

Seaspans CORP
Form 20-F
March 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

(Mark One)

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

OR

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

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1932
Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number 1-32591

SEASPAN CORPORATION

(Exact name of Registrant as specified in its charter)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

Unit 2, 7th Floor, Bupa Centre

141 Connaught Road West

Edgar Filing: Seaspan CORP - Form 20-F

Hong Kong

China

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
Class A Common Shares, par value of \$0.01 per share	New York Stock Exchange

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

None

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

None

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

40,377,250 Class A Common Shares, par value of \$0.01 per share.

7,145,000 Class B Common Shares, par value at \$0.01 per share

100 Class C Common Shares, par value \$0.01 per shares

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 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 financial statement item the registrant has elected to follow.

Item 17 Item 18

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

Yes No

SEASPAN CORPORATION

INDEX TO REPORT ON FORM 20-F

	Page
<u>PART I</u>	1
Item 1. <u>Identity of Directors, Senior Management and Advisors</u>	2
Item 2. <u>Offer Statistics and Expected Timetable</u>	2
Item 3. <u>Key Information</u>	2
<u>A. Selected Financial Data</u>	2
<u>B. Capitalization and Indebtedness</u>	4
<u>C. Reasons for the Offer and Use of Proceeds</u>	4
<u>D. Risk Factors</u>	4
Item 4. <u>Information on the Company</u>	27
<u>A. History and Development of the Company</u>	27
<u>B. Business Overview</u>	27
<u>C. Organizational Structure</u>	49
<u>D. Property, Plants and Equipment</u>	49
Item 5. <u>Operating and Financial Review and Prospects</u>	53
<u>A. Results of Operations</u>	53
<u>B. Liquidity and Capital Resources</u>	63
<u>C. Research and Development</u>	67
<u>D. Trend Information</u>	67
<u>E. Off-Balance Sheet Arrangements</u>	68
<u>F. Contractual Obligations</u>	68
Item 6. <u>Directors, Senior Management and Employees</u>	68
<u>A. Directors and Senior Management</u>	68
<u>B. Compensation</u>	71
<u>C. Board Practices</u>	72
<u>D. Employees</u>	73
<u>E. Share Ownership</u>	73
Item 7. <u>Major Shareholders and Related Party Transactions</u>	74
<u>A. Major Shareholders</u>	74
<u>B. Related Party Transactions</u>	74
Item 8. <u>Financial Information</u>	75
<u>A. Financial Statements and Other Financial Information</u>	75
<u>B. Significant Changes</u>	77
Item 9. <u>The Offer and Listing</u>	77
Item 10. <u>Additional Information</u>	77
<u>A. Share Capital</u>	77
<u>B. Memorandum and Articles of Association</u>	78
<u>C. Material Contracts</u>	78
<u>D. Exchange Controls</u>	79
<u>E. Taxation</u>	79
<u>F. Dividends and Paying Agents</u>	87
<u>G. Statements by Experts</u>	87
<u>H. Documents on Display</u>	87
Item 11. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	87
Item 12. <u>Description of Securities Other than Equity Securities</u>	88
<u>PART II</u>	89
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>	89
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	89

		Page
Item 15.	<u>Controls and Procedures</u>	89
Item 16A.	<u>Audit Committee Financial Expert</u>	90
Item 16B.	<u>Code of Ethics</u>	90
Item 16C.	<u>Principal Accountant Fees and Services</u>	90
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	91
Item 16E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	91
<u>PART III</u>		92
Item 17.	<u>Financial Statements</u>	92
Item 18.	<u>Financial Statements</u>	92
Item 19.	<u>Exhibits</u>	93

PART I

This Annual Report should be read in conjunction with the financial statements and accompanying notes included in this report.

*In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words *expects, anticipates, intends, plans, believes, estimates, projects, forecasts, will, may, potential, should* and variations of such words and similar expressions are intended to identify forward-looking statements. These risks and uncertainties include, but are not limited to:*

future operating or financial results;

our expectations relating to dividend payments and forecasts of our ability to make such payments;

pending acquisitions, business strategy 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 and factors affecting supply and demand;

our financial condition and liquidity, including our ability to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities;

estimated future capital expenditures needed to preserve our capital base;

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

our continued ability to enter into long-term, fixed-rate time charters with our customers;

our ability to leverage to our advantage our Manager's relationships and reputation in the containership industry;

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

potential liability from future litigation; and

other factors detailed from time to time in our periodic reports, including our Prospectus filed with the Securities and Exchange Commission, or SEC, on November 3, 2006.

Forward-looking statements in this Annual Report are necessary estimates reflecting the judgment of senior management and involve known and unknown risks and uncertainties. These forward-looking statements are based upon a number of assumptions and estimates that are inherently

Edgar Filing: Seaspan CORP - Form 20-F

subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Accordingly, these forward-looking statements should be considered in light of various important factors, including those set forth in this Annual Report under the heading Risk Factors.

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. We make no prediction or statement about the performance of our common and subordinated shares. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Edgar Filing: Seaspan CORP - Form 20-F

Unless we otherwise specify, when used in this prospectus, the terms *Seaspan*, *the Company*, *we*, *our* and *us* refer to *Seaspan Corporation* and, for periods before our initial public offering, our predecessor. References to our Manager are to *Seaspan Management Services Limited* and its wholly owned subsidiaries that provide us with technical, administrative and strategic services.

We use the term *twenty foot equivalent unit*, or *TEU*, the international standard measure of containers, in describing the capacity of our container ships, which are also commonly referred to as *vessels*. Our 9600 TEU class vessels, 8500 TEU class vessels, 5100 TEU class vessels, 4800 TEU class vessels, 4250 TEU class vessels, 3500 TEU class vessels, and 2500 TEU class vessels have an actual capacity of 9580 TEU, 8468 TEU, 5087 TEU, 4809 TEU, 4253 TEU, 3534 TEU, 2546 TEU, respectively.

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

	Years Ended December 31,					Year Ended
	2002(1)	2003(1)	2004(1)	January 1 to August 11, 2005(1)	August 12 to December 31, 2005	December 31, 2006
Statements of operations data (period ended):						
Revenue	\$ 20,993	\$ 35,011	\$ 35,933	\$ 40,157	\$ 34,803	\$ 118,489
Operating expenses:						
Ship operating	4,560	6,577	7,157	7,733	8,252	29,407
Depreciation	5,217	8,587	8,808	9,904	7,186	26,878
General and administrative (2)	131	208	207	218	1,694	4,911
Operating earnings	11,085	19,639	19,761	22,302	17,671	57,293
Other expenses (income):						
Interest expense	7,799	12,193	11,804	14,563	1,699	17,594
Change in fair value of interest rate swaps (3)	14,218	(5,808)	(1,416)	(7,308)		908
Interest income					(124)	(1,542)
Write-off on debt refinancing			3,135			
Undrawn credit facility fee					1,041	2,803
Amortization of deferred financing fees	126	183	222	450	726	1,966
Other	74	(36)	(53)	(17)		
Net earnings (loss)	\$ (11,132)	\$ 13,107	\$ 6,069	\$ 14,614	\$ 14,329	\$ 35,564
Common shares outstanding					35,991,600	47,522,350
Per share data:						
Earnings from commencement of operations, basic and diluted in dollars	N/A	N/A	N/A	N/A	\$ 0.40	\$ 0.94
Cash dividends paid	N/A	N/A	N/A	N/A	\$ 0.23	\$ 1.70

Edgar Filing: Seaspan CORP - Form 20-F

	Years Ended December 31,					Year Ended
	2002(1)	2003(1)	2004(1)	January 1 to August 11, 2005(1)	August 12 to December 31, 2005	December 31, 2006
Statements of cash flows data (period ended):						
Cash flows provided by (used in):						
Operating activities	\$ 9,646	\$ 16,860	\$ 18,540	\$ 19,289	\$ 24,115	\$ 71,363
Investing activities	(26,294)	(236,369)	(8,692)	(20,939)	(826,253)	(605,652)
Financing activities	25,070	212,320	(8,279)	793	817,856	610,798
Selected balance sheet data (at period end):						
Cash and cash equivalents	\$ 9,686	\$ 2,497	\$ 4,066	\$ 3,209	\$ 15,718	\$ 92,227
Current assets	15,433	9,100	13,258	22,316	18,070	96,655
Vessels	221,021	452,141	454,862	466,112	621,163	1,198,782
Fair value of interest rate swaps, asset (3)					4,799	10,711
Deferred financing fees	1,562	4,828	8,201	8,548	6,526	7,809
Total assets	238,022	466,069	476,321	496,976	650,558	1,315,272
Current liabilities (excluding current portion of long-term debt)	3,925	4,135	5,481	5,357	4,226	11,167
Current portion of long-term debt (4)	11,984	12,848	19,773	26,203		
Long-term debt (4)	155,359	347,946	376,999	405,495	122,893	563,203
Due to related party	69,440	96,883	64,822	43,393		1,320
Fair value of interest rate swaps, liability (3)	25,284	19,476	18,860	11,552		15,831
Owner's equity (deficiency)	(28,824)	(15,707)	(9,638)	4,976		
Share capital					360	475
Total shareholders' equity					523,439	725,071
Other data:						
Number of vessels in operation at period end	5	5	6	10	13	23
TEU capacity at period end	21,265	21,265	29,733	50,960	63,719	108,473
Fleet utilization (5)	99.8%	100.0%	100.0%	99.8%	100.0%	99.0%

- (1) Represents selected financial data for the predecessor for the period prior to our initial public offering.
- (2) The predecessor combined financial statements include the general and administrative expenses incurred by the predecessor related to its operations. Subsequent to the completion of the initial public offering and the acquisition of the initial ten container ships, we have incurred additional administrative expenses, including legal, accounting, treasury, premises, securities regulatory compliance and other costs normally incurred by a listed public entity. Accordingly, general and administrative expenses incurred by and allocated to the predecessor do not purport to be indicative of our current expenses.
- (3) The predecessor entered into interest rate swap agreements to reduce their exposure to market risks from changing interest rates. These derivative instruments have been recognized on the predecessor combined balance sheet at their fair value. As the predecessor did not designate the interest rate swap agreements as hedging instruments in accordance with the requirements in accounting literature, changes in the fair value of the interest rate swaps have been recognized in earnings. These changes occur due to changes in market interest rates for debt with substantially similar credit risk and payment terms. These interest rate swaps, together with the underlying debt, were settled by the predecessor and not assumed by us on completion of the initial public offering and the acquisition of the initial fleet. For the year ended December 31, 2006, we have entered into interest rate swap agreements to reduce our exposure to market risks from changing interest rates. The swap agreements fix LIBOR at 4.6325% to 5.6000% based on expected drawdowns and outstanding debt until at least February 2014. Interest rate swap agreements are recorded on the balance

- sheet at their respective fair values. For the interest rate swap agreements that have been designated as hedging instruments in accordance with the requirements in the accounting literature, the changes in the fair value of these interest rate swap are reported in accumulated other comprehensive income. The fair value will change as market interest rates change. Interest expense is adjusted to include amounts payable or receivable under the interest rate swaps. The ineffective portion of the interest rate swaps are recognized immediately in net income. Other interest rate swap agreements and derivative instruments that are not designated as hedging instruments are marked to market and are recorded on the balance sheet at fair value. The changes in the fair value of these instruments are recorded in earnings.
- (4) All predecessor long-term debt was settled on the completion of the initial public offering and was not assumed by us.
- (5) We calculate fleet utilization by dividing the number of our operating days during a period by the number of our ownership days during the period. We use fleet utilization to measure our efficiency in operating our vessels and the amount of days that our vessels are off-hire. We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. We use operating days to measure the aggregate number of days in a period during which our vessels actually generate revenues. We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affects the amount of vessel operating expenses that we incur.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common shares. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for distributions or the trading price of our common shares.

Risks Inherent in Our Business

Our charter revenue from the four 4800 TEU secondhand vessels will decrease if APM exercises its options to extend its charters beyond the initial charter period of five years.

We purchased four 4800 TEU secondhand vessels from A.P. Møller-Mærsk A/S, or APM, in 2006. Simultaneously with the delivery of the four 4800 TEU vessels, we entered into five-year charter agreements for each of these vessels with APM at a daily hire rate of \$23,450. Upon the expiration of the initial five-year time charter term for each of the four 4800 TEU vessels, APM will have two consecutive one-year options to charter each vessel at \$22,400 and \$21,400 per day, respectively, and a final two-year option to charter each vessel at \$20,400 per day. Our Manager will operate the four 4800 TEU vessels purchased from APM for a fixed fee of \$5,750 per day through December 31, 2008. The daily fixed fee thereafter will be subject to renegotiation every three years. If APM exercises its options, our charter revenue from the four 4800 TEU secondhand vessels will decrease during the option years.

The age of our 4800 TEU secondhand vessels will result in increased operating costs, 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. Our 4800 TEU secondhand vessels have an average age of approximately 17.5 years as of December 31, 2006. Older vessels are typically more costly to maintain than more recently constructed vessels. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, including environmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations, or the addition of new equipment to these 4800 TEU secondhand vessels and may restrict the type of activities in which these vessels may engage. The increased costs associated with these vessels may prevent us from operating them profitably during the remainder of their useful lives.

Under the time charters for our 5100 TEU and 4800 TEU vessels, if a vessel is off-hire for more than 60 days, the charterer has a right to terminate the charter agreement for that vessel.

Each of the four 5100 TEU vessels which we have agreed to purchase are subject to a 12-year time charter with Mitsui O.S.K. Lines, or MOL, commencing upon the delivery of each vessel. Similarly, each of our 4800 TEU vessels is subject to a five-year time charter with APM commencing upon the delivery of each vessel. Pursuant to these time charter agreements, if a vessel is off-hire for more than 60 consecutive days, the charterer has a right to terminate the charter agreement for that vessel. If a time charter is terminated early, we may be unable to re-deploy the related vessel on terms as favorable to us. In the worst case, we may not receive any revenues from that vessel, but may be required to pay expenses necessary to maintain the vessel in proper operating condition. The loss of a time charter could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends.

Unless we set aside reserves or are able to borrow funds for vessel replacement at the end of a vessel's useful life our revenue will decline.

Unless we maintain reserves or are able to borrow funds for vessel replacement, we will be unable to replace the vessels in our fleet upon the expiration of their remaining useful lives. Our cash flows and income are dependent on the revenues earned by the chartering of our vessels to customers. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our results of operations, financial condition and ability to pay dividends will be materially and adversely affected. Additionally, any reserves set aside for vessel replacement would not be available for dividends.

As we expand our business, our Manager may need to improve its operating and financial systems and expand our commercial and technical management staff, and will need to recruit suitable employees and crew for our vessels.

With the acquisition of the additional 18 undelivered vessels that we have agreed to purchase, we will almost double the size of our operating fleet since our initial public offering. Our Manager's current operating and financial systems may not be adequate as we implement our plan to expand the size of our fleet, and attempts to improve those systems may be ineffective. In addition, as we expand our fleet, our Manager will need to recruit suitable additional administrative and management personnel. We cannot guarantee that our Manager will be able to continue to hire suitable employees as we expand our fleet. In the event the shortage of experienced labor continues or worsens or if our Manager encounters business or financial difficulties, our Manager may not be able to adequately staff our vessels. If our Manager is unable to grow its financial and operating systems or to recruit suitable employees as we expand our fleet, our results of operations and customer relationships may be adversely affected.

Failure to timely comply with the requirements of Section 404(b) of the Sarbanes-Oxley Act could result in a loss of investor confidence in our financial reports and have an adverse affect on the trading price of our common shares.

The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Beginning with our

Annual Report for the year ending December 31, 2007, Section 404(b) of the Sarbanes-Oxley Act will require our independent registered public accounting firm to issue reports on management's assessment of our internal control over financial reporting. In addition, our independent registered public accounting firm may not agree with our management's assessment or conclude that our internal control over financial reporting is operating effectively. As a result, investors could lose confidence in our reported financial information, which could have an adverse effect on the trading price of our common shares.

We may not have sufficient cash from our operations to enable us to pay dividends on our shares following the payment of fees and expenses and the establishment of any reserves.

We intend to pay regular quarterly dividends. We may not, however, have sufficient cash available each quarter to pay dividends. The amount of dividends we can pay depends upon the amount of cash we generate from our operations, which may fluctuate based on, among other things:

the rates we obtain from our charters;

the level of our operating costs;

the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled drydocking of our containerships;

delays in the delivery of new vessels and the beginning of payments under charters relating to those ships;

prevailing global and regional economic and political conditions;

the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business; and

changes in the basis of taxation of our activities in various jurisdictions.

The amount of cash we have available for dividends on our shares will not depend solely on our profitability.

The actual amount of cash we will have available for dividends also will depend on many factors including the following:

changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;

the charter rates on new vessels and those obtained upon the expiration of our existing charters;

modification or revocation of our dividend policy by our board of directors;

restrictions under our credit facilities and in any future credit agreements or debt securities;

the amount of any cash reserves established by our board of directors; and

Edgar Filing: Seaspan CORP - Form 20-F

restrictions under Marshall Islands law.

In addition, before we can determine the amount of cash available for the payment of dividends, we must pay fees to our Manager for the technical management of our vessels, must pay a monthly administrative services fee not to exceed \$6,000 per month and must reimburse our Manager for all reasonable costs in providing us with administrative and strategic services.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which will be affected by non-cash items. We may incur other expenses or liabilities that would reduce or eliminate the cash available for distribution as dividends. Our credit facilities also restrict our

declaration and payment of dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default. In addition, Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend and any such dividend may be discontinued at the discretion of our board of directors. In addition, if our quarterly cash dividend exceeds \$0.485 per common and subordinated share, our Manager will share in incremental dividends through the incentive shares based upon specified sharing ratios, which will reduce the cash available for dividends on our common and subordinated shares. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

Over the long-term, we will be required to make substantial capital expenditures to preserve the operating capacity of our fleet, which could result in a reduction or elimination of our ability to pay dividends.

We must make substantial capital expenditures over the long-term to preserve our capital base. If we do not retain funds in our business in amounts necessary to preserve our capital base, over the long-term, we will not be able to continue to refinance our indebtedness or maintain our payment of dividends. We will likely need at some time in the future to retain funds, on an annual basis, in addition to such amount to provide reasonable assurance of maintaining our capital base over the long-term. There are a number of factors that will not be determinable for a number of years, but that will enter into our board of directors' future decisions regarding the amount of funds to be retained in our business to preserve our capital base. Unless we are successful in making accretive acquisitions with outside sources of financing, which add a material amount to our cash available for retention in our business or unless our board of directors concludes that we will likely be able to recharter our fleet when our current charters expire at rates higher than the rates in our current charters, our board of directors will likely determine at some future date to reduce, or possibly eliminate, our dividend in order to be able to have reasonable assurance that it is retaining the funds necessary to preserve our capital base. When we refer to accretive acquisitions, we mean acquisitions that will increase our distributable cash flow per share.

We will be required to make substantial capital expenditures to complete the acquisition of our fleet that we have contracted to purchase and to expand the size of our fleet, which may cause our ability to pay dividends to be diminished, our financial leverage to increase or our shareholders to be diluted.

We have agreed to purchase an additional 18 containerships, incrementally over approximately the next 33 months, at a total purchase price of \$1.1 billion. Our obligation to purchase these additional 18 vessels is not conditional upon our ability to obtain financing for such purchase. We have the option to issue common shares in payment of up to \$100.0 million of the purchase price for four of the 18 vessels we have agreed to purchase. We have declined to exercise the option on two of the four remaining containerships that we have contracted to purchase. Such common shares would be valued at a net price equal to 95% of our initial public offering price.

To fund the remaining portion of these and other capital expenditures, we will use cash from operations or incur borrowings or raise capital through the sale of additional securities. Use of cash from operations may reduce cash available for dividends to our shareholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering and the covenants in our existing debt agreements, as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations, financial condition and ability to pay dividends. Even if we are successful in obtaining the necessary funds, the terms of such financings could limit our ability to pay dividends to our shareholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant shareholder dilution and would increase the aggregate amount of cash required to distribute a consistent level of dividends from earnings to our shareholders, which could have a material adverse effect on our ability to pay dividends.

We cannot assure you that we will be able to borrow amounts under our credit facilities and restrictive covenants in our credit facilities will impose financial and other restrictions on us, including our ability to pay dividends.

We have entered into a \$1.0 billion secured credit facility of which we have drawn \$464.3 million to date of an available \$750.0 million from Tranche A to complete the acquisition of the vessels which we had contracted to purchase at the time of our initial public offering and the 4800 TEU secondhand vessels from APM. Tranche B of \$250.0 million had an original expiration date of December 31, 2006 but was extended to February 28, 2007. Tranche B expired as of February 28, 2007. Further, there are restrictions on the amount that can be advanced to us under the \$1.0 billion credit facility based on the market value of the vessel or vessels in respect of which the advance is being made and, in certain circumstances, based additionally on the TEU capacity of the vessel, and the price at which we acquired the vessel and other factors. Our \$1.0 billion credit facility has a maturity date of the earlier of (a) the seventh anniversary of the final delivery date of the last of the vessels which we had contracted to purchase at the time of our initial public offering or (b) October 31, 2014.

We have also entered into a \$365.0 million secured revolving credit facility to complete the acquisition of the two 3500 TEU vessels and the eight 2500 TEU vessels. To date, we have drawn \$35.4 million on this facility. The \$365.0 million credit facility has a maturity date of (a) for the 2500 vessels, the earlier of (i) the tenth anniversary of the delivery of the final 2500 TEU vessel or (ii) August 31, 2019, or (b) for the 3500 TEU vessels, the earlier of (i) the tenth anniversary of the delivery of the second 3500 TEU vessel or (ii) July 31, 2017.

We have entered into a credit facility for \$218.4 million to partially finance the construction of the four 5100 TEU vessels that will be built by Hyundai Heavy Industries, Co., Ltd. or HHI. The facility maturity date is earlier of (a) the anniversary date falling twelve years after the scheduled delivery date of the fourth 5100 TEU vessel delivered or (b) December 23, 2021. To date, we have drawn \$63.4 million under this credit facility.

Prior to each drawdown under our credit facilities, we are required, among other things, to meet specified financial ratios and other requirements. To the extent that we are not able to satisfy these requirements, we may not be able to draw down under our credit facilities. We may be required to prepay amounts borrowed under our credit facilities if we, or in certain circumstances, our charterers, experience a change of control.

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

pay dividends if an event of default has occurred and is continuing under one of our credit facilities or if the payment of the dividend would result in an event of default;

incur additional indebtedness, including through the issuance of guarantees;

change the flag, class or management of our vessels;

create liens on our assets;

sell our vessels without replacing such vessels or prepaying a portion of our loan;

conduct material transactions with our affiliates except on an arm's-length basis;

merge or consolidate with, or transfer all or substantially all our assets to, another person; or

change our business.

Edgar Filing: Seaspan CORP - Form 20-F

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders' consent when needed. If we do not comply with the restrictions and covenants in our credit agreements, we will not be able to pay dividends to you, finance our future operations, make acquisitions or pursue business opportunities.

We cannot assure you that we will be able to refinance any future indebtedness incurred under our credit facilities.

We intend to finance our future fleet expansion program with secured indebtedness drawn under our credit facilities or future credit facilities. While we intend to refinance amounts drawn under our credit facilities or future credit facilities with the net proceeds of future debt and equity offerings, we cannot assure you that we will be able to do so at an interest rate or on terms that are acceptable to us or at all. If we are not able to refinance these amounts with the net proceeds of debt and equity offerings at an interest rate or on terms acceptable to us or at all, we will have to dedicate a portion of our cash flow from operations to pay the principal and interest of this indebtedness. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our fleet, among other things, may materially affect our ability to obtain alternative financing. In addition, debt service payments under our credit facilities, future credit facilities, future issuance of debt securities or alternative financing may limit funds otherwise available for working capital, capital expenditures and other purposes. If we are unable to meet our debt obligations, or if we otherwise default under our credit facilities, future credit facilities, future debt securities or an alternative financing arrangement, our lenders could declare the debt, together with accrued interest and fees, to be immediately due and payable and foreclose on our fleet, which could result in the acceleration of other indebtedness that we may have at such time and the commencement of similar foreclosure proceedings by other lenders.

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

Following the completion of the acquisition of the remaining 18 containerships which we have agreed to purchase, we will have substantial indebtedness. Our 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 not be available on favorable terms;

we may need to use a substantial portion of our cash from operations to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and dividends to our shareholders;

our debt level could make us more vulnerable 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. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing dividends, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

We currently derive all of our revenue from three charterers, and the loss of any charterer, any time charter or any vessel could result in a significant loss of revenue and cash flow.

Customers for our current operating fleet are China Shipping Container Lines (Asia) Co., Ltd., or CSCL Asia, a subsidiary of China Shipping Container Lines Co., Ltd., or CSCL; and Hapag-Lloyd USA, LLC, or HL USA, a subsidiary of Hapag-Lloyd, AG, or Hapag-Lloyd; and APM. China Shipping (Group) Company, or China

Shipping, accounted for 100% of the predecessor's containership revenue. China Shipping subchartered its vessels to its subsidiary, CSCL. CSCL accounted for 100% of our containership revenue until October 18, 2005, when our first vessel chartered by HL USA was delivered to us. On December 30, 2005, China Shipping novated its 12 time charters to CSCL Asia, a majority-owned subsidiary of CSCL. Currently, HL USA charters seven 4250 TEU vessels from us. For the year ended December 31, 2006, CSCL Asia, HL USA and APM accounted for 73.4%, 24.0% and 2.6% of our containership revenue, respectively. All of our vessels are chartered to charterers under long-term time charters, and these charterers' payments to us will be our sole source of operating cash flow. At any given time in the future, cash reserves of the charterers may be diminished or exhausted, and we cannot assure you that the charterers will be able to make charter payments to us. If the charterers are unable to make charter payments to us, our results of operations and financial condition will be materially adversely affected.

We could lose a charterer or the benefits of a time charter if:

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

at the time of delivery, the vessel subject to the time charter differs in its specifications from those agreed upon under the shipbuilding contract with each of Samsung Heavy Industries Co., Ltd., or Samsung, Zhejiang Shipbuilding Co. Ltd., or Zhejiang, Jiangsu Yangzijiang Shipbuilding, or Jiangsu, and HHI (individually, the Shipbuilder and collectively, the Shipbuilders);

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

upon a change of control of our company, if the charterer fails to consent to such change of control; 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.

If we lose a time charter, we may be unable to re-deploy the related vessel on terms as favorable to us. In the worst case, we may not receive any revenue from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition.

The loss of any of our charterers, time charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition.

A decrease in the level of China's exports of goods or an increase in trade barriers to China's exports will have a material adverse impact on our charterers' business and, in turn, affect our business and results of operations.

China exports considerably more goods than it imports. Most of our charterers' container shipping business revenue is derived from the shipment of goods from the Asia Pacific region, primarily China, to various overseas export markets including the United States and Europe. Any reduction in or hindrance to the output of China-based exporters could have a material adverse effect on the growth rate of China's exports and on our charterers' business.

Furthermore, increasing trade protectionism in the markets that our charterers serve has caused an increase in: (i) the cost of goods exported from China, (ii) the length of time required to deliver goods from China and (iii) the risks associated with exporting goods from China. These increases also affect the quantity of goods to be shipped, shipping time schedules, voyage costs and other associated costs.

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

An economic slowdown in the Asia Pacific region could have a material adverse effect on our business, financial condition and results of operations.

A significant number of the port calls made by our containerships involve the loading or discharging of containerships in ports in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, and particularly in China or Japan, may have an adverse effect on our business, financial position and results of operations, as well as our future prospects. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product. We cannot assure you that such growth will be sustained or that the Chinese economy will not experience contraction in the future. Moreover, any slowdown in the economies of the United States, the European Union or certain Asian countries may adversely affect economic growth in China and elsewhere. Our business, financial condition and results of operations, as well as our future prospects, will likely be materially and adversely affected by an economic downturn in any of these countries.

The legal system in China is not fully developed and has inherent uncertainties that could limit the legal protections available to us.

The Chinese legal system is based on written statutes and their legal interpretation by the standing Committee of the National People's Congress. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. Although our time charters with CSCL Asia are guaranteed by CSCL and China Shipping Container Lines (Hong Kong) Co., Limited, or CSCL Hong Kong, and are governed by English law, if we are required to commence legal proceedings against CSCL or CSCL Hong Kong with respect to the provisions of a time charter or the guarantee, we may have difficulties in enforcing any judgment obtained in such proceedings against CSCL and CSCL Hong Kong in China. Similarly, although Jiangsu provides a warranty against certain defects for each of the eight 2500 TEU vessels that it will construct for us, a refund guarantee from a financial institution for the installment payments we will make to Jiangsu, and the shipbuilding contract is governed by English law, if we are required to commence legal proceeding against Jiangsu with respect to the provisions of the shipbuilding contract or the warranty, or against the refund guarantor for a refund of our installment payments, we may have difficulties enforcing any judgment obtained in such proceeding against Jiangsu or the refund guarantor in China.

We depend on our Manager to operate our business.

We are a recently formed company, incorporated in May 2005, with no current plans to have any employees other than our chief financial officer. Pursuant to the management agreement, our Manager and certain of its affiliates will provide us with certain of our officers and with technical, administrative and strategic services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance and financial services). Our operational success and ability to execute our growth strategy will depend significantly upon our Manager's satisfactory performance of these services. Our business will be harmed if our Manager fails 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, or even if replacement services are immediately available, the terms offered may be less favorable than the ones currently offered by our Manager.

Our ability to compete for and to enter into new charters and expand our relationships with our charterers will depend 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 vessel construction constraints;

obtain financing on commercially acceptable terms;

maintain satisfactory relationships with our customers and suppliers; or

successfully execute our growth strategy.

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

Delays in deliveries of our newly built containerships could harm our operating results.

We are currently under contract to purchase 18 additional containerships. The two 9600 TEU vessels and the two 4250 TEU vessels which we have contracted to purchase are scheduled to be delivered at various times over approximately the next five months. Each of these four vessels is being built at the shipyard in Kojima Island, South Korea owned by Samsung. Of the additional 14 containerships that we have contracted to purchase, two are being built at the shipyard in Ningbo, China, owned by Zhejiang, eight will be built at the shipyards in Jiangsu Province, China, owned by Jiangsu and four will be built at the shipyard in Ulsan, South Korea, owned by HHI. The delivery of these vessels, or any other newbuildings we may order, could be delayed, which would delay our receipt of revenue under the time charters for the containerships and therefore adversely affect our results of operations and financial condition.

The delivery of the newbuildings could be delayed because of:

work stoppages or other labor disturbances or other events that disrupt any of the Shipbuilders' operations;

quality or engineering problems;

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

lack of raw materials;

bankruptcy or other financial crisis of any of the Shipbuilders;

a backlog of orders at any of the Shipbuilders;

hostilities, or political or economic disturbances in South Korea or China, where the containerships are being built;

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

Edgar Filing: Seaspan CORP - Form 20-F

our requests for changes to the original containership specifications;

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

our inability to obtain requisite permits or approvals; or

a dispute with any of the Shipbuilders.

In addition, each of the shipbuilding contracts for the four containerships being built by Samsung and for the additional 14 containerships that will be or are being built by Zhejiang, Jiangsu or HHI contains a force majeure provision whereby the occurrence of certain events could delay delivery or possibly result in termination of the contract. If delivery of a containership is materially delayed or if a shipbuilding contract is terminated, it could adversely affect our results of operations and financial condition.

We are relying on the VesselCos to pay all costs for the two 9600 TEU vessels and the two 4250 TEU vessels that we have contracted to purchase, but have not been delivered. Similarly, we are relying on Conti to pay all costs for the two 3500 TEU containerships, with certain exceptions, that we will not own until after delivery and inspection.

Upon the completion of our initial public offering on August 12, 2005, we acquired ten containerships and entered into a purchase agreement to acquire an additional 13 containerships as they are completed from certain wholly owned subsidiaries of Seaspan Containers Lines Limited, or SCLL, which we refer to as the VesselCos. Of these additional 13 new containerships, we have taken delivery of nine vessels and expect to take delivery of the remaining four vessels over the next five months. The VesselCos are responsible for all costs relating to the construction and delivery of the two 9600 TEU vessels and the two 4250 TEU vessels that we have contracted to purchase, but have not yet been delivered.

The two 3500 TEU vessels that we will take delivery of over the next four months are being built by Zhejiang pursuant to a shipbuilding contract between affiliates of Conti Holding GmbH & Co. KG, or Conti, and Zhejiang. We have agreed to acquire the two 3500 TEU vessels from affiliates of Conti as each vessel is delivered and passes inspection. These affiliates of Conti are responsible for all payments related to the construction and delivery of the two 3500 TEU containerships, except for the costs related to the supervision and survey of the construction of the vessels and certain supply costs, for which we are responsible. When the vessels have been delivered and have passed inspection, we will purchase the vessels at a specified price. We have entered into a \$218.4 million long-term credit facility to fund the construction of these vessels.

If the VesselCos or Conti fail to continue to make construction payments for its respective containerships, we could lose access to the containerships as a result of the default or we may need to finance the containerships before they begin operating and generating revenue, which could harm our business.

We will be paying all costs for the four 5100 TEU vessels that are being built for us by HHI and the eight 2500 TEU vessels that are being built for us by Jiangsu.

For each of the four 5100 TEU vessels that we have agreed to purchase, we are required to make five payment installments, ranging from 5% to 20% of the total contracted purchase price for each vessel, and a sixth installment for the final 50% balance remaining outstanding for each vessel. We have entered into a \$218.4 million long-term credit facility to partially fund the construction of these vessels.

For each of the eight 2500 TEU vessels that we have agreed to purchase, we are required to make five payment installments, each consisting of 10% of the total contracted purchase price for each vessel, and a sixth installment for the final 50% balance remaining outstanding for each vessel. We have entered into a \$365.0 million long-term credit facility to fund the construction of these vessels.

If HHI or Jiangsu is unable to deliver a vessel or if we reject a vessel and, in either case, we are unable to recover our payments from HHI, Jiangsu or their refund guarantors, or if the vessel has material defects that entitle MOL or CSCL Asia to reject a vessel and we are unable to re-charter the vessel, we would continue to be responsible for the payments under our new long term credit facilities without the benefit of revenue generated from those vessels or the funds paid to Jiangsu or HHI to offset our payments. Further, HHI is unable to deliver a vessel, we will have to pay back a portion of the outstanding balance under our credit facility for \$218.4 million. Such an outcome could have a material adverse effect on our business, results of operations and financial condition.

Zhejiang has limited experience building containerships.

Zhejiang has only built bulkcarriers, multipurpose ships, tankers and offshore supply vessels. Zhejiang has recently begun building containerships, thus Zhejiang has limited experience in building containerships. If Zhejiang is unable to build the two 3500 TEU containerships that we have ordered or if we cannot take delivery of the containerships due to flaws or defects, it could adversely affect our results of operations and financial condition.

Due to our lack of diversification, adverse developments in our containership transportation business could reduce our ability to service our debt obligations and pay dividends to our shareholders.

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

Our growth depends upon continued growth in demand for containerships and there has been a significant downward correction in charter rates and fair market value of vessels from the second half of 2005.

Our articles of incorporation limit our business to the chartering or rechartering of containerships to others and any other lawful act or activity customarily conducted in conjunction with the chartering or rechartering of containerships to others, although our business purpose may be modified by our board of directors subject to, for as long as the management agreement with our Manager is in effect, the approval of the holders of our incentive shares. Our growth will generally depend on continued growth in world and regional demand for chartering marine container shipping.

The ocean-going shipping container industry is both cyclical and volatile in terms of charter hire rates and profitability. In the future, rates may continue to decline. Fluctuations in charter rates result from changes in the supply and demand for ship capacity and changes in the supply and demand for the major products internationally transported by containerships. The factors affecting the supply and demand for containerships and 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 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 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 container cargoes are transported;

environmental and other regulatory developments;

currency exchange rates; and

weather.

Edgar Filing: Seaspan CORP - Form 20-F

The factors that influence the supply of containership capacity include:

the number of newbuilding deliveries;

the scrapping rate of older containerships;

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.

Our ability to recharter our containerships upon the expiration or termination of their current time charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, the then current state of the containership market. If the containership market is in a period of depression when our ships' charters expire, we may be forced to recharter our ships at reduced rates or even possibly a rate whereby we incur a loss, which may reduce our earnings or make our earnings volatile. The same issues will exist if we acquire additional vessels and attempt to subject them to a long-term time charter arrangement as part of our acquisition and financing plan.

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

The market supply of containerships has been increasing. An over-supply of containership capacity may result in a reduction of charter hire rates. If such a reduction occurs upon the expiration or termination of our containerships' current time charters, we may only be able to recharter our containerships for reduced rates or unprofitable rates or we may not be able to recharter our containerships at all.

Our growth depends on our ability to expand relationships with existing charterers and obtain new charterers, for which we will face substantial competition.

One of our principal objectives is to acquire additional containerships in conjunction with entering into additional long-term, fixed-rate time charters for such ships. The process of obtaining new long-term time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. 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 generally;

relationships with shipyards and the ability to get suitable berths;

construction management experience, including the ability to obtain on-time delivery of new ships according to customer specifications;

willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and

competitiveness of the bid in terms of overall price.

We expect substantial competition for providing new containership service from a number of experienced companies, including state-sponsored entities and major shipping companies. Many 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 an increasing number of marine transportation companies will 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. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if 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 long-term, fixed-rate time charters if a more active short-term or spot container shipping market develops.

Edgar Filing: Seaspan CORP - Form 20-F

One of our principal strategies is to enter into additional long-term, fixed-rate container time charters. As more vessels become available for the spot or short-term market, we may have difficulty entering into additional

long-term, fixed-rate time charters for our vessels due to the increased supply of vessels and possibly cheaper rates in the spot market and, as a result, our cash flow may be subject to instability in the long-term. A more active short-term or spot market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flow in periods when the market price for container shipping is depressed or insufficient funds are available to cover our financing costs for related vessels.

Over time, containership values may fluctuate substantially and, if these values are lower at a time when we are attempting to dispose of a containership, we may incur a loss.

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

prevailing economic conditions in the market in which the containership trades;

a substantial or extended decline in world trade;

increases in the supply of containership capacity; and

the cost of retrofitting or modifying existing ships, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise.

If a charter terminates, we may be unable to re-deploy the vessel at attractive rates and, rather than continue to incur costs to maintain and finance the vessel, may seek to dispose of it. Our inability to dispose of the containership at a reasonable price could result in a loss on its sale and adversely affect our results of operations and financial condition.

We may be unable to draw down the full amount of our credit facilities if the market value of our vessels declines.

There are restrictions on the amount that can be advanced to us under our credit facilities based on the market value of the vessel or vessels in respect of which the advance is being made and, in certain instances, additionally based on the amount of TEU capacity of the vessel, the price at which we acquired the vessel and other factors. If the market value of our fleet declines, we may not be able to draw down the full amount of our credit facilities, or obtain other financing or incur debt on terms that are acceptable to us or at all. We may also not be able to refinance our debt or obtain additional financing.

We may be unable to make or realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our business, financial condition and operating results.

Our growth strategy includes selectively acquiring new containerships, existing containerships, containership related assets and container shipping businesses. Factors that may limit the number of acquisition opportunities in the containership industry in the near term include the relatively small number of independent containership fleet owners and the limited number of modern containerships with appropriate characteristics not subject to existing long-term charters. In addition, competition from other companies could reduce our acquisition opportunities or cause us to pay higher prices.

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

fail to realize anticipated benefits, such as new customer relationships, cost savings or cash flow enhancements;

be unable, through our Manager, to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;

decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;

significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;

incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired;

incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges;
or

not be able to retain our ability to service our debt obligations and pay substantial regular dividends.

Unlike newbuildings, existing containerships typically do not carry warranties as to their condition. While we would inspect existing containerships prior to purchase, such an inspection would normally not provide us with as much knowledge of a containership's condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flow and reduce our liquidity.

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 operations of our containerships are materially affected by environmental regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which our containerships operate, as well as in the 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, water 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 the impact thereof on the resale price or useful life of our containerships. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations. 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 oil spills, and our compliance with these requirements can be costly.

Environmental requirements can also affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in 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, in the event that there is a release of petroleum or other hazardous materials from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of hazardous materials associated with our 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 containerships 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. 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 addition, in complying with existing environmental laws and regulations and those that may be adopted, we may incur significant costs in meeting new maintenance and inspection requirements and new restrictions on air emissions from our containerships, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. Substantial violations of applicable requirements or a catastrophic release of bunker fuel from one of our containerships could have a material adverse impact on our financial condition and results of operations.

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

International container shipping is subject to security and customs inspection and related procedures, or inspection procedures, in countries of origin, destination, and 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.

Since the events of September 11, 2001, U.S. and Canadian authorities have increased container inspection rates. Government investment in non-intrusive container scanning technology has grown and there is interest in electronic monitoring technology, 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.

It is unclear what changes, if any, to the existing inspection procedures will ultimately be proposed or implemented, or how any such changes will affect the industry. It is possible that such changes could impose additional financial and legal obligations, including additional responsibility for inspecting and recording the contents of containers. Changes to the inspection 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 may arise from current inspection procedures or future proposals may not be fully recoverable from customers through higher rates or security surcharges.

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

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

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 the continuing response of the United States 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. The recent conflict in Iraq may lead to additional acts of terrorism, regional conflict and other armed conflict around the world, which may contribute to further economic instability in the global financial markets. 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.

Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered could affect us. Hostilities in South Korea could constitute a force majeure event under our contracts with Samsung and HHI and could impact the construction of our newbuildings or result in their inability to perform under the contracts. In addition, future hostilities or other political instability in regions where our vessels trade could affect our trade patterns and adversely affect our operations and performance.

Risks inherent in the operation of ocean-going vessels could affect our business and reputation, which could adversely affect our expenses, net income and share 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, labor strikes or adverse weather conditions; and

piracy.

Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenue from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates, and damage to our reputation and customer relationships generally. Any of these circumstances or events could increase our costs or lower our revenue, which could result in reduction in the market price of our securities. 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.

We maintain insurance for our fleet against risks commonly insured against by vessel owners and operators. Our insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We can give no assurance that we will be 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 timely obtain a 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 directly or indirectly increase our costs.

In addition, we do not carry loss-of-hire insurance, which covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from

accidents. Accordingly, any loss of a vessel or extended vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business, results of operations and financial condition.

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder 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 flow and require us to pay large sums of funds 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 will incur increased costs. Older vessels are typically more costly to maintain than more recently constructed vessels. Cargo insurance rates 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 vessels 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.

Compliance with safety and other vessel 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. Our 8500 TEU vessels are currently enrolled with Lloyd's Register. Our 4250 TEU vessels that are chartered to CSCL Asia are currently enrolled with Det Norske Veritas, and our 4250 TEU vessels that are chartered to HL USA are currently enrolled with Lloyd's Register. Our 4800 TEU vessels that are chartered to APM are currently enrolled with Lloyd's Register. Upon delivery, each of the 9600 TEU, additional 4250 TEU vessels and the 2500 TEU vessels that we have contracted to purchase will be enrolled with Lloyd's Register and each of the 5100 TEU vessels that we have contracted to purchase will be enrolled with Det Norske Veritas. The two 3500 TEU vessels that we have contracted to purchase are being built in compliance with the rules of Germanischer Lloyd. Upon delivery, however, each of the 3500 TEU vessels will be transferred to Det Norske Veritas. All of the currently operating vessels have been awarded ISM certification and we expect that each of the vessels to be delivered in the future will be awarded ISM certification upon delivery.

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 initial fleet is on a special survey cycle for hull inspection and a continuous survey cycle for machinery inspection. These vessels have qualified within their respective classification societies for drydocking once every five years for inspection of the underwater parts of such vessel.

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

Our Manager will engage in other businesses and may compete with us.

Pursuant to an omnibus agreement, our Manager, Seaspan International Ltd., or Seaspan International, and Norsk Pacific Steamship Company Limited, generally agreed to, and agreed to cause their controlled affiliates (which does not include us), not to engage in the business of chartering or rechartering containerships to others during the term of the management agreement. The omnibus agreement, however, contains significant exceptions that may allow these entities to compete with us.

Our officers do not devote all of their time to our business.

Our Manager and its affiliates as well as certain of our officers are involved in other business activities that may result in their spending less time than is appropriate or necessary in order to manage our business successfully. Our chief executive officer has entered into an employment agreement with our Manager whereby he has agreed to serve as our chief executive officer for an initial term of three years to December 31, 2008 that is renewable annually thereafter by mutual consent. Pursuant to this employment agreement, our chief executive officer devotes substantially all of his time to us and our Manager on our business and affairs. Our chief financial officer is employed by us and not by our Manager and devotes all of his time to our matters. Other officers appointed by our Manager may spend a material portion of their time providing services to our Manager and its affiliates on matters unrelated to us.

Our Manager and its affiliates have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor their own interests to your detriment and ours.

Conflicts of interest may arise between our Manager and its affiliates, on the one hand, and us and holders of our securities, on the other hand. As a result of these conflicts, our Manager may favor its own interests and the interests of its affiliates over the interests of the holders of our securities. These conflicts include, among others, the following situations:

the asset purchase agreement, the management agreement and the omnibus agreement and other contractual agreements we have with our Manager and its affiliates were negotiated prior to our initial public offering and were not the result of arm's-length negotiations, and the negotiation of these agreements may have resulted in prices and other terms that are less favorable to us than terms we might have obtained in arm's-length negotiations with unaffiliated third parties for similar services;

our chief executive officer and certain of our directors also serve as executive officers or directors of our Manager;

our Manager advises our board of directors about the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuances of additional securities and reserves, each of which can affect the amount of cash that is available for dividends to our shareholders and the payment of dividends on the incentive shares;

our Manager may recommend that we borrow funds in order to permit the payment of cash dividends, even if the purpose or effect of the borrowing is to pay a dividend on the subordinated shares;

other than our chief financial officer, our officers, including our chief executive officer, do not spend all of their time on matters related to our business; and

our Manager advises us of costs incurred by it and its affiliates that it believes are reimbursable by us.

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, Gerry Wang, and certain members of our senior management and that of our Manager. Mr. Wang has substantial experience in the container shipping industry and has worked with our Manager for many years. Mr. Wang and others employed

by our Manager are crucial to the development of our business strategy and to the growth and development of our business. If they were no longer to be affiliated with our Manager, or if we otherwise cease to receive advisory services from them, we may fail to recruit other employees with equivalent talent and experience, and our business and financial condition may suffer as a result. Although Mr. Wang has an employment agreement with our Manager, he does not have an employment agreement with us. As such, it is possible that Mr. Wang will no longer provide services to us and that our business may be adversely affected by the loss of such services.

Even if our board of directors or our shareholders are dissatisfied with our Manager, there are limited circumstances under which the management agreement can be terminated by us. On the other hand, our Manager has substantial rights to terminate the management agreement and, under certain circumstances could receive very substantial sums in connection with such termination.

The management agreement has an initial term of 20 years and automatically renews for subsequent five-year terms provided certain conditions are met. Our Manager has the right after five years from our initial public offering to terminate the management agreement on twelve months notice, although the covenant limiting our Manager's ability to compete with us continues for two years following such termination. Our Manager also has the right to terminate the management agreement after a dispute resolution if we have materially breached the management agreement, in which case none of the covenants would continue to apply to our Manager.

The agreement with our Manager will terminate upon the sale of substantially all our assets to a third party, our liquidation or after any change of control of our company occurs. If the management agreement is terminated as a result of an asset sale, our liquidation or change of control, then our Manager may be paid the fair market value of the incentive shares as determined by an appraisal process. Any such payment could be substantial.

In addition, our rights to terminate the management agreement are limited. Even if we are not satisfied with the Manager's efforts in managing our business, unless our Manager materially breaches the agreement, we may not be able to terminate the management agreement until 15 years into the term. This early termination right requires a two-thirds approval of our independent directors, and if we elect to do so, or if we elect to terminate the management agreement at the end of the 20-year term or a subsequent renewal term, our Manager will continue to receive dividends on the incentive shares for a five-year period from the date of termination.

Our Manager could receive substantial sums based on its ownership of the incentive shares if our quarterly dividends to our shareholders are increased, reducing the amount of cash that would otherwise have been available for increased dividends to our shareholders.

Our Manager shares in incremental dividends, based on specified sharing ratios, on its incentive shares if and to the extent that the available cash from operating surplus paid by us exceeds specified target dividend levels. Because these incentive dividends are taken from the total pool of dividends payable to holders of common and subordinated shares, such dividends will reduce the amount of cash which would otherwise have been available to increase the amount to be paid as dividends to our shareholders.

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 depends 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, an investor in our securities 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 disclose information regarding our Manager that has a material impact on us to the extent that we become aware of such information.

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

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

These provisions include:

authorizing our board of directors to issue blank check preferred shares without shareholder approval;

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

prohibiting cumulative voting in the election of directors;

authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote for those directors;

prohibiting shareholder action by written consent unless the written consent is signed by all shareholders entitled to vote on the action;

limiting the persons who may call special meetings of shareholders;

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

restricting business combinations with interested shareholders.

In addition, upon a change of control, our Manager may elect to have us purchase the incentive shares, which could result in a substantial payment to our Manager and discourage a change of control that might otherwise be beneficial to shareholders.

We have also adopted a shareholder 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 prior approval of our board of directors.

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

Each vessel in our fleet is built or will be built in accordance with standard designs and uniform in all material respect to all other vessels in its class, thus any defect in one vessel will likely affect all of our other vessels in such class.

Each vessel in our fleet is built or will be built in accordance with standard designs and uniform in all material respects to all other vessels in its class. As a result, any latent design defect discovered in one of our vessels will likely affect all of our other vessels in that class. Any disruptions in the operation of our vessels resulting from these defects could adversely affect our receipt of revenue under time charters for the vessels affected.

There are greater than normal construction, delivery and operational risks with respect to the 9600 TEU vessels that we have agreed to purchase.

The two 9600 TEU vessels that we have agreed to purchase are some of the first vessels of this type to be built. Although one other company before us has built, serviced or operated similar vessels built by Samsung,

there are unknown and possibly greater than normal construction, delivery and operational risks associated with these vessels. Deliveries of these vessels could be delayed and problems with operation of these vessels could be encountered, either of which would adversely affect our receipt of revenue under time charters for these vessels, as well as their future resale value.

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

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

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.

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 at all or at a higher than anticipated cost may materially affect our results of operation and our ability to implement our business strategy.

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

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

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

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

Tax Risks

In addition to the following risk factors, you should read Item 10. Additional Information E. Taxation United States Federal Income Tax Considerations for a more complete discussion of expected material U.S. federal income tax consequences of owning and disposing of common shares.

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

Under the U.S. Internal Revenue Code of 1986, as amended (the Code), 50% of the gross shipping income of a ship owning or chartering corporation, such as ourselves and our subsidiaries, 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.

We expect that we qualified for this statutory tax exemption for the year ended December 31, 2006 (our 2006 Year) and we will take this position for U.S. federal income tax return reporting purposes. However, there are circumstances, including some that are beyond our control, which could cause us to lose the benefit of this tax exemption and thereby become subject to U.S. federal income tax on our U.S. source income. For example, 5% shareholders could acquire and own the majority of our outstanding common shares. This would preclude us from being eligible for the Section 883 exemption unless we can establish that among those 5% shareholders, there are sufficient 5% shareholders that are qualified shareholders for purposes of Section 883 to preclude non-qualified 5% shareholders from owning 50% or more of such shares for more than half the number of days during the taxable year. Therefore, we can give no assurances regarding our qualification for this tax exemption or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for such year 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 could result in decreased earnings available for distribution to our shareholders.

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

A non-U.S. 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. U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our assets, income and operations, we do not believe that for our 2006 Year we were, nor do we expect to become, a PFIC with respect to any taxable year. We derive substantially all of our income from time chartering activities and we believe that at least a majority, if not all, such income should be treated for relevant U.S. federal income tax purposes as services income, rather than rental income. Such services income should not constitute passive income, and the assets that we own and operate in connection with the production of that income, in particular, at least a majority, if not all, of our vessels, should not constitute passive assets for purposes of determining whether we are a PFIC in any taxable year.

The preferential tax rates applicable to qualified dividend income are temporary, and the enactment of previously proposed legislation could affect whether dividends paid by us constitute qualified dividend income eligible for the preferential rate.

Certain of our distributions may be treated as qualified dividend income eligible for preferential rates of U.S. federal income tax to U.S. individual shareholders (and certain other U.S. shareholders). In the absence of legislation extending the term for these preferential tax rates, all dividends received by such U.S. taxpayers in tax years beginning on January 1, 2011 or later will be taxed at ordinary graduated tax rates.

In addition, legislation proposed during a preceding legislative session of the U.S. Congress would deny the preferential rate of U.S. 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 that 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 entities organized under its laws, it is unlikely that we could satisfy either of these requirements. Consequently, if this legislation were enacted the preferential rate of federal income tax imposed on qualified dividend income may no longer be applicable to dividends received from us. As of the date hereof, it is not possible to predict with any certainty whether this previously proposed legislation will be reintroduced and enacted.

We may become a resident of Canada and have to pay tax in Canada on our worldwide income, which could reduce our earnings, and shareholders could then become taxable in Canada in respect of their ownership of our shares. Moreover, as a non-resident of Canada we may have to pay tax in Canada on our Canadian source income, which could reduce our earnings.

Under the Income Tax Act (Canada), or the Canada Tax Act, a corporation that is resident in Canada is subject to tax in Canada on its worldwide income, and shareholders of a corporation resident in Canada may be subject to Canadian capital gains tax on a disposition of its shares and to Canadian withholding tax on dividends paid in respect of such shares.

Our place of residence, under Canadian law, would generally be determined on the basis of where our central management and control are, in fact, exercised. It is not our current intention that our central management and control be exercised in Canada but, even if it were, there is a specific statutory exemption under the Canada Tax Act that provides that a corporation incorporated, or otherwise formed, under the laws of a country other than Canada will not be resident in Canada in a taxation year if its principal business is the operation of ships that are used primarily in transporting passengers or goods in international traffic, all or substantially all of its gross revenue for the year consists of gross revenue from the operation of ships in transporting passengers or goods in that international traffic, and it was not granted articles of continuance in Canada before the end of the year.

Based on our operations, we do not believe that we are, nor do we expect to be, resident in Canada for purposes of the Canada Tax Act, and we intend that our affairs will be conducted and operated in a manner such that we do not become a resident of Canada under the Canada Tax Act. However, if we were or become resident in Canada, we would be or become subject under the Canada Tax Act to Canadian income tax on our worldwide income. Further, shareholders who are non-residents of Canada may be or become subject under the Canada Tax Act to tax in Canada on any gains realized on the disposition of our shares and would be or become subject to Canadian withholding tax on dividends paid or deemed to be paid by us, subject to any relief that may be available under a tax treaty or convention.

Generally, a corporation that is not resident in Canada will be taxable in Canada on income it earns from carrying on a business in Canada and on gains from the disposition of property used in a business carried on in Canada. However, there are specific statutory exemptions under the Canada Tax Act that provide that income earned in Canada by a non-resident corporation from the operation of a ship in international traffic, and gains

realized from the disposition of ships used principally in international traffic, are not included in a non-resident corporation's income for Canadian tax purposes where the corporation's country of residence grants substantially similar relief to a Canadian resident. A Canadian resident corporation that carries on business in the Republic of the Marshall Islands is exempt from income tax under the current laws of the Republic of the Marshall Islands.

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

Please read Item 10. Additional Information E. Taxation Canadian Federal Income Tax Consequences for a discussion of expected material Canadian federal income tax consequences of owning and disposing of our common shares.

Item 4. Information on the Company

A. History and Development of the Company

We are Seaspan Corporation, a Marshall Islands corporation that was incorporated on May 3, 2005. We are an owner of containerships and we charter them pursuant to long-term, fixed-rate time charters to major container liner companies. We currently own and operate a fleet of 23 containerships and have entered into contracts for the purchase of an additional 18 containerships. Customers for our current operating fleet are CSCL Asia, HL USA and APM. Customers for the additional 18 vessels will include MOL, HL USA, CSCL Asia and COSCO Containers Lines Co., Ltd., or COSCON. Our primary objective is to continue to grow our business through accretive acquisitions in order to increase our dividend per share.

We deploy all our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters. The charters on the 23 vessels in our operating fleet as of December 31, 2006 have an average remaining term of 8.1 years (weighted by TEU capacity) plus certain options.

We maintain our principal executive offices at Unit 2, 7th Floor, Bupa Centre, 141 Connaught Road West, Hong Kong, China. Our telephone number is (852) 2540-1686.

B. Business Overview

General

Our business is to own containerships, charter them pursuant to long-term, fixed rate charters and seek additional accretive vessel acquisitions. We deploy all our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters.

We currently own and operate a fleet of 23 containerships and have entered into contracts for the purchase of an additional 18 containerships. The average age of the 23 vessels currently in our fleet is 4.8 years. Please read Item 4. Information on the Company D. Property, Plants and Equipment Our Fleet for more information.

Our customer selection process is targeted at well-established container liner companies that are growing in their trade routes, and that charter-in vessels on a long-term basis as part of their fleet expansion strategy. Currently, 12 containerships in our fleet are under time charters with CSCL Asia, as a result of a novation by China Shipping. CSCL Asia, a British Virgin Islands company, is a subsidiary of CSCL. Seven containerships in our current fleet are under time charters with HL USA, a subsidiary of TUI. Our four 4800 TEU vessels are chartered to APM, the world's largest container shipping company. The 18 containerships that we have contracted to purchase will similarly be chartered on a long-term basis.

Our Manager and certain of its wholly owned subsidiaries provide technical, administrative and strategic services necessary to support our business. Our Manager provides a variety of ship management services, including purchasing, crewing, vessel maintenance, insurance procurement and claims handling, inspections, and ensuring compliance with flag, class and other statutory requirements. In addition to the ship management services provided to us, our Manager also provides assistance with ship design, drawing approval and construction supervision to a number of other vessel owning companies and container liner operators, including its affiliates.

As of December 31, 2006, our Manager and its subsidiaries employed approximately 580 seagoing staff and approximately 50 shore staff. We expect our Manager and its subsidiaries will hire additional employees as we grow. We believe our Manager and its subsidiaries provide its seafarers competitive employment packages and comprehensive benefits and opportunities for career development.

We believe our Manager achieves high standards of technical ship management by pursuing risk reduction, operational reliability, and reduced personnel work time accidents. These standards are achieved through staff competencies, strategic alliances with suppliers and class societies on training, and information links across a nearly homogeneous fleet. Examples of our Manager's methods include the following:

development of an audited competency standard for seagoing staff;

standardization of equipment used throughout the fleet, which brings economies of scale, good familiarization by crew and streamlined logistical support;

implementation of voluntary vessel condition monitoring vetted by class (our Manager was the first in the world to achieve accreditation by Det Norske Veritas on its hull planned maintenance system);

direct recruitment of officers and ratings through an office in India that has supported the development of a culture of company loyalty and high retention of employees; and

implementation of a system that rewards staff for avoiding off-hire incidents and for operating without accidents.

Our Manager's personnel have experience in overseeing new vessel construction, vessel conversions and general marine engineering. The core management of our Manager has worked in various companies in the international ship management industry, including China Merchants Group, Neptune Orient Lines, Teekay Shipping, Safmarine Container Lines and Columbia Ship Management. Our Manager's staff has skills in all aspects of ship management, including design and operations and marine engineering, among others. A number of senior officers also have sea-going experience, having served aboard vessels at a senior rank. Our crews are directly selected by our Manager and hired by its crew management affiliate, Seaspan Crew Management Ltd. In all training programs, our Manager places an emphasis on safety, and regularly trains its crew members and other employees in order to ensure that our high standards can continuously be met. Shore-based personnel and crew members are trained to be prepared for, and are ready to respond to, emergencies related to life, property or the environment.

Our Manager is required to perform its services in a commercially reasonable manner and cannot engage in fraud, willful misconduct or act in a reckless or grossly negligent manner in performing its duties. Our Manager

is responsible for and will indemnify us for damages resulting from its obligations or liabilities under the management agreement, breaches of the agreement, fraud, willful misconduct, recklessness or gross negligence of our Manager or certain agents (other than the crew) or affiliates of our Manager in the performance of our Manager's duties.

Our Manager has agreed not to dispose of those wholly owned subsidiaries that provide services to us pursuant to the management agreement.

Our Competitive Strengths

We believe that we possess a number of competitive strengths that will allow us to capitalize on the growth opportunities in the containership shipping industry, including the following:

Stability of cash flows through long-term, fixed-rate time charters and fixed vessel operating expenses. Each vessel that we have contracted to purchase is subject to a long-term, fixed-rate time charter. As a result, the revenues from our vessels are protected from the volatility of spot rates and short-term charters. In order to further mitigate our risk, we have historically placed newbuilding orders and purchased secondhand vessels only when we have concurrently entered into long-term time charters with our customers. In addition, we have fixed the vessel operating expenses for our fleet through December 31, 2008 pursuant to the agreement with our Manager.

Built-in growth. We have significantly grown our fleet since our initial public offering in August 2005. At that time, we had an operating fleet of 10 vessels with another 13 vessels on order. As of December 31, 2006, we had 23 vessels in service and 18 vessels on order. This growth is expected to increase our annual contracted revenue by approximately \$142.1 million when all the vessels are delivered to us and are operating.

Diverse, high-quality fleet. Our current operating fleet of 23 vessels has an average age of 4.8 years as of December 31, 2006. All of these vessels are built to high specifications, of which 19 vessels were designed by our Manager. The other newbuilding vessels we have agreed to purchase meet our exacting standards for design, construction quality and maintenance. Upon delivery of the vessels we have contracted to purchase, the vessels in our fleet will range in size from 2500 TEU to 9600 TEU.

Strong customer relationships. We have long-standing relationships with our initial customers, CSCL Asia and CP Ships Limited, or CP Ships, which was acquired by TUI and amalgamated with its liner subsidiary, Hapag Lloyd in 2006. We believe that we will continue to be a significant provider to CSCL Asia and HL USA, a subsidiary of Hapag Lloyd, as they continue to grow their businesses and outsource capacity to charter owners. Since the completion of our initial public offering, we have expanded our customer base to include COSCON, APM and MOL. We will seek to expand our relationships with our new customers as we believe they will continue to outsource the ownership and operations of their existing and newbuilding vessels. In addition, we have extensive relationships with many other leading container liners, which we believe will lead to future business and enable us to further diversify our customer base.

Experienced management. Both our Chief Executive Officer and Chief Financial Officer have over 25 years of professional experience in the shipping industry. In addition, our Manager's core management team has experience with many companies in the international ship management industry, including China Merchants Group, Neptune Orient Lines, Teekay Shipping, Safmarine Container Lines and Columbia Ship Management. Our Manager's staff has skills in all aspects of ship management, including design, operations and marine engineering, among others. Since our initial public offering, our management has demonstrated a disciplined acquisition approach by significantly increasing the size of the fleet through the purchase of high-quality vessels and concurrently entering into long-term time charters.

Our Business Strategies

We will seek to increase distributable cash flow per share by employing the following business strategies:

Pursue long-term, fixed-rate charters. We intend to continue to pursue long-term, fixed-rate charters, which provide us with stable future cash flows. Further, container liner companies typically employ long-term charters for strategic expansion into major trade routes while employing spot charters for shorter term discretionary needs. As container liner companies expand their services into these major trade routes, we believe that we will be well positioned to participate in their growth.

Expand and diversify our customer relationships. Since our initial public offering, we have increased our customer base from two to five customers and have expanded our relationships with our original two customers, CSCL Asia and HL USA. We intend to continue to expand our relationships with CSCL Asia, HL USA, COSCON, APM and MOL, as well as add new customers as container liner companies continue to expand their use of chartered-in vessels to add capacity in their existing trade routes and establish new trade routes. We believe that we will benefit from the continued growth of worldwide container demand, especially in certain high-growth markets, such as China, where we have strong existing customer relationships. We also believe that our Manager's experience in working with container liners to provide ship design, drawing approval, construction supervision and brokering services will improve our ability to secure new customers.

Actively acquire newly-built and secondhand vessels. We have increased, and intend to further increase, the size of our fleet through timely and selective acquisitions of new and secondhand containerships that we believe will be accretive to distributable cash flow per share. We believe that entering into newbuild contracts will provide for the long-term growth of our fleet and continue to reduce the average age of our fleet. In addition, we believe that selectively acquiring high-quality secondhand vessels with long-term charters with leading container liners should provide for near-term growth in our fleet. We intend to continue this strategy to the extent market conditions permit, as we believe that it will enable us to reduce capital costs and enhance returns.

Operate under a fixed cost business model. We have entered into, and expect to continue to enter into, fixed-rate contracts for the daily operations of our vessels with our Manager. Further, we have entered into interest rate swap agreements to fix the interest rate on our current and anticipated borrowings under our credit facilities until at least February 2014. We believe that operating under a fixed cost business model will provide for stability of cash flows and dividend payments. Excluding reserves, general and administrative expenses, and potential extraordinary costs, our operating cost structure will be fixed through at least December 2008.

Maintain efficient capital structure. We intend to pursue a financial strategy that aims to preserve our financial flexibility and achieve the lowest possible capital cost so that we will be able to pursue acquisition and expansion opportunities to take advantage of potential growth opportunities in the future. We intend to use cash from operations to pay dividends, as well as to reinvest in our business and acquire new vessels.

Time Charters

General

We own containerships and charter them pursuant to long-term, fixed rate charters. A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. Under a time charter, the vessel owner provides crewing and other services related to the vessel's operation, the cost of which is included in the daily rate; the charterer is responsible for substantially all of the vessel voyage costs.

Each of the vessels in our fleet is subject to a long-term time charter. Currently, 12 containerships in our fleet are subject to charters with CSCL Asia, a subsidiary of CSCL. Seven containerships are subject to charters

with HL USA, a subsidiary of Hapag-Lloyd. CP Ships has provided a guarantee of the obligations and liabilities of HL USA under each time charter and CSCL Hong Kong and CSCL have each provided a guarantee of the obligations and liabilities of CSCL Asia under each time charter. Four vessels are subject to charters with APM.

Each of the 18 vessels that will be delivered to us over the next 33 months is also subject to a long-term time charter. Eight containerships are subject to charters with CSCL Asia, two are subject to charters with China Shipping, which will novate them to CSCL Asia, four are subject to charters with MOL, two are subject to charters with HL USA and the remaining two containerships are subject to charters with COSCON.

Initial Term; Extensions

The initial term for a time charter commences on the vessel's delivery. Under all of our time charters, the charterer may also extend the term for periods in which the vessel is off-hire, as described below. One of our charterers has a very specific right to terminate its charters prior to expiration of the original term, as described in more detail below.

The charter periods of 22 of the vessels in our fleet chartered to CSCL Asia are as follows. Five of the charters for the 4250 TEU vessels have initial terms of ten years each with options, exercisable by the charterer, to extend the term of each charter for an additional two years. The two charters for the 8500 TEU vessels have initial terms of 12 years with options, in favor of the charterer, to extend the term of each charter for an additional three years. The charters for the remaining five 4250 TEU vessels in our current fleet have terms of 12 years. The eight 2500 TEU vessels that will be constructed are also subject to charters of 12 years. The two 9600 TEU vessels under construction are subject to charters with terms of 12 years and the charters will be novated by China Shipping to CSCL Asia upon the vessels' inspection and delivery to us.

The charter periods of the 4800 TEU vessels that are chartered to APM have initial terms of five years, two consecutive one-year options and a final two-year option.

The charter periods for the two 3500 TEU vessels currently under construction that are chartered to COSCON and the four 5100 TEU vessels currently under construction that are chartered to MOL are 12 years. There is no option to extend beyond the initial term.

The initial term of each of the time charters with HL USA is three years. HL USA has the right to extend each of the charters for up to an additional seven years in successive one-year extensions. Each one-year extension is automatic, unless HL USA provides written notice to the contrary to us not later than two years prior to the commencement of the respective extension period. If HL USA provides notice of its intention not to extend a time charter at the end of its initial three-year term, it must pay to us, at the end of the term, a termination fee of approximately \$8.0 million. The termination fee declines by \$1.0 million per vessel in years four through nine. If the term of a time charter is extended for the full ten years, HL USA has an option to extend the term for two additional one-year periods.

In the case of our charters with HL USA, while the initial term is only three years, we consider these charters to be long-term charters. Given that HL USA is required to pay a termination fee of approximately \$8.0 million to terminate a charter at the end of the initial term, that the charter hire rates are substantially below those rates presently offered in the spot market and short-term time charter market, and that the charters automatically renew unless terminated upon two years prior notice, we believe it is likely that HL USA will extend the charters beyond the initial term.

Hire Rate

Hire rate refers to the basic payment from the charterer for the use of the vessel. Under all of our time charters, hire is payable, in advance, in U.S. dollars, as specified in the charter.

If a vessel's speed is reduced as a result of a defect or breakdown of the hull, machinery or equipment, hire payments under all of our time charters may be reduced by the cost of the time lost and extra fuel consumed. Historically, we have had no instances of hire rate reductions and neither have the VesselCos.

Under the time charters with CSCL Asia, the hire rate is payable in advance every 15 days at the applicable daily rate. Generally, the hire rate is a fixed daily amount which increases by a fixed amount at varying intervals during the term of the charter and/or any extension to the term.

Under the time charters with HL USA, the hire rate is payable monthly in advance at the applicable daily rate. The hire rate consists of two general components: a fixed hire rate component and a fixed payment for services. Pursuant to the management services agreement entered into by certain VesselCos with our Manager and HL USA, which will be assigned to us on completion of our purchase of the vessel owned by each such VesselCo, HL USA has agreed to make certain payments toward operating expenses directly to our Manager under the direction of those VesselCos. Both components are fixed for the first three years of the charters and for the seven extension years and increase for the two subsequent extension terms.

Similarly to the time charters with CSCL Asia, under the time charters with COSCON, the hire rate is payable in advance every 15 days at the applicable fixed daily rate.

The hire rate under the time charters with APM is payable monthly in advance at the applicable fixed daily rate.

The hire rate under the time charters with MOL is payable monthly advance at the applicable fixed daily rate, however for the last half month of the charter, the approximate amount of the hire rate is to be paid day by day as it become due unless a bank guarantee is made by the charterers.

Operations and Expenses

Our Manager operates our vessels and is responsible for ship operating expenses, which include technical management, crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses and capital expenses, which include normally scheduled drydocking of the vessels. Please read Item 4. Information on the Company B. Business Overview Management Related Agreements for a description of the material terms of the management agreement. The charterer generally pays the voyage expenses, which include all expenses relating to particular voyages, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions.

Off-hire

Under all forms of our time charters, when the vessel is off-hire, or not available for service, the charterer generally is not required to pay the hire rate, and we are responsible for all costs, including the cost of fuel bunkers unless the charterer is responsible for the circumstances giving rise to the lack of availability. 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;

drydocking for repairs, maintenance or inspection;

equipment breakdowns;

delays due to accidents;

crewing strikes, labor boycotts, certain vessel detentions or similar problems; or

our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Under our time charters with HL USA, if a vessel is delayed, detained or arrested for 30 consecutive days due to engine or essential gear breakdown, strikes, labor stoppages, boycotts or blockades, or is requisitioned, or other causes affecting the vessel's schedule, other than grounding, collision or similar causes, we must charter a substitute vessel and we must pay any difference in hire cost of the charter for the duration of the substitution. Under our time charter with COSCON, if a vessel is placed off-hire for 30 cumulative days in a 365 day period, COSCON may cancel the time charter with respect to that vessel. CSCL Asia does not have similar rights under its charters with us. Under our time charters with MOL and APM, if a vessel is off-hire for more than 60 consecutive days, the charterer has a right to terminate the charter agreement for that vessel.

Ship Management and Maintenance

Under each of our time charters, we are responsible for the operation and management of each vessel that includes maintaining the vessel, periodic drydocking, cleaning and painting and performing work required by regulations. Our Manager provides these services to us pursuant to the management agreement between us. Please read Item 4. Information on the Company B. Business Overview Management Related Agreements for a description of the material terms of the management agreement.

Termination and Suspension

We are generally entitled to withdraw the vessel from service to the charterers if the charterer defaults in its payment obligations, without prejudice to other claims for hire against the charterers. Under our time charters with HL USA, if a vessel consistently fails to perform to a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount, and we are unable to rectify the situation within a reasonable period of time or otherwise reach a mutually acceptable settlement, HL USA has the right to terminate the time charter with respect to that vessel. Under our time charters with COSCON, if a vessel consistently fails to perform to a guaranteed speed and we are unable to rectify the situation within a reasonable period of time or otherwise reach a mutually acceptable settlement, COSCON has the right to terminate the time charter with respect to that vessel. Pursuant to the time charter agreements with APM and MOL, if a vessel is off-hire for more than 60 consecutive days, the charterer has a right to terminate the charter agreement for that vessel. CSCL Asia does not have similar rights under its charters with us.

Change of Control

Under our time charters with HL USA, HL USA's prior consent is required to any material change in our ownership or voting control. HL USA cannot unreasonably withhold such consent. None of CSCL Asia, APM, MOL or COSCON have similar rights under their charters with us.

Sale of Vessels

Several of our time charters with CSCL Asia allow us to sell the vessels under time charters to any party as long as the warranties under the time charters remain unaffected. The remaining time charters with CSCL Asia allow us to sell the vessels under the time charters to any party as long as we obtain the charterer's prior consent. CSCL Asia cannot unreasonably withhold such consent.

In the event we wish to sell one of the vessels under a time charter with HL USA, we must first notify HL USA and provide HL USA with an opportunity to purchase the vessel. If HL USA refuses to purchase the vessel or if we are unable to reach an agreement with HL USA within 14 days, we will be free to conclude a sale with another party subject to certain terms.

Our time charters with COSCON and MOL allow us to sell the vessels under time charters to any buyer suitable to fulfil the charter, but only when justified by circumstances and subject to charterer's consent, which cannot be unreasonably withheld.

There is no similar provision in the time charters with APM relating to the sale of the vessels.

Charterers

CSCL Asia is a subsidiary of CSCL, which is currently the sixth largest container shipping company in the world with over 396,000 TEU of capacity. Incorporated in China, CSCL is listed on the Hong Kong Stock Exchange with a market capitalization of approximately \$2.3 billion. Currently, CSCL Asia charters 12 of the 23 vessels in our fleet. Each time charter to CSCL Asia has a guarantee provided by CSCL and CSCL Hong Kong to cover the obligations and liabilities of CSCL Asia.

HL USA was formed pursuant to a merger with another subsidiary of CP Ships under the laws of the state of Delaware and is a subsidiary of Hapag Lloyd. CP Ships was acquired by TUI in 2005 and was later amalgamated into its affiliate, Hapag Lloyd, to create the world's fifth largest container shipping company with a capacity of 457,000 TEU. HL USA currently charters seven vessels in our fleet and will charter an additional two vessels for a total of nine vessels.

COSCON is the container shipping subsidiary of China COSCO Holdings Company Limited, or China COSCO, a Chinese company publicly traded on the Hong Kong Stock Exchange, with a market capitalization of approximately \$5.3 billion. China COSCO is one of the leading global providers of integrated container shipping services and COSCON is currently the world's seventh largest container shipping company. COSCON will charter the two 3500 TEU vessels that we are scheduled to acquire in 2007.

APM is the largest containership company in the world with over 1,750,000 TEU capacity. APM is listed on the Copenhagen Stock Exchange with a market capitalization of approximately \$48.0 billion. APM currently charters four vessels in our fleet although they have sub-chartered one vessel to Mediterranean Shipping Company, S.A., or MSC, who operates it as the MSC Sweden.

MOL is the 12th largest containership company in the world with over 280,000 TEU of capacity. MOL is listed on the Tokyo Stock Exchange with a market capital of approximately \$13.6 billion. MOL will charter a total of four 5100 TEU vessels upon their deliveries in 2009.

Competition

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

Competition for providing new containership service comes from a number of experienced shipping companies. Many of our 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 an increasing number of marine transportation companies will 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.

Seasonality

Our vessels operate under long-term charters and are not subject to the effect of seasonal variations in demand.

Management Related Agreements

The following summary of the material terms of the ship management agreements does not purport to be complete and is subject to, and qualified in its entirety by reference to, all the provisions of the management agreement, omnibus agreement and each of the employment agreements with Gerry Wang and Graham Porter. Capitalized words and expressions used herein and defined in the management agreements shall have the same meaning herein or as therein defined. Because the following is only a summary, it does not contain all information that you may find useful. For more complete information, you should read the entire management agreement, omnibus agreement and each of the employment agreements between subsidiaries of our Manager, Gerry Wang and Graham Porter incorporated herein by reference.

Certain aspects of our operations, including the management of our fleet, is performed by our Manager under the supervision of our board of directors. Our Chief Executive Officer has been made available to us by our Manager to manage our day-to-day operations and affairs. Our Chief Executive Officer and others, including our Manager and its affiliated companies, report to our board of directors regarding strategic, administrative and technical management matters.

Management Agreement

Under our management agreement, our Manager is responsible for providing us with substantially all of our 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 trades, ensuring classification society compliance, supervising the maintenance and general efficiency of vessels, arranging our hire of qualified officers and crew, training, transportation, compensation and 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 insurance, protection and indemnity insurance and risks and crew 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 (provision of technical services and related costs are paid for by our Manager at its cost and in return for its technical services, our Manager receives the fixed daily technical services fee);

administrative services, which include, in each case, at the direction of our board of directors, assistance with the maintenance of our corporate books and records, payroll services, the assistance with the preparation of our tax returns (and paying all vessel taxes) 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 us for submission to our board of directors), assistance in complying with the U.S. 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 (including all annual, quarterly, current and other reports we are required to file with the Commission pursuant to the Securities Exchange Act of 1934 (the Exchange Act)), assistance with office space, providing legal and financial compliance services, overseeing banking services (including the opening, closing, operation and management of all our accounts including making any deposits and withdrawals reasonably necessary for the management of our business and day-to-day operations), procuring general insurance and director and officer liability insurance, 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; and

strategic services, which include chartering our vessels, managing our relationships with our charter parties, chartering, locating, purchasing, financing and negotiating the purchasing and selling of our vessels, providing general strategic planning services and implementing corporate strategy, providing business development services, developing acquisition and divestiture strategies, working closely on the integration of any acquired business, supervising the design and construction of new buildings, licensing to us the tradename Seaspan and associated logos, providing pre-delivery service for vessels and such other strategic, corporate planning, business development and advisory services as we may reasonably identify from time to time.

Our Manager is responsible for paying for all costs associated with the provision of technical services but is not responsible for certain extraordinary costs and expenses, which consist of repairs for accidents; non-routine drydocking; any improvement, structural change, installation of new equipment imposed by compulsory legislation; increase in crew employment and support expenses resulting from an introduction of new, or change in the interpretation of, applicable laws; or any other similar costs, liabilities and expenses that were not reasonably contemplated by us and our Manager as being encompassed by or a component of the technical services fee at the time the fee was determined. We carry insurance coverage consistent with industry standards for certain matters but we cannot assure you that our insurance will be adequate to cover all extraordinary costs and expenses. Notwithstanding the foregoing, if any extraordinary costs and expenses are caused by our Manager's fraud, willful misconduct, recklessness or gross negligence, our Manager will be responsible for them.

Subject to certain termination rights, the initial term of the management agreement will expire on December 31, 2025. If not terminated, the management agreement shall automatically renew for a five-year period and shall thereafter be extended in additional five-year increments if we do not provide notice of termination in the fourth quarter of the fiscal year immediately preceding the end of the respective term.

Reporting Structure

Our Chief Executive Officer has been made available to us by our Manager to manage our day-to-day operations and affairs. Pursuant to his employment agreement described below, our Chief Executive Officer devotes substantially all of his time to us and our Manager on our business and affairs. Our Manager reports to our board of directors through our Chief Executive Officer and operates our business. Our board of directors and our Chief Executive Officer and Chief Financial Officer have responsibility for overall corporate strategy, acquisitions, financing and investor relations. Our Chief Executive Officer and Chief Financial Officer utilize the resources of our Manager to run our business. Our Chief Financial Officer is employed by us and devotes all of his time to our matters.

Compensation of Our Manager

In return for its technical management of our ships, our Manager receives a daily fixed fee per vessel payable on a monthly basis. The initial fixed fees are \$4,500 per day for each 4250 TEU vessel, \$5,750 per day for each 4800 TEU vessel, \$6,000 per day for each 8500 TEU vessel and \$6,500 per day for each 9600 TEU vessel. The initial fixed fees are expected to be \$4,000 per day for each 2500 TEU vessel, \$4,200 per day for each 3500 TEU vessel and \$4,800 per day for each 5100 TEU vessel. We believe these are fair market fees. The initial fixed fees for the 4250 TEU, 8500 TEU and 9600 TEU vessels are in effect through December 31, 2008 and thereafter will be subject to renegotiation every three years, provided that the fee for the three-year period beginning January 1, 2009 will not be less than the initial technical services fee. The initial fixed fees for the 3500 TEU vessels and the 4800 TEU vessels are in effect through December 31, 2008 and thereafter will be subject to renegotiation every three years. Similarly, the initial fixed fees for the 2500 TEU vessels and the 5100 TEU vessels are in effect through December 31, 2011, and thereafter will be subject to renegotiation every three years. With respect to fee renegotiation, if our Manager and the board of directors are unable to reach an agreement an arbitrator will determine the fair market fee. In the event that we acquire an additional vessel, the technical services fee in respect of that vessel will be the same fee as is applicable to vessels of the same size. If

there is a material difference in the operating costs associated with the new vessel, or if there are no vessels of a similar size already owned by us, we will negotiate a fair market fee with our Manager. If we are unable to reach an agreement an arbitrator will determine the fair market fee.

In return for providing us with strategic and administrative services, our Manager is entitled to a service fee not exceeding a maximum of \$6,000 per month, and to reimbursement for all of the reasonable costs and expenses incurred by it and its affiliates in providing us with such services. Our Manager provides these services to us directly but may subcontract certain of these services to other entities, including its affiliates. The management agreement provides that we have the right to audit the costs and expenses billed to us and also provides for a third party to settle any billing disputes between us and our Manager.

In connection with providing us strategic services, our Manager's affiliate acquired 100 incentive shares for \$1,000 concurrently with our initial public offering. The incentive shares are entitled to a share of incremental dividends, based on specified sharing ratios, once dividends on our common and subordinated shares reach certain specified targets beginning with the first target of \$0.485 per share. Under the terms of the management agreement, we have the right to reacquire the incentive shares from our Manager's affiliate at a nominal price under specified circumstances and we have the obligation to reacquire them at a price determined by independent parties under other specified circumstances.

Omnibus Agreement

We have entered into an agreement with our Manager, certain of our Manager's subsidiaries that provide services to us, Norsk, a company within the Washington Marine Group, and Seaspan International, a company that owns substantially all of the Washington Companies' marine transportation shipyards and ship management entities. The following discussion describes the provisions of the omnibus agreement.

Non-competition

Our Manager, Norsk, and Seaspan International have agreed, and have caused their controlled affiliates (other than us and our subsidiaries) to agree, directly or indirectly, not to engage in or otherwise acquire or invest in any business involved in the chartering or rechartering of containerhips to others, hereinafter referred to as the containerhip business, during the term of the management agreement, except as provided below. Containerhips includes any o