subsidiary owning the vessels collateralizing such facilities, assignment of the refund guarantees in relation to any newbuildings funded by such facilities and other customary shipping industry collateral.

New Credit Facilities (Aegean Baltic Bank HSH Nordbank Piraeus Bank, RBS, ABN Amro Club facility, Club Facility and Citi-Eurobank)

On January 24, 2011, as contemplated by the Bank Agreement, we entered into agreements for the following new term loan credit facilities ("New Credit Facilities") to finance newbuildings which were delivered in 2011 and 2012:

- (i) a \$123.8 million credit facility provided by HSH, which is secured by the *Hyundai Speed*, the *Hanjin Italy* and the *CMA CGM Rabelais* and customary shipping industry collateral related thereto;
- (ii) a \$100.0 million credit facility provided by RBS, which is secured by the *Hyundai Smart* and the *Hanjin Greece* and customary shipping industry collateral related thereto;
- (iii) a \$37.1 million credit facility with ABN Amro and lenders participating under the Bank Agreement which is secured by *Hanjin Germany* and customary shipping industry collateral related thereto;
- (iv) a \$83.9 million new club credit facility provided, on a pro rata basis, by the other existing lenders participating under the Bank Agreement, which is secured by *Hyundai Together* and *Hyundai Tenacity* and customary shipping industry collateral related thereto; and
- (v) a \$80.0 million credit facility with Citibank and Eurobank, which is secured by the *Hyundai Ambition* and customary shipping industry collateral related thereto ((i)-(v), collectively, the "New Credit Facilities").

As of December 31, 2012, \$424.8 million was outstanding under the above New Credit Facilities and there was no remaining borrowing availability under the respective credit facilities.

Interest

Borrowings under each of the New Credit Facilities bear interest at an annual interest rate of LIBOR plus a margin of 1.85%, subject, on and after January 1, 2013, to increases in the applicable margin to: (i) 2.50% if the outstanding indebtedness thereunder exceeds \$276 million, (ii) 3.00% if the outstanding indebtedness thereunder exceeds \$326 million and (iii) 3.50% if the outstanding indebtedness thereunder exceeds \$376 million.

Principal Payments

Under the Bank Agreement, we are not required to repay any outstanding principal amounts under our New Credit Facilities until after May 15, 2013 and thereafter we will be required to make quarterly principal payments in fixed amounts as specified in the Bank Agreement plus an additional quarterly variable amortization payment, all as described above under " Bank Agreement Principal Payments."

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Covenants, Events of Default and Other Terms

The New Credit Facilities contain substantially the same financial and operating covenants, events of default, dividend restrictions and other terms and conditions as applicable to our Pre-existing Credit Facilities as revised under the Bank Agreement described above.

Collateral and Guarantees

The collateral described above relating to the newbuildings financed by the respective credit facilities, will be (other than in respect of the *CMA CGM Rabelais*) subject to a limited participation by Hyundai Samho in any enforcement thereof until repayment of the related Hyundai Samho Vendor financing (described below) for such vessels. In addition, the lenders participating in the new \$83.9 million club credit facility described above received a lien on *Hyundai Together* and *Hyundai Tenacity* as additional security in respect of the existing credit facilities the Company had with such lenders. The lenders under the other New Credit Facilities also received a lien on the respective vessels securing such New Credit Facilities as additional collateral in respect of its previously existing credit facilities and interest rate swap arrangements with such lenders and Citibank and Eurobank also received a second lien on *Hyundai Ambition* as collateral in respect of its currently unsecured interest rate arrangements with them.

In addition, Aegean Baltic HSH Nordbank Piraeus Bank also received a second lien on *the Deva*, the *CSCL Europe* and the *CSCL Pusan* as collateral in respect of all borrowings from Aegean Baltic HSH Nordbank Piraeus Bank and RBS also received a second lien on *the Derby D*, the *CSCL America* and the *CSCL Le Havre* as collateral in respect of all borrowings from RBS.

Our obligations under the New Credit Facilities are guaranteed by our subsidiaries owning the vessels collateralizing the respective credit facilities. Our Manager has also provided an undertaking to continue to provide us with management services and to subordinate its rights to the rights of its lenders, the security trustee and applicable hedge counterparties.

Sinosure-CEXIM Credit Facility

On February 21, 2011, we entered into a bank agreement with Citibank, acting as agent, ABN Amro and the Export-Import Bank of China ("CEXIM") for a senior secured credit facility (the "Sinosure-CEXIM Credit Facility") of \$203.4 million for the newbuilding vessels, the *CMA CGM Tancredi*, the *CMA CGM Bianca* and the *CMA CGM Samson*, securing such tranche for post-delivery financing of these vessels. We took delivery of the respective vessels in 2011. The China Export & Credit Insurance Corporation, or Sinosure, covers a number of political and commercial risks associated with each tranche of the credit facility.

As of December 31, 2012, \$183.1 million was outstanding under the credit facility and there was no remaining borrowing availability under the facility.

Principal and Interest Payments

Borrowings under the Sinosure-CEXIM Credit Facility bear interest at an annual interest rate of LIBOR plus a margin of 2.85% payable semi-annually in arrears. We are required to repay principal amounts drawn in consecutive semi-annual installments over a ten-year period commencing from the delivery of the respective newbuilding.

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Covenants, Events of Default and Other Terms

The Sinosure-CEXIM Credit Facility requires us to:

maintain a ratio of total net debt (defined as total liabilities less cash and cash equivalents) to adjusted total consolidated assets (total consolidated assets with market value of vessels replacing book value of vessels less cash and cash equivalents) of no more than 70%;

maintain a minimum ratio of the market value of the vessel collateralizing a tranche of the facility to debt outstanding under such tranche of 125%;

maintain minimum free consolidated unrestricted cash and cash equivalents, through February 21, 2014, of \$30.0 million, and the higher of \$30.0 million and 2% of consolidated total debt thereafter;

ensure that the ratio of our (i) consolidated EBITDA (defined as net income before interest, gains or losses under any hedging arrangements, tax, depreciation, amortization and any other non-cash item, capital gains or losses realized from the sale of any vessel, financing payments, fees and commissions and capital losses on vessel cancellations and before any non-recurring items) for the last twelve months to (ii) interest expense (defined as the aggregate amount of interest, commission, fees and other finance charges (excluding capitalized interest)) exceeds 2.50:1; and

maintain a consolidated market value adjusted net worth (defined as our total consolidated assets adjusted for the market value of our vessels less our total consolidated liabilities) of at least \$400 million.

For the purpose of these covenants, the market value of our vessels will be calculated, except as otherwise indicated above, on a charter-inclusive basis (using the present value of the "bareboat-equivalent" time charter income from such charter) so long as a vessel's charter has a remaining duration at the time of valuation of more than six months plus the present value of the residual value of the relevant vessel (generally equivalent to the charter free value of such a vessel at the age such vessel would be at the expiration of the existing time charter). The Sinosure-CEXIM credit facility also contains customary events of default, including those relating to cross-defaults to other indebtedness, defaults under our swap agreements, non-compliance with security documents, material adverse changes to our business, a Change of Control as described above, a change in our Chief Executive Officer, our common stock ceasing to be listed on the NYSE (or Nasdaq or another recognized stock exchange), a change in, or breach of the management agreement by, the manager for the mortgaged vessels and cancellation or amendment of the time charters (unless replaced with a similar time charter with a charterer acceptable to the lenders) for the mortgaged vessels.

We will not be permitted to pay cash dividends or repurchase shares of our capital stock unless (i) our consolidated net leverage is below 6:1 for four consecutive quarters and (ii) the ratio of the aggregate market value of our vessels to our outstanding indebtedness exceeds 125% for four consecutive quarters and provided that an event of default has not occurred and we are not, and after giving effect to the payment of the dividend is not, in breach of any covenant.

Collateral

The Sinosure-CEXIM Credit Facility is secured by customary shipping industry collateral relating to the financed vessels, the *CMA CGM Tancredi*, the *CMA CGM Bianca* and the *CMA CGM Samson*.

Hyundai Samho Vendor Financing

We entered into an agreement with Hyundai Samho Heavy Industries ("Hyundai Samho") for a financing facility of \$190.0 million in respect of eight of our newbuilding containerships being built by

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Hyundai Samho, the *Hyundai Speed*, the *Hyundai Smart*, the *Hyundai Ambition*, the *Hyundai Together*, the *Hyundai Tenacity*, the *Hanjin Greece*, the *Hanjin Italy* and the *Hanjin Germany*, in the form of delayed payment of a portion of the final construction installment for each such vessel.

Borrowings under this facility bear interest at a fixed interest rate of 8%. We are required to repay principal amounts under this financing facility in six consecutive semi-annual installments commencing one and a half years, in the case of the *Hanjin Greece*, the *Hanjin Italy* and the *Hanjin Germany* being financed, and in seven consecutive semi-annual installments commencing one year, in the case of the *Hyundai Speed*, the *Hyundai Smart*, the *Hyundai Ambition*, the *Hyundai Together*, the *Hyundai Tenacity*, after the delivery of the respective newbuilding being financed. This financing facility does not require us to comply with financial covenants, but contains customary events of default, including those relating to cross-defaults. This financing facility is secured by second priority collateral related to the vessels financed.

Exit Fees

We will be required to pay an Initial Exit Fee of \$15.0 million. Furthermore, we will be required to pay an Additional Exit Fee of \$10.0 million, if we will not repay at least \$150.0 million in the aggregate with equity proceeds by December 31, 2013. Both Exit Fees, in the respective proportion to Existing Facilities and New Money Facilities, are payable the earlier of (a) December 31, 2018 and (b) the date on which the respective facilities are repaid in full. The Exit Fees will accrete in the consolidated Statement of Comprehensive Income over the life of the respective facilities (with the effective interest method) and are reported under "Long-term debt, net of current portion" in the consolidated Balance Sheet. We recognized an amount of \$4.4 million and \$1.6 million as of December 31, 2012 and December 31, 2011, respectively.

Warrants

In 2011, we issued an aggregate of 15,000,000 warrants to our lenders under the Bank Agreement and New Credit Facilities to purchase, solely on a cash-less exercise basis, an aggregate of 15,000,000 shares of our common stock, which warrants have an exercise price of \$7.00 per share. All of these warrants will expire on January 31, 2019.

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Credit Facilities

We, as borrower, and certain of our subsidiaries, as guarantors, have entered into a number of credit facilities in connection with financing the acquisition of certain vessels in our fleet, which are described in Note 13 to our consolidated financial statements included in this annual report. The following summarizes certain terms of our credit facilities:

Lender	Outstanding Principal Amount (in millions)(1)	Collateral Vessels
The Royal Bank of Scotland(2)	\$ 686.8	The <i>Hyundai Progress</i> , the <i>Hyundai Highway</i> , the <i>Hyundai Bridge</i> , the <i>Hyundai Federal</i> (ex <i>APL Federal</i>), the <i>Zim Monaco</i> , the <i>Hanjin Buenos Aires</i> , the <i>Hanjin Versailles</i> , the <i>Hanjin Algeciras</i> , the <i>CMA CGM Racine</i> and the <i>CMA CGM Melisande</i>
Aegean Baltic Bank HSH Nordbank Piraeus Bank(3)	\$ 658.2	The <i>Elbe</i> , the <i>Kalamata</i> , the <i>Komodo</i> , the <i>Henry</i> , the <i>Commodore</i> (ex <i>Hyundai Commodore</i>), the <i>Duka</i> (ex <i>Hyundai Duke</i>), the <i>Independence</i> , the <i>Marathonas</i> , the <i>Messologi</i> , the <i>Mytilini</i> , the <i>Hope</i> , the <i>Honour</i> , the <i>Pride</i> (ex <i>SCI Pride</i>), the <i>Lotus</i> , the <i>Hyundai Vladivostok</i> , the <i>Hyundai Advance</i> , the <i>Hyundai Stride</i> , the <i>Hyundai Future</i> , the <i>Hyundai Sprinter</i>
Credit Agricole	\$ 156.8	The <i>CMA CGM Moliere</i> and the <i>CMA CGM Musset</i>
Deutsche Bank	\$ 180.0	The <i>Zim Rio Grande</i> , the <i>Zim Sao Paolo</i> and the <i>Zim Kingston</i>
Credit Suisse	\$ 221.1	The <i>Zim Luanda</i> , the <i>CMA CGM Nerval</i> and the <i>YM Mandate</i>
ABN Amro Lloyds TSB National Bank of Greece	\$ 253.2	The <i>SNL Colombo</i> (ex <i>YM Colombo</i>), the <i>YM Seattle</i> , the <i>YM Vancouver</i> and the <i>YM Singapore</i>
Commerzbank Credit Suisse Credit Agricole	\$ 298.5	The <i>ZIM Dalian</i> , the <i>Hanjin Santos YM Maturity</i> , the <i>Hanjin Constantza</i> and the <i>CMA CGM Attila</i>
HSH Nordbank	\$ 35.0	The <i>Deva</i> and the <i>Derby D</i>
KEXIM	\$ 39.3	The <i>CSCL Europe</i> and the <i>CSCL America</i>
KEXIM ABN Amro	\$ 79.3	The <i>CSCL Pusan</i> and the <i>CSCL Le Havre</i>
Aegean Baltic HSH Nordbank Piraeus Bank	\$ 123.8	The <i>Hyundai Speed</i> , the <i>Hanjin Italy</i> and the <i>CMA CGM Rabelais</i>
RBS	\$ 100.0	The <i>Hyundai Smart</i> and the <i>Hanjin Germany</i>
ABN Amro Club Facility	\$ 37.1	The <i>Hanjin Greece</i>
Club Facility	\$ 83.9	The <i>Hyundai Together</i> and the <i>Hyundai Tenacity</i>
Citi-Eurobank	\$ 80.0	The <i>Hyundai Ambition</i>
Sinosure-CEXIM-Citi-ABN Amro	\$ 183.1	The <i>CMA CGM Tancredi</i> , the <i>CMA CGM Bianca</i> and the <i>CMA CGM Samson</i>
Hyundai Samho Vendor	\$ 179.1	Second priority liens on the <i>Hyundai Smart</i> , the <i>Hyundai Speed</i> , the <i>Hyundai Ambition</i> , the <i>Hyundai Together</i> , the <i>Hyundai Tenacity</i> , the <i>Hanjin Greece</i> , the <i>Hanjin Italy</i> and the <i>Hanjin Germany</i>

(1) As of December 31, 2012. We have no remaining borrowing availability under the credit facilities.

(2)

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Pursuant to the Bank Agreement, this credit facility is also secured by a second priority lien on the *Derby D*, the *CSCL America* and the *CSCL Le Havre*.

(3)

Pursuant to the Bank Agreement, this credit facility is also secured by a second priority lien on the *Deva*, the *CSCL Europe* and the *CSCL Pusan*.

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Outstanding indebtedness under our each of our credit facilities, other than our KEXIM and KEXIM-ABN Amro credit facilities, as well as our Hyundai Samho Vendor Financing, bears interest at a rate of LIBOR plus an applicable margin. The weighted average interest rate margin over LIBOR in respect of our credit facilities was 1.9% for the years ended December 31, 2012 and 2011.

As described above, the interest rate, amortization profile and certain other terms of each of our previously existing credit facilities were adjusted to provide for consistent terms under each facility pursuant to the terms of the Bank Agreement, other than with respect to our KEXIM and KEXIM-ABN Amro credit facilities which are not covered by the Bank Agreement, but were amended through a separate supplemental agreement signed in 2010 and amended in February 2012. Our KEXIM credit facility, under which outstanding indebtedness bears interest at a fixed rate of 5.0125%, and our KEXIM-ABN Amro credit facility, under which \$70.3 million of the outstanding indebtedness, as of December 31, 2012, bears interest at a fixed rate of 5.02% and \$9.0 million of the outstanding indebtedness, as of December 31, 2012, bears interest at a rate of LIBOR plus a margin, have maturity dates of November 2016 and October 2018 (in respect of the fixed rate tranche) and January 2019 (in respect of the floating rate tranche), respectively.

Interest Rate Swaps

We have entered into interest rate swap agreements converting floating interest rate exposure into fixed interest rates in order to hedge our exposure to fluctuations in prevailing market interest rates, as well as interest rate swap agreements converting the fixed rate we pay in connection with certain of our credit facilities into floating interest rates in order to economically hedge the fair value of the fixed rate credit facilities against fluctuations in prevailing market interest rates. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk" and " Factors Affecting our Results of Operations Unrealized and realized loss on derivatives."

Contractual Obligations

Our contractual obligations as of December 31, 2012 were:

	Payments Due by Period				More than 5 years (After January 1, 2018)
	Total	Less than 1 year (2013)	1 - 3 years (2014 - 2015)	3 - 5 years (2016 - 2017)	
in thousands of Dollars					
Long-term debt obligations of contractual fixed debt principal repayments(1)	\$ 3,216,040	\$ 104,089	\$ 289,086	\$ 360,824	\$ 2,462,041
Long-term debt obligations including both contractual fixed and estimated variable debt principal repayments(2)	\$ 3,216,040	\$ 125,076	\$ 352,172	\$ 701,755	\$ 2,037,037
Vendor financing	179,142	57,388	103,918	17,836	
Interest on long-term debt obligations(3)	489,365	92,996	164,326	154,866	77,177
Payments to our manager(4)	21,757	21,757			
Total	\$ 3,906,304	\$ 297,217	\$ 620,416	\$ 874,457	\$ 2,114,214

- (1) These long-term debt obligations reflect our existing debt obligations as of December 31, 2012 giving effect to the Bank Agreement under which we are required to make quarterly principal

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payments in fixed amounts and additional principal payments in such amounts that, together with the fixed principal payment, equals a certain percentage of our Actual Free Cash Flow each quarter (refer to " Bank Agreement Principal Payments" above). These amounts include only the contractually fixed principal payments, and no variable amortization amounts. The last payment due on December 31, 2018, will also include the unamortized remaining principal debt balances, as such amounts will be determinable following the fixed and variable amortization.

(2) These long-term debt obligations reflect our existing debt obligations as of December 31, 2012 giving effect to the Bank Agreement under which we are required to make quarterly principal payments in fixed amounts and additional principal payments in such amounts that, together with the fixed principal payment, equals a certain percentage of our Actual Free Cash Flow each quarter (refer to " Bank Agreement Principal Payments" above). These amounts include both the contractually fixed principal payments, as well as management's estimate of the future Actual Free Cash Flows and resulting variable amortization. The last payment due on December 31, 2018, will also include the unamortized remaining principal debt balances, as such amounts will be determinable following the fixed and variable amortization.

(3) The interest payments in this table reflect our existing debt obligations as of December 31, 2012 giving effect to the Bank Agreement under which we are required to make quarterly principal payments in fixed amounts and additional principal payments in such amounts that, together with the fixed principal payment, equals a certain percentage of our Actual Free Cash Flow each quarter. The calculation of interest is based on outstanding debt balances as of December 31, 2012 amortized by both the contractual fixed and variable amortization payments, with such variable amortization payments based on management estimates as described in footnote 2 to this table above. The interest payments in this table are based on an assumed LIBOR rate of 0.33% in 2013, 0.44% in 2014 and up to a maximum of 2.2% thereafter. The actual variable amortization we pay may differ from management's estimates, which would result in different interest payment obligations. This table, including the interest payments, does not reflect the terms of our interest rate swap agreements which are described in "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

(4) Under our management agreement with Danaos Shipping, effective January 1, 2012, the management fees are a fee of \$675 per day for commercial, chartering and administrative services, a fee of \$340 per vessel per day for vessels on bareboat charter and \$675 per vessel per day for vessels on time charter. As of December 31, 2012, we had a fleet of 64 containerships all of which were on time charter, excluding two on bareboat charter and seven on lay-up (one of which we sold and delivered in February 2013). In addition, on February 8, 2013, we entered into an agreement to sell the *Henry*. These management fees will be adjusted annually by agreement between us and our manager. In addition, we also will pay our manager a commission of 1.0% of the gross freight, demurrage and charter hire collected from the employment of our ships, 0.5% of the contract price of any vessels bought or sold on our behalf and \$725,000 per newbuilding vessel for the supervision of any newbuilding contracts, as well as an annual fee of €1.4 million to provide us with the services of our executive officers. We expect to be obligated to make the payments set forth in the above table under our management agreement in the year ending December 31, 2013, based on our revenue, as reflected above under " Factors Affecting Our Results of Operations Operating Revenues," and our currently anticipated vessel acquisitions and dispositions and chartering arrangements described in this annual report. No interest is payable with respect to these obligations if paid on a timely basis, therefore no interest payments are included in these amounts.

Research and Development, Patents and Licenses

We incur from time to time expenditures relating to inspections for acquiring new vessels that meet our standards. Such expenditures are insignificant and they are expensed as they are incurred.

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Trend Information

Our results of operations depend primarily on the charter hire rates that we are able to realize. Charter hire rates paid for containerships are primarily a function of the underlying balance between vessel supply and demand and respective charter-party details. The demand for containerships is determined by the underlying demand for goods which are transported in containerships.

After improving in 2010 and early 2011 from the historic lows in late 2008 and 2009, since the third quarter of 2011, freight rates obtained by liner companies have declined and charter rates for containerships have decreased sharply, in many cases to a level below operating costs. In 2012, the supply of containership capacity exceeded demand, in particular on the mainlane trades. This was largely due to declines in global demand, particularly in Europe. Although global demand for seaborne transportation of containerized cargoes is expected to increase modestly in 2013, container freight rates and containership charter rates are expected to remain under pressure, including due to newbuildings scheduled to be delivered in 2013, until global economic demand strengthens significantly. Global demand is expected to be impacted by continued economic weakness in Europe and the resulting impact on consumer demand in Europe. Global containership supply and demand growth is expected to remain essentially balanced in 2013, while differing across different trade lanes. In particular, the Far East Europe trade is expected to remain relatively weaker with North-South and Intra-Asia trades relatively stronger. In addition, the relative weakness of the main trade lanes which utilize larger vessels has resulted in cascading of larger containerships for use on shorter trades. The idle containership fleet at end of September 2012 stood at approximately 3.4% of global fleet capacity, down from 4.4% at the January 2012 and still well below levels reached toward the end of 2009. Other than some ordering in early 2011, containership newbuilding orders since 2009 have been limited resulting in a decrease in the size of the order book compared to global fleet capacity to approximately 21% as of the beginning of the fourth quarter of 2012 from record high levels in 2008. The "slow-steaming" of services since 2009, particularly on longer trade routes, enabled containership operators to both moderate the impact of high bunker costs, while absorbing additional capacity. This has proved to be an effective approach and it currently appears likely that this will remain in place in the coming year.

The benchmark rates declined in all quoted size sectors, with the deepest decline, in the benchmark one-year daily rate of a 4,400 TEU Panamax containership, which decreased from \$36,000 in May 2008 to \$8,900 in December 2012, after reaching a low of \$6,400 in December 2009 and briefly recovering to a peak of \$28,500 in March 2011.

As of February 22, 2012, we had six containerships, aggregating 24,355 TEU in capacity, on lay-up (one of which we have agreed to sell) and we had 8 containerships, aggregating 29,475 TEU in capacity, with charter arrangements expiring within the remainder of 2013.

Off-Balance Sheet Arrangements

We do not have any other transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

Critical Accounting Policies

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. We base these estimates on the information currently available to us and on various other assumptions we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application. For a further description of our material accounting policies, please refer to Note 2, Significant Accounting Policies, to our consolidated financial statements included elsewhere in this annual report.

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Purchase of Vessels

Vessels are stated at cost, which consists of the contract purchase price and any material expenses incurred upon acquisition (improvements and delivery expenses), less accumulated depreciation. Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. Otherwise we charge these expenditures to expenses as incurred. Our financing costs incurred during the construction period of the vessels are included in vessels' cost.

The vessels that we acquire in the secondhand market are treated as a business combination to the extent that such acquisitions include continuing operations and business characteristics, such as management agreements, employees and customer base, otherwise we treat an acquisition of a secondhand vessel as a purchase of assets. Where we identify any intangible assets or liabilities associated with the acquisition of a vessel purchased on the secondhand market, we record all identified tangible and intangible assets or liabilities at fair value. Fair value is determined by reference to market data and the discounted amount of expected future cash flows. We have in the past acquired certain vessels in the secondhand market. These acquisitions were considered to be acquisitions of assets, which were also recorded at fair value. Certain vessels in our fleet that were purchased in the secondhand market were acquired with existing charters. We determined that the existing charter contracts for these vessels, other than the charter for the *Hyundai Federal*, did not have a material separate fair value and, therefore, we recorded such vessels at their fair value, which equaled the consideration paid. In respect of the existing time charter for the *Hyundai Federal*, we identified a liability of \$14.4 million upon its delivery to us in March 2006, which we recorded as unearned revenue in "Current Liabilities Unearned Revenue" and "Long-Term Liabilities Unearned Revenue, net of current portion" on our consolidated balance sheet for the existing charter, which was fully amortized as of December 31, 2012.

The determination of the fair value of acquired assets and assumed liabilities requires us to make significant assumptions and estimates of many variables, including market charter rates, expected future charter rates, future vessel operating expenses, the level of utilization of our vessels and our weighted average cost of capital. The use of different assumptions could result in a material change in the fair value of these items, which could have a material impact on our financial position and results of operations.

Revenue Recognition

Our revenues and expenses are recognized on the accrual basis. Revenues are generated from bareboat hire and time charters. Bareboat hire revenues are recorded over the term of the hire on a straight-line basis. Time charter revenues are recorded over the term of the charter as service is provided. Unearned revenue includes revenue received in advance, and the amount recorded for an existing time charter acquired in conjunction with an asset purchase.

Special Survey and Drydocking Costs

We follow the deferral method of accounting for special survey and drydocking costs. Actual costs incurred are deferred and are amortized on a straight-line basis over the period until the next scheduled survey, which is two and a half years. If special survey or drydocking is performed prior to the scheduled date, the remaining unamortized balances are immediately written-off.

Major overhauls performed during drydocking are differentiated from normal operating repairs and maintenance. The related costs for inspections that are required for the vessel's certification under the requirement of the classification society are categorized as drydock costs. A vessel at drydock performs certain assessments, inspections, refurbishments, replacements and alterations within a safe non-operational environment that allows for complete shutdown of certain machinery and equipment,

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navigational, ballast (keep the vessel upright) and safety systems, access to major underwater components of vessel (rudder, propeller, thrusters anti-corrosion systems), which are not accessible during vessel operations, as well as hull treatment and paints. In addition, specialized equipment is required to access and manoeuvre vessel components, which are not available at regular ports.

Vessel Lives and Estimated Scrap Values

Our vessels represent our most significant assets and we state them at our historical cost, which includes capitalized interest during construction and other construction, design, supervision and predelivery costs, less accumulated depreciation. We depreciate our containerships, and for the periods prior to their sale, our drybulk carriers, on a straight-line basis over their estimated remaining useful economic lives. We estimate the useful lives of our containerships to be 30 years in line with the industry practice. Depreciation is based on cost less the estimated scrap value of the vessels. Should certain factors or circumstances cause us to revise our estimate of vessel service lives in the future or of estimated scrap values, 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.

We have calculated the residual value of the vessels taking into consideration the 10 year average and the five year average of the scrap. We have applied uniformly the scrap value of \$300 per ton for all vessels. We believe that \$300 per ton is a reasonable estimate of future scrap prices, taking into consideration the cyclicity of the nature of future demand for scrap steel. Although we believe that the assumptions used to determine the scrap rate are reasonable and appropriate, such assumptions are highly subjective, in part, because of the cyclical nature of future demand for scrap steel.

Impairment of Long-lived Assets

We evaluate the net carrying value of our vessels for possible impairment when events or conditions exist that cause us to question whether the carrying value of the vessels will be recovered from future undiscounted net cash flows. An impairment charge would be recognized in a period if the fair value of the vessels was less than their carrying value and the carrying value was not recoverable from future undiscounted cash flows. Considerations in making such an impairment evaluation would include comparison of current carrying value to anticipated future operating cash flows, expectations with respect to future operations, and other relevant factors.

As of December 31, 2012, we concluded that events occurred and circumstances had changed, which may trigger the existence of potential impairment of our long-lived assets. These indicators included volatility in the charter market and decline in the vessels' market values, as well as the potential impact the current marketplace may have on our future operations. As a result, we performed an impairment assessment of our long-lived assets by comparing the undiscounted projected net operating cash flows for each vessel to their carrying value. Our strategy is to charter our vessels under multi-year, fixed rate period charters that range from one to 18 years for our current vessels, providing us with contracted stable cash flows. The significant factors and assumptions we used in our undiscounted projected net operating cash flow analysis included operating revenues, off-hire revenues, dry docking costs, operating expenses and management fees estimates.

Revenue assumptions were based on contracted time charter rates up to the end of life of the current contract of each vessel as well as the estimated average time charter equivalent rates for the remaining life of the vessel after the completion of its current contract. The estimated daily time charter equivalent rates used for non-contracted revenue days are based on a combination of (i) recent charter market rates, (ii) conditions existing in the containership market as of December 31, 2012 in relation to laid up vessels, (iii) historical average time charter rates, based on publications by independent third party maritime research services, and (iv) estimated future time charter rates, based

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on publications by independent third party maritime research services that regularly provide such forecasts. We have five 2012-built 13,100 TEU vessels currently employed on 12-year charters, with break even rechartering rates of less than \$10,000 per day. Vessels of this size are recent entrants into the containership market and, accordingly, historical data as to their re-chartering rates is episodic. We estimated rechartering rates for these 13,100 TEU vessels for step one of the impairment analysis based on forecasts of independent third party maritime research services, which took into account recent chartering rates for newbuilding vessels of this size and estimates based on historical charter rates for other larger sized containerships. For other sized vessels, absent unusual circumstances, we believe that historical average time charter rates over a ten year period are the appropriate benchmark for impairment analysis as such average takes into account the volatility and cyclicity of the market. Accordingly, we used ten year historical averages, in some cases adjusted by no more than +/- 5% to account for the factors described above and the characteristics, primarily age and remaining useful life, of a particular vessel, for step one of the impairment analysis of our other vessels. Recognizing that the container transportation is cyclical and subject to significant volatility based on factors beyond our control, management believes the use of revenue estimates, based on the combination of factors (i) to (iv) above, to be reasonable as of the reporting date.

In addition, we used annual operating expenses escalation factors and estimations of scheduled and unscheduled off-hire revenues based on historical experience. All estimates used and assumptions made were in accordance with our internal budgets and historical experience of the shipping industry.

The more significant factors that could impact management's assumptions regarding time charter equivalent rates include (i) loss or reduction in business from significant customers, (ii) unanticipated changes in demand for transportation of containers, (iii) greater than anticipated levels of containership newbuilding orders or lower than anticipated levels of containership scrappings, and (iv) changes in rules and regulations applicable to the shipping industry, including legislation adopted by international organizations such as IMO and the EU or by individual countries. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate at the time they were made, such assumptions are highly subjective and likely to change, possibly materially, in the future. There can be no assurance as to how long charter rates and vessel values will remain at their current low levels or whether they will improve by a significant degree.

As of December 31, 2012, our assessment concluded that step two of the impairment analysis was required for 15 of our older vessels, as their undiscounted projected net operating cash flows did not exceed their carrying value. The fair values of these vessels were determined with assistance from valuations obtained from third party independent shipbrokers. As of December 31, 2012, we recorded an impairment loss of \$129.6 million for thirteen of our older vessels, while we did not have to record an impairment loss for the remaining two vessels as their carrying values were already below their fair value.

Impairment Sensitivity Analysis

For the 49 vessels for which our assessment concluded that step two of the impairment analysis was not required, an internal analysis, which used a discounted cash flow model utilizing inputs and assumptions based on market observations as of December 31, 2012, and is also in accordance with our vessels market valuation as described in our credit facilities and accepted by our lenders, suggests that 41 vessels have current market values that exceed their carrying values and 8 vessels may have current market values below their carrying values. We believe that each of the 8 vessels identified as having estimated market values less than their carrying value, all of which are currently under long-term time charters expiring from May 2017 through January 2018, will recover their carrying values through the end of their useful lives, based on their undiscounted net cash flows calculated in accordance with our impairment assessment.

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While the Company intends to hold and operate its vessels, the following table presents information with respect to the carrying amount of the Company's vessels and indicates whether their estimated market values are below their carrying values. The carrying value of each of the Company's vessels does not represent its market value or the amount that could be obtained if the vessel were sold. The Company's estimates of market values are based on an internal analysis, which used a discounted cash flow model utilizing inputs and assumptions based on market observations, and is also in accordance with its vessels' market valuation, determined as of the dates indicated, following the methodology as described in its credit facilities and accepted by its lenders. In addition, because vessel values are highly volatile, these estimates may not be indicative of either the current or future prices that the Company could achieve if it were to sell any of the vessels. The Company would not record a loss for any of the vessels for which the market value is below its carrying value unless and until the Company either determines to sell the vessel for a loss or determines that the vessel's carrying value is not recoverable as discussed above.

Vessel	TEU	Year Built	Cost of Vessel(1) (In thousands of Dollars)	Net Book Value December 31, 2012 (In thousands of Dollars)	Net Book Value December 31, 2011 (In thousands of Dollars)
<i>Hyundai Together</i>	13,100	2012	\$ 179,510	\$ 174,602	
<i>Hyundai Tenacity</i>	13,100	2012	178,801	174,357	
<i>Hyundai Speed</i>	13,100	2012	179,777	176,631	
<i>Hyundai Smart</i>	13,100	2012	179,874	176,056	
<i>Hyundai Ambition</i>	13,100	2012	179,881	177,298	
<i>Hanjin Germany</i>	10,100	2011	155,347	146,578	151,447
<i>Hanjin Italy</i>	10,100	2011	155,425	147,006	151,879
<i>Hanjin Greece</i>	10,100	2011	155,159	147,131	151,984
<i>CSCL Le Havre</i>	9,580	2006	83,073	67,955	70,364
<i>CSCL Pusan</i>	9,580	2006	82,241	66,766	69,145
<i>CMA CGM Melisande</i>	8,530	2012	124,103	120,847	
<i>CMA CGM Attila</i>	8,530	2011	120,617	115,193	118,842
<i>CMA CGM Tancredi</i>	8,530	2011	122,707	117,632	121,359
<i>CMA CGM Bianca</i>	8,530	2011	122,333	118,022	121,650
<i>CMA CGM Samson</i>	8,530	2011	122,006	118,133	121,833
<i>CSCL America</i>	8,468	2004	69,610	53,032	54,984
<i>CSCL Europe</i>	8,468	2004	68,873	52,058	53,982
<i>CMA CGM Moliere</i>	6,500	2009	97,739	87,954	90,983
<i>CMA CGM Musset</i>	6,500	2010	97,795	89,334	92,387
<i>CMA CGM Nerval</i>	6,500	2010	97,767	89,850	92,899
<i>CMA CGM Rabelais</i>	6,500	2010	98,270	90,014	93,757
<i>CMA CGM Racine</i>	6,500	2010	97,684	91,361	93,567
<i>YM Mandate</i>	6,500	2010	104,069	95,621	98,850
<i>YM Maturity</i>	6,500	2010	104,317	96,645	99,885
<i>Commodore (ex Hyundai Commodore)(3)</i>	4,651	1992	33,277	8,758	20,370
<i>Duka (ex Hyundai Duke)(3)</i>	4,651	1992	33,253	9,625	20,309
<i>Hyundai Federal (ex APL Federal)(3)</i>	4,651	1994	55,276	8,950	39,577
<i>Marathonas(3)</i>	4,814	1991	43,421	9,574	30,517
<i>Messologi(3)</i>	4,814	1991	43,551	9,289	31,138
<i>Mytilini(3)</i>	4,814	1991	43,650	9,090	31,006
<i>SNL Colombo (ex YM Colombo)</i>	4,300	2004	61,804	49,663	51,739
<i>YM Singapore</i>	4,300	2004	61,795	50,840	52,913

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Vessel	TEU	Year Built	Cost of Vessel(1) (In thousands of Dollars)	Net Book Value December 31, 2012 (In thousands of Dollars)	Net Book Value December 31, 2011 (In thousands of Dollars)
<i>YM Seattle (ex Taiwan Express)</i>	4,253	2007	72,028	60,164	62,393
<i>YM Vancouver</i>	4,253	2007	72,251	60,811	63,059
<i>ZIM Rio Grande</i>	4,253	2008	65,193	56,159	58,172
<i>ZIM Sao Paolo</i>	4,253	2008	65,398	56,776	58,796
<i>ZIM Kingston</i>	4,253	2008	65,408	57,017	59,037
<i>ZIM Monaco</i>	4,253	2009	65,874	57,758	59,791
<i>ZIM Dalian</i>	4,253	2009	65,412	57,840	59,860
<i>ZIM Luanda</i>	4,253	2009	65,691	58,582	60,595
<i>Derby D</i>	4,253	2004	35,088	26,131	27,106
<i>Deva</i>	4,253	2004	34,601	25,651	26,610
<i>Honour(3)</i>	3,908	1989	36,148	7,727	13,733
<i>Hope(3)</i>	3,908	1989	36,366	7,927	13,941
<i>Hanjin Santos</i>	3,400	2010	59,830	55,231	57,052
<i>Hanjin Versailles</i>	3,400	2010	59,715	55,571	57,438
<i>Hanjin Algeciras</i>	3,400	2011	59,965	56,348	58,225
<i>Hanjin Buenos Aires</i>	3,400	2010	59,740	54,946	56,767
<i>Hanjin Constantza</i>	3,400	2011	60,421	57,183	59,074
<i>Pride (ex SCI Pride)(3)</i>	3,129	1988	19,102	6,228	7,688
<i>Lotus(3)</i>	3,098	1988	12,007	6,232	7,342
<i>Independence(2)</i>	3,045	1986	10,772	5,458	5,690
<i>Henry(2)</i>	3,039	1986	13,658	5,279	5,594
<i>Elbe(3)</i>	2,917	1991	23,104	4,907	10,348
<i>Kalamata(3)</i>	2,917	1991	22,907	5,243	9,881
<i>Komodo(3)</i>	2,917	1991	22,905	4,952	10,131
<i>Hyundai Advance(4)</i>	2,200	1997	31,053	23,477	24,862
<i>Hyundai Future(4)</i>	2,200	1997	31,075	23,445	24,878
<i>Hyundai Sprinter(4)</i>	2,200	1997	31,047	23,525	24,968
<i>Hyundai Stride(4)</i>	2,200	1997	31,057	23,554	24,928
<i>Hyundai Progress(4)</i>	2,200	1998	30,722	23,904	25,283
<i>Hyundai Bridge(4)</i>	2,200	1998	31,255	24,449	25,858
<i>Hyundai Highway(4)</i>	2,200	1998	31,249	24,424	25,843
<i>Hyundai Vladivostok(4)</i>	2,200	1997	31,074	23,374	24,772
<i>Montreal(2)</i>	2,130	1984	20,607		4,870
Total				\$ 3,986,138	\$ 3,241,951

- (1) The cost of vessel comprises of the initial purchase price and other additions since the date of purchase, or in relation to vessels built by us, the contract price, items capitalized during the construction period and additions since the delivery of the vessels.
- (2) As of February 13, 2013, we sold and delivered the *Independence* to an independent third party for gross sale consideration of \$7.0 million. On February 8, 2013 we entered into an agreement to sell the *Henry* to an independent third party for gross sale consideration of \$6.1 million. As of April 27, 2012, the Company sold and delivered the *Montreal* to an independent third party for gross sale consideration of \$6.9 million.
- (3) As of December 31, 2012, we recorded an impairment loss of \$129.6 million in aggregate for all 13 vessels, with each vessel written down to its fair value which approximated the scrap market for vessels of such size at such date.

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(4) Indicates vessels for which, as of December 31, 2012, the estimated market value is lower than the vessel's carrying value. The aggregate carrying value of these vessels exceeded their aggregate estimated market value by approximately \$13.0 million as of December 31, 2012 and by approximately \$3.7 million as of December 31, 2011 (excluding the *Hyundai Sprinter*, *Hyundai Progress*, *Hyundai Bridge* and *Hyundai Highway* which had estimated market values in excess of their carrying values as of such date). The aggregate increase in the amount by which the carrying values exceeded the estimated market values for these eight vessels as of December 31, 2012 as compared to December 31, 2011 is attributable to the deterioration of containership values as a consequence of reduced demand for seaborne transportation of containerized cargoes due to the weak global economic environment. We believe, however, that each of these 8 vessels, all of which are currently under long-term time charters expiring from May 2017 through January 2018, will recover their carrying values through the end of their useful lives, based on their undiscounted net cash flows calculated in accordance with management's impairment assessment. We currently do not expect to sell any of these vessels, or otherwise dispose of them, significantly before the end of their estimated useful life. Other than 11 vessels, which had aggregate carrying values that were \$79.9 million in excess of their aggregate estimated market values as of December 31, 2011 and were among the 13 vessels for which we recognized an impairment charge as of December 31, 2012 as detailed in the above table, no other vessels had carrying values in excess of their estimated market values as of December 31, 2011.

As discussed above, we believe that the appropriate historical period to use as a benchmark for impairment testing of our vessels is the most recent 10 years, to the extent available, as such averages take into account the volatility and cyclicity of the market and we generally do not consider charter market rates over a short historical period to be a reliable indicator of the future revenues to be earned by our vessels or their potential impairment. Charter rates are, however, subject to change based on a variety of factors that we cannot control and we note that charter rates over the last few years have been, on average, below their ten year historical average.

In connection with the impairment testing of our vessels as of December 31, 2012, for the eight vessels that our internal analysis suggests that may have current market values below their carrying values, we performed a sensitivity analysis on the most sensitive and/or subjective assumption that has the potential to affect the outcome of the test, the projected charter rate used to forecast future cash flows for non-contracted days. The following table summarizes information about these eight vessels, including the break even charter rates and the one-year charter rate historical average for the last 1, 3, 5, 10 and 15 years, respectively.

Vessel/Year Built	Break Even re-chartering rate(2) (\$ per day)	Assumed Rechartering Rate(3)/Percentage difference between break even and assumed re-chartering rates(4) (\$ per day)/(%)	1 year charter rate historical average of last 1 year (\$ per day)	1 year charter rate historical average of last 3 years (\$ per day)	1 year charter rate historical average of last 5 years (\$ per day)	1 year charter rate historical average of last 10 years (\$ per day)	1 year charter rate historical average of last 15 years (\$ per day)
8 2,200 TEU vessels (1997 - 1998)(1)	\$ 10,373	\$16,000/ 35.2%	\$ 6,525	\$ 8,767	\$ 9,395	\$ 16,308	\$ 14,993

(1) Our eight 2,200 TEU containerships are under long-term time charter contracts with Hyundai Merchant Marine with the earliest expiration dates of the charters being as follows: the *Hyundai Vladivostok*, on May 23, 2017, the *Hyundai Advance*, on June 20, 2017, the *Hyundai Stride*, on July 5, 2017, the *Hyundai Future*, on August 2, 2017, the *Hyundai Sprinter*, on August 15, 2017, the *Hyundai Progress*, on December 11, 2017, the *Hyundai Highway*, on January 18, 2018 and the *Hyundai Bridge*, on January 20, 2018

(2) The break even re-chartering rate is the charter rate that if used in step one of the impairment testing will result to the undiscounted total cash flows being equal to the carrying value of the vessel. The use of charter rates below the break even re-chartering rate would trigger step two of the impairment testing that would result in the recording of an impairment loss of \$13.0 million as of December 31, 2012.

(3) Re-chartering rate used in our impairment testing as of December 31, 2012, to estimate the revenues for the remaining life of the respective vessels after the expiration of their existing charter contracts.

(4) The break even re-chartering rate of \$10,373 per day is 35.2% lower than the \$16,000 per day re-chartering assumption used in Step 1 of the Company's impairment testing analysis.

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If we had used the historical average one-year charter rates for the last 10 or 15 years, the results of our 2012 impairment testing on our 2,200 TEU vessels would not have been impacted, as the cash flow forecasts would still result in each vessel's carrying cost being recovered. If, however, historical average one-year charter rates for the last 1, 3, or 5 years had been used in the cash flow forecasts then the carrying values of the respective vessels, which are currently under time charters expiring from May 2017 through January 2018, would not have been recovered. This would have resulted in an impairment loss as of December 31, 2012 of approximately \$13.0 million. As noted above, we believe that the appropriate historical period to be used as a reference for the purposes of impairment testing of these vessels should be over 10 years as such averages take into account the volatility and cyclical nature of the market. Additionally, on the premise of a 30 year useful life, given that these 2,200 TEU vessels will come off charter in 2017-2018 and will have a remaining life of 10 years, the historical 10 year average is considered by the management as the most reasonable reference point when assessing the earnings generation potential of these vessels during their remaining life after expiry of their current charters.

We also performed a sensitivity analysis on the other 41 vessels identified as having current market values exceeding their carrying values which indicated that if we had used the historical average one-year charter rates for corresponding size vessels (for our five 13,100 TEU vessels, rates for 9,500 to 10,100 TEU vessels were used for purposes of this sensitivity analysis) for the most recent 5 or 3 year periods, the cash flow forecasts would still have resulted in each vessel's carrying cost being recovered. If the historical average one-year charter rate for the last year had been used in the cash flow forecasts, then we estimate that our twelve 4,253 TEU vessels and our five 3,400 TEU vessels would have had carrying values in excess of their projected undiscounted future cash flows, as such historical average rates (\$10,150 per day for 4,253 TEU vessels and \$8,425 per day for 3,400 TEU vessels) were 13.6% and 31.1%, respectively, below the average break even re-chartering rates for such vessels (\$11,748 per day for our 4,253 TEU vessels and \$12,235 per day for our 3,400 TEU vessels). The break even re-chartering rates for all 41 vessels ranged from zero, in two cases, and otherwise, from \$8,000 to \$14,200 per day. We believe that each of these 41 vessels, which had an average remaining useful life of 26.5 years, an average remaining charter duration of 8.5 years and an average useful life after the end of their current charters of 18 years, can be reasonably anticipated to recover their carrying values through the end of their useful lives. Furthermore, as discussed above, the Company's internal analysis suggested that each of these vessels had a market value in excess of its carrying value as of December 31, 2012.

Recent Accounting Pronouncements

Fair Value

In May 2011, the FASB issued new guidance for fair value measurements intended to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amended guidance provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amended guidance was effective for the Company beginning January 1, 2012. The adoption of the new guidance for fair value measurements had no effect on the Company's consolidated financial statements.

Comprehensive Income

In February 2013, the FASB issued new guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The amendment requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its

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entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. Public companies are required to comply with these amendments for all reporting periods presented, including interim periods. The amended guidance was effective for the Company for reporting periods beginning after December 15, 2012. The adoption of the new guidance is not expected to have an effect on the Company's consolidated financial statements.

Item 6. Directors, Senior Management and Employees

The following table sets forth, as of February 28, 2013, information for each of our directors and executive officers.

Name	Age	Position
Dr. John Coustas	57	President and CEO and Class I Director
Iraklis Prokopakis	62	Senior Vice President, Chief Operating Officer and Treasurer and Class II Director
Evangelos Chatzis	40	Chief Financial Officer and Secretary
Dimitris Vastarouchas	45	Deputy Chief Operating Officer
George Economou	60	Class II Director
Andrew B. Fogarty	68	Class II Director
Myles R. Itkin	65	Class I Director
Miklós Konkoly-Thege	70	Class III Director
Robert A. Mundell	81	Class I Director

The term of our Class I directors expires in 2015, the term of our Class II directors expires in 2014 and the term of our Class III directors expires in 2013. Certain biographical information about each of these individuals is set forth below.

Dr. John Coustas is our President, Chief Executive Officer and a member of our board of directors. Dr. Coustas has over 29 years of experience in the shipping industry. Dr. Coustas assumed management of our company in 1987 from his father, Dimitris Coustas, who founded Danaos Shipping in 1972, and has been responsible for our corporate strategy and the management of our affairs since that time. Dr. Coustas is also a member of the board of directors of Danaos Management Consultants, the Union of Greek Shipowners and the Cyprus Union of Shipowners and Vice Chairman of HELMEPA (Hellenic Maritime Protection Agency), as well as Deputy Chairman of the board of directors of The Swedish Club. Dr. Coustas holds a degree in Marine Engineering from National Technical University of Athens as well as a Master's degree in Computer Science and a Ph.D in Computer Controls from Imperial College, London.

Iraklis Prokopakis is our Senior Vice President, Treasurer, Chief Operating Officer and a member of our board of directors. Mr. Prokopakis joined us in 1998 and has over 35 years of experience in the shipping industry. Prior to entering the shipping industry, Mr. Prokopakis was a captain in the Hellenic Navy. He holds a Bachelor of Science in Mechanical Engineering from Portsmouth University in the United Kingdom, a Master's degree in Naval Architecture and a Ship Risk Management Diploma from the Massachusetts Institute of Technology in the United States and a post-graduate diploma in business studies from the London School of Economics. Mr. Prokopakis also has a Certificate in Operational Audit of Banks from the Management Center Europe in Brussels and a Safety Risk Management Certificate from Det Norske Veritas.

Evangelos Chatzis is our Chief Financial Officer and Secretary. Mr. Chatzis has been with Danaos Corporation since 2005 and has over 18 years of experience in corporate finance and the shipping industry. During his years with Danaos he has been actively engaged in the company's initial public offering in the United States and has led a variety of projects, the latest being the successfully

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concluded comprehensive financing plan of the company. Throughout his career he has developed considerable experience in operations, corporate finance, treasury and risk management and international business structuring. Prior to joining Danaos, Evangelos was the Chief Financial Officer of Globe Group of Companies, a public company in Greece engaged in a diverse scope of activities including dry bulk shipping, the textile industry, food production & distribution and real estate. During his years with Globe Group, he was involved in mergers and acquisitions, corporate restructurings and privatizations. He holds a Bachelor of Science degree in Economics from the London School of Economics, a Master's of Science degree in Shipping & Finance from City University Cass Business School, as well as a post-graduate diploma in Shipping Risk Management from IMD Business School.

Dimitris Vastarouchas is our Deputy Chief Operating Officer. Mr. Vastarouchas has been the Technical Manager of our Manager since 2005 and has over 16 years of experience in the shipping industry. Mr. Vastarouchas initially joined our Manager in 1995 and prior to becoming Technical Manager he was the New Buildings Projects and Site Manager, under which capacity he supervised newbuilding projects in Korea for 4,250, 5,500 and 8,500 TEU containerships. He holds a degree in Naval Architecture & Marine Engineering from the National Technical University of Athens, Certificates & Licenses of expertise in the fields of Aerodynamics (C.I.T.), Welding (CSWIP), Marine Coating (FROSIO) and Insurance (North of England P&I). He is also a qualified auditor by Net Norske Veritas.

George Economou has been a member of our board of directors since August 2010. Mr. Economou has over 34 years of experience in the maritime industry and he has served as Chairman, President and Chief Executive Officer of Dryships Inc. since its incorporation in 2004. He successfully took Dryships Inc. public in February 2005 on NASDAQ under the trading symbol: DRYS. Mr. Economou has overseen Dryships' growth into the largest US-listed dry bulk company in fleet size and revenue and the second largest Panamax owner in the world. Mr. Economou is also the Chairman, President and Chief Executive Officer of DryShips' Nasdaq-listed subsidiary, Ocean Rig UDW Inc., an owner and operator of offshore drilling rigs and drillships. Between 1986 and 1991 he invested and participated in the formation of numerous individual shipping companies and in 1991 he founded Cardiff Marine Inc. Mr. Economou is a member of ABS Council, Intertanko Hellenic Shipping Forum and Lloyds Register Hellenic Advisory Committee. Mr. Economou is a graduate of the Massachusetts Institute of Technology and holds both a Bachelor of Science and a Master of Science degree in Naval Architecture and Marine Engineering and a Master of Science in Shipping and Shipbuilding Management.

Andrew B. Fogarty has been a member of our board of directors since October 2006. Mr. Fogarty has over 28 years of experience in the transportation industry. After a career in government, including as Secretary of Transportation for the Commonwealth of Virginia, from 1989 Mr. Fogarty held various executive positions with CSX Corporation or its predecessors, including as Senior Vice President Corporate Services of CSX Corporation from 2001 to 2005, and as Special Assistant to the Chairman of CSX from 2006 to 2009. Previously, Mr. Fogarty also held the positions of President and CEO of CSX World Terminals, and Senior Vice President and Chief Financial Officer of Sea-Land Service, Inc. CSX is one of the world's leading transportation companies providing rail, intermodal and rail-to-truck transload services. Mr. Fogarty is the former chairman and current member of the board of directors of the National Defense Transportation Association and a fellow of the National Academy of Public Administration. He holds a Bachelor of Arts from Hofstra University, a Master's of Public Administration from the Nelson A. Rockefeller College of Public Affairs & Policy at the State University of New York, and a Ph.D. from Florida State University.

Myles R. Itkin has been a member of our board of directors since October 2006. Mr. Itkin is the Executive Vice President, Chief Financial Officer and Treasurer of Overseas Shipholding Group, Inc. ("OSG"), in which capacities he has served, with the exception of a promotion from Senior Vice President to Executive Vice President in 2006, since 1995. Prior to joining OSG in June 1995, Mr. Itkin was employed by Alliance Capital Management L.P. as Senior Vice President of Finance. Prior to that,

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he was Vice President of Finance at Northwest Airlines, Inc. On November 14, 2012, OSG filed voluntary petitions for reorganization for itself and 180 of its subsidiaries under Chapter 11 of Title 11 of the United States Code in the U.S. Bankruptcy Court for the District of Delaware. Mr. Itkin joined the board of directors of the U.K. P&I Club in 2006. Mr. Itkin holds a Bachelor's degree from Cornell University and an MBA from New York University.

Miklós Konkoly-Thege has been a member of our board of directors since October 2006. Mr. Konkoly-Thege began at Det Norske Veritas ("DNV"), a ship classification society, in 1984. From 1984 through 2002, Mr. Konkoly-Thege served in various capacities with DNV including Chief Operating Officer, Chief Financial Officer and Corporate Controller, Head of Corporate Management Staff and Head of Business Areas. Mr. Konkoly-Thege became President and Chairman of the Executive Board of DNV in 2002 and served in that capacity until his retirement in May 2006. Mr. Konkoly-Thege is a member of the board of directors of Wilhelmsen Maritime Services Holding AS and Stena Hungary Holding KFT. Mr. Konkoly-Thege holds a Master of Science degree in civil engineering from Technische Universität Hannover, Germany and an MBA from the University of Minnesota.

Dr. Robert A. Mundell has been a member of our board of directors since October 2006. Dr. Mundell is the University Professor of Economics at Columbia University. Dr. Mundell's principal occupation since 1967 has been as a member of the faculty of Columbia University. Dr. Mundell served as a member of the board of directors of Olympus Corporation from 2005 to 2008. Since 2003, Dr. Mundell has also served as Chairman of the World Executive Institute in Beijing, China. He has been an adviser to a number of international agencies and organizations including the United Nations, the IMF, the World Bank, the Government of Canada, several governments in Latin America and Europe, the Federal Reserve Board and the U.S. Treasury. In 1999 Dr. Mundell received the Nobel Prize in Economics. Dr. Mundell holds a Bachelor's degree from the University of British Columbia, a Master's degree from the University of Washington and a Ph.D. from the Massachusetts Institute of Technology.

Compensation of Directors and Senior Management

Non-executive directors receive annual fees of \$62,500, plus reimbursement for their out-of-pocket expenses, which amounts are payable at the election of each non-executive director in cash or stock as described below under " Equity Compensation Plan." We do not have service contracts with any of our directors. Prior to 2013, when we ceased to directly employ and compensate our executive officers, as described below, we had employment agreements with two directors who are also executive officers of our company.

During the year ended December 31, 2012, we paid our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Deputy Chief Operating Officer, with whom we had a services agreement, an aggregate amount of \$1.8 million in cash, or approximately €1.4 million. Beginning on January 1, 2013, we ceased to directly employ and compensate our executive officers and our manager began to provide us with the services of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Deputy Chief Operating Officer for a fee of €1.4 million per year, approximating the aggregate compensation we paid to these executive officers during the year ended December 31, 2012, plus any incentive compensation our board of directors determines, in its sole discretion, is payable for such services. Our executive officers remain eligible, in the discretion of our board of directors and compensation committee, for restricted stock, stock options or other awards under our equity compensation plan, which is described below under " Equity Compensation Plan."

We will reimburse our manager for any severance payable to our executive officers. Such severance payments for termination without "cause" or for "good reason" generally equal (i) two times the executive officer's annual salary plus bonus (based on an average of the prior three years), including the value on the date of grant of any equity grants made under our equity compensation plan during

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that three-year period (which, for stock options, will be the Black- Scholes value), as well as continued benefits, if any, for 24 months or (ii) if such termination without cause or for good reason occurs within two years of a "change of control" of our company the greater of (a) the amount calculated as described in clause (i) but changing the multiple from two to three and (b) a specified dollar amount for each executive officer (approximately €4.2 million in the aggregate for all executive officers), as well as continued benefits, if any, for 36 months.

Employees

We have four shore-based officers, our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer and our Deputy Chief Operating Officer. In each case, from January 1, 2013, their services are provided under our Management Agreement with our Manager, Danaos Shipping, and prior to that time were directly employed by us, other than our Deputy Chief Operating Officer with whom we previously had a services agreement. Approximately 1,296 officers and crew members served on board the vessels we own as of December 31, 2012, but are employed by our manager. Crew wages and other related expenses are paid by our manager and our manager is reimbursed by us.

Share Ownership

The common stock beneficially owned by our directors and executive officers and/or companies affiliated with these individuals is disclosed in "Item 7. Major Shareholders and Related Party Transactions" below.

Board of Directors

At December 31, 2012 and February 28, 2013, we had seven members on our board of directors. The board of directors may change the number of directors to not less than two, nor more than 15, by a vote of a majority of the entire board. Each director shall be elected to serve until the third succeeding annual meeting of stockholders and until his or her successor shall have been duly elected and qualified, except in the event of death, resignation or removal. A vacancy on the board created by death, resignation, removal (which may only be for cause), or failure of the stockholders to elect the entire class of directors to be elected at any election of directors or for any other reason, may be filled only by an affirmative vote of a majority of the remaining directors then in office, even if less than a quorum, at any special meeting called for that purpose or at any regular meeting of the board of directors.

In accordance with the terms of the August 6, 2010 subscription agreement between Sphinx Investments Corp. and us, we have agreed to nominate Mr. Economou or such other person, in each case who shall be acceptable to us, designated by Sphinx Investments Corp., for election by our stockholders to the Board of Directors at each annual meeting of stockholders at which the term of Mr. Economou or such other director so designated expires, so long as such investor beneficially owns a specified minimum amount of our common stock. We have been informed that our largest stockholder, a family trust established by Dr. John Coustas, and Dr. John Coustas have agreed to vote all of the shares of common stock they own, or over which they have voting control, in favor of any such nominee standing for election.

During the year ended December 31, 2012, the board of directors held five meetings. Each director attended all of the meetings of the board of directors and of the committees of which the director was a member, other than Mr. Itkin who attended four of the five meetings of the Board and the Audit Committee, and Mr. Economou who attended one of the five meetings of the Board. Our board of directors has determined that each of Messrs. Fogarty, Economou, Konkoly-Thege and Itkin and Dr. Mundell are independent (within the requirements of the NYSE and SEC).

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To promote open discussion among the independent directors, those directors met four times in 2012 in regularly scheduled executive sessions without participation of our company's management and will continue to do so in 2013. Mr. Andrew B. Fogarty has served as the presiding director for purposes of these meetings. Stockholders who wish to send communications on any topic to the board of directors or to the independent directors as a group, or to the presiding director, Mr. Andrew B. Fogarty, may do so by writing to our Secretary, Mr. Evangelos Chatzis, Danaos Corporation, c/o Danaos Shipping Co. Ltd., 14 Akti Kondyli, 185 45 Piraeus, Greece.

Corporate Governance

The board of directors and our company's management has engaged in an ongoing review of our corporate governance practices in order to oversee our compliance with the applicable corporate governance rules of the New York Stock Exchange and the SEC.

We have adopted a number of key documents that are the foundation of its corporate governance, including:

- a Code of Business Conduct and Ethics for officers and employees;
- a Code of Conduct for the chief executive officer and senior financial officers;
- a Code of Ethics for directors;
- a Nominating and Corporate Governance Committee Charter;
- a Compensation Committee Charter; and
- an Audit Committee Charter.

These documents and other important information on our governance, including the board of director's Corporate Governance Guidelines, are posted on the Danaos Corporation website, and may be viewed at <http://www.danaos.com>. We will also provide a paper copy of any of these documents upon the written request of a stockholder. Stockholders may direct their requests to the attention of our Secretary, Mr. Evangelos Chatzis, Danaos Corporation, c/o Danaos Shipping Co. Ltd., 14 Akti Kondyli, 185 45 Piraeus, Greece.

Committees of the Board of Directors

We are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Pursuant to certain exceptions for foreign private issuers and controlled companies, we are not required to comply with certain of the corporate governance practices followed by U.S. and non-controlled companies under the New York Stock Exchange listing standards. We comply fully with the New York Stock Exchange corporate governance rules applicable to both U.S. and foreign private issuers that are "controlled companies," however, as permitted for controlled companies, one member of the compensation committee is a non-independent director and, in accordance with Marshall Islands law, we obtained board of director approval but not shareholder approval for our August 2010 common stock sale. See "Item 16G. Corporate Governance."

Audit Committee

Our audit committee consists of Myles R. Itkin (chairman), Andrew B. Fogarty and Miklós Konkoly-Thege. Our board of directors has determined that Mr. Itkin qualifies as an audit committee "financial expert," as such term is defined in Regulation S-K. The audit committee is responsible for (1) the hiring, termination and compensation of the independent auditors and approving any non-audit work performed by such auditor, (2) approving the overall scope of the audit, (3) assisting the board in monitoring the integrity of our financial statements, the independent accountant's qualifications and independence, the performance of the independent accountants and our internal audit function and our

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compliance with legal and regulatory requirements, (4) annually reviewing an independent auditors' report describing the auditing firms' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, (5) discussing the annual audited financial and quarterly statements with management and the independent auditor, (6) discussing earnings press releases, as well as financial information and earning guidance, (7) discussing policies with respect to risk assessment and risk management, (8) meeting separately, periodically, with management, internal auditors and the independent auditor, (9) reviewing with the independent auditor any audit problems or difficulties and management's response, (10) setting clear hiring policies for employees or former employees of the independent auditors, (11) annually reviewing the adequacy of the audit committee's written charter, (12) handling such other matters that are specifically delegated to the audit committee by the board of directors from time to time, (13) reporting regularly to the full board of directors and (14) evaluating the board of directors' performance. During 2012, there were five meetings of the audit committee.

Compensation Committee

Our compensation committee consists of Andrew B. Fogarty (chairman), Miklós Konkoly-Thege and Iraklis Prokopakis. The compensation committee is responsible for (1) reviewing key employee compensation policies, plans and programs, (2) reviewing and approving the compensation of our chief executive officer and other executive officers, (3) developing and recommending to the board of directors compensation for board members, (4) reviewing and approving employment contracts and other similar arrangements between us and our executive officers, (5) reviewing and consulting with the chief executive officer on the selection of officers and evaluation of executive performance and other related matters, (6) administration of stock plans and other incentive compensation plans, (7) overseeing compliance with any applicable compensation reporting requirements of the SEC, (8) retaining consultants to advise the committee on executive compensation practices and policies and (9) handling such other matters that are specifically delegated to the compensation committee by the board of directors from time to time. During 2012, there was one meeting of the compensation committee.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Myles R. Itkin and Robert A. Mundell (chairman). The nominating and corporate governance committee is responsible for (1) developing and recommending criteria for selecting new directors, (2) screening and recommending to the board of directors individuals qualified to become executive officers, (3) overseeing evaluations of the board of directors, its members and committees of the board of directors and (4) handling such other matters that are specifically delegated to the nominating and corporate governance committee by the board of directors from time to time. The nominating and corporate governance committee did not meet during 2012.

Equity Compensation Plan

We have adopted an equity compensation plan, which we refer to as the Plan. The Plan is generally administered by the compensation committee of our board of directors, except that the full board may act at any time to administer the Plan, and authority to administer any aspect of the Plan may be delegated by our board of directors or by the compensation committee to an executive officer or to any other person. The Plan allows the plan administrator to grant awards of shares of our common stock or the right to receive or purchase shares of our common stock (including options to purchase common stock, restricted stock and stock units, bonus stock, performance stock, and stock appreciation rights) to our employees, directors or other persons or entities providing significant services to us or our subsidiaries, including employees of our manager, and also provides the plan administrator with the authority to reprice outstanding stock options or other awards. The actual terms

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of an award, including the number of shares of common stock relating to the award, any exercise or purchase price, any vesting, forfeiture or transfer restrictions, the time or times of exercisability for, or delivery of, shares of common stock, will be determined by the plan administrator and set forth in a written award agreement with the participant. Any options granted under the Plan will be accounted for in accordance with accounting guidance for share-based compensation.

The aggregate number of shares of our common stock for which awards may be granted under the Plan cannot exceed 6% of the number of shares of our common stock issued and outstanding at the time any award is granted. Awards made under the Plan that have been forfeited (including our repurchase of shares of common stock subject to an award for the price, if any, paid to us for such shares of common stock, or for their par value) or cancelled or have expired, will not be treated as having been granted for purposes of the preceding sentence.

The Plan requires that the plan administrator make an equitable adjustment to the number, kind and exercise price per share of awards in the event of our recapitalization, reorganization, merger, spin-off, share exchange, dividend of common stock, liquidation, dissolution or other similar transaction or event. In addition, the plan administrator will be permitted to make adjustments to the terms and conditions of any awards in recognition of any unusual or nonrecurring events. Unless otherwise set forth in an award agreement, any awards outstanding under the Plan will vest upon a "change of control," as defined in the Plan. Our board of directors may, at any time, alter, amend, suspend, discontinue or terminate the Plan, except that any amendment will be subject to the approval of our stockholders if required by applicable law, regulation or stock exchange rule and that, without the consent of the affected participant under the Plan, no action may materially impair the rights of such participant under any awards outstanding under the Plan. The Plan will automatically terminate ten years after it has been most recently approved by our stockholders.

As of December 12, 2011, we granted 555,000 restricted shares of common stock to the executive officers of the Company, and recorded in "General and Administrative Expenses" an expense of \$2.0 million, representing the fair value of the stock granted as at the date of grant. These shares may not be transferred, assigned, pledged, hypothecated or otherwise disposed of (other than for estate planning purposes in accordance with the Plan) until the earlier to occur of (i) the third anniversary of the date of grant and (ii) the average per share closing price of the Common Stock on the New York Stock Exchange (or any other securities exchange on which the Common Stock may be listed) for any period of fifteen (15) consecutive trading days equals or exceeds \$7.00 per share.

As of April 18, 2008, the Board of Directors and the Compensation Committee approved incentive compensation of Manager's employees with its shares from time to time, after specific for each such time, decision by the compensation committee and the Board of Directors in order to provide a means of compensation in the form of free shares to certain employees of the Manager of our common stock. The Plan was effective as of December 31, 2008. Pursuant to the terms of the Plan, employees of the Manager may receive (from time to time) shares of our common stock as additional compensation for their services offered during the preceding period. The stock will have no vesting period and the employee will own the stock immediately after grant. The total amount of stock to be granted to employees of the Manager will be at our Board of Directors' discretion only and there will be no contractual obligation for any stock to be granted as part of the employees' compensation package in future periods. As of December 12, 2012, we granted 35,101 shares to certain employees of the Manager and recorded in "General and Administrative Expenses" an expense of \$0.1 million representing the fair value of the stock granted as at the date of grant. We will issue 35,101 new shares of common stock in 2013 to be distributed to the employees of the Manager in settlement of the shares granted in 2012. As of December 12, 2011, we granted 18,650 shares to certain employees of the Manager and recorded in "General and Administrative Expenses" an expense of \$0.1 million representing the fair value of the stock granted as at the date of grant. We have issued 18,600 new shares and we will issue 50 new shares of common stock in 2013 to be distributed to the employees of

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the Manager in settlement of the shares granted in 2011. Refer to Note 21, Stock Based Compensation, in the notes to our consolidated financial statements included elsewhere herein.

The Company has also established the Directors Share Payment Plan under the Plan. The purpose of the Plan is to provide a means of payment of all or a portion of compensation payable to directors of the Company in the form of our common stock. Pursuant to the terms of the Plan, directors may elect to receive in Common Stock all or a portion of their compensation. During 2012, one director elected to receive in Company shares 50% of his compensation and one director elected to receive in Company shares 100% of his compensation only for the first quarter of 2012. During 2011, one director elected to receive in Company shares 50% of his compensation and one director elected to receive in Company shares 100% of his compensation. On the last business day of each quarter of 2012 and 2011, rights to receive 13,613 and 22,200 shares in aggregate for the years ended December 31, 2012 and 2011, respectively, were credited to the Director's Share Payment Account. As of December 31, 2012 and 2011, respectively, \$0.05 million and \$0.1 million were reported in "Additional Paid-in Capital" in respect of these rights. Following December 31 of each year, the Company delivers to each Director the number of shares represented by the rights credited to their Share Payment Account during the preceding calendar year. The Company issued 13,613 new shares of common stock in 2013, which were distributed to its directors in settlement of the shares granted in 2012. Refer to Note 21, Stock Based Compensation, in the notes to our consolidated financial statements included elsewhere herein.

Item 7. Major Shareholders and Related Party Transactions

Related Party Transactions

Management Affiliations

Danaos Shipping Co. Ltd., which we refer to as our Manager, is ultimately owned by Danaos Investments Limited as Trustee of the 883 Trust, which we refer to as the Coustas Family Trust. Danaos Investments Limited is the protector (which is analogous to a trustee) of the Coustas Family Trust, of which Dr. Coustas and other members of the Coustas family are beneficiaries. Dr. Coustas has certain powers to remove and replace Danaos Investments Limited as Trustee of the 883 Trust. The Coustas Family Trust is also our largest stockholder, owning approximately 61.9% of our outstanding common stock as of February 28, 2013. Our Manager has provided services to our vessels since 1972 and continues to provide technical, administrative and certain commercial services which support our business, as well as comprehensive ship management services such as technical supervision and commercial management, including chartering our vessels pursuant to a management agreement which was amended and restated as of September 18, 2006 and amended on February 12, 2009, February 8, 2010, December 16, 2011 and December 31, 2012. From January 1, 2013, our Manager also provides us with the services of our executive officers.

Management fees in respect of continuing operations under our management agreement amounted to approximately \$15.5 million in 2012, \$13.5 million in 2011 and \$11.4 million in 2010. The related expenses are shown under "General and administrative expenses" on the statement of comprehensive income. We pay monthly advances in regard to the next month vessels' operating expenses. These prepaid monthly expenses are presented in our consolidated balance sheet under "Due from related parties" and totaled \$12.7 million and \$9.1 million as of December 31, 2012 and 2011, respectively.

Management Agreement

Under our management agreement, our Manager is responsible for providing us with technical, administrative and certain commercial services, which include the following:

technical services, which include managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory compliance and compliance with the law of the flag of each vessel and of the places where the vessel operates, ensuring classification society compliance,

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supervising the maintenance and general efficiency of vessels, arranging the hire of qualified officers and crew, training, transportation, insurance of the crew (including processing all claims), performing normally scheduled drydocking and general and routine repairs, arranging insurance for vessels (including marine hull and machinery, protection and indemnity and risks insurance), purchasing stores, supplies, spares, lubricating oil and maintenance capital expenditures for vessels, appointing supervisors and technical consultants and providing technical support, shoreside support, shipyard supervision, and attending to all other technical matters necessary to run our business;

administrative services, which include, in each case, at the direction of our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, assistance with the maintenance of our corporate books and records, payroll services, assistance with the preparation of our tax returns and financial statements, assistance with corporate and regulatory compliance matters not related to our vessels, procuring legal and accounting services (including the preparation of all necessary budgets for submission to us), assistance in complying with United States and other relevant securities laws, human resources, cash management and bookkeeping services, development and monitoring of internal audit controls, disclosure controls and information technology, assistance with all regulatory and reporting functions and obligations, furnishing any reports or financial information that might be requested by us and other non-vessel related administrative services, assistance with office space, providing legal and financial compliance services, overseeing banking services (including the opening, closing, operation and management of all of our accounts including making deposits and withdrawals reasonably necessary for the management of our business and day-to-day operations), arranging general insurance and director and officer liability insurance (at our expense), providing all administrative services required for subsequent debt and equity financings and attending to all other administrative matters necessary to ensure the professional management of our business (our Manager provides these administrative services at its own cost and in return therefore receives the commercial, chartering and administrative services fees); and

commercial services, which include chartering our vessels, assisting in our chartering, locating, purchasing, financing and negotiating the purchase and sale of our vessels, supervising the design and construction of newbuildings, and such other commercial services as we may reasonably request from time to time (our Manager provides these commercial services at its own cost and in return therefore receives the commercial, chartering and administrative services fees).

Reporting Structure

Our Manager reports to us and our Board of Directors through our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, each of which is appointed by our board of directors. Under our management agreement, our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer may direct the Manager to remove and replace any officer or any person who serves as the head of a business unit of our Manager. Furthermore, our Manager will not remove any person serving as an officer or senior manager without the prior written consent of our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

Compensation of Our Manager

The fees payable to our manager for each renewal period under our management agreement are adjusted by agreement between us and our manager. Should we be unable to agree with our Manager as to the new fees, the rate for the next year will be set at an amount that will maintain our Manager's average profit margin for the immediately preceding three years. For 2013 we will pay our manager the following fees and commissions: (i) a fee of \$675 per day for providing its commercial, chartering and administrative services, (ii) a technical management fee of \$340 per vessel per day for vessels on

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bareboat charter, pro rated for the number of calendar days we own each vessel, (iii) a technical management fee of \$675 per vessel per day for vessels other than those on bareboat charter, pro rated for the number of calendar days we own each vessel, (iv) a commission of 1.00% on all freight, charter hire, ballast bonus and demurrage for each vessel for chartering services rendered to us by our manager's Hamburg-based office, (v) a commission of 0.5% based on the contract price of any vessel bought or sold by it on our behalf, excluding newbuilding contracts, and (vi) a flat fee of \$725,000 per newbuilding vessel, which we capitalize, for the on premises supervision of any newbuilding contracts by selected engineers and others of its staff. We believe these fees and commissions are no more than the rates we would need to pay an unaffiliated third party to provide us with these management services.

In addition, on January 1, 2013, our manager began to provide us with the services of our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Deputy Chief Operating Officer for a fee of €1.4 million per year, approximating the \$1.8 million (€1.4 million) of aggregate compensation we paid to these executive officers during the year ended December 31, 2012. As described above under "Item 6. Directors, Senior Management and Employees-Compensation of Directors and Senior Management," we will also reimburse our Manager for any severance payable to such executive officers. Previously, we had directly compensated and employed , other than our Deputy Chief Operating Officer with whom we had a services agreement, our executive officers.

We also advance, on a monthly basis, all technical vessel operating expenses with respect to each vessel in our fleet to enable our Manager to arrange for the payment of such expenses on our behalf. To the extent the amounts advanced are greater or less than the actual vessel operating expenses of our fleet for a quarter, our Manager or us, as the case may be, will pay the other the difference at the end of such quarter, although our Manager may instead choose to credit such amount against future vessel operating expenses to be advanced for future quarters.

Term and Termination Rights

The initial term of the management agreement expired on December 31, 2008. The management agreement now automatically renews for one-year periods and will be extended, unless we give 12-months' written notice of non-renewal and subject to the termination rights described below, in additional one-year increments until December 31, 2020, at which point the agreement will expire.

Our Manager's Termination Rights. Our Manager may terminate the management agreement prior to the end of its term in the two following circumstances:

if any moneys payable by us shall not have been paid within 60 business days of payment having been demanded in writing;
or

if at any time we materially breach the agreement and the matter is unresolved within 60 days after we are given written notice from our Manager.

Our Termination Rights. We may terminate the management agreement prior to the end of its term in the two following circumstances upon providing the respective notice:

if at any time our Manager neglects or fails to perform its principal duties and obligations in any material respect and the matter is unresolved within 20 days after our Manager receives written notice of such neglect or failure from us; or

if any moneys payable by the Manager under or pursuant to the management agreement are not promptly paid or accounted for in full within 10 business days by the Manager in accordance with the provisions of the management agreement.

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We also may terminate the management agreement immediately under any of the following circumstances:

if either we or our Manager ceases to conduct business, or all or substantially all of the properties or assets of either such party is sold, seized or appropriated;

if either we or our Manager files a petition under any bankruptcy law, makes an assignment for the benefit of its creditors, seeks relief under any law for the protection of debtors or adopts a plan of liquidation, or if a petition is filed against us or our Manager seeking to declare us or it an insolvent or bankrupt and such petition is not dismissed or stayed within 40 business days of its filing, or if our Company or the Manager admits in writing its insolvency or its inability to pay its debts as they mature, or if an order is made for the appointment of a liquidator, manager, receiver or trustee of our Company or the Manager of all or a substantial part of its assets, or if an encumbrancer takes possession of or a receiver or trustee is appointed over the whole or any part of the Manager's or our Company's undertaking, property or assets or if an order is made or a resolution is passed for our Manager's or our winding up;

if a distress, execution, sequestration or other process is levied or enforced upon or sued out against our Manager's property which is not discharged within 20 business days;

if the Manager ceases or threatens to cease wholly or substantially to carry on its business otherwise than for the purpose of a reconstruction or amalgamation without insolvency previously approved by us; or

if either our Manager or we are prevented from performing any obligations under the management agreement by any cause whatsoever of any nature or kind beyond the reasonable control of us or our Manager respectively for a period of two consecutive months or more.

In addition, we may terminate any applicable ship management agreement in any of the following circumstances:

if we or any subsidiary of ours ceases to be the owner of the vessel covered by such ship management agreement by reason of a sale thereof, or if we or any subsidiary of ours ceases to be registered as the owner of the vessel covered by such ship management agreement;

if a vessel becomes an actual or constructive or compromised or arranged total loss or an agreement has been reached with the insurance underwriters in respect of the vessel's constructive, compromised or arranged total loss or if such agreement with the insurance underwriters is not reached or it is adjudged by a competent tribunal that a constructive loss of the vessel has occurred;

if the vessel covered by such ship management agreement is requisitioned for title or any other compulsory acquisition of the vessel occurs, otherwise than by requisition by hire; or

if the vessel covered by such ship management agreement is captured, seized, detained or confiscated by any government or persons acting or purporting to act on behalf of any government and is not released from such capture, seizure, detention or confiscation within 20 business days.

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Non-competition

Our Manager has agreed that, during the term of the management agreement, it will not provide any management services to any other entity without our prior written approval, other than with respect to entities controlled by Dr. Coustas, our Chief Executive Officer, which do not operate within the containership (larger than 2,500 twenty foot equivalent units, or TEUs) or drybulk sectors of the shipping industry or in the circumstances described below. Dr. Coustas does not currently control any such vessel-owning entity or have an equity interest in any such entity, other than Castella Shipping Inc., owner of one 1,700 TEU vessel. Dr. Coustas has also personally agreed to the same restrictions on the provision, directly or indirectly, of management services during this period. In addition, our Chief Executive Officer (other than in his capacities with us) and our Manager have separately agreed not, during the term of our management agreement and for one year thereafter, to engage, directly or indirectly, in (i) the ownership or operation of containerships of larger than 2,500 TEUs or (ii) the ownership or operation of any drybulk carriers or (iii) the acquisition of or investment in any business involved in the ownership or operation of containerships larger than 2,500 TEUs or drybulk carriers. Notwithstanding these restrictions, if our independent directors decline the opportunity to acquire any such containerships or drybulk carriers or to acquire or invest in any such business, our Chief Executive Officer will have the right to make, directly or indirectly, any such acquisition or investment during the four-month period following such decision by our independent directors, so long as such acquisition or investment is made on terms no more favorable than those offered to us. In this case, our Chief Executive Officer and our Manager will be permitted to provide management services to such vessels.

Sale of Our Manager

Our Manager has agreed that it will not transfer, assign, sell or dispose of all or a significant portion of its business that is necessary for the services our Manager performs for us without the prior written consent of our Board of Directors. Furthermore, in the event of any proposed sale of our Manager, we have a right of first refusal to purchase our Manager. This prohibition and right of first refusal is in effect throughout the term of the management agreement and for a period of one year following the expiry or termination of the management agreement. Our Chief Executive Officer, Dr. John Coustas, or any trust established for the Coustas family (under which Dr. Coustas and/or a member of his family is a beneficiary), is required, unless we expressly permit otherwise, to own 80% of our Manager's outstanding capital stock during the term of the management agreement and 80% of the voting power of our Manager's outstanding capital stock. In the event of any breach of these requirements, we would be entitled to purchase the capital stock of our Manager owned by Dr. Coustas or any trust established for the Coustas family (under which Dr. Coustas and/or a member of his family is a beneficiary). Under the terms of certain of our financing agreements, including the Bank Agreement, the failure of our Manager to continue managing our vessels securing such agreements would constitute an event of default thereunder.

The Swedish Club

Dr. John Coustas, our Chief Executive Officer, is a member of the Board of Directors of The Swedish Club, our primary provider of insurance, including a substantial portion of our hull & machinery, war risk and protection and indemnity insurance. During the years ended December 31, 2012, 2011 and 2010, we paid premiums of \$10.4 million, \$8.7 million and \$7.3 million, respectively, to The Swedish Club under these insurance policies.

Danaos Management Consultants

Our Chief Executive Officer, Dr. John Coustas, co-founded and has a 50.0% ownership interest in Danaos Management Consultants, which provides the ship management software deployed on the

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vessels in our fleet to our Manager on a complementary basis. Dr. Coustas does not participate in the day-to-day management of Danaos Management Consultants.

Offices

We occupy office space that is owned by our Manager and which is provided to us as part of the services we receive under our management agreement.

Common Stock Sale

On August 6, 2010, we entered into agreements with several investors to sell to them 54,054,055 shares of our common stock for an aggregate purchase price of \$200.0 million in cash. The shares were issued at \$3.70 per share on August 12, 2010. This equity investment satisfied a condition to the Bank Agreement and approximately \$425 million of new debt financing. The purchasers of the common stock included our largest stockholder, Danaos Investments Limited as Trustee of the 883 Trust (23,945,945 shares of common stock), a family trust established by our Chief Executive Officer Dr. John Coustas, and members of his family which together invested over \$100.0 million. Additional investors included our Chief Operating Officer (108,109 shares of common stock) and our former Chief Financial Officer (270,271 shares of common stock), as well as Sphinx Investments Corp. (11,471,621 shares of common stock), a private company affiliated with George Economou, and other investors.

Following completion of the equity transaction on August 12, 2010, Mr. Economou was appointed to the Board of Directors of the Company as an independent director in accordance with the terms of the subscription agreement between Sphinx Investments Corp. and the Company. We have agreed to nominate Mr. Economou or such other person, in each case who shall be acceptable to us, designated by Sphinx Investments Corp., for election by our stockholders to the Board of Directors at each annual meeting of stockholders at which the term of Mr. Economou or such other director so designated expires, so long as such investor beneficially owns a specified minimum amount of common stock. We have been informed that our largest stockholder, the aforementioned family trust, and Dr. John Coustas have agreed to vote all of the shares of our common stock owned by them, or over which they have voting control, in favor of any such nominee standing for election.

We granted the investors in the equity transaction certain registration rights in respect of the common stock issued in the equity transaction. We also granted the investors in the equity transaction certain rights, in connection with any subsequent underwritten public offering that is effected at any time prior to the fifth anniversary of the registration rights agreements, to purchase from us, at the same price per share paid by investors who purchase common stock in any such offering, up to a specified portion of such common stock being issued. These rights are subject to, among other things, caps on the beneficial ownership of our common stock agreed to by certain investors in connection with the equity transaction.

Major Stockholders

The following table sets forth certain information regarding the beneficial ownership of our outstanding common stock as of February 28, 2013 held by:

each person or entity that we know beneficially owns 5% or more of our common stock;

each of our officers and directors; and

all our directors and officers as a group.

Our major stockholders have the same voting rights as our other stockholders. Beneficial ownership is determined in accordance with the rules of the SEC. In general, a person who has voting power or investment power with respect to securities is treated as a beneficial owner of those securities.

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Beneficial ownership does not necessarily imply that the named person has the economic or other benefits of ownership. For purposes of this table, shares subject to options, warrants or rights or shares exercisable within 60 days of February 28, 2013 are considered as beneficially owned by the person holding those options, warrants or rights. Each stockholder is entitled to one vote for each share held. The applicable percentage of ownership of each stockholder is based on 109,618,212 shares of common stock outstanding as of February 28, 2013. Information for certain holders is based on their latest filings with the SEC or information delivered to us. Except as noted below, the address of all stockholders, officers and directors identified in the table and accompanying footnotes below is in care of our principal executive offices.

	Number of Shares of Common Stock Owned	Percentage of Common Stock
Executive Officers and Directors:		
John Coustas(1) <i>Chairman, President and Chief Executive Officer</i>	67,828,140	61.9%
Iraklis Prokopakis <i>Director, Senior Vice President and Chief Operating Officer</i>	316,384	*
Evangelos Chatzis <i>Chief Financial Officer and Secretary</i>	125,000	*
Dimitris Vastarouchas <i>Deputy Chief Operating Officer</i>	89,931	*
George Economou(2) <i>Director</i>	11,471,621	10.5%
Andrew B. Fogarty <i>Director</i>	114,886	*
Myles R. Itkin <i>Director</i>		
Miklós Konkoly-Thege <i>Director</i>	69,966	*
Robert A. Mundell <i>Director</i>		
5% Beneficial Owners:		
Danaos Investments Limited as Trustee of the 883 Trust(3)	67,828,140	61.9%
Sphinx Investments Corp.(2)	11,471,621	10.5%
Avignon International Corporation(4)	8,108,109	7.4%
All executive officers and directors as a group (9 persons)	79,925,997	72.9%

*
Less than 1%.

(1) By virtue of shares owned indirectly through Danaos Investments Limited as Trustee of the 883 Trust, which is our principal stockholder. The beneficiaries of the trust are Dr. Coustas and members of his family. Dr. Coustas has certain powers to remove and replace Danaos Investments Limited as Trustee of the 883 Trust and, accordingly, he may be deemed to beneficially own the shares of common stock owned by Danaos Investments Limited as Trustee of the 883 Trust.

(2) According to a Schedule 13D filed with the SEC on August 18, 2010, Sphinx Investments Corp. is a wholly-owned subsidiary of Maryport Navigation Corp., a Liberian company controlled by George Economou, a member of our Board of Directors. Mr. Economou may therefore be deemed the beneficial owner of the shares held by Sphinx Investments Corp. The address of Sphinx Investments Corp. is c/o Mare Services Limited, 5/1 Merchants Street, Valletta, Malta.

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- (3) Includes 67,633,140 shares which, according to a Schedule 13D jointly filed with the SEC on August 16, 2010 by Danaos Investments Limited as Trustee of the 883 Trust and John Coustas, Danaos Investments Limited as Trustee of the 883 Trust owns and has sole voting power and sole dispositive power with respect to all such shares, and 195,000 held by Danaos Investments Limited as Trustee of the 883 Trust which were granted to Dr. Coustas as an equity award in December 2011. The beneficiaries of the trust are Dr. Coustas and members of his family. Dr. Coustas has certain powers to remove and replace Danaos Investments Limited as Trustee of the 883 Trust and, accordingly, he may be deemed to beneficially own these shares of common stock.
- (4) Avignon International Corporation is a Liberian company ultimately controlled by Dimitrios Koustas, who may therefore be deemed the beneficial owner of the shares held by Avignon International Corporation. Dimitrios Koustas is the father of Dr. John Coustas, our President, Chief Executive Officer and Chairman of our Board of Directors. The address of Avignon International Corporation is 80, Broad St., Monrovia, Liberia.

As of February 28, 2013, we had approximately eight stockholders of record, four of which were located in the United States and held an aggregate of 109,063,212 shares of common stock. However, one of the United States stockholders of record is CEDEFEST, a nominee of The Depository Trust Company, which held 109,060,962 shares of our common stock. Accordingly, we believe that the shares held by CEDEFEST include shares of common stock beneficially owned by both holders in the United States and non-United States beneficial owners, including 79,256,111 shares beneficially owned by our officers and directors resident outside the United States and 114,886 shares beneficially owned by directors resident in the United States as reflected in the above table. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

The Coustas Family Trust, under which our chief executive officer is both a beneficiary, together with other members of the Coustas Family, and the protector (which is analogous to a trustee), through Danaos Investments Limited, a corporation wholly-owned by Dr. Coustas, owns, directly or indirectly, approximately 61.9% of our outstanding common stock. This stockholder is able to control the outcome of matters on which our stockholders are entitled to vote, including the election of our entire board of directors and other significant corporate actions. Our respective lenders under our existing credit facilities covered by the Bank Agreement and the New Credit Facilities will be entitled to require us to repay in full amounts outstanding under such respective credit facilities, if, among other circumstances, Dr. Coustas ceases to be our Chief Executive Officer or, together with members of his family and trusts for the benefit thereof, ceases to collectively own over one-third of the voting interest in our outstanding capital stock or any other person or group controls more than 20.0% of the voting power of our outstanding capital stock.

In 2011, we issued, for no additional consideration, an aggregate of 15,000,000 warrants to our lenders under the Bank Agreement and New Credit Facilities to purchase, solely on a cash-less exercise basis, an aggregate of 15,000,000 shares of our common stock, which warrants have an exercise price of \$7.00 per share. All warrants will expire on January 31, 2019.

Item 8. Financial Information

See "Item 18. Financial Statements" below.

Significant Changes. No significant change has occurred since the date of the annual financial statements included in this annual report on Form 20-F.

Legal Proceedings. On November 22, 2010, a purported Company shareholder filed a derivative complaint in the High Court of the Republic of the Marshall Islands. The derivative complaint names as defendants seven of the eight members of the Company's board of directors at the time the complaint was filed. The derivative complaint challenges the amendments in 2009 and 2010 to the

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Company's management agreement with Danaos Shipping and certain aspects of the sale of common stock in August 2010. The complaint includes counts for breach of fiduciary duty and unjust enrichment. On February 11, 2011, the Company filed a motion to dismiss the Complaint. After briefing was completed, the Court heard oral argument on October 26, 2011. On December 21, 2011, the Court granted the Company's motion to dismiss but gave the plaintiff leave to file an amended complaint. Plaintiff filed the amended complaint on January 30, 2012. The amended complaint names the same parties and bases its claims on the same transactions. The Company has moved to dismiss the amended complaint and completed briefing on that motion on July 16, 2012. A hearing on the Company's motion to dismiss is set for April 23, 2013.

We have not been involved in any legal proceedings that we believe would have a significant effect on our business, financial position, results of operations or liquidity, and we are not aware of any proceedings that are pending or threatened that may have a material effect on our business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. However, those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

Dividend Policy. Our board of directors has determined to suspend the payment of cash dividends as a result of market conditions in the international shipping industry. Declaration and payment of any future dividend is subject to the discretion of our board of directors. In addition, under the Bank Agreement relating to our existing credit facilities and various new financing arrangements, we generally will not be permitted to pay cash dividends or repurchase shares of our capital stock through December 31, 2018, absent a substantial reduction in our leverage. We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations and to make any dividend payments. See "Item 3. Key Information Risk Factors Risks Inherent in Our Business" for a discussion of the risks related to dividend payments, if any.

After our initial public offering, we paid regular quarterly dividends from February 2007 to November 19, 2008. We paid no dividends in 2006 and, prior to our initial public offering, in 2005 we paid dividends of \$244.6 million to our stockholders from our retained earnings.

Item 9. The Offer and Listing

Our common stock is listed on the New York Stock Exchange under the symbol "DAC."

Trading on the New York Stock Exchange

Since our initial public offering in the United States in October 2006, our common stock has been listed on the New York Stock Exchange under the symbol "DAC." The following table shows the high and low sales prices for our common stock during the indicated periods.

	High	Low
2008	\$ 29.96	\$ 3.18
2009	\$ 10.50	\$ 2.72
2010	\$ 5.25	\$ 3.50
2011 (Annual)	\$ 7.87	\$ 2.65
First Quarter	6.78	3.73
Second Quarter	7.87	5.00
Third Quarter	5.94	2.65
Fourth Quarter	4.11	2.77

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		High	Low
2012	(Annual)	\$ 4.88	\$ 2.44
	First Quarter	4.88	2.86
	Second Quarter	4.73	3.47
	Third Quarter	4.45	3.03
	Fourth Quarter	3.26	2.44
	September 2012	3.64	3.03
	October 2012	3.26	2.50
	November 2012	3.23	2.56
	December 2012	2.75	2.44
2013	First Quarter (through February 28, 2013)	\$ 4.25	\$ 2.76
	January 2013	4.25	2.76
	February 2013	4.23	3.11

Item 10. Additional Information**Share Capital**

Under our articles of incorporation, our authorized capital stock consists of 750,000,000 shares of common stock, \$0.01 par value per share, of which, as of December 31, 2012 and February 28, 2013, 109,604,040 shares and 109,618,212 shares, respectively, were issued and outstanding and fully paid, and 100,000,000 shares of blank check preferred stock, \$0.01 par value per share, of which, as of December 31, 2012 and February 28, 2013, no shares were issued and outstanding and fully paid. One million shares of the blank check preferred stock have been designated Series A Participating Preferred Stock in connection with our adoption of a stockholder rights plan as described below under " Stockholder Rights Plan." All of our shares of stock are in registered form.

Warrants

In 2011, we issued an aggregate of 15,000,000 warrants to our lenders under the Bank Agreement and New Credit Facilities to purchase, solely on a cash-less exercise basis, an aggregate of 15,000,000 shares of our common stock, which warrants have an exercise price of \$7.00 per share. All warrants will expire on January 31, 2019.

As a result of the warrants being exercisable solely on a cash-less basis, the number of shares of common stock that would be issuable upon such an exercise will generally be reduced. For instance, in the event 100 warrants were exercised at the current exercise price of \$7.00 per share at a time when the applicable fair market value (defined in the warrant agreement to be, generally, the average of the closing price of our common stock over the preceding five trading days) of our common stock was \$10.00 per share, 30 shares of our common stock would be issuable rather than 100 shares of our common stock. We will not receive any cash proceeds upon the exercise of warrants.

The number of shares of our common stock issuable upon exercise of a warrant will be adjusted upon the occurrence of certain events including, without limitation, the payment of a dividend on, or the making of any distribution in respect of, capital stock of the Company, payment of which is made in:

shares of the Company's common stock; or

options, warrants or rights to purchase, or securities convertible into or convertible or exercisable for, shares of common stock of the Company at an exercise price below the then current market price per share of the common stock.

An adjustment will also be made in the event of a combination, subdivision or reclassification of the common stock. Adjustments will be made whenever and as often as any specified event requires an

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adjustment to occur, provided that no adjustment will be required until such time as the adjustment would be at least one percent (1%). No adjustments will be made for issuances under the Company's equity compensation plan, as amended or supplemented, which provides for issuances of up to six percent (6%) of the Company's outstanding common stock.

Common Stock

Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of shares of common stock are entitled to receive ratably all dividends, if any, declared by our board of directors out of funds legally available for dividends. Holders of common stock do not have conversion, redemption or preemptive rights to subscribe to any of our securities. All outstanding shares of common stock are fully paid and nonassessable. The rights, preferences and privileges of holders of shares of common stock are subject to the rights of the holders of any shares of preferred stock which we may issue in the future.

On August 6, 2010, we entered into agreements with several investors, including our largest stockholder, under which we sold to them 54,054,055 shares of our common stock for an aggregate purchase price of \$200.0 million in cash, which satisfied a condition under the Bank Agreement with our existing lenders as discussed above. The shares were issued at \$3.70 per share on August 12, 2010.

Blank Check Preferred Stock

Under the terms of our articles of incorporation, our board of directors has authority, without any further vote or action by our stockholders, to issue up to 100,000,000 shares of blank check preferred stock, of which 1,000,000 shares have been designated Series A Participating Preferred Stock in connection with our adoption of a stockholder rights plan as described below under " Stockholder Rights Plan." Our board of directors may issue shares of preferred stock on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management.

Stockholder Rights Plan

General

Each share of our common stock includes a right that entitles the holder to purchase from us a unit consisting of one-thousandth of a share of our Series A participating preferred stock at a purchase price of \$25.00 per unit, subject to specified adjustments. The rights are issued pursuant to a rights agreement between us and American Stock Transfer & Trust Company, as rights agent. Until a right is exercised, the holder of a right will have no rights to vote or receive dividends or any other stockholder rights.

The rights may have anti-takeover effects. The rights will cause substantial dilution to any person or group that attempts to acquire us without the approval of our board of directors. As a result, the overall effect of the rights may be to render more difficult or discourage any attempt to acquire us. Because our board of directors can approve a redemption of the rights or a permitted offer, the rights should not interfere with a merger or other business combination approved by our board of directors. The adoption of the rights agreement was approved by our stockholders prior to our initial public offering.

We have summarized the material terms and conditions of the rights agreement and the rights below. For a complete description of the rights, we encourage you to read the rights agreement, which is an exhibit to this annual report.

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Detachment of the Rights

The rights are attached to all shares of our outstanding common stock and will attach to all common stock that we issue prior to the rights distribution date that we describe below. The rights are not exercisable until after the rights distribution date and will expire at the close of business on the tenth anniversary date of the adoption of the rights plan, unless we redeem or exchange them earlier as described below. The rights will separate from the common stock and a rights distribution date will occur, subject to specified exceptions, on the earlier of the following two dates:

10 days following a public announcement that a person or group of affiliated or associated persons or an "acquiring person" has acquired or obtained the right to acquire beneficial ownership of 15% or more of our outstanding common stock; or

10 business days following the start of a tender or exchange offer that would result, if closed, in a person becoming an "acquiring person."

Existing stockholders prior to our initial public offering and their affiliates, as well as any person who would otherwise be an "acquiring person" solely as a result of acquiring shares of common stock pursuant to a subscription agreement with us dated as of August 6, 2010, are excluded from the definition of "acquiring person" for purposes of the rights, and therefore their ownership or future share acquisitions cannot trigger the rights. Specified "inadvertent" owners that would otherwise become an acquiring person, including those who would have this designation as a result of repurchases of common stock by us, will not become acquiring persons as a result of those transactions.

Our board of directors may defer the rights distribution date in some circumstances, and some inadvertent acquisitions will not result in a person becoming an acquiring person if the person promptly divests itself of a sufficient number of shares of common stock.

Until the rights distribution date:

our common stock certificates will evidence the rights, and the rights will be transferable only with those certificates; and

any new shares of common stock will be issued with rights and new certificates will contain a notation incorporating the rights agreement by reference.

As soon as practicable after the rights distribution date, the rights agent will mail certificates representing the rights to holders of record of common stock at the close of business on that date. After the rights distribution date, only separate rights certificates will represent the rights.

We will not issue rights with any shares of common stock we issue after the rights distribution date, except as our board of directors may otherwise determine.

Flip-In Event

A "flip-in event" will occur under the rights agreement when a person becomes an acquiring person. If a flip-in event occurs and we do not redeem the rights as described under the heading "Redemption of Rights" below, each right, other than any right that has become void, as described below, will become exercisable at the time it is no longer redeemable for the number of shares of common stock, or, in some cases, cash, property or other of our securities, having a current market price equal to two times the exercise price of such right.

If a flip-in event occurs, all rights that then are, or in some circumstances that were, beneficially owned by or transferred to an acquiring person or specified related parties will become void in the circumstances the rights agreement specifies.

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Flip-Over Event

A "flip-over event" will occur under the rights agreement when, at any time after a person has become an acquiring person:

we are acquired in a merger or other business combination transaction; or

50% or more of our assets, cash flows or earning power is sold or transferred.

If a flip-over event occurs, each holder of a right, other than any right that has become void as we describe under the heading " Flip-In Event" above, will have the right to receive the number of shares of common stock of the acquiring company having a current market price equal to two times the exercise price of such right.

Antidilution

The number of outstanding rights associated with our common stock is subject to adjustment for any stock split, stock dividend or subdivision, combination or reclassification of our common stock occurring prior to the rights distribution date. With some exceptions, the rights agreement does not require us to adjust the exercise price of the rights until cumulative adjustments amount to at least 1% of the exercise price. It also does not require us to issue fractional shares of our preferred stock that are not integral multiples of one one-hundredth of a share, and, instead we may make a cash adjustment based on the market price of the common stock on the last trading date prior to the date of exercise. The rights agreement reserves us the right to require, prior to the occurrence of any flip-in event or flip-over event that, on any exercise of rights, that a number of rights must be exercised so that we will issue only whole shares of stock.

Redemption of Rights

At any time until 10 days after the date on which the occurrence of a flip-in event is first publicly announced, we may redeem the rights in whole, but not in part, at a redemption price of \$0.01 per right. The redemption price is subject to adjustment for any stock split, stock dividend or similar transaction occurring before the date of redemption. At our option, we may pay that redemption price in cash, shares of common stock or any other consideration our board of directors may select. The rights are not exercisable after a flip-in event until they are no longer redeemable. If our board of directors timely orders the redemption of the rights, the rights will terminate on the effectiveness of that action.

Exchange of Rights

We may, at our option, exchange the rights (other than rights owned by an acquiring person or an affiliate or an associate of an acquiring person, which have become void), in whole or in part. The exchange must be at an exchange ratio of one share of common stock per right, subject to specified adjustments at any time after the occurrence of a flip-in event and prior to:

any person other than our existing stockholders becoming the beneficial owner of common stock with voting power equal to 50% or more of the total voting power of all shares of common stock entitled to vote in the election of directors; or

the occurrence of a flip-over event.

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Amendment of Terms of Rights

While the rights are outstanding, we may amend the provisions of the rights agreement only as follows:

to cure any ambiguity, omission, defect or inconsistency;

to make changes that do not adversely affect the interests of holders of rights, excluding the interests of any acquiring person; or

to shorten or lengthen any time period under the rights agreement, except that we cannot change the time period when rights may be redeemed or lengthen any time period, unless such lengthening protects, enhances or clarifies the benefits of holders of rights other than an acquiring person.

At any time when no rights are outstanding, we may amend any of the provisions of the rights agreement, other than decreasing the redemption price.

Memorandum and Articles of Association

Our purpose is to engage in any lawful act or activity relating to the business of chartering, rechartering or operating containerships, drybulk carriers or other vessels or any other lawful act or activity customarily conducted in conjunction with shipping, and any other lawful act or activity approved by the board of directors. Our articles of incorporation and bylaws do not impose any limitations on the ownership rights of our stockholders.

Under our bylaws, annual stockholder meetings will be held at a time and place selected by our board of directors. The meetings may be held in or outside of the Marshall Islands. Special meetings may be called by the board of directors or, at the request of the holders of a majority of our issued and outstanding stock entitled to vote on the matters proposed to be considered at such meeting, or by our secretary. Our board of directors may set a record date between 15 and 60 days before the date of any meeting to determine the stockholders that will be eligible to receive notice and vote at the meeting.

Directors

Our directors are elected by a plurality of the votes cast at each annual meeting of the stockholders by the holders of shares entitled to vote in the election. There is no provision for cumulative voting.

The board of directors may change the number of directors to not less than two, nor more than 15, by a vote of a majority of the entire board. Each director shall be elected to serve until the third succeeding annual meeting of stockholders and until his or her successor shall have been duly elected and qualified, except in the event of death, resignation or removal. A vacancy on the board created by death, resignation, removal (which may only be for cause), or failure of the stockholders to elect the entire class of directors to be elected at any election of directors or for any other reason, may be filled only by an affirmative vote of a majority of the remaining directors then in office, even if less than a quorum, at any special meeting called for that purpose or at any regular meeting of the board of directors. The board of directors has the authority to fix the amounts which shall be payable to the members of our board of directors for attendance at any meeting or for services rendered to us.

Dissenters' Rights of Appraisal and Payment

Under the Marshall Islands Business Corporations Act, or the BCA, our stockholders have the right to dissent from various corporate actions, including any merger or sale of all or substantially all of our assets not made in the usual course of our business, and to receive payment of the fair value of their shares. In the event of any further amendment of our articles of incorporation, a stockholder also

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has the right to dissent and receive payment for his or her shares if the amendment alters certain rights in respect of those shares. The dissenting stockholder must follow the procedures set forth in the BCA to receive payment. In the event that we and any dissenting stockholder fail to agree on a price for the shares, the BCA procedures involve, among other things, the institution of proceedings in the high court of the Republic of The Marshall Islands in which our Marshall Islands office is situated or in any appropriate jurisdiction outside the Marshall Islands in which our shares are primarily traded on a local or national securities exchange. The value of the shares of the dissenting stockholder is fixed by the court after reference, if the court so elects, to the recommendations of a court-appointed appraiser.

Stockholders' Derivative Actions

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

Anti-takeover Provisions of our Charter Documents

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

Blank Check Preferred Stock

Under the terms of our articles of incorporation, our board of directors has authority, without any further vote or action by our stockholders, to issue up to 5,000,000 shares of blank check preferred stock, of which 1,000,000 shares have been designated Series A Participating Preferred Stock in connection with our adoption of a stockholder rights plan as described above under " Stockholder Rights Plan." Our board of directors may issue shares of preferred stock on terms calculated to discourage, delay or prevent a change of control of our company or the removal of our management.

Classified Board of Directors

Our articles of incorporation provide for a board of directors serving staggered, three-year terms. Approximately one-third of our board of directors will be elected each year. This classified board provision could discourage a third party from making a tender offer for our shares or attempting to obtain control of our company. It could also delay stockholders who do not agree with the policies of the board of directors from removing a majority of the board of directors for two years.

Election and Removal of Directors

Our articles of incorporation and bylaws prohibit cumulative voting in the election of directors. Our bylaws require parties other than the board of directors to give advance written notice of nominations for the election of directors. Our bylaws also provide that our directors may be removed only for cause and only upon the affirmative vote of the holders of at least 66²/₃% of the outstanding shares of our capital stock entitled to vote for those directors. These provisions may discourage, delay or prevent the removal of incumbent officers and directors.

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Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of our stockholders may be called by our board of directors or, at the request of holders of a majority of the common stock entitled to vote at such meeting, by our secretary.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary.

Generally, to be timely, a stockholder's notice must be received at our principal executive offices not less than 90 days or more than 120 days prior to the first anniversary date of the previous year's annual meeting. Our bylaws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or to make nominations for directors at an annual meeting of stockholders.

Business Combinations

Although the BCA does not contain specific provisions regarding "business combinations" between companies organized under the laws of the Marshall Islands and "interested stockholders," we have included these provisions in our articles of incorporation. Specifically, our articles of incorporation prohibit us from engaging in a "business combination" with certain persons for three years following the date the person becomes an interested stockholder. Interested stockholders generally include:

any person who is the beneficial owner of 15% or more of our outstanding voting stock; or

any person who is our affiliate or associate and who held 15% or more of our outstanding voting stock at any time within three years before the date on which the person's status as an interested stockholder is determined, and the affiliates and associates of such person.

Subject to certain exceptions, a business combination includes, among other things:

certain mergers or consolidations of us or any direct or indirect majority-owned subsidiary of ours;

any sale, lease, exchange, mortgage, pledge, transfer or other disposition of our assets or of any subsidiary of ours having an aggregate market value equal to 10% or more of either the aggregate market value of all assets of us, determined on a consolidated basis, or the aggregate value of all the outstanding stock of us;

certain transactions that result in the issuance or transfer by us of any stock of the corporation to the interested stockholder;

any transaction involving us or any of our subsidiaries that has the effect of increasing the proportionate share of any class or series of stock, or securities convertible into any class or series of stock, of ours or any such subsidiary that is owned directly or indirectly by the interested stockholder or any affiliate or associate of the interested stockholder; and

any receipt by the interested stockholder of the benefit directly or indirectly (except proportionately as a stockholder) of any loans, advances, guarantees, pledges or other financial benefits provided by or through us.

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These provisions of our articles of incorporation do not apply to a business combination if:

before a person became an interested stockholder, our board of directors approved either the business combination or the transaction in which the stockholder became an interested stockholder;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, other than certain excluded shares;

at or following the transaction in which the person became an interested stockholder, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of the holders of at least 66²/₃% of our outstanding voting stock that is not owned by the interest stockholder;

the stockholder was or became an interested stockholder prior to the consummation of the initial public offering of our common stock under the Securities Act;

a stockholder became an interested stockholder inadvertently and (i) as soon as practicable divests itself of ownership of sufficient shares so that the stockholder ceases to be an interested stockholder; and (ii) would not, at any time within the three-year period immediately prior to a business combination between our company and such stockholder, have been an interested stockholder but for the inadvertent acquisition of ownership; or

the business combination is proposed prior to the consummation or abandonment of and subsequent to the earlier of the public announcement or the notice required under our articles of incorporation which (i) constitutes one of the transactions described in the following sentence; (ii) is with or by a person who either was not an interested stockholder during the previous three years or who became an interested stockholder with the approval of the board; and (iii) is approved or not opposed by a majority of the members of the board of directors then in office (but not less than one) who were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors. The proposed transactions referred to in the preceding sentence are limited to:

- (i) a merger or consolidation of our company (except for a merger in respect of which, pursuant to the BCA, no vote of the stockholders of our company is required);
- (ii) a sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), whether as part of a dissolution or otherwise, of assets of our company or of any direct or indirect majority-owned subsidiary of our company (other than to any direct or indirect wholly-owned subsidiary or to our company) having an aggregate market value equal to 50% or more of either that aggregate market value of all of the assets of our company determined on a consolidated basis or the aggregate market value of all the outstanding shares; or
- (iii) a proposed tender or exchange offer for 50% or more of our outstanding voting stock.

Material Contracts

For a summary of the following agreements, please see the specified section of this Annual Report on Form 20-F. Such summaries are not intended to be complete and reference is made to the contracts themselves, which are exhibits to this Annual Report on Form 20-F.

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For a description of the Amended and Restated Management Agreement, dated September 18, 2006, between Danaos Shipping Company Limited and Danaos Corporation, as amended February 12, 2009, February 8, 2010, December 16, 2011 and December 31, 2012, please see "Item 7. Major Shareholders and Related Party Transactions Management Agreement."

For a description of the Restrictive Covenant Agreement, dated October 11, 2006, between Danaos Corporation and Dr. John Coustas, please see "Item 7. Major Shareholders and Related Party Transactions Non-competition."

For a description of the Stockholder Rights Agreement, dated September 18, 2006, between Danaos Corporation and American Stock Transfer & Trust Company, as Rights Agent, as amended, please see "Item 10. Additional Information Share Capital Stockholder Rights Plan."

For a description of the Restructuring Agreement, dated January 24, 2011, between the Company, its subsidiaries and its lenders and swap-counterparties and lenders and the Company's credit facilities and financing arrangements, please see "Item 5. Operating and Financial Review and Prospects Bank Agreement." For additional information regarding our credit facilities, including the financial covenants contained therein, see Note 13 to our consolidated financial statements included elsewhere in this annual report.

For a description of the Subscription Agreements, dated August 6, 2010, between the Company and certain investors, please see "Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Common Stock Sale."

Exchange Controls and Other Limitations Affecting Stockholders

Under Marshall Islands and Greek law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to non-resident holders of our common stock.

We are not aware of any limitations on the rights to own our common stock, including rights of non-resident or foreign stockholders to hold or exercise voting rights on our common stock, imposed by foreign law or by our articles of incorporation or bylaws.

Tax Considerations

Marshall Islands Tax Considerations

We are a Marshall Islands corporation. Because we do not, and we do not expect that we will, conduct business or operations in the Marshall Islands, under current Marshall Islands law we are not subject to tax on income or capital gains and our stockholders will not be subject to Marshall Islands taxation or withholding on dividends and other distributions, including upon a return of capital, we make to our stockholders. In addition, our stockholders, who do not reside in, maintain offices in or engage in business in the Marshall Islands, will not be subject to Marshall Islands stamp, capital gains or other taxes on the purchase, ownership or disposition of common stock, and such stockholders will not be required by the Republic of The Marshall Islands to file a tax return relating to the common stock.

Each stockholder is urged to consult their tax counsel or other advisor with regard to the legal and tax consequences, under the laws of pertinent jurisdictions, including the Marshall Islands, of their investment in us. Further, it is the responsibility of each stockholder to file all state, local and non-U.S., as well as U.S. federal tax returns that may be required of them.

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Liberian Tax Considerations

The Republic of Liberia enacted a new income tax act effective as of January 1, 2001 (the "New Act"). In contrast to the income tax law previously in effect since 1977, the New Act does not distinguish between the taxation of "non-resident" Liberian corporations, such as our Liberian subsidiaries, which conduct no business in Liberia and were wholly exempt from taxation under the prior law, and "resident" Liberian corporations which conduct business in Liberia and are (and were under the prior law) subject to taxation.

The New Act was amended by the Consolidated Tax Amendments Act of 2011, which was published and became effective on November 1, 2011 (the "Amended Act"). The Amended Act specifically exempts from taxation non-resident Liberian corporations such as our Liberian subsidiaries that engage in international shipping (and are not engaged in shipping exclusively within Liberia) and that do not engage in other business or activities in Liberia other than those specifically enumerated in the Amended Act. In addition, the Amended Act made such exemption from taxation retroactive to the effective date of the New Act.

If, however, our Liberian subsidiaries were subject to Liberian income tax under the Amended Act, they would be subject to tax at a rate of 35% on their worldwide income. As a result, their, and subsequently our, net income and cash flow would be materially reduced. In addition, as the ultimate shareholder of the Liberian subsidiaries we would be subject to Liberian withholding tax on dividends paid by our Liberian subsidiaries at rates ranging from 15% to 20%.

United States Federal Income Tax Considerations

The following discussion of United States federal income tax matters is based on the Internal Revenue Code of 1986, or the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the United States Department of the Treasury, all of which are in effect and available and subject to change, possibly with retroactive effect. Except as otherwise noted, this discussion is based on the assumption that we will not maintain an office or other fixed place of business within the United States. We have no current intention of maintaining such an office. References in this discussion to "we" and "us" are to Danaos Corporation and its subsidiaries on a consolidated basis, unless the context otherwise requires.

United States Federal Income Taxation of Our Company

Taxation of Operating Income: In General

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

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

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

In the absence of exemption from tax under Section 883 of the Code, our gross United States-source shipping income and that of our vessel-owning or vessel-operating subsidiaries, unless determined to be effectively connected with the conduct of a United States trade or business, as described below, would be subject to a 4% tax imposed without allowance for deductions as described below.

Exemption of Operating Income from United States Federal Income Taxation

Other than with respect to four of our vessel-owning subsidiaries which are discussed in greater detail below, under Section 883 of the Code, we and our vessel-owning or vessel-operating subsidiaries will be exempt from United States federal income taxation on United States-source shipping income if:

- (1) we and such subsidiaries are organized in foreign countries (our "countries of organization") that grant an "equivalent exemption" to corporations organized in the United States; and
- (2) either
 - (A) more than 50% of the value of our stock is owned, directly or indirectly, by individuals who are "residents" of our country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States, which we refer to as the "50% Ownership Test"; or
 - (B) our stock is "primarily and regularly traded on an established securities market" in our country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States, which we refer to as the "Publicly-Traded Test."

We believe, based on Revenue Ruling 2008-17, 2008-12 IRB 626, and, in the case of the Marshall Islands, an exchange of notes between the United States and the Marshall Islands, 1990-2 C.B. 321, in the case of Liberia, an exchange of notes between the United States and Liberia, 1988-1 C.B. 463, in the case of Cyprus, an exchange of notes between the United States and Cyprus, 1989-2 C.B. 332 and, in the case of Singapore, an exchange of notes between the United States and Singapore, 1990-2 C.B. 323, (each an "Exchange of Notes") that the Marshall Islands, Liberia, Cyprus and Singapore, the jurisdictions in which we and our vessel-owning and vessel-operating subsidiaries are incorporated, grant an "equivalent exemption" to United States corporations. Therefore, we believe that we and our vessel-owning and vessel-operating subsidiaries other than four vessel-owning subsidiaries discussed below will be exempt from United States federal income taxation with respect to United States-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met. While we believe that we currently satisfy the 50% Ownership Test, we expect that, if the 883 Trust were to come to own 50% or less of our shares, it may be difficult for us to satisfy the 50% Ownership Test due to the public trading of our stock. Our ability to satisfy the Publicly-Traded Test is discussed below.

The Section 883 regulations provide, in pertinent part, that stock of a foreign corporation will be considered to be "primarily traded" on an established securities market in a particular country if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. For 2011, our common stock, which is the sole class of our issued and outstanding stock, was "primarily traded" on the New York Stock Exchange and we anticipate that that will also be the case for subsequent taxable years.

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Under the regulations, our common stock will be considered to be "regularly traded" on an established securities market if one or more classes of our stock representing more than 50% of our outstanding shares, by total combined voting power of all classes of stock entitled to vote and total value, is listed on the market. We refer to this as the "listing threshold". Since our common stock is our sole class of stock we satisfied the listing threshold for 2011 and expect to continue to do so for subsequent taxable years.

It is further required that with respect to each class of stock relied upon to meet the listing threshold (i) such class of the stock is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or $\frac{1}{6}$ of the days in a short taxable year; and (ii) the aggregate number of shares of such class of stock traded on such market is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year. We believe that we satisfied the trading frequency and trading volume tests years for 2011 and we expect to continue to satisfy these requirements for subsequent taxable years. Even if this were not the case, the regulations provide that the trading frequency and trading volume tests will be deemed satisfied if, as was the case for 2011 and we expect to be the case with our common stock for subsequent taxable years, such class of stock is traded on an established market in the United States and such stock is regularly quoted by dealers making a market in such stock.

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

For purposes of being able to determine the persons who own 5% or more of our stock, or "5% Stockholders," the regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the United States Securities and Exchange Commission, or the "SEC," as having a 5% or more beneficial interest in our common stock. The regulations further provide that an investment company which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Stockholder for such purposes.

More than 50% of our shares of common stock are currently owned by 5% stockholders. Thus, we will be subject to the 5% Override Rule unless we can establish that among the shares included in the closely-held block of our shares of common stock there are a sufficient number of shares of common stock that are owned or treated as owned by "qualified stockholders" such that the shares of common stock included in such block that are not so treated could not constitute 50% or more of the shares of our common stock for more than half the number of days during the taxable year. In order to establish this, such qualified stockholders would have to comply with certain documentation and certification requirements designed to substantiate their identity as qualified stockholders. For these purposes, a "qualified stockholder" includes (i) an individual that owns or is treated as owning shares of our common stock and is a resident of a jurisdiction that provides an exemption that is equivalent to that provided by Section 883 of the Code and (ii) certain other persons. There can be no assurance that we will not be subject to the 5 Percent Override Rule with respect to any taxable year.

Approximately 61.9% of our shares will be treated, under applicable attribution rules, as owned by the 883 Trust whose ownership of our shares will be attributed, during his lifetime, to John Coustas, our chief executive officer, for purposes of Section 883. Dr. Coustas has entered into an agreement with us regarding his compliance, and the compliance of certain entities that he controls and through which he owns our shares, with the certification requirements designed to substantiate status as qualified stockholders. In certain circumstances, including circumstances where Dr. Coustas ceases to be a "qualified stockholder" or where the 883 Trust transfers some or all of our shares that it holds,

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Dr Coustas' compliance, and the compliance of certain entities that he controls or through which he owns our shares, with the terms of the agreement with us will not enable us to satisfy the requirements for the benefits of Section 883. Following Dr. Coustas' death, there can be no assurance that our shares that are treated, under applicable attribution rules, as owned by the 883 Trust will be treated as owned by a "qualified stockholder" or that any "qualified stockholder" to whom ownership of all or a portion of such ownership is attributed will comply with the ownership certification requirements under Section 883. As to the four vessel-owning subsidiaries referred to above, we believe that their qualification for the benefits of Section 883 for any taxable year will depend upon whether preferred shares issued by such subsidiaries, as to which we are not the direct or indirect shareholder of record, are owned, directly or under applicable ownership attribution rules, by "qualified shareholders" who comply with specified ownership certification procedures. There can be no assurance that such preferred shares will be treated as so owned with respect to any taxable year.

Accordingly, there can be no assurance that we or any of our vessel-owning or vessel-operating subsidiaries will qualify for the benefits of Section 883 for any taxable year.

To the extent the benefits of Section 883 are unavailable, our U.S.-source shipping income, to the extent not considered to be "effectively connected" with the conduct of a United States trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions. Since, under the sourcing rules described above, we expect that no more than 50% of our shipping income would be treated as being derived from United States sources, we expect that the maximum effective rate of United States federal income tax on our gross shipping income would never exceed 2% under the 4% gross basis tax regime. Many of our charters contain provisions obligating the charter to reimburse us for amounts paid in respect of the 4% tax with respect to the activities of the vessel subject to the charter.

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

Our U.S.-source shipping income, other than leasing income, will be considered "effectively connected" with the conduct of a United States trade or business only if:

we have, or are considered to have, a fixed place of business in the United States involved in the earning of shipping income; and

substantially all (at least 90%) of our U.S.-source shipping income, other than leasing income, is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for operations that begin or end in the United States.

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

we have, or are considered to have a fixed place of business in the United States that is involved in the meaning of such leasing income; and

substantially all (at least 90%) of our U.S.-source shipping income from leasing is attributable to such fixed place of business.

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For these purposes, leasing income is treated as attributable to a fixed place of business where such place of business is a material factor in the realization of such income and such income is realized in the ordinary course of business carried on through such fixed place of business. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our U.S.-source shipping income will be "effectively connected" with the conduct of a U.S. trade or business.

United States Taxation of Gain on Sale of Vessels

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

United States Federal Income Taxation of United States Holders

As used herein, the term "United States Holder" means a beneficial owner of common stock or warrants that is a United States citizen or resident, United States corporation or other United States entity taxable as a corporation, an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. The discussion that follows deals only with common stock or warrants that are held by a United States Holder as capital assets, and does not address the treatment of United States Holders that are subject to special tax rules, including a United States Holder, if any, that has received our warrants as compensation for services.

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

Distributions with Respect to Common Stock

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

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Dividends paid on our common stock to a United States Holder who is an individual, trust or estate (a "United States Individual Holder") should be treated as "qualified dividend income" that is taxable to such United States Individual Holders at preferential tax rates provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the New York Stock Exchange); (2) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (see the discussion below under " PFIC Status and Material U.S. Federal Tax Consequences"); and (3) the United States Individual Holder owns the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend. Special rules may apply to any "extraordinary dividend". Generally, an extraordinary dividend is a dividend in an amount which is equal to or in excess of ten percent of a stockholder's adjusted basis (or fair market value in certain circumstances) in a share of common stock paid by us. If we pay an "extraordinary dividend" on our common stock that is treated as "qualified dividend income," then any loss derived by a United States Individual Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a United States Individual Holder. Any dividends paid by us which are not eligible for these preferential rates will be taxed to a United States Individual Holder at the standard ordinary income rates.

Legislation has been introduced that would deny the preferential rate of federal income tax currently imposed on qualified dividend income with respect to dividends received from a non-U.S. corporation, unless the non-U.S. corporation either is eligible for the benefits of a comprehensive income tax treaty with the United States or is created or organized under the laws of a foreign country which has a comprehensive income tax system. Because the Marshall Islands has not entered into a comprehensive income tax treaty with the United States and imposes only limited taxes on corporations organized under its laws, it is unlikely that we could satisfy either of these requirements. Consequently, if this legislation were enacted in its current form the preferential rate of federal income tax described above may no longer be applicable to dividends received from us. As of the date hereof, it is not possible to predict with certainty whether or in what form the proposed legislation will be enacted.

The exercise price of our warrants, and the amount of common stock to be issued upon exercise, are subject to adjustment under certain circumstances. If such an adjustment increases a proportionate interest of a United States Holder of a warrant in the fully diluted common stock, or increases a proportionate interest of a United States Holder of common stock in the fully diluted common stock, the United States Holder of the warrants, or common stock, whose proportionate interest increased may be treated as having received a constructive distribution, which may be taxable to such United States Holder as a dividend. The warrants by their terms permit us to increase the amount of common stock issuable on an exercise of the warrants to prevent deemed dividend treatment with respect to holders of our common stock.

Sale, Exchange or other Disposition of Common Stock or Warrants

Assuming we do not constitute a PFIC for any taxable year, a United States Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock or warrants in an amount equal to the difference between the amount realized by the United States Holder from such sale, exchange or other disposition and the United States Holder's tax basis in such stock or warrants. Such gain or loss will be treated as long-term capital gain or loss if the United States Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as United States-source income or loss, as applicable, for United States foreign tax credit purposes. A United States Holder's ability to deduct capital losses is subject to certain limitations.

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Exercise or Expiration of Warrants

Assuming we do not constitute a PFIC for any taxable year, the tax treatment of a cashless exercise of our warrants, which is the only form of exercise provided by their terms, is not free from doubt. A cashless exercise may be treated as a tax-free recapitalization of the warrant into our common stock, and as a result an exercising United States Holder would not recognize gain or loss on the exercise, and would have a tax basis and holding period in the common stock issued upon exercise reflecting the tax basis and holding period of the exercised warrant. It is conceivable, however, that a cashless exercise may be treated in the same manner as an exercise of the warrants for cash, generally resulting in neither gain nor loss for the exercising United States Holder, but the United States Holder would then be treated as having sold a portion of the stock received on exercise to us, reflecting common stock equal to the exercise price for the warrants, and as a result may recognize gain (or loss) reflecting the amount by which the fair market value of such common stock exceeds (or is less than) the United States Holder's tax basis in such common stock (reflecting, in turn, such United States Holder's tax basis in the warrants exercised in exchange for such common stock). United States Holders are urged to consult with their tax advisers regarding the tax treatment of a cashless exercise of the warrants.

Assuming we do not constitute a PFIC for any taxable year, if a warrant expires unexercised, a United States Holder will recognize a capital loss, reflecting the United States Holder's tax basis in the expired warrant. A United States Holder's ability to deduct capital losses is subject to certain limitations.

PFIC Status and Material U.S. Federal Tax Consequences

Special United States federal income tax rules apply to a United States Holder that holds stock or warrants in a foreign corporation classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes. In general, we will be treated as a PFIC in any taxable year in which, after applying certain look-through rules, either:

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

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

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

We may hold, directly or indirectly, interests in other entities that are PFICs ("Subsidiary PFICs"). If we are a PFIC, each United States Holder will be treated as owning its pro rata share by value of the stock of any such Subsidiary PFICs.

While there are legal uncertainties involved in this determination, we believe that we should not be treated as a PFIC for the taxable year ended December 31, 2012. We believe that, although there is no legal authority directly on point, the gross income that we derive from time chartering activities of our subsidiaries should constitute services income rather than rental income. Consequently, such income should not constitute passive income and the vessels that we or our subsidiaries operate in connection with the production of such income should not constitute passive assets for purposes of determining whether we are a PFIC. The characterization of income from time charters, however, is uncertain.

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Although there is older legal authority supporting this position consisting of case law and Internal Revenue Service, or IRS, pronouncements concerning the characterization of income derived from time charters as services income for other tax purposes, the United States Court of Appeals for the Fifth Circuit recently held in *Tidewater Inc. and Subsidiaries v. United States*, 565 F.3d 299; (5th Cir. 2009), that income derived from certain time chartering activities should be treated as rental income rather than services income for purposes of the "foreign sales corporation" rules under the Code. The IRS has stated that it disagrees with and will not acquiesce to 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. However, the IRS's statement with respect to the *Tidewater* decision was an administrative action that 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 agree with the *Tidewater* decision. However, if the principles of the *Tidewater* decision were applicable to our time charters, we would likely be treated as a PFIC. Moreover, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC, we cannot assure you that the nature of our assets, income and operations will not change, or that we can avoid being treated as a PFIC for any taxable year.

If we were to be treated as a PFIC for any taxable year, a United States Holder would be required to file an annual report with the IRS for that year with respect to such holder's common stock or warrants. In addition, as discussed more fully below, if we were to be treated as a PFIC for any taxable year, a United States Holder of our common stock would be subject to different taxation rules depending on whether the United States Holder makes an election to treat us as a "Qualified Electing Fund," which election we refer to as a "QEF election." As an alternative to making a QEF election, a United States Holder should be able to make a "mark-to-market" election with respect to our common stock, as discussed below. Under the PFIC rules, a United States Holder of our warrants would not be permitted to make either a QEF election or a mark-to-market election with respect to our warrants.

Taxation of United States Holders Making a Timely QEF Election

If a United States Holder makes a timely QEF election with respect to our common stock, which United States Holder we refer to as an "Electing Holder," for United States federal income tax purposes each year the Electing Holder must report his, her or its pro-rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. Generally, a QEF election should be made on or before the due date for filing the electing United States Holder's U.S. federal income tax return for the first taxable year in which our common stock is held by such United States Holder and we are classified as a PFIC. The Electing Holder's adjusted tax basis in the common stock would be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed would result in a corresponding reduction in the adjusted tax basis in the common stock and would not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common stock. A United States Holder would make a QEF election with respect to any year that our company and any Subsidiary PFIC are treated as PFICs by filing one copy of IRS Form 8621 with his, her or its United States federal income tax return and a second copy in accordance with the instructions to such form. If we were to become aware that we were to be treated as a PFIC for any taxable year, we would notify all United States Holders of such treatment and would provide all necessary information to any United States Holder who requests such information in order to make the QEF election described above with respect to our common stock and the stock of any Subsidiary PFIC.

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Taxation of United States Holders Making a "Mark-to-Market" Election

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we anticipate, our common stock is treated as "marketable stock," a United States Holder of our common stock would be allowed to make a "mark-to-market" election with respect to our common stock, provided the United States Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the United States Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such holder's adjusted tax basis in the common stock. The United States Holder also would be permitted an ordinary loss in respect of the excess, if any, of the United States Holder's adjusted tax basis in the common stock over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A United States Holder's tax basis in his, her or its common stock would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our common stock would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the United States Holder. A mark-to-market election under the PFIC rules with respect to our common stock would not apply to a Subsidiary PFIC, and a United States Holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in that Subsidiary PFIC. Consequently, United States Holders of our common stock could be subject to the PFIC rules with respect to income of the Subsidiary PFIC, the value of which already had been taken into account indirectly via mark-to-market adjustments.

Taxation of United States Holders Not Making a Timely QEF or Mark-to-Market Election

Finally, if we were treated as a PFIC for any taxable year, a United States Holder who does not make either a QEF election or a "mark-to-market" election for that year, whom we refer to as a "Non-Electing Holder," would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common stock) and (2) any gain realized on the sale, exchange or other disposition of our common stock or warrants. Under these special rules:

the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common stock or warrants;

the amount allocated to the current taxable year or to any portion of the United States Holder's holding period prior to the first taxable year for which we were a PFIC would be taxed as ordinary income; and

the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

Following a recent change in law, if we were treated as a PFIC for any taxable year, a U.S. Holder that owns our share or warrants would be required to file an annual information return with the IRS reflecting such ownership, regardless of whether a QEF election or a mark-to-market election had been made.

Although there is no governing authority as to the consequences of an exercise of warrants where the issuer is a PFIC, under proposed regulations, the exercise of warrants would not be treated as a

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disposition for PFIC purposes, and a United States Holder that exercises a warrant, consistent with these proposed regulations, would have a holding period in the resulting common stock that reflects the United States Holder's holding period in the warrants.

If a United States Holder held our common stock or warrants during a period when we were treated as a PFIC but the United States Holder did not have a QEF election in effect with respect to us, then in the event that we failed to qualify as a PFIC for a subsequent taxable year, the United States Holder could elect to cease to be subject to the rules described above with respect to those shares by making a "deemed sale" or, in certain circumstances, a "deemed dividend" election with respect to our common stock or warrants. If the United States Holder makes a deemed sale election, the United States Holder will be treated, for purposes of applying the rules described in the preceding paragraph, as having disposed of our common stock or warrants for their fair market value on the last day of the last taxable year for which we qualified as a PFIC (the "termination date"). The United States Holder would increase his, her or its basis in such common stock or warrants by the amount of the gain on the deemed sale described in the preceding sentence. Following a deemed sale election, the United States Holder would not be treated, for purposes of the PFIC rules, as having owned the common stock or warrants during a period prior to the termination date when we qualified as a PFIC.

If we were treated as a "controlled foreign corporation" for United States tax purposes for the taxable year that included the termination date, then a United States Holder could make a deemed dividend election with respect to our common stock. If a deemed dividend election is made, the United States Holder is required to include in income as a dividend his, her or its pro rata share (based on all of our stock held by the United States Holder, directly or under applicable attribution rules, on the termination date) of our post-1986 earnings and profits as of the close of the taxable year that includes the termination date (taking only earnings and profits accumulated in taxable years in which we were a PFIC into account). The deemed dividend described in the preceding sentence is treated as an excess distribution for purposes of the rules described in the second preceding paragraph. The United States Holder would increase his, her or its basis in our common stock by the amount of the deemed dividend. Following a deemed dividend election, the United States Holder would not be treated, for purposes of the PFIC rules, as having owned the common stock during a period prior to the termination date when we qualified as a PFIC. For purposes of determining whether the deemed dividend election is available, we will generally be treated as a controlled foreign corporation for a taxable year when, at any time during that year, United States persons, each of whom owns, directly or under applicable attribution rules, common stock having 10% or more of the total voting power of our common stock, in the aggregate own, directly or under applicable attribution rules, shares representing more than 50% of the voting power or value of our common stock.

A deemed sale or deemed dividend election must be made on the United States Holder's original or amended return for the shareholder's taxable year that includes the termination date and, if made on an amended return, such amended return must be filed not later than the date that is three years after the due date of the original return for such taxable year. Special rules apply where a person is treated, for purposes of the PFIC rules, as indirectly owning our common stock or warrants.

United States Federal Income Taxation of "Non-United States Holders"

A beneficial owner of common stock or warrants that is not a United States Holder and is not treated as a partnership for United States federal income tax purposes is referred to herein as a "Non-United States Holder."

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Dividends on Common Stock

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

Sale, Exchange or Other Disposition of Common Stock or Warrants

Non-United States Holders generally will not be subject to United States federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our common stock or warrants, or an exercise of warrants, unless:

the gain is effectively connected with the Non-United States Holder's conduct of a trade or business in the United States. If the Non-United States Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain generally is taxable only if it is attributable to a permanent establishment maintained by the Non-United States Holder in the United States; or

the Non-United States Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-United States Holder is engaged in a United States trade or business for United States federal income tax purposes, the income from the common stock or warrants, including dividends (with respect to the common stock) and the gain from the sale, exchange or other disposition of the stock that is effectively connected with the conduct of that trade or business (including deemed gain, if any, with respect to an exercise of the warrants, as described above in " United States Federal Income Taxation of United States Holders Exercise or Expiration of Warrants") will generally be subject to regular United States federal income tax in the same manner as discussed in the previous section relating to the taxation of United States Holders. In addition, in the case of a corporate Non-United States Holder, such holder's earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable income tax treaty.

Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to a noncorporate United States holder will be subject to information reporting requirements and backup withholding tax if such holder:

fails to provide an accurate taxpayer identification number;

is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns; or

in certain circumstances, fails to comply with applicable certification requirements.

Non-United States Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If a holder sells our common stock or warrants to or through a United States office or broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless the holder certifies that it is a non-United States person, under penalties of perjury, or the

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holder otherwise establishes an exemption. If a holder sells our common stock through a non-United States office of a non-United States broker and the sales proceeds are paid outside the United States, information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the United States, if a holder sells our common stock through a non-United States office of a broker that is a United States person or has some other contacts with the United States.

Backup withholding tax is not an additional tax. Rather, a holder generally may obtain a refund of any amounts withheld under backup withholding rules that exceed such stockholder's income tax liability by filing a refund claim with the IRS.

Dividends and Paying Agents

Not applicable.

Statement by Experts

Not applicable.

Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information as a foreign private issuer with the SEC. You may inspect and copy our public filings without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. You may obtain copies of all or any part of such materials from the SEC upon payment of prescribed fees. You may also inspect reports and other information regarding registrants, such as us, that file electronically with the SEC without charge at a web site maintained by the SEC at <http://www.sec.gov>.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

In connection with certain of our credit facilities under which we pay a floating rate of interest, we entered into interest rate swap agreements designed to pro-actively and efficiently manage our floating rate exposure. We have recognized these derivative instruments on the consolidated balance sheet at their fair value. Pursuant to the adoption of our Risk Management Accounting Policy, and after putting in place the formal documentation required by the accounting guidance for derivatives and hedging in order to designate these swaps as hedging instruments, as of June 15, 2006, these interest rate swaps qualified for hedge accounting, and, accordingly, from that time until June 30, 2012, only hedge ineffectiveness amounts arising from the differences in the change in fair value of the hedging instrument and the hedged item were recognized in the Company's earnings. Assessment and measurement of prospective and retrospective effectiveness for these interest rate swaps were performed on a quarterly basis until June 30, 2012. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge was recognized initially in stockholders' equity, and recognized to the Statement of Comprehensive Income in the periods when the hedged item affects profit or loss. On July 1, 2012, we elected to prospectively de-designate cash flow interest rate swaps for which we were obtaining hedge accounting treatment due to the compliance burden associated with this accounting policy. As a result, all changes in the fair value of our cash flow interest rate swap agreements will be recorded in earnings under "Unrealized and Realized Losses on Derivatives" from the de-designation date forward. We have not held or issued derivative financial instruments for trading or other speculative purposes.

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The interest rate swap agreements converting floating interest rate exposure into fixed, as of December 31, 2012 and 2011 were as follows (in thousands):

Counter-party	Contract Trade Date	Effective Date	Termination Date	Notional Amount on Effective Date	Fixed Rate (Danaos pays)	Floating Rate (Danaos receives)	Fair Value December 31, 2012	Fair Value December 31, 2011
RBS	03/09/2007	3/15/2010	3/15/2015	\$ 200,000	5.07% p.a.	USD LIBOR 3M BBA	\$ (20,759)	\$ (26,764)
RBS	03/16/2007	3/20/2009	3/20/2014	\$ 200,000	4.922% p.a.	USD LIBOR 3M BBA	\$ (11,253)	\$ (18,532)
RBS	11/28/2006	11/28/2008	11/28/2013	\$ 100,000	4.855% p.a.	USD LIBOR 3M BBA	\$ (4,172)	\$ (7,923)
RBS	11/28/2006	11/28/2008	11/28/2013	\$ 100,000	4.875% p.a.	USD LIBOR 3M BBA	\$ (4,190)	\$ (7,962)
RBS	12/01/2006	11/28/2008	11/28/2013	\$ 100,000	4.78% p.a.	USD LIBOR 3M BBA	\$ (4,103)	\$ (7,779)
HSH Nordbank	12/06/2006	12/8/2009	12/8/2014	\$ 400,000	4.855% p.a.	USD LIBOR 3M BBA	\$ (34,952)	\$ (47,139)
CITI	04/17/2007	4/17/2008	4/17/2015	\$ 200,000	5.124% p.a.	USD LIBOR 3M BBA	\$ (21,792)	\$ (27,730)
CITI	04/20/2007	4/20/2010	4/20/2015	\$ 200,000	5.1775% p.a.	USD LIBOR 3M BBA	\$ (22,116)	\$ (28,143)
RBS	09/13/2007	10/31/2007	10/31/2012	\$ 500,000	4.745% p.a.	USD LIBOR 3M BBA	\$	\$ (17,277)
RBS	09/13/2007	9/15/2009	9/15/2014	\$ 200,000	4.9775% p.a.	USD LIBOR 3M BBA	\$ (15,882)	\$ (22,604)
RBS	11/16/2007	11/22/2010	11/22/2015	\$ 100,000	5.07% p.a.	USD LIBOR 3M BBA	\$ (13,424)	\$ (15,664)
RBS	11/15/2007	11/19/2010	11/19/2015	\$ 100,000	5.12% p.a.	USD LIBOR 3M BBA	\$ (13,523)	\$ (15,826)
Eurobank	12/06/2007	12/10/2010	12/10/2015	\$ 200,000	4.8125% p.a.	USD LIBOR 3M BBA	\$ (25,725)	\$ (29,584)
CITI	10/23/2007	10/25/2009	10/27/2014	\$ 250,000	4.9975% p.a.	USD LIBOR 3M BBA	\$ (21,241)	\$ (29,468)
CITI	11/02/2007	11/6/2010	11/6/2015	\$ 250,000	5.1% p.a.	USD LIBOR 3M BBA	\$ (33,273)	\$ (39,092)
CITI	11/26/2007	11/29/2010	11/30/2015	\$ 100,000	4.98% p.a.	USD LIBOR 3M BBA	\$ (13,243)	\$ (15,370)
CITI	02/07/2008	2/11/2011	2/11/2016	\$ 200,000	4.695% p.a.	USD LIBOR 3M BBA	\$ (26,357)	\$ (29,579)
Eurobank	02/11/2008	5/31/2011	5/31/2015	\$ 200,000	4.755% p.a.	USD LIBOR 3M BBA	\$ (21,043)	\$ (26,016)
Total fair value of swaps							\$ (307,048)	\$ (412,452)

Accounting guidance for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Fair Value Interest Rate Swap Hedges

These interest rate swaps are designed to economically hedge the fair value of the fixed rate loan facilities against fluctuations in the market interest rates by converting our fixed rate loan facilities to floating rate debt. Pursuant to the adoption of our Risk Management Accounting Policy, and after putting in place the formal documentation required by hedge accounting in order to designate these swaps as hedging instruments, as of June 15, 2006, these interest rate swaps qualified for hedge accounting, and, accordingly, from that time until June 30, 2012, hedge ineffectiveness amounts arising from the differences in the change in fair value of the hedging instrument and the hedged item were recognized in our earnings. Assessment and measurement of prospective and retrospective effectiveness for these interest rate swaps was performed on a quarterly basis, on the financial statement and earnings reporting dates.

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On July 1, 2012, we elected to prospectively de-designate fair value interest rate swaps for which it was applying hedge accounting treatment due to the compliance burden associated with this accounting policy. All changes in the fair value of our fair value interest rate swap agreements will continue to be recorded in earnings under "Unrealized and Realized Losses on Derivatives" from the de-designation date forward.

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The interest rate swap agreements converting fixed interest rate exposure into floating, as of December 31, 2012 and 2011 were as follows (in thousands):

Counter party	Contract trade Date	Effective Date	Termination Date	Notional Amount on Effective Date	Fixed Rate (Danaos receives)	Floating Rate (Danaos pays)	Fair Value December 31, 2012	Fair Value December 31, 2011
RBS	11/15/2004	12/15/2004	8/27/2016	\$ 60,528	5.0125% p.a.	USD LIBOR 3M BBA + 0.835% p.a.	\$ 1,390	\$ 1,917
RBS	11/15/2004	11/17/2004	11/2/2016	\$ 62,342	5.0125% p.a.	USD LIBOR 3M BBA + 0.855% p.a.	\$ 1,518	\$ 2,047
Total fair value							\$ 2,908	\$ 3,964

The total fair value change of the interest rate swaps for the years ended December 31, 2012, 2011 and 2010, amounted to \$(1.1) million, \$(0.5) million and \$0.7 million, respectively, and is included in the consolidated statement of comprehensive income in "Unrealized and realized losses on derivatives". The related asset of \$2.9 million and \$4.0 million as of December 31, 2012 and 2011, respectively, is shown under "Other non-current assets" in the consolidated balance sheet.

The total fair value change of the underlying hedged debt for the period from January 1, 2012 until June 30, 2012, was \$0.9 million gain and for the years ended December 31, 2011 and 2010, amounted to \$1.8 million and \$0.8 million, respectively, and is included in the consolidated statement of comprehensive income in "Unrealized and realized losses on derivatives". The related liability of the fair value hedged debt of \$2.2 million and \$3.4 million is shown under "Long-term Debt" in the consolidated balance sheet as of December 31, 2012 and 2011, respectively. The net ineffectiveness for the six months ended June 30, 2012, amounted to \$0.5 million gain (as discussed above, on July 1, 2012, we elected to prospectively de-designate hedge accounting) and for the years ended December 31, 2011 and 2010, amounted to \$1.3 million and \$1.5 million, respectively, and is shown in the consolidated Statement of comprehensive Income in "Unrealized and realized losses on derivatives". We reclassified from "Long-term debt, net of current portion", where fair value of hedged item is recorded, to our earnings unrealized losses of \$0.3 million for the six months ended December 31, 2012 (following the hedge accounting discontinuance as of July 1, 2012).

Cash Flow Interest Rate Swap Hedges

We, according to our long-term strategic plan to maintain relative stability in our interest rate exposure, have decided to swap part of our interest expenses from floating to fixed. To this effect, we entered into interest rate swap transactions with varying start and maturity dates, in order to pro-actively and efficiently manage our floating rate exposure.

These interest rate swaps are designed to economically hedge the variability of interest cash flows arising from floating rate debt, attributable to movements in three-month USD\$ LIBOR. According to our Risk Management Accounting Policy, and after putting in place the formal documentation required by hedge accounting in order to designate these swaps as hedging instruments, as from their inception, these interest rate swaps qualified for hedge accounting, and, accordingly, from that time until June 30, 2012, only hedge ineffectiveness amounts arising from the differences in the change in fair value of the hedging instrument and the hedged item were recognized in our earnings. Assessment and measurement of prospective and retrospective effectiveness for these interest rate swaps were performed on a quarterly basis until June 30, 2012. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge was recognized initially in stockholders' equity, and recognized to the Statement of Comprehensive Income in the periods when the hedged item affects profit or loss. The change in the fair value of these interest swaps qualifying for hedge accounting for the six months ended June 30, 2012 was \$40.5 million and recognized in the Accumulated other comprehensive loss.

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We recorded in the consolidated statements of comprehensive income hedge ineffectiveness gains of \$1.8 million for the six months ended June 30, 2012 and unrealized gains of \$2.2 million in relation to fair value changes of interest rate swaps (not qualifying for hedge accounting) for the six months ended June 30, 2012.

On July 1, 2012, we elected to prospectively de-designate cash flow interest rate swaps for which it was obtaining hedge accounting treatment due to the compliance burden associated with this accounting policy. As a result, all changes in the fair value of our cash flow interest rate swap agreements will be recorded in earnings under "Unrealized and Realized Losses on Derivatives" from the de-designation date forward. We recorded in our earnings, unrealized gains from changes in the fair value of the cash flow interest rate swaps, an amount of \$62.7 million for the six months ended December 31, 2012.

We evaluated whether the previously hedged forecasted interest payments are probable to not occur in the originally specified time period. We have concluded that the previously hedged forecasted interest payments are probable of occurring. Therefore, unrealized gains or losses in accumulated other comprehensive loss associated with the previously designated cash flow interest rate swaps will remain frozen in accumulated other comprehensive loss and recognized in earnings when the interest payments will be recognized. If such interest payments were to be identified as being probable of not occurring, the accumulated other comprehensive loss balance pertaining to these amounts would be reversed through earnings immediately. We reclassified from Accumulated Other Comprehensive Loss to our earnings unrealized losses of \$67.7 million for the six months ended December 31, 2012.

We recorded in the consolidated statements of comprehensive income hedge ineffectiveness gains/(losses) of \$1.8 million, \$19.7 million and \$(0.6) million for the years ended December 31, 2012, 2011 and 2010, respectively, unrealized gains/(losses) of \$64.9 million, \$(10.3) million and \$(36.5) million in relation to fair value changes of interest rate swaps (not qualifying for hedge accounting) for the years ended December 31, 2012, 2011 and 2010, respectively. Furthermore, deferred realized losses of nil, \$(0.2) million and \$(8.6) million were reclassified from "Accumulated other comprehensive loss" in the consolidated balance sheets to the consolidated statements of comprehensive income as of and for the years ended December 31, 2012, 2011 and 2010, respectively, as well as \$67.7 million unrealized losses were reclassified from Accumulated Other Comprehensive Loss to earnings for the six months ended December 31, 2012 (following the hedge accounting discontinuance as of July 1, 2012).

In addition, we reclassified from "Accumulated other comprehensive loss" in the consolidated balance sheet to the consolidated statements of comprehensive income an amount of \$(4.2) million in the year ended December 31, 2010, in relation to deferred realized losses of cash flow hedges for the *HN N-216*, the *HN N-217* and the *HN N-218* following their cancellation.

The total fair value change of the interest rate swaps for the years ended December 31, 2012 and 2011, amounted to \$105.4 million and \$19.5 million, respectively.

The variable-rate interest on specific borrowings that was associated with vessels under construction was capitalized as a cost of the specific vessels. In accordance with the accounting guidance on derivatives and hedging, the amounts in accumulated other comprehensive income/(loss) related to realized gains or losses on cash flow hedges that have been entered into and qualify for hedge accounting, in order to hedge the variability of that interest, are classified under other comprehensive income/(loss) and are reclassified into earnings over the depreciable life of the constructed asset, since that depreciable life coincides with the amortization period for the capitalized interest cost on the debt. Realized losses on cash flow hedges of \$7.0 million, \$31.3 million and \$38.5 million were recorded in other comprehensive loss for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, an amount of \$3.5 million, \$1.6 million and \$0.5 million was reclassified into earnings for the years ended December 31, 2012, 2011 and 2010, respectively, representing amortization over the depreciable life of the vessel.

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We were in an over-hedged position under our cash flow interest rate swaps, which was due to deferred progress payments to shipyards, cancellation of three newbuildings in 2010, replacements of variable interest rate debt with a fixed interest rate seller's financing and equity proceeds from our private placement in 2010, all of which reduced initial forecasted variable interest rate debt and resulted in notional cash flow interest rate swaps being above the variable interest rate debt eligible for hedging. Realized losses attributable to the over-hedging position were \$19.0 million, \$38.9 million and \$28.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. The over-hedged position described above was gradually reduced and ultimately eliminated during the second half of 2012, following the delivery of all remaining newbuildings and the full drawdown of all credit facilities.

Assuming no changes to our borrowings or hedging instruments after December 31, 2012, a 10 basis points increase in interest rates on floating rate debt outstanding at December 31, 2012 would result in an decrease of approximately \$3.1 million in earnings in 2013. These amounts are determined by calculating the effect of a hypothetical interest rate change on our floating rate debt, after giving consideration to our interest rate swaps. These amounts do not include the effects of certain potential results of changing interest rates, such as a different level of overall economic activity, or other actions management may take to mitigate this risk. Furthermore, this sensitivity analysis does not assume alterations in our gross debt or other changes in our financial position.

Foreign Currency Exchange Risk

We generate all of our revenues in U.S. dollars, but for the year ended December 31, 2012 we incurred approximately 33.7% of our operating expenses in currencies other than U.S. dollars (mainly in Euros). As of December 31, 2012, approximately 27.3% of our outstanding accounts payable were denominated in currencies other than the U.S. dollar (mainly in Euro). We have not entered into derivative instruments to hedge the foreign currency translation of assets or liabilities or foreign currency transactions.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not Applicable.

Item 15. Controls and Procedures

15A. Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of December 31, 2012. Disclosure controls and procedures are defined under SEC rules as controls and other procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and

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communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on our evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2012.

15B. Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, and for the assessment of the effectiveness of internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States ("GAAP").

A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In making its assessment of our internal control over financial reporting as of December 31, 2012, management, including the Chief Executive Officer and Chief Financial Officer, used the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management concluded that, as of December 31, 2012, our internal control over financial reporting was effective.

15C. Attestation Report of the Independent Registered Public Accounting Firm

PricewaterhouseCoopers S.A, which has audited the consolidated financial statements of the Company for the year ended December 31, 2012, has also audited the effectiveness of the Company's internal control over financial reporting as stated in their audit report which is incorporated into Item 18 of this Form 20-F from page F-2 hereof.

15D. Change in Internal Control over Financial Reporting

During the period covered by this Annual Report on Form 20-F, we have made no changes to our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Our Audit Committee consists of three independent directors, Andrew B. Fogarty, Miklos Konkoly-Thege, and Myles R. Itkin, who is the chairman of the committee. Our board of directors has determined that Myles R. Itkin, whose biographical details are included in "Item 6. Directors, Senior Management and Employees," qualifies as an audit committee financial expert as defined under current SEC regulations. Mr. Itkin is a United States Certified Public Accountant and independent in accordance with the listing standards of the New York Stock Exchange.

Item 16B. Code of Ethics

We have adopted a Code of Business Conduct and Ethics for officers and employees of our company, a Code of Conduct for the chief executive officer and senior financial officers of our company and a Code of Ethics for directors of our company, copies of which are posted on our website, and may be viewed at <http://www.danaos.com>. We will also provide a paper copy of these documents free of charge upon written request by our stockholders. Stockholders may direct their requests to the attention of Mr. Evangelos Chatzis, Danaos Corporation, c/o Danaos Shipping Co. Ltd., 14 Akti Kondyli, 185 45 Piraeus, Greece. No waivers of the Code of Business Conduct and Ethics, the Code of Conduct or the Code of Ethics have been granted to any person during the year ended December 31, 2012.

Item 16C. Principal Accountant Fees and Services

PricewaterhouseCoopers S.A., an independent registered public accounting firm, has audited our annual financial statements acting as our independent auditor for the fiscal years ended December 31, 2012, 2011 and 2010.

The chart below sets forth the total amount billed and accrued for the PricewaterhouseCoopers S.A. services performed in 2012 and 2011 and breaks down these amounts by the category of service.

	2012	2011
	(in thousands of dollars)	
Audit fees	\$ 438.4	\$ 459.4
Audit Fees		

Audit fees paid were compensation for professional services rendered for the audits of our consolidated financial statements, as well as fees in connection with our response to SEC comment letters received and fees in connection with Registration Statements on Form F-3, which we filed with the SEC.

Audit-related Fees; Tax Fees; All Other Fees

PricewaterhouseCoopers S.A. did not provide any other services that would be classified in these categories in 2012 or 2011.

Pre-approval Policies and Procedures

The audit committee charter sets forth our policy regarding retention of the independent auditors, requiring the audit committee to review and approve in advance the retention of the independent auditors for the performance of all audit and lawfully permitted non-audit services and the fees related thereto. The chairman of the audit committee or in the absence of the chairman, any member of the audit committee designated by the chairman, has authority to approve in advance any lawfully permitted non-audit services and fees. The audit committee is authorized to establish other policies and

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procedures for the pre-approval of such services and fees. Where non-audit services and fees are approved under delegated authority, the action must be reported to the full audit committee at its next regularly scheduled meeting.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On November 25, 2008, we publicly announced that our Board of Directors had approved a share repurchase program and authorized the officers of the company to repurchase, from time to time, up to 1,000,000 shares of our common stock.

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (d)
December 2 to December 19, 2008	15,000	\$ 5.90	15,000	985,000
March 4, 2010	12,000	\$ 4.14	27,000	973,000

We did not repurchase any shares of our common stock in 2012, 2011 or 2009.

Item 16F. Change in Registrant's Certifying Accountant

Not Applicable.

Item 16G. Corporate Governance

Statement of Significant Differences between our Corporate Governance Practices and the New York Stock Exchange Corporate Governance Standards for U.S. Non-Controlled Issuers

Pursuant to certain exceptions for foreign private issuers and controlled companies, we are not required to comply with certain of the corporate governance practices followed by U.S. and non-controlled companies under the New York Stock Exchange listing standards. However, pursuant to Section 303.A.11 of the New York Stock Exchange Listed Company Manual and the requirements of Form 20-F, we are required to state any significant differences between our corporate governance practices and the practices required by the New York Stock Exchange. We believe that our established practices in the area of corporate governance are in line with the spirit of the New York Stock Exchange standards and provide adequate protection to our stockholders. The significant differences between our corporate governance practices and the New York Stock Exchange standards applicable to listed U.S. companies are set forth below.

The New York Stock Exchange requires that a listed U.S. company have a nominating/corporate governance committee and a compensation committee, each composed of independent directors. As permitted under Marshall Islands law and our bylaws, a non-independent director, who is a member of our management who also serves on our board of directors, serves on the compensation committee of our board of directors and, until June 10, 2011, on the nominating and corporate governance committee of our board of directors.

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Our \$200.0 million equity transaction on August 12, 2010 was a departure from our policy of complying with NYSE shareholder approval requirements, specifically NYSE Rules 312.03(b) and 312.03(c), despite being permitted, as a foreign private issuer, to follow the corporate governance rules of its home country in lieu of these NYSE rules. For this transaction, in consideration of the circumstances described below, the Company elected to comply with the provisions of the Marshall Islands Business Corporations Act which provide that the Board of Directors approve such share issuances, without the need for stockholder approval, in lieu of the NYSE rules. As noted above, the receipt of \$200 million in proceeds from equity issuances, including \$100 million from affiliates of the Company's Chief Executive Officer and his family, was a condition to the arrangements with the Company's lenders under the Bank Agreement. After evaluating market conditions for a transaction that would satisfy this condition, the Company perceived that the terms on which the above described equity transaction could be executed were more favorable than those that would be available in a broader offering, which would have had no assurance of successful completion.

Item 16H. Mine Safety Disclosure

Not Applicable.

PART III

Item 17. Financial Statements

Not Applicable.

Item 18. Financial Statements

Reference is made to pages F-1 through F-50 included herein by reference.

Item 19. Exhibits

Number	Description
1.1	Restated Articles of Incorporation(6)
1.2	Amended and Restated Bylaws(5)
2.1	Amended and Restated Warrant Agreement, dated as of May 10, 2011, between Danaos Corporation and American Stock Transfer & Trust Company, LLC, as warrant agent(10)
4.1	Amended and Restated Management Agreement between Danaos Shipping Company Limited and Danaos Corporation(1)
4.1.1	Addendum No. 1 to Amended and Restated Management Agreement, dated February 12, 2009 between Danaos Shipping Company Limited and Danaos Corporation(4)
4.1.2	Addendum No. 2 to Amended and Restated Management Agreement, dated February 8, 2010 between Danaos Shipping Company Limited and Danaos Corporation(7)
4.1.3	Addendum No. 3 to Amended and Restated Management Agreement, dated December 16, 2011, between Danaos Shipping Company Limited and Danaos Corporation(11)
4.1.4	Addendum No. 4 to Amended and Restated Management Agreement, dated December 31, 2012, between Danaos Shipping Company Limited and Danaos Corporation
4.2	Form of Management Agreement between Danaos Shipping Company Limited and our vessel-owning subsidiaries (See Appendix I to Exhibit 4.1)(1)
4.3	Form of Restrictive Covenant Agreement between Danaos Corporation and Dr. John Coustas(1)

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Number	Description
4.4	Stockholder Rights Agreement and Amendment No. 1(8)
4.5	2006 Equity Compensation Plan(1)
4.5.1	Directors' Share Payment Plan(4)
4.6	Loan Agreement and Supplemental Agreement, dated December 17, 2002 and April 21, 2005 respectively, with Aegean Baltic Bank S.A. and HSH Nordbank AG(1)
4.7	Loan Agreement, dated May 13, 2003, with the Export-Import Bank of Korea(1)
4.8	Loan Agreement, dated January 29, 2004, with the Export-Import Bank of Korea and ABN Amro Bank (formerly Fortis Capital Corp.)(1)
4.9	Loan Agreement, dated November 14, 2006, with Aegean Baltic Bank S.A. and HSH Nordbank AG(2)
4.10	Loan Agreement, dated February 20, 2007, with The Royal Bank of Scotland(2)
4.11	Loan Agreement, dated February 15, 2008, with Credit Agricole (formerly Emporiki Bank of Greece S.A.)(3)
4.12	Loan Agreement, dated May 9, 2008, with Credit Suisse(4)
4.13	Loan Agreement, dated May 30, 2008, with Deutsche Bank(4)
4.14	Loan Agreement, dated July 29, 2008, with ABN Amro Bank (formerly Fortis Bank) (acting as agent), Lloyds TSB and National Bank of Greece(4)
4.15	Supplemental Agreement, dated August 13, 2009, with ABN Amro Bank (formerly Fortis Bank), Lloyds TSB and National Bank of Greece, in respect of Loan Agreement, dated July 29, 2008(7)
4.16	Loan Agreement, dated February 2, 2009, with Commerzbank (formerly Deutsche Schiffsbank), Credit Suisse and Credit Agricole (formerly Emporiki Bank)(4)
4.17	Supplemental Letters, dated August 6, 2009 and December 15, 2009, with Deutsche Bank AG Filiale Deutschlandgeschäft, as agent, in respect of Loan Agreement, dated May 30, 2008(7)
4.18	Supplemental Agreement, dated August 13, 2009, with ABN Amro Bank (formerly Fortis Bank), Lloyds TSB and National Bank of Greece, in respect of Loan Agreement, dated July 29, 2008(7)
4.19	Supplemental Letter Agreement, dated April 14, 2010, with Royal Bank of Scotland in respect of Loan Agreement dated February 20, 2007(7)
4.20	Restructuring Agreement, dated January 24, 2011, with the Company's lenders and swap-counterparties named therein, including form of intercreditor agreement(8)
4.21	Credit Facility, dated February 21, 2011, with Citi (acting as an agent), ABN Amro and CEXIM(8)
4.22	Credit Facility, dated January 24, 2011, with Aegean Baltic Bank S.A., HSH Nordbank AG and Piraeus Bank A.E.(8)
4.23	Credit Facility, dated January 24, 2011, with The Royal Bank of Scotland plc(8)
4.24	Credit Facility, dated January 24, 2011, with ABN Amro Bank N.V. and Lloyds TSB Bank PLC(8)

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Number	Description
4.25	Credit Facility, dated January 24, 2011, with Credit Suisse AG, Deutsche Bank AG, Commerzbank (formerly Deutsche Schiffsbank Aktiengesellschaft) and Credit Agricole (formerly Emporiki Bank of Greece S.A.)(8)
4.26	Credit Facility, dated January 24, 2011, with Citibank, N.A., EFG Eurobank Ergasias S.A., Citibank, N.A., London Branch and Citibank International Plc(8)
4.27	Hyundai Vendor Financing Agreements(8)
4.28	Registration Rights Agreement, dated as of March 2, 2011, between Danaos Corporation and the warrant holders identified on the signatures pages thereto(8)
4.29	Form of Subscription Agreement, including the Form of Registration Rights Agreement attached thereto as Schedule B, for August 2010 common stock sale(9)
4.30	Supplemental Agreement, dated August 12, 2010, with KEXIM and ABN Amro and amendment thereto, dated February 9, 2012(11)
8	Subsidiaries
11.1	Code of Business Conduct and Ethics(2)
11.2	Code of Conduct(2)
11.3	Code of Ethics(2)
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
13.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002
15	Consent of Independent Registered Public Accounting Firm
101*	Attached as Exhibit 101 to this report are the following Interactive Data Files, formatted in eXtensible Business Reporting Language (XBRL):
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

*

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of

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the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

- (1) Previously filed as an exhibit to the Company's Registration Statement on Form F-1 (Reg. No. 333-137459) filed with the SEC and hereby incorporated by reference to such Registration Statement.
- (2) Previously filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 and filed with the SEC on May 30, 2007.
- (3) Previously filed as an exhibit to the Company's Annual Report on Form 20-F/A for the year ended December 31, 2007 and filed with the SEC on April 7, 2008.
- (4) Previously filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 2008 and filed with the SEC on July 13, 2009.
- (5) Previously filed as an exhibit to the Company's Form 6-K with respect to the six months ended June 30, 2009 and filed with the SEC on September 23, 2009.
- (6) Previously filed as an exhibit to the Company's Form 6-K filed with the SEC on July 29, 2010.
- (7) Previously filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 2009 and filed with the SEC on June 18, 2010.
- (8) Previously filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 2010 filed with the SEC on April 8, 2011.
- (9) Previously filed as an exhibit to the Company's Report on Form 6-K filed with the SEC on August 27, 2010.
- (10) Previously filed as an exhibit to the Company's Report on Form 6-K filed with the SEC on May 10, 2011.
- (11) Previously filed as an exhibit to the Company's Annual Report on Form 20-F filed with the SEC on March 30, 2012.

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SIGNATURES

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

DANAOS CORPORATION
/s/ EVANGELOS CHATZIS

Name: Evangelos Chatzis
Title: *Chief Financial Officer*

Date: March 1, 2013

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>F-5</u>
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Danaos Corporation and its subsidiaries (the "Company") at December 31, 2012 and December 31, 2011 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's annual report on internal control over financial reporting", appearing in Item 15(b) of the Company's 2012 Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers S.A.

Athens, Greece
March 1, 2013

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DANAOS CORPORATION
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of United States dollars, except share amounts)

	Notes	As of December 31,	
		2012	2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 55,628	\$ 51,362
Restricted cash, current portion	3	2,821	2,909
Accounts receivable, net		3,741	4,176
Inventories		17,731	16,187
Prepaid expenses		706	1,311
Due from related parties	14	12,664	9,128
Other current assets	7	5,382	8,218
Total current assets		98,673	93,291
Fixed assets, net	4	3,986,138	3,241,951
Advances for vessels under construction	5		524,286
Deferred charges, net	6	88,821	99,711
Restricted cash, net of current portion		430	
Other non-current assets	8,16b	37,983	28,865
Total non-current assets		4,113,372	3,894,813
Total assets		\$ 4,212,045	\$ 3,988,104
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	9	\$ 13,982	\$ 15,144
Accrued liabilities	10	32,894	36,117
Current portion of long-term debt	13	125,076	41,959
Current portion of vendor financing	13	57,388	10,857
Unearned revenue		5,447	6,993
Other current liabilities	11,16a	130,465	120,623
Total current liabilities		365,252	231,693
LONG-TERM LIABILITIES			
Long-term debt, net of current portion	13	3,097,472	2,960,288
Vendor financing, net of current portion	13	121,754	54,288
Other long-term liabilities	11,16a	187,263	299,300
Total long-term liabilities		3,406,489	3,313,876
Total liabilities		3,771,741	3,545,569
Commitments and Contingencies	19		
STOCKHOLDERS' EQUITY			
Preferred stock (par value \$.01, 100,000,000 preferred shares authorized and not issued as of December 31, 2012 and 2011)	22		
Common stock (par value \$.01, 750,000,000 common shares authorized as of December 31, 2012 and 2011. 109,604,040 and 109,563,799 issued and outstanding as of December 31, 2012 and 2011,	22	1,096	1,096

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respectively)

Additional paid-in capital		546,023	545,884
Accumulated other comprehensive loss	16a	(353,271)	(456,105)
Retained earnings		246,456	351,660
Total stockholders' equity		440,304	442,535
Total liabilities and stockholders' equity		\$ 4,212,045	\$ 3,988,104

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

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DANAOS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in thousands of United States dollars, except share and per share amounts)

		Year ended December 31,		
	Notes	2012	2011	2010
OPERATING REVENUES	18	\$ 589,009	\$ 468,101	\$ 359,677
OPERATING EXPENSES:				
Voyage expenses		(13,503)	(10,765)	(7,928)
Vessel operating expenses		(123,356)	(119,127)	(88,271)
Depreciation	4	(143,938)	(106,178)	(77,045)
Amortization of deferred drydocking and special survey costs	6	(6,070)	(5,800)	(7,426)
Impairment loss	24	(129,630)		(71,509)
General and administrative expenses		(20,379)	(21,028)	(23,255)
Gain on sale of vessels	20	830		1,916
Income from operations		152,963	205,203	86,159
OTHER INCOME (EXPENSES):				
Interest income		1,642	1,304	964
Interest expense		(87,340)	(55,124)	(41,158)
Other finance expenses		(18,107)	(14,581)	(6,055)
Other income/(expenses), net	25	811	(1,986)	(5,070)
Unrealized and realized losses on derivatives	16	(155,173)	(121,379)	(137,181)
Total Other Expenses, net		(258,167)	(191,766)	(188,500)
Net (Loss)/Income		\$ (105,204)	\$ 13,437	\$ (102,341)
(LOSS)/ EARNINGS PER SHARE				
Basic and diluted net (loss)/income per share	23	\$ (0.96)	\$ 0.12	\$ (1.36)
Basic and diluted weighted average number of shares		109,612,737	109,045,468	75,435,716
Other Comprehensive (Loss)/Income				
Change in fair value of financial instruments qualifying for hedge accounting		40,536	29,766	(94,093)
Deferred realized losses on cash flow hedges amortized over the life of the newbuildings, net of amortization		(3,511)	(29,745)	(38,031)
Reclassification of unrealized losses/(gains) to earnings		65,809	(19,560)	19,651
Total Other Comprehensive Income/(Loss)		102,834	(19,539)	(112,473)
Comprehensive Loss		\$ (2,370)	\$ (6,102)	\$ (214,814)

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

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DANAOS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Expressed in thousands of United States dollars)

	Common Stock Number of shares	Par value	Treasury Stock Number of shares	Amount	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total
As of January 1, 2010	54,551	\$ 546	7	\$ (39)	\$ 288,613	\$ (324,093)	\$ 440,564	\$ 405,591
Net loss							(102,341)	(102,341)
Change in fair value of financial instruments						(94,093)		(94,093)
Deferred realized losses on cash flow hedges amortized over the life of the newbuildings, net of amortization						(38,031)		(38,031)
Reclassification of unrealized losses to earnings						19,651		19,651
Treasury stock purchased	(12)		12	(50)				(50)
Treasury stock distributed	18		(18)	86	(86)			
Issuance of common stock	54,054	540			199,460			200,000
Stock compensation					1,685			1,685
As of December 31, 2010	108,611	\$ 1,086	1	\$ (3)	\$ 489,672	\$ (436,566)	\$ 338,223	\$ 392,412
Net Income							13,437	13,437
Change in fair value of financial instruments						29,766		29,766
Deferred realized losses on cash flow hedges amortized over the life of the newbuildings, net of amortization						(29,745)		(29,745)
Reclassification of unrealized gains to earnings						(19,560)		(19,560)
Treasury stock distributed	1		(1)	3	(3)			
Warrants issued					54,043			54,043
Issuance of common stock	952	10			(10)			
Stock compensation					2,182			2,182
As of December 31, 2011	109,564	\$ 1,096	\$	\$	\$ 545,884	\$ (456,105)	\$ 351,660	\$ 442,535
Net Loss							(105,204)	(105,204)
Change in fair value of financial instruments qualifying for hedge accounting						40,536		40,536
Deferred realized losses on cash flow hedges amortized over the life of the newbuildings, net of amortization						(3,511)		(3,511)
Reclassification of unrealized losses to earnings						65,809		65,809
Issuance of common stock	40							
Stock compensation					139			139
As of December 31, 2012	109,604	\$ 1,096	\$	\$	\$ 546,023	\$ (353,271)	\$ 246,456	\$ 440,304

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

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DANAOS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of United States dollars)

	Year ended December 31,		
	2012	2011	2010
Cash Flows from operating activities:			
Net (loss)/income	\$ (105,204)	\$ 13,437	\$ (102,341)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities			
Depreciation	143,938	106,178	77,045
Amortization of deferred drydocking and special survey costs	6,070	5,800	7,426
Impairment loss	129,630		71,509
Write off of finance and other costs			1,084
Amortization of finance costs	14,314	9,700	1,340
Exit fees accrued on debt	2,762	1,592	
Payments for drydocking and special survey costs deferred	(9,308)	(7,218)	(3,122)
Gain on sale of vessels	(830)		(1,916)
Stock based compensation	139	2,182	1,685
Change in fair value of warrants		2,253	
Amortization of deferred realized losses on interest rate swaps	3,524	1,575	473
Unrealized (gain)/loss on derivatives	739	(10,537)	48,406
Realized losses on cash flow hedges deferred in Other Comprehensive Loss	(7,035)	(31,320)	(38,504)
(Increase)/decrease in:			
Accounts receivable	435	(64)	(380)
Inventories	(1,544)	(6,269)	(2,265)
Prepaid expenses	605	113	(368)
Due from related parties	(3,536)	1,978	(2,459)
Other assets, current and non-current	(7,338)	(10,352)	(13,857)
Increase/(decrease) in:			
Accounts payable	(1,162)	396	4,905
Accrued liabilities	(1,218)	(15,853)	27,544
Unearned revenue	(1,546)	(4,404)	1,857
Other liabilities, current and long-term	3,123	305	730
Net cash provided by operating activities	166,558	59,492	78,792
Cash flows from investing activities:			
Vessels under construction and vessels additions	(375,424)	(644,593)	(589,512)
Net proceeds from sale of vessels and deposits received	5,635		1,764
Net cash used in investing activities	(369,789)	(644,593)	(587,748)
Cash flows from financing activities:			
Proceeds from long-term debt	266,920	482,286	437,399
Payments on long-term debt	(48,124)	(45,369)	(208,751)
Payments on Vendor financing	(10,857)		
Proceeds from equity issuance			200,000
Treasury stock purchased			(50)
Deferred finance costs	(100)	(30,287)	(7,421)
(Increase)/decrease in restricted cash	(342)	(2)	195,564
Net cash provided by financing activities	207,497	406,628	616,741
Net increase/(decrease) in cash and cash equivalents	4,266	(178,473)	107,785

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Cash and cash equivalents, beginning of year	51,362	229,835	122,050
Cash and cash equivalents, end of year	\$ 55,628	\$ 51,362	\$ 229,835
Supplementary Cash Flow information			
Cash paid for interest, net of capitalized interest	\$ 84,847	\$ 53,741	\$ 38,590
Non-cash capitalized interest on vessels under construction	\$	\$ 1,401	\$ 8,557
Non-cash other predelivery expenses on vessels under construction	\$	\$ 410	\$
Final installments for delivered vessels financed under Vendor Financing arrangement	\$ 124,855	\$ 65,145	\$
Non-cash deferred financing fees	\$ 86	\$ 56,519	\$ 3,505

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

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of Presentation and General Information**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The reporting and functional currency of the Company is the United States Dollar.

Danaos Corporation ("Danaos"), formerly Danaos Holdings Limited, was formed on December 7, 1998 under the laws of Liberia and is presently the sole owner of all outstanding shares of the companies listed below. Danaos Holdings Limited was redomiciled in the Marshall Islands on October 7, 2005. In connection with the redomiciliation, the Company changed its name to Danaos Corporation. On October 14, 2005, the Company filed and the Marshall Islands accepted Amended and Restated Articles of Incorporation. The authorized capital stock of Danaos Corporation is 750,000,000 shares of common stock with a par value of \$0.01 and 100,000,000 shares of preferred stock with a par value of \$0.01. Refer to Note 22, Stockholders' Equity.

The Company's vessels operate worldwide, carrying containers for many established charterers.

The Company's principal business is the acquisition and operation of vessels. Danaos conducts its operations through the vessel owning companies whose principal activity is the ownership and operation of containerhips (refer to Note 2, Significant Accounting Policies) that are under the exclusive management of a related party of the Company (refer to Note 14, Related Party Transactions).

The consolidated financial statements have been prepared to reflect the consolidation of the companies listed below. The historical balance sheets and results of operations of the companies listed below have been reflected in the consolidated balance sheets and consolidated statements of comprehensive income, cash flows and stockholders' equity at and for each period since their respective incorporation dates.

The consolidated companies are referred to as "Danaos," or "the Company."

As of December 31, 2012, Danaos consolidated the vessel owning companies (the "Danaos Subsidiaries") listed below, which all own container vessels:

Company	Date of Incorporation	Vessel Name	Year Built	TEU
Seasentor Shipping Ltd.	June 11, 1996	Honour	1989	3,908
Seacaravel Shipping Ltd.	June 11, 1996	Hope	1989	3,908
Appleton Navigation S.A.	May 12, 1998	Komodo	1991	2,917
Geoffrey Shipholding Ltd.	September 22, 1997	Kalamata	1991	2,917
Lacey Navigation Inc.	March 5, 1998	Elbe	1991	2,917
Saratoga Trading S.A.	May 8, 1998	Pride	1988	3,129
Tyron Enterprises S.A.	January 26, 1999	Henry(1)	1986	3,039
Independence Navigation Inc.	October 9, 2002	Independence(1)	1986	3,045
Victory Shipholding Inc.	October 9, 2002	Lotus	1988	3,098
Duke Marine Inc.	April 14, 2003	Duka	1992	4,651
Commodore Marine Inc.	April 14, 2003	Commodore	1992	4,651
Containers Services Inc.	May 30, 2002	Deva	2004	4,253
Containers Lines Inc.	May 30, 2002	Derby D	2004	4,253
Oceanew Shipping Ltd.	January 14, 2002	CSCL Europe	2004	8,468
Oceanprize Navigation Ltd.	January 21, 2003	CSCL America	2004	8,468
Federal Marine Inc.	February 14, 2006	Hyundai Federal	1994	4,651
Karlita Shipping Co. Ltd.	February 27, 2003	CSCL Pusan	2006	9,580

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Basis of Presentation and General Information (Continued)

Company	Date of Incorporation	Vessel Name	Year Built	TEU
Ramona Marine Co. Ltd.	February 27, 2003	CSCL Le Havre	2006	9,580
Boxcarrier (No. 6) Corp.	June 27, 2006	Marathonas	1991	4,814
Boxcarrier (No. 7) Corp.	June 27, 2006	Messologi	1991	4,814
Boxcarrier (No. 8) Corp.	November 16, 2006	Mytilini	1991	4,814
Auckland Marine Inc.	January 27, 2005	SNL Colombo	2004	4,300
Seacarriers Services Inc.	June 28, 2005	YM Seattle	2007	4,253
Speedcarrier (No. 1) Corp.	June 28, 2007	Hyundai Vladivostok	1997	2,200
Speedcarrier (No. 2) Corp.	June 28, 2007	Hyundai Advance	1997	2,200
Speedcarrier (No. 3) Corp.	June 28, 2007	Hyundai Stride	1997	2,200
Speedcarrier (No. 4) Corp.	June 28, 2007	Hyundai Future	1997	2,200
Speedcarrier (No. 5) Corp.	June 28, 2007	Hyundai Sprinter	1997	2,200
Wellington Marine Inc.	January 27, 2005	YM Singapore	2004	4,300
Seacarriers Lines Inc.	June 28, 2005	YM Vancouver	2007	4,253
Speedcarrier (No. 7) Corp.	December 6, 2007	Hyundai Highway	1998	2,200
Speedcarrier (No. 6) Corp.	December 6, 2007	Hyundai Progress	1998	2,200
Speedcarrier (No. 8) Corp.	December 6, 2007	Hyundai Bridge	1998	2,200
Bayview Shipping Inc.	March 22, 2006	Zim Rio Grande	2008	4,253
Channelview Marine Inc.	March 22, 2006	Zim Sao Paolo	2008	4,253
Balticsea Marine Inc.	March 22, 2006	Zim Kingston	2008	4,253
Continent Marine Inc.	March 22, 2006	Zim Monaco	2009	4,253
Medsea Marine Inc.	May 8, 2006	Zim Dalian	2009	4,253
Blacksea Marine Inc.	May 8, 2006	Zim Luanda	2009	4,253
Boxcarrier (No. 1) Corp.	June 27, 2006	CMA CGM Moliere(2)	2009	6,500
Boxcarrier (No. 2) Corp.	June 27, 2006	CMA CGM Musset(2)	2010	6,500
Boxcarrier (No. 3) Corp.	June 27, 2006	CMA CGM Nerval(2)	2010	6,500
Boxcarrier (No. 4) Corp.	June 27, 2006	CMA CGM Rabelais(2)	2010	6,500
Boxcarrier (No. 5) Corp.	June 27, 2006	CMA CGM Racine(2)	2010	6,500
Expresscarrier (No. 1) Corp.	March 5, 2007	YM Mandate	2010	6,500
Expresscarrier (No. 2) Corp.	March 5, 2007	YM Maturity	2010	6,500
CellContainer (No. 1) Corp.	March 23, 2007	Hanjin Buenos Aires	2010	3,400
CellContainer (No. 2) Corp.	March 23, 2007	Hanjin Santos	2010	3,400
CellContainer (No. 3) Corp.	March 23, 2007	Hanjin Versailles	2010	3,400
CellContainer (No. 4) Corp.	March 23, 2007	Hanjin Algeciras	2011	3,400
CellContainer (No. 5) Corp.	March 23, 2007	Hanjin Constantza	2011	3,400
CellContainer (No. 6) Corp.	October 31, 2007	Hanjin Germany	2011	10,100
CellContainer (No. 7) Corp.	October 31, 2007	Hanjin Italy	2011	10,100
CellContainer (No. 8) Corp.	October 31, 2007	Hanjin Greece	2011	10,100
Teucarrier (No. 1) Corp.	January 31, 2007	CMA CGM Attila	2011	8,530

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Basis of Presentation and General Information (Continued)

Company	Date of Incorporation	Vessel Name	Year Built	TEU
Teucarrier (No. 2) Corp.	January 31, 2007	CMA CGM Tancredi	2011	8,530
Teucarrier (No. 3) Corp.	January 31, 2007	CMA CGM Bianca	2011	8,530
Teucarrier (No. 4) Corp.	January 31, 2007	CMA CGM Samson	2011	8,530
Teucarrier (No. 5) Corp.	September 17, 2007	CMA CGM Melisande	2012	8,530
Megacarrier (No. 1) Corp.	September 10, 2007	Hyundai Together	2012	13,100
Megacarrier (No. 2) Corp.	September 10, 2007	Hyundai Tenacity	2012	13,100
Megacarrier (No. 3) Corp.	September 10, 2007	Hyundai Smart	2012	13,100
Megacarrier (No. 4) Corp.	September 10, 2007	Hyundai Speed	2012	13,100
Megacarrier (No. 5) Corp.	September 10, 2007	Hyundai Ambition	2012	13,100

- (1) As of February 13, 2013, the Company sold and delivered the *Independence*. As of February 8, 2013, the Company entered into an agreement to sell the *Henry*. Refer to Note 26, Subsequent Events.
- (2) Vessel subject to charterer's option to purchase vessel after first eight years of time charter term for \$78.0 million.

2. Significant Accounting Policies

Principles of Consolidation: The accompanying consolidated financial statements represent the consolidation of the accounts of the Company and its wholly-owned subsidiaries. The subsidiaries are fully consolidated from the date on which control is obtained by the Company.

The Company also consolidates entities that are determined to be variable interest entities as defined in the accounting guidance, if it determines that it is the primary beneficiary. A variable interest entity is defined as a legal entity where either (a) equity interest holders as a group lack the characteristics of a controlling financial interest, including decision making ability and an interest in the entity's residual risks and rewards, or (b) the equity holders have not provided sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support, or (c) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. Refer to Note 13, Long-Term Debt, which describes an arrangement under the credit facility with ABN Amro, Lloyds TSB and National Bank of Greece for a variable interest entity.

Inter-company transaction balances and unrealized gains/(losses) on transactions between the companies are eliminated.

Use of Estimates: The preparation of consolidated financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an on-going basis, management evaluates the estimates and judgments, including those related to future

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

drydock dates, the selection of useful lives for tangible assets, expected future cash flows from long-lived assets to support impairment tests, provisions necessary for accounts receivables, provisions for legal disputes, and contingencies. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions and/or conditions.

Foreign Currency Translation: The functional currency of the Company is the U.S. dollar. The Company engages in worldwide commerce with a variety of entities. Although its operations may expose it to certain levels of foreign currency risk, its transactions are predominantly U.S. dollar denominated. Additionally, the Company's wholly-owned vessel subsidiaries transacted a nominal amount of their operations in Euros; however, all of the subsidiaries' primary cash flows are U.S. dollar denominated. Transactions in currencies other than the functional currency are translated at the exchange rate in effect at the date of each transaction. Differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is either settled or translated, are recognized in the statement of operations. The foreign currency exchange gains/(losses) recognized in the accompanying consolidated statements of comprehensive income for each of the years ended December 31, 2012, 2011 and 2010 were \$0.02 million, \$(0.1) million and \$(0.1) million, respectively.

Cash and Cash Equivalents: Cash and cash equivalents consist of interest bearing call deposits, where the Company has instant access to its funds and withdrawals and deposits can be made at any time, as well as time deposits with original maturities of three months or less which are not restricted for use or withdrawal. Cash and cash equivalents of \$55.6 million as of December 31, 2012 (December 31, 2011: \$51.4 million) comprised cash balances and short term deposits, of which short term time deposits were \$9.8 million as of December 31, 2012 and \$14.6 million as of December 31, 2011.

Restricted Cash: Cash restricted accounts include retention accounts. Certain of the Company's loan agreements require the Company to deposit one-third of quarterly and one-sixth of the semi-annual principal installments and interest installments, respectively, due on the outstanding loan balance monthly in a retention account. On the rollover settlement date, both principal and interest are paid from the retention account. In addition, the Company has a restricted deposit in relation to one of its swaps. Refer to Note 3, Restricted Cash.

Accounts Receivable, Net: The amount shown as Accounts Receivable, net, at each balance sheet date includes estimated recoveries from charterers for hire and demurrage billings, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts based on the Company's history of write-offs, level of past due accounts based on the contractual term of the receivables and its relationships with and economic status of its customers. Bad debts are written off in the period in which they are identified.

Insurance Claims: Insurance claims represent the claimable expenses, net of deductibles, which are expected to be recovered from insurance companies. Any costs to complete the claims are included in accrued liabilities. The Company accounts for the cost of possible additional call amounts under its

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

insurance arrangements in accordance with the accounting guidance for contingencies based on the Company's historical experience and the shipping industry practices. Insurance claims are included in the consolidated balance sheet line item "Other current assets".

Prepaid Expenses and Inventories: Prepaid expenses consist mainly of insurance expenses, and inventories consist of bunkers, lubricants and provisions remaining on board the vessels at each period end, which are valued at the lower of cost or market value as determined using the first-in, first-out method. Costs of spare parts are expensed as incurred.

Financing Costs: Fees incurred for obtaining new loans and loans that have been accounted for as modified are deferred and amortized over the loans' respective repayment periods using the effective interest rate method. These charges are included in the consolidated balance sheet line item "Deferred Charges, net". The amortization expense associated with deferred financing fees is included in "Other finance expense" on the consolidated Statement of Comprehensive Income.

Fixed Assets: Fixed assets consist of vessels. Vessels are stated at cost, less accumulated depreciation. The cost of vessels consists of the contract purchase price and any material expenses incurred upon acquisition (improvements and delivery expenses). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. Otherwise, these expenditures are charged to expense as incurred. Interest costs while under construction are included in vessels' cost.

Vessels acquired in the secondhand market are treated as a business combination to the extent that such acquisitions include continuing operations and business characteristics such as management agreements, employees and customer base. Otherwise, these are treated as purchase of assets. Where the Company identifies any intangible assets or liabilities associated with the acquisition of a vessel purchased in the secondhand market, the Company records all identified tangible and intangible assets or liabilities at fair value. Fair value is determined by reference to market data and the discounted amount of expected future cash flows. The Company has acquired certain vessels in the secondhand market, all of which were considered to be acquisitions of assets.

Depreciation: The cost of the Company's vessels is depreciated on a straight-line basis over the vessels' remaining economic useful lives after considering the estimated residual value (refer to Note 4, Fixed Assets, net). Management has estimated the useful life of the Company's vessels to be 30 years from the year built.

Accounting for Special Survey and Drydocking Costs: The Company follows the accounting guidance for planned major maintenance activities. Drydocking and special survey costs, which are reported in the balance sheet within "Deferred charges, net", include planned major maintenance and overhaul activities for ongoing certification including the inspection, refurbishment and replacement of steel, engine components, electrical, pipes and valves, and other parts of the vessel. The Company follows the deferral method of accounting for special survey and drydocking costs, whereby actual costs incurred are deferred and amortized on a straight-line basis over the period until the next scheduled survey and drydocking, which is two and a half years. If special survey or drydocking is performed prior to the scheduled date, the remaining unamortized balances are immediately written off.

The amortization periods reflect the estimated useful economic life of the deferred charge, which is the period between each special survey and drydocking.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

Costs incurred during the drydocking period relating to routine repairs and maintenance are expensed. The unamortized portion of special survey and drydocking costs for vessels sold is included as part of the carrying amount of the vessel in determining the gain/(loss) on sale of the vessel.

Impairment of Long-lived Assets: The accounting standard for impairment of long-lived assets requires that long-lived assets and certain identifiable intangibles held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In the case of long-lived assets held and used, if the future net undiscounted cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

As of December 31, 2012, the Company concluded that events and circumstances triggered the existence of potential impairment of its long-lived assets. These indicators included volatility in the spot market and decline in the vessels' market values, as well as the potential impact the current marketplace may have on its future operations. As a result, the Company performed step one of the impairment assessment of the Company's long-lived assets by comparing the undiscounted projected net operating cash flows for each vessel to its carrying value. The Company's strategy is to charter its vessels under multi-year, fixed rate period charters that range from 1 to 18 years for vessels in its current fleet, providing the Company with contracted stable cash flows. The significant factors and assumptions the Company used in its undiscounted projected net operating cash flow analysis included, among others, operating revenues, off-hire revenues, drydocking costs, operating expenses and management fees estimates. Revenue assumptions were based on contracted time charter rates up to the end of life of the current contract of each vessel as well as the estimated average time charter equivalent rates for the remaining life of the vessel after the completion of its current contract. The estimated daily time charter equivalent rates used for non-contracted revenue days are based on a combination of (i) recent charter market rates, (ii) conditions existing in the containership market as of December 31, 2012 in relation to laid up vessels, (iii) historical average time charter rates, based on publications by independent third party maritime research services, and (iv) estimated future time charter rates, based on publications by independent third party maritime research services that provide such forecasts. Recognizing that the container transportation is cyclical and subject to significant volatility based on factors beyond our control, management believes the use of revenue estimates, based on the combination of factors (i) to (iv) above, to be reasonable as of the reporting date. In addition, the Company used an annual operating expenses escalation factor and estimates of scheduled and unscheduled off-hire revenues based on historical experience. All estimates used and assumptions made were in accordance with the Company's internal budgets and historical experience of the shipping industry.

The Company's assessment concluded that step two of the impairment analysis was required for certain of its vessels, as the undiscounted projected net operating cash flows of certain vessels did not exceed the carrying value of the respective vessels. Fair value of each vessel was determined with the assistance from valuations obtained by third party independent shipbrokers (on the basis of a commercial transaction between a willing buyer and a willing seller). As of December 31, 2012, the Company recorded an impairment loss of \$129.6 million for thirteen of its older vessels, which were either laid up, or on short-term charters.

DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

Pension and Retirement Benefit Obligations-Crew: The crew on board the companies' vessels serve in such capacity under short-term contracts (usually up to seven months) and accordingly, the vessel-owning companies are not liable for any pension or post-retirement benefits.

Accounting for Revenue and Expenses: Revenues from time chartering of vessels are accounted for as operating leases and are thus recognized on a straight line basis as the average revenue over the rental periods of such charter agreements, as service is performed. The Company earns revenue from bareboat and time charters. Bareboat and time charters involve placing a vessel at the charterers' disposal for a period of time during which the charterer uses the vessel in return for the payment of a specified daily hire rate. Under a time charter, the daily hire rate includes the crew, lubricants, insurance, spares and stores. Under a bareboat charter, the charterer is provided only with the vessel.

Voyage Expenses: Voyage expenses include port and canal charges, bunker (fuel) expenses (bunker costs are normally covered by the Company's charterers, except in certain cases such as vessel re-positioning), address commissions and brokerage commissions. Under multi-year time charters and bareboat charters, such as those on which the Company charters its containerships and under short-term time charters, the charterers bear the voyage expenses other than brokerage and address commissions. As such, voyage expenses represent a relatively small portion of the vessels' overall expenses.

Vessel Operating Expenses: Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses for repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Aggregate expenses increase as the size of the Company's fleet increases. Under multi-year time charters, such as those on which the Company chartered 62, 57, 48 containerships in its current fleet as of December 31, 2012, 2011 and 2010, respectively, and under short-term time charters, the Company pays for vessel operating expenses. Under bareboat charters, such as those on which the Company chartered two of the containerships in its fleet as of December 31, 2012, 2011 and 2010, respectively, the Company's charterers bear most vessel operating expenses, including the costs of crewing, insurance, surveys, drydockings, maintenance and repairs.

General and administrative expenses: General and administrative expenses include management fees paid to the vessels' manager (refer to Note 14, Related Party Transactions), audit fees, legal fees, board remuneration, executive officers compensation, directors & officers insurance and stock exchange fees.

Repairs and Maintenance: All repair and maintenance expenses are charged against income when incurred and are included in vessel operating expenses in the accompanying consolidated statements of comprehensive income.

Dividends: Dividends are recorded in the Company's financial statements in the period in which they are declared by the Company's board of directors.

Segment Reporting: The Company reports financial information and evaluates its operations by total charter revenues. Although revenue can be identified for different types of charters, management does not identify expenses, profitability or other financial information for different charters. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet, and thus the Company has determined that it has only one operating and reportable segment.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

Derivative Instruments: The Company entered into interest rate swap contracts to create economic hedges for its interest rate risks. When such derivatives do not qualify for hedge accounting, the Company presents these financial instruments at their fair value, and recognizes the fair value changes therefrom in the consolidated Statement of Comprehensive Income. When the derivatives do qualify for hedge accounting, depending upon the nature of the hedge, changes in the fair value of derivatives are either offset against the fair value of assets, liabilities or firm commitments through income, or recognized in other comprehensive income/(loss) (effective portion) and are reclassified to earnings when the hedged transaction is reflected in earnings. If the probability that the forecasted transaction will not occur, the ineffective portion of a derivative's change in fair value is immediately recognized in income.

At the inception of the transaction, the Company documented the relationship between hedging instruments and hedged items, as well as its risk management objective and the strategy for undertaking various hedging transactions. The Company also documented its assessment, both at the hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

On July 1, 2012, the Company elected to prospectively de-designate fair value and cash flow interest rate swaps for which it was obtaining hedge accounting treatment due to the compliance burden associated with this accounting policy. As a result, all changes in the fair value of the Company's cash flow interest rate swap agreements were recorded in earnings under "Unrealized and Realized Losses on Derivatives" from the de-designation date forward.

The Company evaluated whether it is probable that the previously hedged forecasted interest payments are probable to not occur in the originally specified time period. The Company has concluded that the previously hedged forecasted interest payments are probable of occurring. Therefore, unrealized gains or losses in accumulated other comprehensive loss associated with the previously designated cash flow interest rate swaps will remain frozen in accumulated other comprehensive loss and recognized in earnings when the interest payments will be recognized. If such interest payments were to be identified as being probable of not occurring, the accumulated other comprehensive loss balance pertaining to these amounts would be reversed through earnings immediately.

The Company does not use financial instruments for trading or other speculative purposes.

Earnings/(Loss) Per Share: The Company has presented net income/(loss) per share for all years presented based on the weighted average number of outstanding shares of common stock of Danaos Corporation at the reported periods. The warrants issued in 2011 were excluded from the diluted (loss)/income per share for the year ended December 31, 2012 and 2011, because they were antidilutive. There are no other dilutive or potentially dilutive securities, accordingly there is no difference between basic and diluted net income per share.

Equity Compensation Plan: The Company has adopted an equity compensation plan (the "Plan"), which is generally administered by the compensation committee of the Board of Directors. The Plan allows the plan administrator to grant awards of shares of common stock or the right to receive or purchase shares of common stock to employees, directors or other persons or entities providing significant services to the Company or its subsidiaries. The actual terms of an award will be determined by the plan administrator and set forth in written award agreement with the participant. Any options

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

granted under the Plan will be accounted for in accordance with the accounting guidance for share-based compensation arrangements.

The aggregate number of shares of common stock for which awards may be granted under the Plan cannot exceed 6% of the number of shares of common stock issued and outstanding at the time any award is granted. Awards made under the Plan that have been forfeited, cancelled or have expired, will not be treated as having been granted for purposes of the preceding sentence. Unless otherwise set forth in an award agreement, any awards outstanding under the Plan will vest immediately upon a "change of control", as defined in the Plan. The Plan will automatically terminate ten years after it has been most recently approved by the Company's stockholders. As of December 12, 2011, the Company granted an aggregate of 555,000 restricted shares of common stock to the officers of the Company. Refer to Note 21, Stock Based Compensation.

As of April 18, 2008, the Company established the Directors Share Payment Plan ("Directors Plan") under the Plan. The purpose of the Directors Plan is to provide a means of payment of all or a portion of compensation payable to directors of the Company in the form of Company's Common Stock. Each member of the Board of Directors of the Company may participate in the Directors Plan. Pursuant to the terms of the Directors Plan, Directors may elect to receive in Common Stock all or a portion of their compensation. On the last business day of each quarter, the rights of common stock are credited to each Director's Share Payment Account. Following December 31st of each year, the Company will deliver to each Director the number of shares represented by the rights credited to their Share Payment Account during the preceding calendar year. Refer to Note 21, Stock Based Compensation.

As of April 18, 2008, the Board of Directors and the Compensation Committee approved the Company's ability to provide, from time to time, incentive compensation to the employees of Danaos Shipping Company Limited (the "Manager"), in the form of free shares of the Company's common stock under the Plan. Prior approval is required by the Compensation Committee and the Board of Directors. The plan was effective since December 31, 2008. Pursuant to the terms of the plan, employees of the Manager may receive (from time to time) shares of the Company's common stock as additional compensation for their services offered during the preceding period. The stock will have no vesting period and the employee will own the stock immediately after grant. The total amount of stock to be granted to employees of the Manager will be at the Company's Board of Directors' discretion only and there will be no contractual obligation for any stock to be granted as part of the employees' compensation package in future periods. Refer to Note 21, Stock Based Compensation.

Recent Accounting Pronouncements:

Fair Value

In May 2011, the FASB issued new guidance for fair value measurements intended to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amended guidance provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amended guidance was effective for the Company beginning January 1, 2012. The adoption of the new guidance for fair value measurements had no effect on the Company's consolidated financial statements.

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Significant Accounting Policies (Continued)***Comprehensive Income*

In February 2013, the FASB issued new guidance for reporting of amounts reclassified out of accumulated other comprehensive income. The amendment requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. Public companies are required to comply with these amendments for all reporting periods presented, including interim periods. The amended guidance was effective for the Company for reporting periods beginning after December 15, 2012. The adoption of the new guidance is not expected to have an effect on the Company's consolidated financial statements.

3. Restricted Cash

Restricted cash accounts were as follows as at December 31 (in thousands):

	2012	2011
Retention accounts	\$ 2,821	\$ 2,909
Restricted deposits	430	
Total	\$ 3,251	\$ 2,909

The Company was required to maintain cash of \$2.8 million and \$2.9 million as of December 31, 2012 and 2011, respectively, in retention bank accounts as collateral for the upcoming scheduled debt payments of its KEXIM and KEXIM-ABN Amro credit facilities.

Furthermore, as of December 31, 2012, the Company recorded non-current restricted cash of \$0.4 million in relation to one of its swaps following the sale of the *Montreal*, as based on its Bank Agreement, any sale proceeds should be applied towards the repayment of the respective loan outstanding as well as cash collateral of the outstanding swaps with the respective bank (prorated based on market values).

4. Fixed Assets, Net

Vessels' cost, accumulated depreciation and changes thereto were as follows (in thousands):

	Vessel Cost	Accumulated Depreciation	Net Book Value
As of January 1, 2011	\$ 2,629,136	\$ (355,653)	\$ 2,273,483
Additions	1,074,646	(106,178)	968,468
As of December 31, 2011	\$ 3,703,782	\$ (461,831)	\$ 3,241,951
Additions	1,022,560	(143,938)	878,622
Disposals	(20,606)	15,801	(4,805)
Impairment loss	(129,630)		(129,630)
As of December 31, 2012	\$ 4,576,106	\$ (589,968)	\$ 3,986,138

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Fixed Assets, Net (Continued)

- i.
On January 26, 2011, the Company took delivery of the newbuilding 3,400 TEU vessel, the *Hanjin Algeciras*, for a contract price of \$55.9 million. The vessel has been deployed on a 10-year time charter with one of the world's major liner companies.
- ii.
On March 10, 2011, the Company took delivery of the newbuilding 10,100 TEU vessel, the *Hanjin Germany*, for a contract price of \$145.2 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- iii.
On April 6, 2011, the Company took delivery of the newbuilding 10,100 TEU vessel, the *Hanjin Italy*, for a contract price of \$145.2 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- iv.
On April 15, 2011, the Company took delivery of the newbuilding 3,400 TEU vessel, the *Hanjin Constantza*, for a contract price of \$55.9 million. The vessel has been deployed on a 10-year time charter with one of the world's major liner companies.
- v.
On May 4, 2011, the Company took delivery of the newbuilding 10,100 TEU vessel, the *Hanjin Greece*, for a contract price of \$145.2 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- vi.
On July 8, 2011, the Company took delivery of the newbuilding 8,530 TEU vessel, the *CMA CGM Attila*, for a contract price of \$113.0 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- vii.
On August 22, 2011, the Company took delivery of the newbuilding 8,530 TEU vessel, the *CMA CGM Tancredi*, for a contract price of \$113.0 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- viii.
On October 26, 2011, the Company took delivery of the newbuilding 8,530 TEU vessel, the *CMA CGM Bianca*, for a contract price of \$113.0 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- ix.
On December 15, 2011, the Company took delivery of the newbuilding 8,530 TEU vessel, the *CMA CGM Samson*, for a contract price of \$113.0 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- x.
On February 16, 2012, the Company took delivery of the newbuilding 13,100 TEU vessel, the *Hyundai Together*, for a contract price of \$168.5 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- xi.
On February 28, 2012, the Company took delivery of the newbuilding 8,530 TEU vessel, the *CMA CGM Melisande*, for a contract price of \$117.5 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- xii.
On March 8, 2012, the Company took delivery of the newbuilding 13,100 TEU vessel, the *Hyundai Tenacity*, for a contract price of \$168.5 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.
- xiii.

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On April 27, 2012, the Company sold and delivered the *Montreal (ex Hanjin Montreal)*. The net sale consideration was \$5.6 million and the Company recognized a net gain on sale of \$0.8 million during the year ended December 31, 2012. Refer to Note 15, Sale of Vessel.

xiv.

On May 3, 2012, the Company took delivery of the newbuilding 13,100 TEU vessel, the *Hyundai Smart*, for a contract price of \$168.5 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.

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Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Fixed Assets, Net (Continued)**

xv.

On June 7, 2012, the Company took delivery of the newbuilding 13,100 TEU vessel, the *Hyundai Speed*, for a contract price of \$168.5 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.

xvi.

On June 29, 2012, the Company took delivery of the newbuilding 13,100 TEU vessel, the *Hyundai Ambition*, for a contract price of \$168.5 million. The vessel has been deployed on a 12-year time charter with one of the world's major liner companies.

As of December 31, 2012, the Company recorded an impairment loss of \$129.6 million in relation to thirteen of its older vessels, which are currently laid up or on short-term charters in the spot market. Fair value of each vessel was determined with the assistance from valuations obtained by third party independent shipbrokers. Refer to Note 24, Impairment Loss.

The residual value (estimated scrap value at the end of the vessels' useful lives) of the fleet was estimated at \$431.9 million as of December 31, 2012 and \$361.5 million as of December 31, 2011. The Company has calculated the residual value of the vessels taking into consideration the 10 year average and the 5 year average of the scrap. The Company has applied uniformly the scrap value of \$300 per ton for all vessels. The Company believes that \$300 per ton is a reasonable estimate of future scrap prices, taking into consideration the cyclicity of the nature of future demand for scrap steel. Although the Company believes that the assumptions used to determine the scrap rate are reasonable and appropriate, such assumptions are highly subjective, in part, because of the cyclical nature of future demand for scrap steel.

The contract price of each newbuilding vessel, as discussed above, excludes any items capitalized during the construction period, such as interest expense and other predelivery expenses, which increase the total cost of each vessel recorded upon delivery under "Fixed Assets, net" in the Consolidated Balance Sheets.

5. Advances for Vessels under Construction

a) Advances for vessels under construction were as follows at December 31 (in thousands):

	2012	2011
Advance payments for vessels	\$	\$ 196,730
Progress payments for vessels		288,091
Capitalized interest		39,465
Total	\$	\$ 524,286

As of December 31, 2012, the Company completed its extensive newbuilding program and has taken delivery of all of its vessels under construction.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Advances for Vessels under Construction (Continued)

b) Advances for vessels under construction and transfers to vessels' cost as of December 31, 2012 and 2011 were as follows (in thousands):

As of January 1, 2011	\$ 904,421
Additions	693,030
Transfer to vessels' cost	(1,073,165)
As of December 31, 2011	\$ 524,286
Additions	497,661
Transfer to vessels' cost	(1,021,947)
As of December 31, 2012	\$

6. Deferred Charges, Net

Deferred charges consisted of the following (in thousands):

	Drydocking and Special Survey Costs	Finance and Other Costs	Total Deferred Charges
As of January 1, 2011	\$ 5,013	\$ 19,679	\$ 24,692
Additions	7,218	83,301	90,519
Amortization	(5,800)	(9,700)	(15,500)
As of December 31, 2011	\$ 6,431	\$ 93,280	\$ 99,711
Additions	9,308	186	9,494
Amortization	(6,070)	(14,314)	(20,384)
As of December 31, 2012	\$ 9,669	\$ 79,152	\$ 88,821

The Company follows the deferral method of accounting for drydocking and special survey costs in accordance with accounting for planned major maintenance activities, whereby actual costs incurred are deferred and amortized on a straight-line basis over the period until the next scheduled survey, which is two and a half years. If special survey or drydocking is performed prior to the scheduled date, the remaining unamortized balances are immediately written off. Furthermore, when a vessel is drydocked for more than one reporting period, the respective costs are identified and recorded in the period in which they were incurred and not at the conclusion of the drydocking.

On March 2, 2011, the Company committed to issue 15,000,000 warrants to its lenders under the Bank Agreement and the New Credit Facilities to purchase, solely on a cash-less exercise basis, shares of its common stock. On March 17, 2011, the Company issued 11,213,713 warrants at an initial exercise price of \$6.00 per share, which exercise price was increased to \$7.00 per share on March 29, 2011 upon the delivery of certain documents, as required by the Sinasure-CEXIM credit facility and related arrangement with Sinasure. On April 1, 2011 and May 23, 2011, the Company issued the remaining 3,711,417 and 74,870 warrants (out of the total of 15,000,000 warrants), respectively, at an exercise price of \$7.00 per share. All warrants issued will expire on January 31, 2019. The Company will not receive any cash upon exercise of the warrants as the warrants are only exercisable on a cashless basis. The Company has also registered 8,044,176 warrants (following the request of certain banks) and underlying shares of common stock for resale under the Securities Act.

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Deferred Charges, Net (Continued)**

The fair value of the warrants as of March 2, 2011 of \$51.8 million (the date the Company entered into the warrant agreement) was estimated using the Binominal model and the assumptions used to calculate the fair value were the underlying stock price of \$3.45, initial exercise price of \$6.00 per share based on the warrant agreement, volatility of 72% based on historical data of the Company's closing share price since its initial public offering, time to expiration based upon the contractual life, short-term (risk-free) interest rate based upon the treasury securities with a similar expected term and no dividends being paid. On March 29, 2011, the exercise price of the warrants was increased to \$7.00 per share, in accordance with the warrant agreement, following the delivery of certain documents, as required by the Sinasure-CEXIM credit facility and related arrangement with Sinasure.

The warrants were considered a liability instrument from March 2, 2011 up to the date the exercise price was fixed to \$7.00 per share and were marked to market. On March 29, 2011, the warrants were reclassified from liability to equity since the exercise price was fixed and the warrants met all conditions for classification as equity. Therefore, assuming no changes to the existing warrant agreement, any future changes in the fair value of the warrants subsequent to the amendment date of the exercise price will not be recognized in the financial statements so long as the warrant continues to meet equity classification criteria in future periods. The warrants were considered non-cash fees paid to the Company's lenders and are deferred and will be amortized over the life of the respective facilities in accordance with the effective interest rate method.

The fair value of the warrants on the amendment date of March 29, 2011 was \$54.1 million compared to \$51.8 million as of March 2, 2011. The \$2.3 million loss arising from the change in the fair value of the warrants from March 2, 2011 to March 29, 2011 was recorded in the consolidated Statement of Comprehensive Income under "Other finance expenses".

7. Other Current Assets

Other current assets consisted of the following as at December 31 (in thousands):

	2012	2011
Insurance claims	\$ 545	\$ 4,692
Advances to suppliers and other assets	4,837	3,526
Total	\$ 5,382	\$ 8,218

Insurance claims, net of applicable deductibles arising from hull and machinery damage or other insured risks, are expected to be fully collected.

8. Other Non-current Assets

Other non-current assets consisted of the following as at December 31 (in thousands):

	2012	2011
Fair value of swaps	\$ 2,908	\$ 3,964
Other assets	35,075	24,901
Total	\$ 37,983	\$ 28,865

On October 30, 2009, the Company agreed with one of its charterers, Zim Integrated Shipping Services Ltd. ("ZIM"), revisions to charterparties for six of its vessels in operation, which keep the original charter terms in place, reducing the cash settlement of each charter hire by 17.5%, for a period

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Other Non-current Assets (Continued)**

ending on December 31, 2012, which becomes a subsequent payment. Each subsequent payment, which accumulates in any financial quarter, is satisfied by callable exchange notes (the "CENs"). CENs were issued by ZIM once per financial quarter at a face value equal to the aggregate amount of such subsequent payments from that financial quarter plus a premium amount (being an amount calculated as if each such subsequent payment had accrued interest at the rate of 6% p.a. from the date when it would have been due under the original charter party until the relevant issue date for the CENs). Unless previously converted at the holder's option into ZIM's common stock (only upon ZIM becoming a publicly listed company) or redeemed partially prior to or in full in cash, on July 1, 2016, ZIM will redeem the CENs at their remaining nominal amount together with the 6% interest accrued up to that date in cash only. In this respect, the Company recorded notes receivable from ZIM in "Other non-current assets" of \$33.9 million and \$23.5 million as of December 31, 2012 and 2011, respectively. The Company has agreed to ZIM's request to extend this charter hire payment deferral arrangement for a further six months, until June 30, 2013.

In respect to the fair value of swaps, refer to Note 16b, Financial Instruments Fair Value Interest Rate Swap Hedges.

9. Accounts Payable

Accounts payable consisted of the following as at December 31 (in thousands):

	2012	2011
Suppliers, repairers	\$ 8,995	\$ 12,148
Insurers, agents, brokers	1,373	1,486
Other creditors	3,614	1,510
Total	\$ 13,982	\$ 15,144

10. Accrued Liabilities

Accrued liabilities consisted of the following as at December 31 (in thousands):

	2012	2011
Accrued payroll	\$ 969	\$ 1,109
Accrued interest	12,473	10,543
Accrued expenses	19,452	24,465
Total	\$ 32,894	\$ 36,117

Accrued expenses mainly consisted of accrued realized losses of cash flow interest rate swaps (2012: \$15.2 million, 2011: \$18.5 million) and other accruals related to the operation of the Company's fleet (2012: \$4.3 million, 2011: \$6.0 million).

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Other Current and Long-term Liabilities

Other current liabilities consisted of the following as at December 31 (in thousands):

	2012	2011
Fair value of swaps	\$ 130,100	\$ 120,623
Other current liabilities	365	
Total	\$ 130,465	\$ 120,623

Other long-term liabilities consisted of the following at December 31 (in thousands):

	2012	2011
Fair value of swaps	\$ 176,948	\$ 291,829
Other long-term liabilities	10,315	7,471
Total	\$ 187,263	\$ 299,300

Other long-term liabilities mainly consist of \$4.8 million and \$4.7 million as of December 31, 2012 and 2011, respectively, in relation to deferred fees accrued in accordance with the Bank Agreement (refer to Note 13, Long-Term Debt), which will be cash settled on December 31, 2014 and are recorded at amortized cost.

In respect to the fair value of swaps, refer to Note 16a, Financial Instruments Cash Flow Interest Rate Swap Hedges.

12. Lease Arrangements*Charters-out*

The future minimum revenue, expected to be earned on non-cancellable time charters with initial terms of one year or more consisted of the following as at December 31, 2012 (in thousands):

2013	\$ 577,023
2014	549,954
2015	547,605
2016	538,845
2017	506,350
2018 and thereafter	2,198,547
Total future revenue	\$ 4,918,324

Revenues from time charters are not generally received when a vessel is off-hire, including time required for normal periodic maintenance of the vessel. In arriving at the minimum future charter revenues, an estimated time off-hire to perform periodic maintenance on each vessel has been deducted, although there is no assurance that such estimate will be reflective of the actual off-hire in the future. The off-hire assumptions used relate mainly to drydocking and special survey maintenance carried out approximately every 2.5 years per vessel, or every 5 years for vessels less than 15-years old, and which may last approximately 10 to 15 days.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt

Long-term debt as of December 31, 2012 and 2011 consisted of the following (in thousands):

Lender	As of December 31, 2012	Current portion	Long-term portion	As of December 31, 2011	Current portion	Long-term portion
The Royal Bank of Scotland	\$ 686,800	\$ 3,771	\$ 683,029	\$ 663,300	\$	\$ 663,300
HSH Nordbank	35,000	6,123	28,877	35,000		35,000
The Export-Import Bank of Korea ("KEXIM")	39,311	10,369	28,942	49,679	10,369	39,310
The Export-Import Bank of Korea & ABN Amro	79,359	11,250	68,109	90,609	11,250	79,359
Deutsche Bank	180,000	2,406	177,594	180,000		180,000
Credit Agricole	156,800	6,279	150,521	156,800		156,800
HSH Nordbank AG-Aegean Baltic Bank-Piraeus Bank	658,160		658,160	664,325		664,325
Credit Suisse	221,100	6,076	215,024	221,100		221,100
ABN Amro-Lloyds TSB-National Bank of Greece	253,200	6,966	246,234	253,200		253,200
Commerzbank-Credit Suisse- Credit Agricole	298,500	11,401	287,099	298,500		298,500
The Royal Bank of Scotland (New Credit Facility)	100,000	6,069	93,931	57,200		57,200
HSH Nordbank AG-Aegean Baltic Bank-Piraeus Bank (New Credit Facility)	123,750	17,727	106,023	70,250		70,250
ABN Amro-Lloyds TSB-National Bank of Greece (New Credit Facility)	37,100	5,438	31,662	37,100		37,100
Sinosure CEXIM-Citi-ABN Amro Credit Facility	183,060	20,340	162,720	203,400	20,340	183,060
Club Facility (New Credit Facility)	83,900	6,180	77,720	16,780		16,780
Citi Eurobank Credit Facility	80,000	4,681	75,319			
Comprehensive Financing Plan exit fee accrued	4,354		4,354	1,592		1,592
Fair value hedged debt	2,154		2,154	3,412		3,412
Total long-term debt	\$ 3,222,548	\$ 125,076	\$ 3,097,472	\$ 3,002,247	\$ 41,959	\$ 2,960,288
Hyundai Samho Vendor Financing	\$ 179,142	\$ 57,388	\$ 121,754	\$ 65,145	\$ 10,857	\$ 54,288

All floating rate loans discussed above are collateralized by first and second preferred mortgages over the vessels financed, general assignment of all hire freights, income and earnings, the assignment

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Long-Term Debt (Continued)**

of their insurance policies, as well as any proceeds from the sale of mortgaged vessels and the corporate guarantee of Danaos Corporation.

Maturities of long-term debt for the years subsequent to December 31, 2012 are as follows (in thousands):

	Fixed principal repayments	Variable principal payments	Final Payment due on December 31, 2018	Total principal payments
2013	\$ 104,089	\$ 20,987	\$	\$ 125,076
2014	133,769	25,375		159,144
2015	155,317	37,711		193,028
2016	183,173	170,927		354,100
2017	177,651	170,004		347,655
2018 and thereafter	330,338	157,227	1,549,472	2,037,037
Total long-term debt	\$ 1,084,337	\$ 582,231	\$ 1,549,472	\$ 3,216,040

The maturities of long-term debt for the twelve month periods subsequent to December 31, 2012 are based on the terms of the Bank Agreement, under which the Company is not required to repay any outstanding principal amounts under its existing credit facilities, other than the KEXIM and KEXIM-ABN Amro credit facilities which are not covered by the Bank Agreement, until after May 15, 2013; thereafter until December 31, 2018 it will be required to make quarterly principal payments in fixed amounts. In addition, the Company is required to make an additional payment in such amount that, together with the fixed principal payment, equals a certain percentage of its Actual Free Cash Flow of the preceding financial quarter (as defined below). The table above includes both the fixed payments for which the Company has a contractual obligation, as well as the Company's estimate of the future Actual Free Cash Flows and resulting variable amortization. The last payment due on December 31, 2018, will also include the unamortized remaining principal debt balances, as such amount will be determinable following the fixed and variable amortization.

Maturities of Hyundai Samho vendor financing for the years subsequent to December 31, 2012, are as follows (in thousands):

2013	\$ 57,388
2014	57,388
2015	46,530
2016	17,836
Total vendor financing	\$ 179,142

On August 12, 2010, the Company entered into a supplemental agreement which amended the interest rate margin and the financial covenants of its KEXIM-ABN Amro credit facility. Specifically, the financial covenants were aligned with those set forth in the Bank Agreement (see below), effective from June 30, 2010 through June 30, 2012, and the interest rate margin was increased by 0.5 percentage points for the same period. As of February 9, 2012, the Company signed a new supplemental letter extending the terms of the August 12, 2010 supplemental letter through June 30, 2014. The Company's credit facility with KEXIM contains only a collateral coverage ratio covenant.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Bank Agreement

On January 24, 2011, the Company entered into a definitive agreement, which became effective on March 4, 2011, referred to as the Bank Agreement, that superseded, amended and supplemented the terms of each of the Company's then-existing credit facilities (other than its credit facilities with KEXIM and KEXIM-ABN Amro which are not covered thereby), and provided for, among other things, revised amortization schedules, maturities, interest rates, financial covenants, events of defaults, guarantee and security packages and approximately \$425 million of new debt financing. Subject to the terms of the Bank Agreement and the intercreditor agreement (the "Intercreditor Agreement"), which the Company entered into with each of the lenders participating under the Bank Agreement to govern the relationships between the lenders thereunder, under the New Credit Facilities (as described and defined below) and under the Hyundai Samho Vendor Financing described below, the lenders participating thereunder continue to provide the Company's then-existing credit facilities and amended the covenants under the existing credit facilities in accordance with the terms of the Bank Agreement.

In accordance with the accounting guidance for troubled debt restructuring, the Company's debt did not meet the conditions of troubled debt restructuring as the lenders have not granted a concession. The effective borrowing rate of the restructured debt was higher than the effective borrowing rate of the old debt.

Interest and Fees

Under the terms of the Bank Agreement, borrowings under each of the Company's existing credit facilities, other than the KEXIM and KEXIM-ABN Amro credit facilities which are not covered by the Bank Agreement, bear interest at an annual interest rate of LIBOR plus a margin of 1.85%.

The Company was required to make a margin adjustment fee payment equal to 1.55 percentage points of the applicable balance under its previously existing Aegean Baltic HSH Nordbank Piraeus Bank credit facility, calculated for the period from July 1, 2009 to the closing date under the Bank Agreement of March 4, 2011, to the participating lenders who are party to the HSH Facility Agreement. The margin adjustment fees were accrued and recorded as interest expense in the Statement of Comprehensive Income or capitalized into the cost of the vessels under construction. The total amount of \$17.6 million was cash settled in March 2011.

The Company was also required to make a waiver adjustment payment, in respect of prior waivers obtained in 2009 and 2010 (contingent upon the closing of the Bank Agreement), such that each lender under any of the Company's existing credit facilities prior to entry into the Bank Agreement would receive cumulative waiver fees during the preceding period of 0.2% of its existing financing commitments. This fee totaled \$2.6 million, was paid in January 2011 and was deferred and will be amortized over the life of the respective credit facilities using the effective interest rate method.

The Company was also required to pay an amendment fee equal to 0.5% of the outstanding commitments under each existing financing arrangement, or \$12.5 million in the aggregate, of which 20% was paid and deferred on the signing of a commitment letter for the Bank Agreement in August 2010, 40% was paid in January 2011 upon the signing of the Bank Agreement and the remaining 40% is due on December 31, 2014. This amendment fee is accrued under the "Other long-term liabilities" in the consolidated balance sheet and is deferred and amortized over the life of the respective credit facilities with the effective interest rate method.

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Long-Term Debt (Continued)**

The Company was also required to pay a fee of 0.25% of the total committed amount contemplated by the August 6, 2010 commitment letter for the Bank Agreement for the period starting from August 6, 2010 up until March 4, 2011 (the effective date of the agreement) and which commitment fee was amended to 0.75% for the period after March 4, 2011, which fees were capitalized in cost of vessels under construction as it related to undrawn committed debt designated for specific newbuildings, and a \$4.38 million amendment fee (of which \$1.22 million was paid in December 2010 and \$3.16 million was paid in January 2011) relating to conditions in respect of the Sinasure-CEXIM credit facility. This amendment fee is deferred and will be amortized over the life of the new debt using the effective interest rate method.

Principal Payments

Under the terms of the Bank Agreement, the Company is not required to repay any outstanding principal amounts under its existing credit facilities, other than the KEXIM and KEXIM-ABN Amro credit facilities, which are not covered by the Bank Agreement, until after May 15, 2013; thereafter, the Company will be required to make quarterly principal payments in fixed amounts, in relation to the Company's total debt commitments from the Company's lenders under the Bank Agreement and New Credit Facilities, as specified in the table below:

	February 15,	May 15,	August 15,	November 15,	December 31,	Total
2013		19,481,395	21,167,103	21,482,169		62,130,667
2014	22,722,970	21,942,530	22,490,232	24,654,040		91,809,772
2015	26,736,647	27,021,750	25,541,180	34,059,102		113,358,679
2016	30,972,971	36,278,082	32,275,598	43,852,513		143,379,164
2017	44,938,592	36,690,791	35,338,304	31,872,109		148,839,796
2018	34,152,011	37,585,306	44,398,658	45,333,618	65,969,274	227,438,867
Total						786,956,945

*

The Company may elect to make the scheduled payments shown in the above table three months earlier.

Furthermore, an additional variable payment in such amount that, together with the fixed principal payment (as disclosed above), equals 92.5% of Actual Free Cash Flow for such quarter until the earlier of (x) the date on which the Company's consolidated net leverage is below 6:1 and (y) May 15, 2015; and thereafter through maturity, which will be December 31, 2018 for each covered credit facility, it will be required to make fixed quarterly principal payments in fixed amounts as specified in the Bank Agreement and described above plus an additional payment in such amount that, together with the fixed principal payment, equals 89.5% of Actual Free Cash Flow for such quarter. In addition, any additional amounts of cash and cash equivalents, but during the final principal payment period described above only such additional amounts in excess of the greater of (1) \$50 million of accumulated unrestricted cash and cash equivalents and (2) 2% of the Company's consolidated debt, would be applied first to the prepayment of the New Credit Facilities and after the New Credit Facilities are repaid, to the existing credit facilities. The last payment due on December 31, 2018, will also include the unamortized remaining principal debt balances, as such amount will be determinable following the fixed and variable amortization.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Under the Bank Agreement, "Actual Free Cash Flow" with respect to each credit facility covered thereby is equal to revenue from the vessels collateralizing such facility, less the sum of (a) interest expense under such credit facility, (b) pro-rata portion of payments under its interest rate swap arrangements, (c) interest expense and scheduled amortization under the Hyundai Samho Vendor Financing and (d) per vessel operating expenses and pro rata per vessel allocation of general and administrative expenses (which are not permitted to exceed the relevant budget by more than 20%), plus (e) the pro-rata share of operating cash flow of any Applicable Second Lien Vessel (which will mean, with respect to an existing facility, a vessel with respect to which the participating lenders under such facility have a second lien security interest and the first lien credit facility has been repaid in full).

Under the terms of the Bank Agreement, the Company continues to be required to make any mandatory prepayments provided for under the terms of its existing credit facilities and is required to make additional prepayments as follows

50% of the first \$300 million of net equity proceeds (including convertible debt and hybrid instruments), excluding the \$200 million of net equity proceeds, which was a condition to the Bank Agreement and were received in August 2010 for which there are no specified required uses, after entering into the Bank Agreement and 25% of any additional net equity proceeds; and

any debt proceeds (after repayment of any underlying secured debt covered by vessels collateralizing the new borrowings) (excluding the New Credit Facilities, the Sinosure-CEXIM Credit Facility and the Hyundai Samho Vendor Financing),

which amounts would first be applied to repayment of amounts outstanding under the New Credit Facilities and then to the existing credit facilities. Any equity proceeds retained by the Company and not used within 12 months for certain specified purposes would be applied for prepayment of the New Credit Facilities and then to the existing credit facilities. The Company would also be required to prepay the portion of a credit facility attributable to a particular vessel upon the sale or total loss of such vessel; the termination or loss of an existing charter for a vessel, unless replaced within a specified period by a similar charter acceptable to the lenders; or the termination of a newbuilding contract. The Company's respective lenders under its existing credit facilities covered by the Bank Agreement and the New Credit Facilities may, at their option, require the Company to repay in full amounts outstanding under such respective credit facilities, upon a "Change of Control" of the Company, which for these purposes is defined as (i) Dr. Coustas ceasing to be its Chief Executive Officer, (ii) its common stock ceasing to be listed on the NYSE (or Nasdaq or other recognized stock exchange), (iii) a change in the ultimate beneficial ownership of the capital stock of any of its subsidiaries or ultimate control of the voting rights of those shares, (iv) Dr. Coustas and members of his family ceasing to collectively own over one-third of the voting interest in its outstanding capital stock or (v) any other person or group controlling more than 20% of the voting power of its outstanding capital stock.

Covenants and Events of Defaults

On January 24, 2011, the Company entered into the Bank Agreement that superseded, amended and supplemented the terms of each of its existing credit facilities (other than its credit facilities with KEXIM and KEXIM-ABN Amro) and provided for, among other things, revised financial covenant levels under such existing credit facilities as described below, with which the Company was in compliance as of December 31, 2012 and 2011.

DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Under the Bank Agreement, the financial covenants under each of the Company's existing credit facilities (other than under the KEXIM-ABN Amro credit facility which is not covered thereby, but which has been aligned with those covenants below through June 30, 2014 under the supplemental letter dated August 12, 2010 and amendment thereto dated February 9, 2012 and our KEXIM credit facility, which contains only a collateral coverage covenant of 130%), have been reset to require the Company to:

maintain a ratio of (i) the market value of all of the vessels in the Company's fleet, on a charter-inclusive basis, plus the net realizable value of any additional collateral, to (ii) the Company's consolidated total debt above specified minimum levels gradually increasing from 90% through December 31, 2011 to 130% from September 30, 2017 through September 30, 2018;

maintain a minimum ratio of (i) the market value of the nine vessels (*Hyundai Smart, Hyundai Speed, Hyundai Ambition, Hyundai Together, Hyundai Tenacity, Hanjin Greece, Hanjin Italy, Hanjin Germany* and *CMA CGM Rabelais*) collateralizing the New Credit Facilities, calculated on a charter-free basis, plus the net realizable value of any additional collateral, to (ii) the Company's aggregate debt outstanding under the New Credit Facilities of 100% from September 30, 2012 through September 30, 2018;

maintain minimum free consolidated unrestricted cash and cash equivalents, less the amount of the aggregate variable principal amortization amounts, described above, of \$30.0 million at the end of each calendar quarter, other than during 2012 when the Company will be required to maintain a minimum amount of \$20.0 million;

ensure that the Company's (i) consolidated total debt less unrestricted cash and cash equivalents to (ii) consolidated EBITDA (defined as net income before interest, gains or losses under any hedging arrangements, tax, depreciation, amortization and any other non-cash item, capital gains or losses realized from the sale of any vessel, finance charges and capital losses on vessel cancellations and before any non-recurring items and excluding any accrued interest due to us but not received on or before the end of the relevant period; provided that non-recurring items excluded from this calculation shall not exceed 5% of EBITDA calculated in this manner) for the last twelve months does not exceed a maximum ratio gradually decreasing from 12:1 on December 31, 2010 to 4.75:1 on September 30, 2018;

ensure that the ratio of the Company's (i) consolidated EBITDA for the last twelve months to (ii) net interest expense (defined as interest expense (excluding capitalized interest), less interest income, less realized gains on interest rate swaps (excluding capitalized gains) and plus realized losses on interest rate swaps (excluding capitalized losses)) exceeds a minimum level of 1.50:1 through September 30, 2013 and thereafter gradually increasing to 2.80:1 by September 30, 2018; and

maintain a consolidated market value adjusted net worth (defined as the amount by which the Company's total consolidated assets adjusted for the market value of the Company's vessels in the water less cash and cash equivalents in excess of the Company's debt service requirements exceeds the Company's total consolidated liabilities after excluding the net asset or liability relating to the fair value of derivatives as reflected in the Company's financial statements for the relevant period) of at least \$400 million.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

For the purpose of these covenants, the market value of the Company's vessels will be calculated, except as otherwise indicated above, on a charter-inclusive basis (using the present value of the "bareboat-equivalent" time charter income from such charter) so long as a vessel's charter has a remaining duration at the time of valuation of more than 12 months plus the present value of the residual value of the relevant vessel (generally equivalent to the charter free value of such a vessel at the age such vessel would be at the expiration of the existing time charter). The market value for newbuilding vessels, all of which currently have multi-year charters, would equal the lesser of such amount and the newbuilding vessel's book value.

Under the terms of the Bank Agreement, the existing credit facilities also contain customary events of default, including those relating to cross-defaults to other indebtedness, defaults under its swap agreements, non-compliance with security documents, material adverse changes to its business, a Change of Control as described above, a change in its Chief Executive Officer, its common stock ceasing to be listed on the NYSE (or Nasdaq or another recognized stock exchange), a change in, or breach of the management agreement by the manager for the vessels securing the respective credit facilities and cancellation or amendment of the time charters (unless replaced with a similar time charter with a charterer acceptable to the lenders) for the vessels securing the respective credit facilities.

Under the terms of the Bank Agreement, the Company generally will not be permitted to incur any further financial indebtedness or provide any new liens or security interests, unless such security is provided for the equal and ratable benefit of each of the lenders party to the Intercreditor Agreement, other than security arising by operation of law or in connection with the refinancing of outstanding indebtedness, with the consent, not to be unreasonably withheld, of all lenders with a lien on the security pledged against such outstanding indebtedness. In addition, the Company would not be permitted to pay cash dividends or repurchase shares of its capital stock unless (i) its consolidated net leverage is below 6:1 for four consecutive quarters and (ii) the ratio of the aggregate market value of its vessels to its outstanding indebtedness exceeds 125% for four consecutive quarters and provided that an event of default has not occurred and the Company is not, and after giving effect to the payment of the dividend, in breach of any covenant.

Collateral and Guarantees

Each of the Company's existing credit facilities and swap arrangements, to the extent applicable, continue to be secured by their previous collateral on the same basis, and received, to the extent not previously provided, pledges of the shares of the Company's subsidiaries owning the vessels collateralizing the applicable facilities, cross-guarantees from each subsidiary owning the vessels collateralizing such facilities, assignment of the refund guarantees in relation to any newbuildings funded by such facilities and other customary shipping industry collateral.

New Credit Facilities (Aegean Baltic Bank HSH Nordbank Piraeus Bank, RBS, ABN Amro Club facility, Club Facility and Citi-Eurobank)

On January 24, 2011, the Company entered into agreements for the following new term loan credit facilities ("New Credit Facilities"):

- (i) a \$123.8 million credit facility provided by HSH, which is secured by the *Hyundai Speed*, the *Hanjin Italy* and the *CMA CGM Rabelais* and customary shipping industry collateral related

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

thereto (the \$123.8 million amount includes principal commitment of \$23.75 million under the Aegean Baltic Bank HSH Nordbank Piraeus Bank credit facility already drawn as of December 31, 2010, which was transferred to the new facility upon finalization of the agreement in 2011);

(ii)

a \$100.0 million credit facility provided by RBS, which is secured by the *Hyundai Smart* and the *Hanjin Greece* and customary shipping industry collateral related thereto;

(iii)

a \$37.1 million credit facility with ABN Amro and lenders participating under the Bank Agreement which is secured by *Hanjin Germany* and customary shipping industry collateral related thereto;

(iv)

a \$83.9 million new club credit facility to be provided, on a pro rata basis, by the other existing lenders participating under the Bank Agreement, which is secured by *Hyundai Together* and *Hyundai Tenacity* and customary shipping industry collateral related thereto; and

(v)

a \$80.0 million credit facility with Citibank and Eurobank, which is secured by the *Hyundai Ambition* and customary shipping industry collateral related thereto ((i)-(v), collectively, the "New Credit Facilities").

As of December 31, 2012, \$424.8 million was outstanding under the above New Credit Facilities and there were no remaining borrowing availability under the remaining credit facilities.

Interest and Fees

Borrowings under each of the New Credit Facilities above bear interest at an annual interest rate of LIBOR plus a margin of 1.85%, subject, on and after January 1, 2013, to increases in the applicable margin to: (i) 2.50% if the outstanding indebtedness thereunder exceeds \$276 million, (ii) 3.00% if the outstanding indebtedness thereunder exceeds \$326 million and (iii) 3.50% if the outstanding indebtedness thereunder exceeds \$376 million.

The Company paid an arrangement fee of 2.00%, or \$8.5 million in the aggregate, \$3.3 million of which was paid and in August 2010 (the date the commitment letter was entered into) and \$5.2 million paid in January 2011, which is deferred and amortized through the statement of comprehensive income over the life of the respective facilities with the effective interest rate method.

The Company paid a commitment fee of 0.75% per annum payable quarterly in arrears on the committed but undrawn portion of the respective loan. In addition, the Company is required to pay a fee of \$10.0 million if it does not repay at least \$150.0 million in the aggregate under the New Credit Facilities with equity proceeds by December 31, 2013.

Principal Payments

Under the Bank Agreement, the Company is not required to repay any outstanding principal amounts under its New Credit Facilities until after March 31, 2013 and thereafter it will be required to make quarterly principal payments in fixed amounts as specified in the Bank Agreement plus an additional quarterly variable amortization payment, all as described above under " Bank Agreement Principal Payments."

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Covenants, Events of Default and Other Terms

The New Credit Facilities contain substantially the same financial and operating covenants, events of default, dividend restrictions and other terms and conditions as applicable to the Company's existing credit facilities as revised under the Bank Agreement described above.

Collateral and Guarantees

The collateral described above relating to the newbuildings being financed by the respective credit facilities, will be (other than in respect of the *CMA CGM Rabelais*) subject to a limited participation by Hyundai Samho in any enforcement thereof until repayment of the related Hyundai Samho Vendor financing (described below) for such vessels. In addition lenders who participate in the new \$83.9 million club credit facility described above received a lien on *Hyundai Together* and *Hyundai Tenacity* as additional security in respect of the existing credit facilities the Company has with such lenders. The lenders under the other New Credit Facilities also received a lien on the respective vessels securing such New Credit Facilities as additional collateral in respect of its existing credit facilities and interest rate swap arrangements with such lenders and Citibank and Eurobank also received a second lien on *Hyundai Ambition* as collateral in respect of its currently unsecured interest rate arrangements with them.

In addition, Aegean Baltic HSH Nordbank Piraeus Bank also received a second lien on ~~the~~ *Maersk Deva* (ex *Bunya Raya Tujuh*), the *CSCL Europe* and the *CSCL Pusan* as collateral in respect of all borrowings from Aegean Baltic HSH Nordbank Piraeus Bank and RBS also received a second lien on the *Bunya Raya Tiga*, *CSCL America* (ex *MSC Baltic*) and the *CSCL Le Havre* as collateral in respect of all borrowings from RBS.

The Company's obligations under the New Credit Facilities are guaranteed by its subsidiaries owning the vessels collateralizing the respective credit facilities. The Company's Manager has also provided an undertaking to continue to provide the Company with management services and to subordinate its rights to the rights of its lenders, the security trustee and applicable hedge counterparties.

Sinosure-CEXIM-Citi-ABN Amro Credit Facility

On February 21, 2011, the Company entered into a bank agreement with Citibank, acting as agent, ABN Amro and the Export-Import Bank of China ("CEXIM") for a senior secured credit facility (the "Sinosure-CEXIM Credit Facility") of up to \$203.4 million, in three tranches each in an amount equal to the lesser of \$67.8 million and 60.0% of the contract price for the newbuilding vessels, *CMA CGM Tancredi*, *CMA CGM Bianca* and *CMA CGM Samson*, securing such tranche for post-delivery financing of these vessels. The Company took delivery of the respective vessels in 2011. The China Export & Credit Insurance Corporation, or Sinosure, covers a number of political and commercial risks associated with each tranche of the credit facility.

As of December 31, 2012, \$183.1 million was outstanding under the credit facility and there were no remaining borrowing availability under the remaining credit facility.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Principal and Interest Payments

Borrowings under the Sinasure-CEXIM Credit Facility bear interest at an annual interest rate of LIBOR plus a margin of 2.85% payable semi-annually in arrears. Upon entering into the credit facility, the Company became committed to pay a commitment fee of 1.14% on undrawn amounts and it paid an arrangement fee of \$4.0 million, as well as a flat fee of \$8.8 million to Sinasure for its participation. The Company is required to repay principal amounts drawn under each tranche of the Sinasure-CEXIM Credit Facility in consecutive semi-annual installments over a ten-year period commencing after the delivery of the respective newbuilding being financed by such amount through the final maturity date of the respective tranches and repay the respective tranche in full upon the loss of the respective newbuilding.

Covenants, Events of Default and Other Terms

The Sinasure-CEXIM Credit Facility requires the Company to:

maintain a ratio of total net debt (defined as total liabilities less cash and cash equivalents) to adjusted total consolidated assets (total consolidated assets with market value of vessels replacing book value of vessels less cash and cash equivalents) of no more than 70%;

maintain a minimum ratio of the market value of the vessel collateralizing a tranche of the facility to debt outstanding under such tranche of 125%;

maintain minimum free consolidated unrestricted cash and cash equivalents, through February 21, 2014, of \$30.0 million, and the higher of \$30.0 million and 2% of consolidated total debt thereafter;

ensure that the ratio of the Company's (i) consolidated EBITDA (defined as net income before interest, gains or losses under any hedging arrangements, tax, depreciation, amortization and any other non-cash item, capital gains or losses realized from the sale of any vessel, financing payments, fees and commissions and capital losses on vessel cancellations and before any non-recurring items) for the last twelve months to (ii) interest expense (defined as the aggregate amount of interest, commission, fees and other finance charges (excluding capitalized interest)) exceeds 2.50:1; and

maintain a consolidated market value adjusted net worth (defined as the Company's total consolidated assets adjusted for the market value of the Company's vessels less the Company's total consolidated liabilities) of at least \$400 million.

For the purpose of these covenants, the market value of the Company's vessels will be calculated, except as otherwise indicated above, on a charter-inclusive basis (using the present value of the "bareboat-equivalent" time charter income from such charter) so long as a vessel's charter has a remaining duration at the time of valuation of more than six months plus the present value of the residual value of the relevant vessel (generally equivalent to the charter free value of such a vessel at the age such vessel would be at the expiration of the existing time charter). The market value for newbuilding vessels, all of which currently have multi-year charters, would equal the lesser of such amount and the newbuilding vessel's book value.

The Sinasure-CEXIM credit facility also contains customary events of default, including those relating to cross-defaults to other indebtedness, defaults under its swap agreements, non-compliance with security documents, material adverse changes to its business, a Change of Control as described

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

above, a change in its Chief Executive Officer, its common stock ceasing to be listed on the NYSE (or Nasdaq or another recognized stock exchange), a change in, or breach of the management agreement by, the manager for the mortgaged vessels and cancellation or amendment of the time charters (unless replaced with a similar time charter with a charterer acceptable to the lenders) for the mortgaged vessels.

The Company will not be permitted to pay cash dividends or repurchase shares of its capital stock unless (i) its consolidated net leverage is below 6:1 for four consecutive quarters and (ii) the ratio of the aggregate market value of its vessels to its outstanding indebtedness exceeds 125% for four consecutive quarters and provided that an event of default has not occurred and the Company is not, and after giving effect to the payment of the dividend is not, in breach of any covenant.

Collateral

The Sinosure-CEXIM Credit Facility is secured by customary pre-delivery and post-delivery shipping industry collateral with respect to the newbuilding vessels, *CMA CGM Tancredi*, *CMA CGM Bianca* and *CMA CGM Samson*, securing the respective tranche.

Hyundai Samho Vendor Financing

The Company entered into an agreement with Hyundai Samho Heavy Industries ("Hyundai Samho") for a financing facility of \$190.0 million in respect of eight of its newbuilding containerhips built by Hyundai Samho, the *Hyundai Speed*, the *Hyundai Smart*, the *Hyundai Ambition*, the *Hyundai Together*, the *Hyundai Tenacity*, the *Hanjin Greece*, the *Hanjin Italy* and the *Hanjin Germany*, in the form of delayed payment of a portion of the final installment for each such newbuilding.

Borrowings under this facility bear interest at a fixed interest rate of 8%. The Company will be required to repay principal amounts under this financing facility in six consecutive semi-annual installments commencing one and a half years, in the case of three of the newbuilding vessels being financed, and in seven consecutive semi-annual installments commencing one year, in the case of the other five newbuilding vessels, after the delivery of the respective newbuilding being financed. This financing facility does not require the Company to comply with financial covenants, but contains customary events of default, including those relating to cross-defaults. This financing facility is secured by second priority collateral related to the newbuilding vessels being financed.

Exit Fees

The Company will be required to pay an Initial Exit Fee of \$15.0 million. Furthermore, the Company will be required to pay an Additional Exit Fee of \$10.0 million, if it does not repay at least \$150.0 million in the aggregate with equity proceeds by December 31, 2013. Both Exit Fees, in the respective proportion to Existing Facilities and New Money Facilities, are payable the earlier of (a) December 31, 2018 and (b) the date on which the respective facilities are repaid in full. The Exit Fees will accrete in the consolidated Statement of Comprehensive Income over the life of the respective facilities (with the effective interest method) and are reported under "Long-term debt, net of current portion" in the consolidated Balance Sheet. The Company has recognized an amount of \$4.4 million and \$1.6 million as of December 31, 2012 and December 31, 2011, respectively.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Credit Facilities Summary Table

Lender	Outstanding Principal Amount (in millions)(1)	Collateral Vessels
	Existing Credit Facilities	
		The <i>Hyundai Progress</i> , the <i>Hyundai Highway</i> , the <i>Hyundai Bridge</i> , the <i>Hyundai Federal</i> (ex <i>APL Federal</i>), the <i>Zim Monaco</i> , the <i>Hanjin Buenos Aires</i> , the <i>Hanjin Versailles</i> , the <i>Hanjin Algeciras</i> , the <i>CMA CGM Racine</i> and the <i>CMA CGM Melisande</i>
The Royal Bank of Scotland(2)	\$ 686.8	The <i>Elbe</i> , the <i>Kalamata</i> , the <i>Komodo</i> , the <i>Henry</i> , the <i>Commodore</i> (ex <i>Hyundai Commodore</i>), the <i>Hyundai Duke</i> (ex <i>APL Duke</i>), the <i>Independence</i> , the <i>Marathonas</i> , the <i>Messologi</i> , the <i>Mytilini</i> , the <i>Hope</i> , the <i>Honour</i> , the <i>SCI Pride</i> , the <i>Lotus</i> , the <i>Hyundai Vladivostok</i> , the <i>Hyundai Advance</i> , the <i>Hyundai Stride</i> , the <i>Hyundai Future</i> , the
Aegean Baltic Bank HSH Nordbank Piraeus Bank(3)	\$ 658.2	<i>Hyundai Sprinter</i>
Credit Agricole	\$ 156.8	The <i>CMA CGM Moliere</i> and the <i>CMA CGM Musset</i>
Deutsche Bank	\$ 180.0	The <i>Zim Rio Grande</i> , the <i>Zim Sao Paolo</i> and the <i>Zim Kingston</i>
Credit Suisse	\$ 221.1	The <i>Zim Luanda</i> , the <i>CMA CGM Nerval</i> and the <i>YM Mandate</i>
ABN Amro Lloyds TSB National Bank of Greece	\$ 253.2	The <i>YM Colombo</i> (ex <i>SNL Colombo</i>), the <i>YM Seattle</i> , the <i>YM Vancouver</i> and the <i>YM Singapore</i>
Commerzbank Credit Suisse Credit Agricole	\$ 298.5	The <i>ZIM Dalian</i> , the <i>Hanjin Santos YM Maturity</i> , the <i>Hanjin Constantza</i> and the <i>CMA CGM Attila</i>
HSH Nordbank	\$ 35.0	The <i>Deva</i> and the <i>Derby D</i>
KEXIM	\$ 39.3	The <i>CSCL Europe</i> and the <i>CSCL America</i>
KEXIM-ABN Amro	\$ 79.3	The <i>CSCL Pusan</i> and the <i>CSCL Le Havre</i>
	New Credit Facilities	
Aegean Baltic HSH Nordbank Piraeus Bank(3)	\$ 123.8	The <i>Hyundai Speed</i> , the <i>Hanjin Italy</i> and the <i>CMA CGM Rabelais</i>

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Lender	Outstanding Principal Amount (in millions)(1)	Collateral Vessels
RBS(2)	\$ 100.0	The <i>Hyundai Smart</i> and the <i>Hanjin Germany</i>
ABN Amro Club Facility Club Facility	\$ 37.1	The <i>Hanjin Greece</i>
Citi-Eurobank	\$ 83.9	The <i>Hyundai Together</i> and the <i>Hyundai Tenacity</i>
Sinosure-CEXIM	\$ 80.0	The <i>Hyundai Ambition</i> The <i>CMA CGM Tancredi</i> , the <i>CMA CGM Bianca</i> and the <i>CMA CGM Samson</i>
	\$ 183.1	
Vendor Financing		
		Second priority liens on the <i>Hyundai Smart</i> , the <i>Hyundai Speed</i> , the <i>Hyundai Ambition</i> , the <i>Hyundai Together</i> , the <i>Hyundai Tenacity</i> , the <i>Hanjin Greece</i> , the <i>Hanjin Italy</i> and the <i>Hanjin Germany</i>
Hyundai Samho	\$ 179.1	

(1) As of December 31, 2012.

(2) Pursuant to the Bank Agreement, this credit facility is also secured by a second priority lien on the *Derby D*, the *CSCL America* and the *CSCL Le Havre*.

(3) Pursuant to the Bank Agreement, this credit facility is also secured by a second priority lien on the *Deva*, the *CSCL Europe* and the *CSCL Pusan*.

As of December 31, 2012, there was no remaining borrowing availability under any of the Company's credit facilities.

In 2008, the Company entered into a credit facility of \$253.2 million with ABN Amro (acting as agent), Lloyds TSB and National Bank of Greece in relation to the financing of vessels *SNL Colombo*, *YM Seattle*, *YM Vancouver* and *YM Singapore*. The structure of this credit facility is such that the group of banks loaned funds of \$253.2 million to the Company, which the Company then re-loaned to a newly created entity of the group of banks ("Investor Bank"). With the proceeds, Investor Bank then subscribed for preference shares in Auckland Marine Inc., Seacarriers Services Inc., Seacarriers Lines Inc. and Wellington Marine Inc. (subsidiaries of Danaos Corporation). In addition, four of the Companies' subsidiaries issued a put option in respect of the preference shares. The effect of these transactions is that the Company's subsidiaries are required to pay out fixed preference dividends to the Investor Bank, the Investor Bank is required to pay fixed interest due on the loan from the Company to Investor Bank and finally the Investor Bank is required to pay put option premium on the put options issued in respect of the preference shares.

The interest payments to the Company by Investor Bank are contingent upon receipt of these preference dividends. In the event these dividends are not paid, the preference dividends will accumulate until such time as there are sufficient cash proceeds to settle all outstanding arrearages. Applying variable interest accounting to this arrangement, the Company has concluded that the Company is the primary beneficiary of Investor Bank and accordingly has consolidated it into the Company's group. Accordingly, as at December 31, 2012, the Consolidated Balance Sheet and

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-Term Debt (Continued)

Consolidated Statement of Operations includes Investor Bank's net assets of \$nil and net income of \$nil, respectively, due to elimination on consolidation, of accounts and transactions arising between the Company and the Investor Bank.

As of December 31, 2012, the Company was in compliance with the covenants under its Bank Agreement and its other credit facilities.

The weighted average interest rate on long-term borrowings for the years ended December 31, 2012, 2011 and 2010 was 2.7%, 2.5% and 2.7%, respectively.

Total interest paid during the years ended December 31, 2012, 2011 and 2010 was \$90.0 million, \$78.4 million and \$60.4 million, respectively.

The total amount of interest cost incurred in 2012 was \$91.0 million (2011: \$71.2 million, 2010: \$65.0 million). The amount of interest expensed in 2012 was \$87.3 million (2011: \$55.1 million, 2010: \$41.2 million) and the amount of interest capitalized in 2012 was \$3.7 million (2011: \$16.1 million, 2010: \$23.8 million).

14. Related Party Transactions

Management Services: Pursuant to a ship management agreement between each of the vessel owning companies and Danaos Shipping Company Limited (the "Manager"), the Manager acts as the fleet's technical manager responsible for (i) recruiting qualified officers and crews, (ii) managing day to day vessel operations and relationships with charterers, (iii) purchasing of stores, supplies and new equipment for the vessels, (iv) performing general vessel maintenance, reconditioning and repair, including commissioning and supervision of shipyards and subcontractors of drydock facilities required for such work, (v) ensuring regulatory and classification society compliance, (vi) performing operational budgeting and evaluation, (vii) arranging financing for vessels, (viii) providing accounting, treasury and finance services and (ix) providing information technology software and hardware in the support of the Company's processes. The Company's controlling shareholder also controls the Manager.

On February 8, 2010, the Company signed an addendum to the management contract adjusting the management fees, effective January 1, 2010, to a fee of \$675 per day for commercial, chartering and administrative services, a fee of \$340 per vessel per day for vessels on bareboat charter and \$675 per vessel per day for vessels on time charter. Furthermore, the Manager receives a flat fee of \$0.725 million per newbuilding vessel for the supervision of newbuilding contracts. During 2012 and 2011, the management fee levels remained the same as the 2010 fee levels. The Manager also receives a commission on gross freight, charter hire, ballast bonus and demurrage with respect to each vessel in the fleet. On December 16, 2011, the Company signed an addendum to the management contract adjusting the commission of 0.75% on gross freight, charter hire, ballast bonus and demurrage with respect to each vessel in the fleet, effective January 1, 2012, to a commission of 1.0%. In addition, the Manager receives a commission of 0.5% based on the contract price of any vessel bought or sold by the manager on its behalf (excluding newbuildings).

On December 31, 2012, the Company signed an addendum to the management contract. From January 1, 2013, the Manager will also provide the Company with the services of its executive officers.

Management fees in 2012 amounted to approximately \$15.5 million (2011: \$13.5 million, 2010: \$11.4 million), which are shown under "General and administrative expenses" on the consolidated statements of comprehensive income. Commissions to Manager in 2012 amounted to approximately

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Related Party Transactions (Continued)

\$5.9 million (2011: \$3.4 million, 2010: \$2.6 million), which are shown under "Voyage expenses" on the consolidated Statements of Comprehensive Income.

The Company pays monthly advances on account of the vessels' operating expenses. These prepaid amounts are presented in the consolidated balance sheet under "Due from related parties" totaling \$12.7 million and \$9.1 million as of December 31, 2012 and 2011, respectively.

Dr. John Coustas, the Chief Executive Officer of the Company, is a member of the Board of Directors of The Swedish Club, the primary provider of insurance for the Company, including a substantial portion of its hull & machinery, war risk and protection and indemnity insurance. During the years ended December 31, 2012, 2011 and 2010 the Company paid premiums to The Swedish Club of \$10.4 million, \$8.7 million and \$7.3 million, respectively. As of December 31, 2012 and 2011, the Company did not have any outstanding balance to The Swedish Club.

15. Taxes

Under the laws of the countries of the Company's ship owning subsidiaries' incorporation and/or vessels' registration, the Company's ship operating subsidiaries are not subject to tax on international shipping income, however, they are subject to registration and tonnage taxes, which have been included in Vessel Operating Expenses in the accompanying consolidated statements of comprehensive income.

Pursuant to the U.S. Internal Revenue Code (the "Code"), U.S.-source income from the international operation of ships is generally exempt from U.S. tax if the company operating the ships meets certain requirements. Among other things, in order to qualify for this exemption, the company operating the ships must be incorporated in a country which grants an equivalent exemption from income taxes to U.S. corporations.

All of the Company's ship-operating subsidiaries satisfy these initial criteria. In addition, these companies must be more than 50% owned by individuals who are residents, as defined, in the countries of incorporation or another foreign country that grants an equivalent exemption to U.S. corporations. These companies also currently satisfy the more than 50% beneficial ownership requirement. In addition, should the beneficial ownership requirement not be met, the management of the Company believes that by virtue of a special rule applicable to situations where the ship operating companies are beneficially owned by a publicly traded company like the Company, the more than 50% beneficial ownership requirement can also be satisfied based on the trading volume and the anticipated widely-held ownership of the Company's shares, but no assurance can be given that this will remain so in the future, since continued compliance with this rule is subject to factors outside of the Company's control.

16. Financial Instruments

The principal financial assets of the Company consist of cash and cash equivalents, trade receivables and other assets. The principal financial liabilities of the Company consist of long-term bank loans, accounts payable and derivatives.

Derivative Financial Instruments: The Company only uses derivatives for economic hedging purposes. The following is a summary of the Company's risk management strategies and the effect of these strategies on the Company's consolidated financial statements.

DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Financial Instruments (Continued)

Interest Rate Risk: Interest rate risk arises on bank borrowings. The Company monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favorable rates. The interest rates relating to the long-term loans are disclosed in Note 13, Long-term Debt.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, trade accounts receivable and derivatives. The Company places its temporary cash investments, consisting mostly of deposits, with established financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company is exposed to credit risk in the event of non-performance by counterparties to derivative instruments, however, the Company limits this exposure by diversifying among counterparties with high credit ratings. The Company depends upon a limited number of customers for a large part of its revenues. Refer to Note 17, Operating Revenue, for further details on revenue from significant clients. Credit risk with respect to trade accounts receivable is generally managed by the selection of customers among the major liner companies in the world and their dispersion across many geographic areas. The Company's maximum exposure to credit risk is mainly limited to the carrying value of its derivative instruments. The Company is not a party to master netting arrangements.

Fair Value: The carrying amounts reflected in the accompanying consolidated balance sheets of financial assets and liabilities excluding long-term bank loans approximate their respective fair values due to the short maturity of these instruments. The fair values of long-term floating rate bank loans approximate the recorded values, generally due to their variable interest rates. The fair value of the swap agreements equals the amount that would be paid by the Company to cancel the swaps.

Interest Rate Swaps: The off-balance sheet risk in outstanding swap agreements involves both the risk of a counter-party not performing under the terms of the contract and the risk associated with changes in market value. The Company monitors its positions, the credit ratings of counterparties and the level of contracts it enters into with any one party. The counterparties to these contracts are major financial institutions. The Company has a policy of entering into contracts with parties that meet stringent qualifications and, given the high level of credit quality of its derivative counter-parties, the Company does not believe it is necessary to obtain collateral arrangements.

a. Cash Flow Interest Rate Swap Hedges

The Company, according to its long-term strategic plan to maintain relative stability in its interest rate exposure, has decided to swap part of its interest expenses from floating to fixed. To this effect, the Company has entered into interest rate swap transactions with varying start and maturity dates, in order to pro-actively and efficiently manage its floating rate exposure.

These interest rate swaps are designed to economically hedge the variability of interest cash flows arising from floating rate debt, attributable to movements in three-month USD\$ LIBOR. According to the Company's Risk Management Accounting Policy, and after putting in place the formal documentation required by hedge accounting in order to designate these swaps as hedging instruments, as from their inception, these interest rate swaps qualified for hedge accounting, and, accordingly, from that time until June 30, 2012, only hedge ineffectiveness amounts arising from the differences in the change in fair value of the hedging instrument and the hedged item were recognized in the Company's earnings. Assessment and measurement of prospective and retrospective effectiveness for these interest rate swaps were performed on a quarterly basis until June 30, 2012. For qualifying cash flow hedges,

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Financial Instruments (Continued)

the fair value gain or loss associated with the effective portion of the cash flow hedge was recognized initially in stockholders' equity, and recognized to the Statement of Comprehensive Income in the periods when the hedged item affects profit or loss. The change in the fair value of these interest swaps qualifying for hedge accounting for the six months ended June 30, 2012 was \$40.5 million and recognized in the Accumulated other comprehensive loss.

The Company recorded in the consolidated statements of comprehensive income hedge ineffectiveness gains of \$1.8 million for the six months ended June 30, 2012 and unrealized gains of \$2.2 million in relation to fair value changes of interest rate swaps (not qualifying for hedge accounting) for the six months ended June 30, 2012.

On July 1, 2012, the Company elected to prospectively de-designate cash flow interest rate swaps for which it was obtaining hedge accounting treatment due to the compliance burden associated with this accounting policy. As a result, all changes in the fair value of the Company's cash flow interest rate swap agreements will be recorded in earnings under "Unrealized and Realized Losses on Derivatives" from the de-designation date forward. The Company recorded in its earnings, unrealized gains from changes in the fair value of the cash flow interest rate swaps, an amount of \$62.7 million for the six months ended December 31, 2012.

The Company evaluated whether the previously hedged forecasted interest payments are probable to not occur in the originally specified time period. The Company has concluded that the previously hedged forecasted interest payments are probable of occurring. Therefore, unrealized gains or losses in accumulated other comprehensive loss associated with the previously designated cash flow interest rate swaps will remain frozen in accumulated other comprehensive loss and recognized in earnings when the interest payments will be recognized. If such interest payments were to be identified as being probable of not occurring, the accumulated other comprehensive loss balance pertaining to these amounts would be reversed through earnings immediately. The Company reclassified from Accumulated Other Comprehensive Loss to its earnings unrealized losses of \$67.7 million for the six months ended December 31, 2012.

The interest rate swap agreements converting floating interest rate exposure into fixed, as of December 31, 2012 and 2011 were as follows (in thousands):

Counter-party	Contract Trade Date	Effective Date	Termination Date	Notional Amount on Effective Date	Fixed Rate (Danaos pays)	Floating Rate (Danaos receives)	Fair Value	Fair Value
							December 31, 2012	December 31, 2011
RBS	03/09/2007	3/15/2010	3/15/2015	\$ 200,000	5.07% p.a.	USD LIBOR 3M BBA	\$ (20,759)	\$ (26,764)
RBS	03/16/2007	3/20/2009	3/20/2014	\$ 200,000	4.922% p.a.	USD LIBOR 3M BBA	\$ (11,253)	\$ (18,532)
RBS	11/28/2006	11/28/2008	11/28/2013	\$ 100,000	4.855% p.a.	USD LIBOR 3M BBA	\$ (4,172)	\$ (7,923)
RBS	11/28/2006	11/28/2008	11/28/2013	\$ 100,000	4.875% p.a.	USD LIBOR 3M BBA	\$ (4,190)	\$ (7,962)
RBS	12/01/2006	11/28/2008	11/28/2013	\$ 100,000	4.78% p.a.	USD LIBOR 3M BBA	\$ (4,103)	\$ (7,779)
HSH Nordbank	12/06/2006	12/8/2009	12/8/2014	\$ 400,000	4.855% p.a.	USD LIBOR 3M BBA	\$ (34,952)	\$ (47,139)
CITI	04/17/2007	4/17/2008	4/17/2015	\$ 200,000	5.124% p.a.	USD LIBOR 3M BBA	\$ (21,792)	\$ (27,730)
CITI	04/20/2007	4/20/2010	4/20/2015	\$ 200,000	5.1775% p.a.	USD LIBOR 3M BBA	\$ (22,116)	\$ (28,143)
RBS	09/13/2007	10/31/2007	10/31/2012	\$ 500,000	4.745% p.a.	USD LIBOR 3M BBA	\$	\$ (17,277)
RBS	09/13/2007	9/15/2009	9/15/2014	\$ 200,000	4.9775% p.a.	USD LIBOR 3M BBA	\$ (15,882)	\$ (22,604)
RBS	11/16/2007	11/22/2010	11/22/2015	\$ 100,000	5.07% p.a.	USD LIBOR 3M BBA	\$ (13,424)	\$ (15,664)
RBS	11/15/2007	11/19/2010	11/19/2015	\$ 100,000	5.12% p.a.	USD LIBOR 3M BBA	\$ (13,523)	\$ (15,826)
Eurobank	12/06/2007	12/10/2010	12/10/2015	\$ 200,000	4.8125% p.a.	USD LIBOR 3M BBA	\$ (25,725)	\$ (29,584)
CITI	10/23/2007	10/25/2009	10/27/2014	\$ 250,000	4.9975% p.a.	USD LIBOR 3M BBA	\$ (21,241)	\$ (29,468)
CITI	11/02/2007	11/6/2010	11/6/2015	\$ 250,000	5.1% p.a.	USD LIBOR 3M BBA	\$ (33,273)	\$ (39,092)
CITI	11/26/2007	11/29/2010	11/30/2015	\$ 100,000	4.98% p.a.	USD LIBOR 3M BBA	\$ (13,243)	\$ (15,370)
CITI	02/07/2008	2/11/2011	2/11/2016	\$ 200,000	4.695% p.a.	USD LIBOR 3M BBA	\$ (26,357)	\$ (29,579)
Eurobank	02/11/2008	5/31/2011	5/31/2015	\$ 200,000	4.755% p.a.	USD LIBOR 3M BBA	\$ (21,043)	\$ (26,016)
Total fair value of swaps							\$ (307,048)	\$ (412,452)

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Financial Instruments (Continued)

The Company recorded in the consolidated statements of comprehensive income hedge ineffectiveness gains/(losses) of \$1.8 million, \$19.7 million and \$(0.6) million for the years ended December 31, 2012, 2011 and 2010, respectively, unrealized gains/(losses) of \$64.9 million, \$(10.3) million and \$(36.5) million in relation to fair value changes of interest rate swaps (not qualifying for hedge accounting) for the years ended December 31, 2012, 2011 and 2010, respectively. Furthermore, deferred realized losses of nil, \$(0.2) million and \$(8.6) million were reclassified from "Accumulated other comprehensive loss" in the consolidated balance sheets to the consolidated statements of comprehensive income as of and for the years ended December 31, 2012, 2011 and 2010, respectively, as well as \$67.7 million unrealized losses were reclassified from Accumulated Other Comprehensive Loss to earnings for the six months ended December 31, 2012 (following the hedge accounting discontinuance as of July 1, 2012). In addition, the Company reclassified from "Accumulated other comprehensive loss" in the consolidated balance sheet to the consolidated statements of comprehensive income an amount of \$(4.2) million in the year ended December 31, 2010, in relation to deferred realized losses of cash flow hedges for the *HN N-216*, the *HN N-217* and the *HN N-218* following their cancellation. The total fair value change of the interest rate swaps for the years ended December 31, 2012 and 2011, amounted to \$105.4 million and \$19.5 million, respectively.

The variable-rate interest on specific borrowings that was associated with vessels under construction was capitalized as a cost of the specific vessels. In accordance with the accounting guidance on derivatives and hedging, the amounts in accumulated other comprehensive income/(loss) related to realized gains or losses on cash flow hedges that have been entered into and qualify for hedge accounting, in order to hedge the variability of that interest, are classified under other comprehensive income/(loss) and are reclassified into earnings over the depreciable life of the constructed asset, since that depreciable life coincides with the amortization period for the capitalized interest cost on the debt. Realized losses on cash flow hedges of \$7.0 million, \$31.3 million and \$38.5 million were recorded in other comprehensive loss for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, an amount of \$3.5 million, \$1.6 million and \$0.5 million was reclassified into earnings for the years ended December 31, 2012, 2011 and 2010, respectively, representing amortization over the depreciable life of the vessels.

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
	(in millions)		
Total realized losses	\$ (159.7)	\$ (163.8)	\$ (129.4)
Realized losses deferred in Other Comprehensive Loss	7.0	31.3	38.5
Realized losses expensed in consolidated statements of comprehensive income	(152.7)	(132.5)	(90.9)
Amortization of deferred realized losses	(3.5)	(1.6)	(0.5)
Unrealized gains/(losses)	(0.9)	9.2	(45.7)
Accelerated amortization of deferred realized losses			(4.2)
Unrealized and realized losses on cash flow interest rate swaps	\$ (157.1)	\$ (124.9)	\$ (141.3)

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Financial Instruments (Continued)

The Company was in an over-hedged position under its cash flow interest rate swaps, which was due to deferred progress payments to shipyards, cancellation of three newbuildings in 2010, replacements of variable interest rate debt with a fixed interest rate seller's financing and equity proceeds from the Company's private placement in 2010, all of which reduced initial forecasted variable interest rate debt and resulted in notional cash flow interest rate swaps being above the variable interest rate debt eligible for hedging. Realized losses attributable to the over-hedging position were \$19.0 million, \$38.9 million and \$28.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. The over-hedged position described above was gradually reduced and ultimately eliminated during the second half of 2012, following the delivery of all remaining newbuildings and the full drawdown of all credit facilities.

b. Fair Value Interest Rate Swap Hedges

These interest rate swaps are designed to economically hedge the fair value of the fixed rate loan facilities against fluctuations in the market interest rates by converting the Company's fixed rate loan facilities to floating rate debt. Pursuant to the adoption of the Company's Risk Management Accounting Policy, and after putting in place the formal documentation required by hedge accounting in order to designate these swaps as hedging instruments, as of June 15, 2006, these interest rate swaps qualified for hedge accounting, and, accordingly, from that time until June 30, 2012, hedge ineffectiveness amounts arising from the differences in the change in fair value of the hedging instrument and the hedged item were recognized in the Company's earnings. The Company considers its strategic use of interest rate swaps to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates. Assessment and measurement of prospective and retrospective effectiveness for these interest rate swaps was performed on a quarterly basis, on the financial statement and earnings reporting dates.

On July 1, 2012, the Company elected to prospectively de-designate fair value interest rate swaps for which it was applying hedge accounting treatment due to the compliance burden associated with this accounting policy. All changes in the fair value of the Company's fair value interest rate swap agreements will continue to be recorded in earnings under "Unrealized and Realized Losses on Derivatives" from the de-designation date forward.

The Company evaluated whether it is probable that the previously hedged forecasted interest payments will not occur in the originally specified time period. The Company has concluded that the previously hedged forecasted interest payments continue to be probable of occurring. Therefore, the fair value of the hedged item associated with the previously designated fair value interest rate swaps will be frozen and recognized in earnings when the interest payments are recognized. If such interest payments were to be identified as being probable of not occurring, the fair value of hedged debt balance pertaining to these amounts would be reversed through earnings immediately.

The interest rate swap agreements converting fixed interest rate exposure into floating, as of December 31, 2012 and 2011, were as follows (in thousands):

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Financial Instruments (Continued)

Counter party	Contract trade Date	Effective Date	Termination Date	Notional Amount on Effective Date	Fixed Rate (Danaos receives)	Floating Rate (Danaos pays)	Fair Value	
							December 31, 2012	December 31, 2011
RBS	11/15/2004	12/15/2004	8/27/2016	\$ 60,528	5.0125% p.a.	USD LIBOR 3M BBA + 0.835% p.a.	\$ 1,390	\$ 1,917
RBS	11/15/2004	11/17/2004	11/2/2016	\$ 62,342	5.0125% p.a.	USD LIBOR 3M BBA + 0.855% p.a.	\$ 1,518	\$ 2,047
Total fair value							\$ 2,908	\$ 3,964

The total fair value change of the interest rate swaps for the years ended December 31, 2012, 2011 and 2010, amounted to \$(1.1) million, \$(0.5) million and \$0.7 million, respectively, and is included in the consolidated statement of comprehensive income in "Unrealized and realized losses on derivatives". The related asset of \$2.9 million and \$4.0 million as of December 31, 2012 and 2011, respectively, is shown under "Other non-current assets" in the consolidated balance sheet.

The total fair value change of the underlying hedged debt for the period from January 1, 2012 until June 30, 2012, was \$0.9 million gain and for the years ended December 31, 2011 and 2010, amounted to \$1.8 million and \$0.8 million, respectively, and is included in the consolidated statement of comprehensive income in "Unrealized and realized losses on derivatives". The related liability of the fair value hedged debt of \$2.2 million and \$3.4 million is shown under "Long-term Debt" in the consolidated balance sheet as of December 31, 2012 and 2011, respectively. The net ineffectiveness for the six months ended June 30, 2012, amounted to \$0.5 million gain (on July 1, 2012, the Company elected to prospectively de-designate hedge accounting) and for the years ended December 31, 2011 and 2010, amounted to \$1.3 million and \$1.5 million, respectively, and is shown in the consolidated Statement of Comprehensive Income in "Unrealized and realized losses on derivatives". The Company reclassified from "Long-term debt, net of current portion", where its fair value of hedged item is recorded, to its earnings unrealized losses of \$0.3 million for the six months ended December 31, 2012 (following the hedge accounting discontinuance as of July 1, 2012).

	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
	(in millions)		
Unrealized gains/(losses) on swap asset	\$ (1.1)	\$ (0.5)	\$ 0.7
Unrealized gains/(losses) on fair value of hedged debt	0.6	1.0	(0.2)
Amortization of fair value of hedged debt	0.3	0.8	1.0
Reclassification of fair value of hedged debt to Statement of Comprehensive Income	0.3		
Realized gains	1.8	2.2	2.6
Unrealized and realized losses on fair value interest rate swaps	\$ 1.9	\$ 3.5	\$ 4.1

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Financial Instruments (Continued)

c. Fair Value of Financial Instruments

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Fair Value Measurements as of December 31, 2012				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands of \$)				
Assets				
Interest rate swap contracts	\$ 2,908	\$	\$ 2,908	\$
Liabilities				
Interest rate swap contracts	\$ 307,048	\$	\$ 307,048	\$

Fair Value Measurements as of December 31, 2011				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands of \$)				
Assets				
Interest rate swap contracts	\$ 3,964	\$	\$ 3,964	\$
Liabilities				
Interest rate swap contracts	\$ 412,452	\$	\$ 412,452	\$

Interest rate swap contracts are measured at fair value on a recurring basis. Fair value is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Such instruments are typically classified within Level 2 of the fair value hierarchy. The fair values of the interest rate swap contracts have been calculated by discounting the projected future cash flows of both the fixed rate and variable rate interest payments. Projected interest payments are calculated using the appropriate prevailing market forward rates and are discounted using the zero-coupon curve derived from the swap yield curve. Refer to Note 16(a)-(b) above for further information on the Company's interest rate swap contracts.

The Company is exposed to credit-related losses in the event of nonperformance of its counterparties in relation to these financial instruments. As of December 31, 2012 and 2011, these financial instruments are in the counterparties' favor. The Company has considered its risk of non-performance and of its counterparties in accordance with the relevant guidance of fair value accounting. The Company performs evaluations of its counterparties for credit risk through ongoing monitoring of their financial health and risk profiles to identify risk or changes in their credit ratings.

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Financial Instruments (Continued)**

The estimated fair values of the Company's financial instruments are as follows:

	As of December 31, 2012		As of December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands of \$)			
Cash and cash equivalents	\$ 55,628	\$ 55,628	\$ 51,362	\$ 51,362
Restricted cash	\$ 3,251	\$ 3,251	\$ 2,909	\$ 2,909
Accounts receivable, net	\$ 3,741	\$ 3,741	\$ 4,176	\$ 4,176
Due from related parties	\$ 12,664	\$ 12,664	\$ 9,128	\$ 9,128
Notes receivable from ZIM	\$ 33,899	\$ 34,071	\$ 23,538	\$ 23,847
Accounts payable	\$ 13,982	\$ 13,982	\$ 15,144	\$ 15,144
Accrued liabilities	\$ 32,894	\$ 32,894	\$ 36,117	\$ 36,117
Long-term debt, including current portion	\$ 3,222,548	\$ 3,223,337	\$ 3,002,247	\$ 3,002,247
Vendor financing, including current portion	\$ 179,142	\$ 179,500	\$ 65,145	\$ 65,034

The estimated fair value of the financial instruments that are not measured at fair value on a recurring basis, categorized based upon the fair value hierarchy, are as follows (in thousands):

	Fair Value Measurements as of December 31, 2012			
	Total	(Level I)	(Level II)	(Level III)
	(in thousands of \$)			
Notes receivable from ZIM(1)	\$ 34,071	\$	\$ 34,071	\$
Long-term debt, including current portion(2)	\$ 3,223,337	\$	\$ 3,223,337	\$
Vendor financing, including current portion(3)	\$ 179,500	\$	\$ 179,500	\$
Accrued liabilities(4)	\$ 32,894	\$	\$ 32,894	\$

	Fair Value Measurements as of December 31, 2011			
	Total	(Level I)	(Level II)	(Level III)
	(in thousands of \$)			
Notes receivable from ZIM(1)	\$ 23,847	\$	\$ 23,847	\$
Long-term debt, including current portion(2)	\$ 3,002,247	\$	\$ 3,002,247	\$
Vendor financing, including current portion(3)	\$ 65,034	\$	\$ 65,034	\$
Accrued liabilities(4)	\$ 36,117	\$	\$ 36,117	\$

- (1) The fair value is estimated based on currently available information on the Company's counterparty, other contracts with similar terms, remaining maturities and interest rates.
- (2) The fair value of the Company's debt is estimated based on currently available debt with similar contract terms, interest rate and remaining maturities, as well as taking into account our creditworthiness.
- (3) The fair value of the Company's Vendor financing is estimated based on currently available financing with similar contract terms, interest rate and remaining maturities, as well as taking into account our creditworthiness.
- (4)

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The fair value of the Company's accrued liabilities, which mainly consists of accrued interest on our credit facilities and accrued realized losses on our cash flow interest rate swaps, is estimated

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Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Financial Instruments (Continued)**

based on currently available debt and swap agreements with similar contract terms, interest rates and remaining maturities, as well as taking into account our creditworthiness.

The Company's nonfinancial items measured at fair value on a non-recurring basis were:

	Fair Value Measurements as of December 31, 2012			
	Total	(Level I)	(Level II)	(Level III)
	(in thousands of \$)			
Vessels, net	\$ 98.5	\$	\$ 98.5	\$

The Company recorded an impairment loss of \$129.6 million on thirteen of its older vessels as of December 31, 2012, thus reducing the vessels' carrying value at December 31, 2012 from \$228.1 million to \$98.5 million. Fair value of each vessel was determined with the assistance from valuations obtained by third party independent shipbrokers. Refer to Note 24, Impairment Loss.

17. Operating Revenue

Operating revenue from significant customers (constituting more than 10% of total revenue) for the years ended December 31, were as follows:

Charterer	2012	2011	2010
HMM Korea	24%	15%	19%
CMA CGM	24%	17%	17%
Hanjin	17%	18%	Under 10%
YML	10%	14%	17%
ZIM	Under 10%	11%	14%
CSCCL	Under 10%	10%	13%

18. Operating Revenue by Geographic Location

Operating revenue by geographic location for the years ended December 31, was as follows (in thousands):

Continent	2012	2011	2010
Australia Asia	\$ 403,697	\$ 329,300	\$ 258,995
Europe	185,312	138,801	100,682
Total Revenue	\$ 589,009	\$ 468,101	\$ 359,677

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Commitments and Contingencies

Commitments

As of December 31, 2012, the Company completed its extensive newbuilding program and has taken delivery of all of its vessels under construction. As of December 31, 2011, the Company had outstanding commitments of \$482.5 million for the construction of container vessels.

Contingencies

During 2004, the Company entered into a structured finance transaction involving six vessels in its fleet (including two vessels then under construction) whereby such vessels were acquired by separate partnerships formed by a subsidiary of Lloyds Bank ("Lloyds") together with Allco Finance Limited, a U.K.-based financing company, and Allco Finance UK Limited, a U.K.-based financing company, which then agreed to lease the vessels to the Company. In 2008, the Company exercised its right, pursuant to the terms of these arrangements, as restructured in October 2007, to have its wholly owned subsidiaries replace the partnerships as direct owners of these six vessels. As part of the 2007 restructuring, the Company agreed to indemnify the counterparties for up to 90% of any resulting tax liabilities, plus tax gross-up payments if applicable, in the event Lloyds tax treatment of the transactions were challenged by the tax authorities.

Lloyds Bank had informed the Company that the U.K. tax authority, Her Majesty's Revenue and Customs ("HMRC"), had been investigating and had challenged the tax position of the Partnerships formed by its subsidiary and the Allco entities relating to the six vessels. Lloyds Bank had preliminarily indicated to the Company that an unfavourable tax assessment by HMRC and a subsequent unsuccessful litigation of such tax assessment could potentially trigger an indemnification claim of up to £72.8 million and that it believed that the matter could be resolved without litigation with an indemnification payment by the Company of £13.0 million. Following the conclusion of HMRC's investigation, which determined that no tax is payable in relation to these transactions, on February 6, 2013, Lloyds provided the Company with a full contractual release from the indemnity that the Company had provided (for up to 90% of any tax liabilities), therefore the Company no longer has any contingent liability related to these transactions.

On November 22, 2010, a purported Company shareholder filed a derivative complaint in the High Court of the Republic of the Marshall Islands. The derivative complaint names as defendants seven of the eight members of the Company's board of directors at the time the complaint was filed. The derivative complaint challenges the amendments in 2009 and 2010 to the Company's management agreement with Danaos Shipping and certain aspects of the sale of common stock in August 2010. The complaint includes counts for breach of fiduciary duty and unjust enrichment. On February 11, 2011, the Company filed a motion to dismiss the Complaint. After briefing was completed, the Court heard oral argument on October 26, 2011. On December 21, 2011, the Court granted the Company's motion to dismiss but gave the plaintiff leave to file an amended complaint. Plaintiff filed the amended complaint on January 30, 2012. The amended complaint names the same parties and bases its claims on the same transactions. The Company has moved to dismiss the amended complaint and completed briefing on that motion on July 16, 2012. A hearing on the Company's motion to dismiss is set for April 23, 2013. In the opinion of management, the disposition of this lawsuit is not expected to have a material effect on the Company's results of operations, financial position and cash flows.

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Commitments and Contingencies (Continued)

Other than as described above, there are no material legal proceedings to which the Company is a party or to which any of its properties are the subject, or other contingencies that the Company is aware of, other than routine litigation incidental to the Company's business.

20. Sale of Vessels

The "Gain on sale of vessels" of \$0.8 million for the year ended December 31, 2012, reflects the sale of *Montreal (ex Hanjin Montreal)*, on April 27, 2012. The net sale consideration was \$5.6 million. The Company realized a net gain on this sale of \$0.8 million. The *Montreal (ex Hanjin Montreal)* was 28 years old and was generating revenue under its time charter, which expired on March 31, 2012 (refer to Note 4, Fixed Assets, net).

No vessels were sold by the Company in 2011.

The "Gain on sale of vessels" of \$1.9 million for the period ended December 31, 2010, reflects the sale of *MSC Eagle*, on January 22, 2010. The net sale consideration was \$4.1 million. The Company realized a net gain on this sale of \$1.9 million. The *MSC Eagle* was over 30-years old and was generating revenue under its time charter, which expired in early January 2010. In December 2009, the Company received an advance payment of 50% of the sale consideration as security for the execution of the agreement.

21. Stock Based Compensation

As of April 18, 2008, the Board of Directors and the Compensation Committee approved incentive compensation of the Manager's employees with its shares from time to time, after specific for each such time, decision by the compensation committee and the Board of Directors in order to provide a means of compensation in the form of free shares under its 2006 equity compensation plan to certain employees of the Manager of the Company's common stock. The plan was effective as of December 31, 2008. Pursuant to the terms of the plan, employees of the Manager may receive (from time to time) shares of the Company's common stock as additional compensation for their services offered during the preceding period. The stock will have no vesting period and the employee will own the stock immediately after grant. The total amount of stock to be granted to employees of the Manager will be at the Company's Board of Directors' discretion only and there will be no contractual obligation for any stock to be granted as part of the employees' compensation package in future periods. As of December 12, 2012, the Company granted 35,101 shares to certain employees of the Manager and recorded in "General and Administrative Expenses" an expense of \$0.1 million representing the fair value of the stock granted as at the date of grant. The Company will issue the 35,101 shares of common stock in the remainder of 2013 to be distributed to the employees of the Manager in settlement of the shares granted in 2012. As of December 12, 2011, the Company granted 18,650 shares to certain employees of the Manager and recorded in "General and Administrative Expenses" an expense of \$0.1 million representing the fair value of the stock granted as at the date of grant. The Company issued 18,041 new shares of common stock in 2012, as well as 559 new shares of common stock in January 2013 and will issue the remaining 50 shares of common stock in 2013 to be distributed to the employees of the Manager in settlement of the shares granted in 2011.

The Company has also established the Directors Share Payment Plan under its 2006 equity compensation plan. The purpose of the plan is to provide a means of payment of all or a portion of compensation payable to directors of the Company in the form of Company's Common Stock. The plan

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DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Stock Based Compensation (Continued)

was effective as of April 18, 2008. Each member of the Board of Directors of the Company may participate in the plan. Pursuant to the terms of the plan, Directors may elect to receive in Common Stock all or a portion of their compensation. During 2012, one director elected to receive in Company shares 50% of his compensation and one director elected to receive in Company shares 100% of his compensation only for the first quarter of 2012. During 2011, one director elected to receive in Company shares 50% of his compensation and one director elected to receive in Company shares 100% of his compensation. On the last business day of each quarter of 2012 and 2011, rights to receive 13,613 and 22,200 shares in aggregate for the years ended December 31, 2012 and 2011, respectively, were credited to the Director's Share Payment Account. As of December 31, 2012 and 2011, respectively, \$0.05 and \$0.1 million were reported in "Additional Paid-in Capital" in respect of these rights. Following December 31 of each year, the Company delivers to each Director the number of shares represented by the rights credited to their Share Payment Account during the preceding calendar year. The Company issued 13,613 new shares of common stock in 2013, which were distributed to its directors in settlement of the shares granted in 2012 (refer to Note 26, Subsequent Events).

As of December 12, 2011, the Company granted an aggregate of 555,000 restricted shares of common stock to the executive officers of the Company, and recorded in "General and Administrative Expenses" an expense of \$2.0 million, representing the fair value of the stock granted as at the date of grant.

22. Stockholders' Equity

As of December 31, 2012 and 2011, the shares issued and outstanding were 109,604,040 and 109,563,799, respectively. Under the Articles of Incorporation as amended on September 18, 2009, the Company's authorized capital stock consists of 750,000,000 shares of common stock with a par value of \$0.01 and 100,000,000 shares of preferred stock with a par value of \$0.01.

During 2012, the Company issued 40,241 shares of common stock, all of which were newly issued shares, to the employees of the Manager and the directors of the Company (refer to Note 21, Stock Based Compensation). During 2011, the Company issued 952,878 shares of common stock, of which 952,244 were newly issued shares and 634 were treasury shares, to the employees of the Manager, the directors of the Company and the Company's executive officers (refer to Note 21, Stock Based Compensation).

During 2012 and 2011, the Company did not declare any dividends. In addition, under the terms of the Bank Agreement (Refer to Note 13, Long-term Debt) the Company is not permitted to pay cash dividends or repurchase shares of its capital stock unless (i) its consolidated net leverage is below 6:1 for four consecutive quarters and (ii) the ratio of the aggregate market value of its vessels to its outstanding indebtedness exceeds 125% for four consecutive quarters and provided that an event of default has not occurred and the Company is not, and after giving effect to the payment of the dividend, in breach of any covenant.

In 2011, the Company issued 15.0 million warrants, for no additional consideration, to its existing lenders participating in the Bank Agreement covering the Company's existing credit facilities and certain new credit facilities, entitling such lenders to purchase, solely on a cash-less exercise basis, additional shares of its common stock, at an exercise price of \$7.00 per share. The Company has also

Table of Contents**DANAOS CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. Stockholders' Equity (Continued)**

agreed to register the warrants and underlying common stock for resale under the Securities Act, and registered 8,044,176 warrants and underlying shares in 2011. Refer to Note 6, "Deferred charges, net".

23. (Loss)/Earnings per Share

The following table sets forth the computation of basic and diluted earnings/(losses) per share for the years ended December 31 (in thousands):

	2012	2011	2010
<i>Numerator:</i>			
Net (loss)/income	\$ (105,204)	\$ 13,437	\$ (102,341)
<i>Denominator (number of shares):</i>			
Basic and diluted weighted average ordinary shares outstanding	109,612.7	109,045.5	75,435.7

The warrants issued in 2011 were excluded from the diluted Earnings/(losses) per Share for the years ended December 31, 2012 and 2011, because they were antidilutive.

24. Impairment Loss

As of December 31, 2012, the Company concluded that events and circumstances triggered the existence of potential impairment of its long-lived assets. These indicators included volatility in the spot market and decline in the vessels' market values, as well as the potential impact the current marketplace may have on its future operations. As a result, the Company performed step one of the impairment assessment of the Company's long-lived assets by comparing the undiscounted projected net operating cash flows for each vessel to its carrying value. The Company's assessment concluded that step two of the impairment analysis was required for certain of its vessels, as the undiscounted projected net operating cash flows of certain vessels did not exceed the carrying value of the respective vessels. Fair value of each vessel was determined with the assistance from valuations obtained by third party independent shipbrokers. As of December 31, 2012, the Company recorded an impairment loss of \$129.6 million for thirteen of its older vessels, which were either laid up, or on short-term charters in the spot market.

No impairment loss was recorded in 2011.

On March 31, 2010, the Company expected to enter into an agreement with Hanjin Heavy Industries & Construction Co. Ltd. to cancel three 6,500 TEU newbuilding containerships, the *HN N-216*, the *HN N-217* and the *HN N-218*, initially expected to be delivered in the first half of 2012, and recorded an impairment loss of \$71.5 million consisting of cash advances of \$64.35 million paid to the shipyard and \$7.16 million of interest capitalized and other predelivery capital expenditures paid in relation to the construction of the respective newbuildings. On May 25, 2010, the Company signed the cancellation agreement.

25. Other income/(expenses), net

Other income/(expenses), net, of \$0.8 million in 2012 consisted of various other non-operating items.

DANAOS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Other income/(expenses), net (Continued)

Other income/(expenses), net, of \$(2.0) million in 2011 mainly consisted of legal and advisory expenses of \$(2.3) million (attributed to fees related to preparing and structuring the comprehensive financing plan of the Company), which were partially offset by \$0.3 million income in relation to other non-operating items.

Other income/(expenses), net, of \$(5.1) million in 2010 mainly consisted of legal and advisory expenses of \$18.0 million (attributed to fees related to preparing and structuring the Comprehensive Financing Plan of the Company), which were partially offset by \$12.6 million income in relation to an agreement entered into with the charterer of the three newbuildings cancelled on May 25, 2010, in consideration for the termination of the respective charter parties.

26. Subsequent Events

On February 13, 2013, the Company sold and delivered the *Independence*. The gross sale consideration was \$7.0 million. The *Independence* was 26 years old and laid up as of December 31, 2012.

On February 8, 2013, the Company entered into an agreement to sell the *Henry* and delivered the vessel to the buyers on February 28, 2013. The gross sale consideration was \$6.1 million.

Between January 1, 2013 and February 28, 2013, the Company issued 14,172 new shares of common stock, to the employees of the Manager and directors of the Company and the Company has agreed to issue in 2013 an additional 35,151 shares of common stock to employees of the Manager, 35,101 shares in respect of grants made in 2012 and 50 shares in respect of grants made in 2011, as described in Note 21, Stock Based Compensation.