Danaos Corp
Form 20-F
March 15, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 20-F

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

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

OR

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

For the transition period from to

OR

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

Date of event requiring this shell company report

Commission file number 001-33060

DANAOS CORPORATION

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Evangelos Chatzis
Chief Financial Officer
c/o Danaos Shipping Co. Ltd
14 Akti Kondyli
185 45 Piraeus
Greece
Telephone: +30 210 419 6480
Facsimile: +30 210 419 6489
(Name, Address, Telephone Number and Facsimile Number of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Common stock, $0.01 par value per share	New York Stock Exchange
Preferred stock purchase rights	New York Stock Exchange

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

None.

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

None.

As of December 31, 2015, there were 109,781,744 shares of the registrant's common stock outstanding.

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

o Yes ý 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.

o Yes ý 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.

ý Yes o No

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

ý Yes o 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 o Accelerated filer ý Non-accelerated filer o

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

U.S. GAAP ý International Financial Reporting Standards o Other o

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

o Item 17 o 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).

o Yes ý No

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FORWARD-LOOKING INFORMATION

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

- future operating or financial results;
- pending acquisitions and dispositions, business strategies and expected capital spending;
- operating expenses, availability of crew, number of off-hire days, drydocking requirements and insurance costs;
- general market conditions and shipping market trends, including charter rates, vessel values and factors affecting supply and demand;
- our financial condition and liquidity, including our ability to comply with covenants in our financing arrangements and to service our outstanding indebtedness;
- performance by our charterers of their obligations;
- the availability of ships to purchase, the time that it may take to construct new ships, or the useful lives of our ships;
- our ability to obtain financing in the future to fund acquisitions and other general corporate activities;
- our continued ability to enter into multi-year, fixed-rate period charters with our customers;
- our ability to leverage to our advantage our manager's relationships and reputation in the containership shipping sector of the international shipping industry;
- changes in governmental rules and regulations or actions taken by regulatory authorities;
- potential liability from future litigation; and
- other factors discussed in "Item 3. Key Information Risk Factors" of this annual report.

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

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

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PART I

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

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

All data regarding our fleet and the terms of our charters is as of February 29, 2016. As of February 29, 2016, we owned 55 containerships aggregating 329,588 TEU in capacity. Gemini Shipholdings Corporation ("Gemini"), a Marshall Islands company incorporated in August 2015 and beneficially owned 49% by Danaos Corporation and 51% by Virage International Ltd. ("Virage"), a company controlled by Danaos Corporation's largest stockholder, owned an additional four containerships of 23,998 TEU aggregate capacity as of February 29, 2016. We do not consolidate Gemini's results of operations and account for our minority equity interest in Gemini under the equity method of accounting. See "Item 4. Information on the Company Business Overview Our Fleet".

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

Selected Financial Data

The following table presents selected consolidated financial and other data of Danaos Corporation and its consolidated subsidiaries for each of the five years in the five year period ended December 31, 2015. The table should be read together with "Item 5. Operating and Financial Review and Prospects." The selected consolidated financial data of Danaos Corporation is derived from our consolidated financial statements and notes thereto, which have been prepared in accordance with U.S. generally accepted accounting principles, or "U.S. GAAP", and have been audited for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 by PricewaterhouseCoopers S.A., an independent registered public accounting firm.

Our audited consolidated statements of operations, statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2015, 2014 and 2013, and the

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consolidated balance sheets at December 31, 2015 and 2014, together with the notes thereto, are included in "Item 18. Financial Statements" and should be read in their entirety.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	In thousands, except per share amounts and other data				
STATEMENT OF OPERATIONS					
Operating revenues	$ 567,936	$ 552,091	$ 588,117	$ 589,009	$ 468,101
Voyage expenses	(12,284)	(12,974)	(11,770)	(13,503)	(10,765)
Vessel operating expenses	(112,736)	(113,755)	(122,074)	(123,356)	(119,127)
Depreciation	(131,783)	(137,061)	(137,414)	(143,938)	(106,178)
Amortization of deferred drydocking and special survey costs	(3,845)	(4,387)	(5,482)	(6,070)	(5,800)
Impairment loss	(41,080)	(75,776)	(19,004)	(129,630)	
General and administrative expenses	(21,831)	(21,442)	(19,458)	(20,379)	(21,028)
Gain/(loss) on sale of vessels		5,709	(449)	830	
Income from operations	244,377	192,405	272,466	152,963	205,203
Interest income	3,419	1,703	2,210	1,642	1,304
Interest expense	(70,397)	(79,980)	(91,185)	(87,340)	(55,124)
Other finance expenses	(18,696)	(19,757)	(20,120)	(18,107)	(14,581)
Equity loss on investments	(1,941)				
Other (expenses)/income, net	111	422	302	811	(1,986)
Unrealized and realized losses on derivatives	(39,857)	(98,713)	(126,150)	(155,173)	(121,379)
Total other expenses, net	(127,361)	(196,325)	(234,943)	(258,167)	(191,766)
Net income/(loss)	$ 117,016	$ (3,920)	$ 37,523	$ (105,204)	$ 13,437
PER SHARE DATA					
Basic and diluted net income/(loss) per share of common stock	$ 1.07	$ (0.04)	$ 0.34	$ (0.96)	$ 0.12
Basic and diluted weighted average number of shares	109,785	109,676	109,654	109,613	109,045
CASH FLOW DATA					
Net cash provided by operating activities	$ 271,676	$ 192,181	$ 189,025	$ 166,558	$ 59,492
Net cash (used in)/provided by investing activities	(13,292)	11,437	6,087	(369,789)	(644,593)
Net cash (used in)/provided by financing activities	(243,861)	(214,041)	(182,587)	207,497	406,628
Net increase/(decrease) in cash and cash equivalents	14,523	(10,423)	12,525	4,266	(178,473)
BALANCE SHEET DATA (at year end)					
Total current assets	$ 127,570	$ 103,073	$ 126,866	$ 98,673	$ 93,291
Total assets	3,697,103	3,851,192	4,066,552	4,212,045	3,988,104
Total current liabilities, including current portion of long-term debt	312,145	328,082	369,888	365,252	231,693
Current portion of long-term debt	269,979	178,116	146,462	125,076	41,959
Current portion of Vendor financing		46,530	57,388	57,388	10,857
Long-term debt, net of current portion	2,505,399	2,773,004	2,965,641	3,097,472	2,960,288
Vendor financing, net of current portion		17,837	64,367	121,754	54,288
Total stockholders' equity	841,914	688,149	598,476	440,304	442,535
Common stock (shares outstanding)	109,782	109,669	109,653	109,604	109,564
Common stock at par value	1,098	1,097	1,097	1,096	1,096
OTHER DATA					
Number of vessels at period end	56	56	59	64	59
TEU capacity at period end	334,239	334,239	345,179	363,049	291,149
Ownership days	20,440	20,406	22,257	22,910	20,053

Operating days	20,239	19,905	20,784	21,297	19,576

In the first quarter of 2009, our board of directors decided to suspend the payment of further cash dividends as a result of market conditions in the international shipping industry. Our payment of dividends is subject to the discretion of our Board of Directors. Our loan agreements and the

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provisions of Marshall Islands law also contain restrictions that affect our ability to pay dividends and we generally will not be permitted to pay cash dividends under the terms of the bank agreement ("Bank Agreement") and new financing agreements which we entered into in 2011. See "Item 3. Key Information Risk Factors Risks Inherent in Our Business We are generally not permitted to pay cash dividends under our financing arrangements." See "Item 8. Financial Information Dividend Policy."

Capitalization and Indebtedness

The table below sets forth our consolidated capitalization as of December 31, 2015:

on an actual basis; and

on an as adjusted basis to reflect, in the period from January 1, 2016 to February 29, 2016, scheduled debt repayments of $40.9 million, of which $37.5 million relates to our Bank Agreement and $3.4 million relates to our Sinosure-CEXIM-Citi-ABN Amro credit facility.

Other than these adjustments, there have been no material changes to our capitalization from debt or equity issuances, re-capitalizations, special dividends, or debt repayments as adjusted in the table below between January 1, 2016 and February 29, 2016.

	As of December 31, 2015	
	Actual	**As Adjusted**
	(US Dollars in thousands)	
Debt:		
Total debt(1)	$ 2,775,378	$ 2,734,437
Stockholders' equity:		
Preferred stock, par value $0.01, 100,000,000 preferred shares authorized and none issued; actual and as adjusted		
Common stock, par value $0.01 per share; 750,000,000 shares authorized; 109,781,744 shares issued and outstanding; actual and as adjusted(2)	1,098	1,098
Additional paid-in capital	546,822	546,822
Accumulated other comprehensive loss	(103,081)	(103,081)
Retained earnings	397,075	397,075
Total stockholders' equity	841,914	841,914
Total capitalization	$ 3,617,292	$ 3,576,351

(1) All of our indebtedness is secured.

(2) Does not include 15 million warrants issued in 2011 to purchase shares of common stock, at an exercise price of $7.00 per share, which we issued to the lenders participating in our comprehensive financing plan. The warrants, which will expire on January 31, 2019, are exercisable solely on a cashless exercise basis.

Reasons for the Offer and Use of Proceeds

Not Applicable.

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RISK FACTORS

Risks Inherent in Our Business

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

The downturn in the containership market, from which we derive all of our revenues, has severely affected the container shipping industry, particularly the large liner companies to which we charter our vessels, and has adversely affected our business. The containership market has declined sharply since mid-2015, reaching the lowest levels since the historically low levels of 2008 and 2009, after a mild upturn in the first half of 2015 from the generally low levels experienced since the third quarter of 2011. The benchmark rates have declined in all quoted size sectors, with the deepest decline in the benchmark one-year daily rate of a 4,400 TEU Panamax containership, which was $36,000 in May 2008 and, after reaching $15,000 in the first half of 2015, $6,000 in December 2015. The decline in charter rates is due to various factors, including the level of global trade, including exports from China to Europe and the United States, and increases in containership capacity. The decline in the containership market has affected the major liner companies which charter our vessels, some of which have reported large losses again in 2015 and announced the intention to restructure their obligations, including some of our charterers. For instance, as part of its announced efforts to restructure its obligations with various parties, including finance providers and owners of its chartered-in fleet, Hyundai Merchant Marine ("Hyundai"), which currently charters 13 of our vessels, has initiated discussions with containership charter-owners, such as us, regarding its charter obligations for which it is seeking concessions. It also affects the value of our vessels, which follow the trends of freight rates and containership charter rates, and the earnings on our charters, and similarly, affects our cash flows and liquidity. Before the covenant levels in our financing arrangements were reset in the first quarter of 2011 at levels at which we are now in compliance, we had to obtain waivers from the lenders under all but one of our credit facilities because we had not been in compliance with the covenants contained in our loan agreements. The further decline in the containership charter market in recent months may continue to have additional adverse consequences for our industry including limited financing for vessel acquisitions and newbuildings, a less active secondhand market for the sale of vessels, charterers not performing under, or requesting modifications of, existing time charters and loan covenant defaults in the container shipping industry. This significant downturn in the container shipping industry could adversely affect our ability to service our debt and other obligations and adversely affect our results of operations and financial condition.

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

Our credit facilities, which are secured by mortgages on our vessels, require us to maintain specified collateral coverage ratios and satisfy financial covenants, including requirements based on the market value of our containerships, our net worth and consolidated debt to EBITDA. Persistently low containership charter rates, or the failure of our charterers to fulfill their obligations under their charters for our vessels, due to the financial pressure on these liner companies from the significant decreases in demand for the seaborne transport of containerized cargo or otherwise, could adversely affect our ability to comply with covenants in our financing arrangements. The market value of containerships is sensitive to, among other things, changes in the charter markets with vessel values deteriorating in times when charter rates are falling and improving when charter rates are anticipated to rise. The depressed state of the containership charter market coupled with the prevailing difficulty in obtaining financing for vessel purchases has generally adversely affected containership values. Under the agreement ("Bank Agreement") we entered into in the first quarter of 2011 for the restructuring of

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our then existing credit facilities and certain credit facilities we entered into in January 2011 ("January 2011 Credit Facilities"), the financial covenants in our financing arrangements were reset to levels that gradually tighten over the period through the maturity of these financing arrangements in late 2018.

If we are unable to comply with the financial and other covenants under our credit facilities, our lenders could accelerate our indebtedness and foreclose on the vessels in our fleet, which would impair our ability to continue to conduct our business. Any such acceleration, because of the cross-default provisions in our loan agreements, could in turn lead to additional defaults under our other loan agreements and the consequent acceleration of the indebtedness thereunder and the commencement of similar foreclosure proceedings by our other lenders. If our indebtedness were accelerated in full or in part, it would be difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our vessels if our lenders foreclose upon their liens, which would adversely affect our ability to continue our business.

We may have difficulty securing profitable employment for our vessels in the currently depressed containership market.

Of our 55 vessels, as of February 29, 2016, nine are employed on time charters expiring between March 2016 and October 2016. Two of the vessels owned by Gemini are unemployed as of February 29, 2016. Given the current depressed state of the containership charter market, we may be unable to secure employment for these vessels at attractive rates, or at all, when, if applicable, their charters expire. Although we do not receive any revenues from our vessels while not employed, as was also the case for certain of our vessels for periods in recent years, we are required to pay expenses necessary to maintain the vessel in proper operating condition, insure it and service any indebtedness secured by such vessel. If we cannot re-charter our vessels profitably, our results of operations and operating cash flow will be adversely affected.

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

We derive all of our revenues from the payment of charter hire by our charterers. Each of our 55 containerships are currently employed under time or bareboat charters with eleven liner companies, with 99% of our revenues in 2015 generated from six such companies. We could lose a charterer or the benefits of a time charter if:

- the charterer fails to make charter payments to us because of its financial inability, disagreements with us, defaults on a payment or otherwise;
- the charterer exercises certain specific limited rights to terminate the charter;
- we do not take delivery of any newbuilding containership we may contract for at the agreed time; or
- the charterer terminates the charter because the ship fails to meet certain guaranteed speed and fuel consumption requirements and we are unable to rectify the situation or otherwise reach a mutually acceptable settlement.

In recent years, a number of major liner companies, including some of our charterers, have announced significant losses, efforts to obtain third party aid and to restructure their obligations, including charter modifications, as well as an intention to reduce the number of vessels they charter-in, which circumstances may increase the likelihood of losing a charterer or the benefits of a time charter. Hyundai, which currently charters 13 of our vessels, has announced that it is undertaking efforts to restructure its obligations with various parties, including finance providers and owners of its

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chartered-in fleet, and has initiated discussions with containership charter-owners, including us, regarding its charter obligations for which it is seeking concessions.

We contributed to ZIM's past restructurings by agreeing to receive a portion of the charter hire payable under time charters for six of our vessels in the form of long-term notes and ZIM's 2014 agreement with its creditors included a significant reduction in the charter rates payable by ZIM under its time charters, expiring in 2020 or 2021, for six of our vessels and we received unsecured, non-amortizing, interest bearing ZIM notes maturing in 2023 and ZIM shares in exchange for such reductions and cancellation of ZIM's other obligations to us which relate to the previously deferred charter hire.

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

Many of the time charters on which we deploy our containerships, including those with Hyundai for a number of our vessels, provide for charter rates that are significantly above current market rates. The ability and willingness of each of our counterparties to perform its obligations under their time charters with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the container shipping industry, which has generally experienced sharp declines since mid-2015 from the already weaker levels generally experienced during the limited recovery from the 2008-2009 economic crisis, and the overall financial condition of the counterparty. Furthermore, the combination of a reduction in cash flow resulting from declines in world trade, a reduction in borrowing bases under credit facilities and the reduced availability of debt and equity financing may result in a significant reduction in the ability of our charterers to make charter payments to us, with a number of large liner companies announcing efforts to obtain third party aid and restructure their obligations, including some of our charterers. The likelihood of a charterer seeking to renegotiate or defaulting on its charter with us may be heightened to the extent such customers are not able to utilize the vessels under charter from us, and instead leave such chartered vessels idle. Should a counterparty fail to honor its obligations under agreements with us, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure may be at lower rates given currently depressed situation in the charter market. Gemini, in which we have minority equity investment, faces the same risks with respect to its vessels that it employs on time charters.

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

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

Our customers in the containership sector consist of a limited number of liner operators. The percentage of our revenues derived from these customers has varied in past years. In the past several years, CMA CGM, Hanjin, Hyundai Merchant Marine,Yang Ming, China Shipping and ZIM have represented substantial amounts of our revenue. In 2015, approximately 99% of our operating revenues were generated by these six customers, while in 2014, approximately 97% of our operating revenues were derived from these customers. As of the date of this report, we have charters for four of our

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vessels with China Shipping, for twelve of our vessels with CMA CGM, for thirteen of our vessels with Hyundai, for eight of our vessels with Hanjin, for six of our vessels with Yang Ming and for seven of our vessels with ZIM. We expect that a limited number of liner companies may continue to generate a substantial portion of our revenues. Some of these liner companies, including our largest customer by revenues in 2015, have publicly acknowledged the financial difficulties facing them, reported substantial losses again in 2015 and announced the intention to restructure their obligations, including charter contracts. Hyundai, from which 28% of our revenues were generated in 2015, has initiated discussions with containership charter-owners, including us, regarding its charter obligations for which it is seeking concessions. ZIM's 2014 restructuring agreement with its creditors included a significant reduction in the charter rates payable by ZIM under its time charters, expiring in 2020 or 2021, for six of our vessels. If any of these liner operators cease doing business or do not fulfill their obligations under their charters for our vessels, due to the financial pressure on these liner companies from the significant decreases in demand for the seaborne transport of containerized cargo or otherwise, our results of operations and cash flows, and ability to comply with covenants in our financing arrangements, could be adversely affected. Further, if we encounter any difficulties in our relationships with these charterers, our results of operations, cash flows and financial condition could be adversely affected.

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

Demand for our vessels depends on demand for the shipment of cargoes in containers and, in turn, containerships. The ocean-going container shipping industry is both cyclical and volatile in terms of charter hire rates and profitability. Containership charter rates peaked in 2005 and generally stayed strong until the middle of 2008, when the effects of the economic crisis began to affect global container trade, and in 2008 and 2009 the ocean-going container shipping industry experienced severe declines, with charter rates at significantly lower levels than the historic highs of the prior few years. Containership charter rates again declined sharply beginning in the third quarter of 2011, after limited improvement in 2010 and 2011, before recovering somewhat in the first half of 2015. Since mid-2015 rates have declined sharply, remain well below long-term averages and could remain at depressed levels for an extended period. Variations in containership charter rates result from changes in the supply and demand for ship capacity and changes in the supply and demand for the major products transported by containerships. The factors affecting the supply and demand for containerships and supply and demand for products shipped in containers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. The slowdown in the global economy and disruptions in the credit markets may continue to reduce demand for products shipped in containers and, in turn, containership capacity.

Factors that influence demand for containership capacity include:

- supply and demand for products suitable for shipping in containers;
- changes in global production of products transported by containerships;
- the distance that container cargo products are to be moved by sea;
- the globalization of manufacturing;
- global and regional economic and political conditions;
- developments in international trade;

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- changes in seaborne and other transportation patterns, including changes in the distances over which containerized cargoes are transported and steaming speed of vessels;
- environmental and other regulatory developments; and
- currency exchange rates.

Factors that influence the supply of containership capacity include:

- the number of new building deliveries;
- the scrapping rate of older containerships;
- the price of steel and other raw materials;
- changes in environmental and other regulations that may limit the useful life of containerships;
- the number of containerships that are out of service; and
- port congestion.

Consumer confidence and consumer spending remain relatively weak and uncertain. Consumer purchases of discretionary items, many of which are transported by sea in containers, generally decline during periods where disposable income is adversely affected or there is economic uncertainty and, as a result, liner company customers may ship fewer containers or may ship containers only at reduced rates. Any such decrease in shipping volume could adversely impact our liner company customers and, in turn, demand for containerships. As a result, charter rates and vessel values in the containership sector have decreased significantly and the counterparty risk associated with the charters for our vessels has increased.

Our ability to recharter our containerships upon the expiration or termination of their current charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, the prevailing state of the charter market for containerships. As of February 29, 2016, two vessels owned by Gemini were not employed and the charters for nine of our existing vessels expire between March 2016 and October 2016. If the charter market, which has experienced sharp declines since mid-2015 from already low levels, is depressed when our vessels' charters expire, we may be forced to recharter the containerships, if we were able to recharter such vessels at all, at sharply reduced rates and possibly at rates whereby we incur a loss. If we were unable to recharter our vessels on favorable terms, we may potentially scrap certain of such vessels, which may reduce our earnings or make our earnings volatile. The same issues will exist if we acquire additional containerships, if we are able to recharter such vessels at all, and attempt to obtain multi-year charter arrangements as part of an acquisition and financing plan.

The Bank Agreement in respect of our financing arrangements imposes stringent operating and financial restrictions on us which may, among other things, limit our ability to grow our business and currently effectively prevent us from pursuing opportunities to acquire newbuilding and other recently built containerships that meet the needs of our liner company customers.

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

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

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

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- selling capital stock of our subsidiaries;
- disposing of assets without the consent of the lenders with loans collateralized by such assets and, in case of such approval, using the proceeds thereof to repay indebtedness;
- using a significant portion of the proceeds from equity issuances for any purpose other than to repay indebtedness;
- using more than a minimal amount of our free cash from operations for purposes other than repayment of indebtedness;
- engaging in transactions that would constitute a change of control, as defined in such financing agreement, without repaying all of our indebtedness in full;
- paying dividends, absent a substantial reduction in our leverage; or
- changing our manager or certain members of our management.

As a result we have reduced discretion in operating our business and may have difficulty growing our business. In particular, the conditions on the use of equity proceeds and incurrence of indebtedness effectively prevent us from pursuing opportunities to acquire newbuildings and other recently built containerships that meet the needs of our liner company customers with the resulting risks of a deterioration in our reputation and standing with our customers and a loss of competitive position among other containership owners.

In addition, our respective lenders under these financing arrangements will, at their option, be able to require us to repay in full amounts outstanding under such respective credit facilities, upon a "Change of Control" of our company, which for these purposes and as further described in "Item 5. Operating and Financial Review and Prospects Bank Agreement", includes Dr. Coustas ceasing to be our Chief Executive Officer, Dr. Coustas and members of his family ceasing to collectively own over one-third of the voting interest in our outstanding capital stock or any other person or group controlling more than 20% of the voting power of our outstanding capital stock.

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

- maintain a ratio of (i) the market value of all of the vessels in our fleet, on a charter-inclusive basis, plus the net realizable value of any additional collateral, to (ii) our consolidated total debt above specified minimum levels gradually increasing from 90% through December 31, 2011 to 130% from September 30, 2017 through September 30, 2018. This ratio was required to be 115% as of December 31, 2015;
- maintain a minimum ratio of (i) the market value of the nine vessels (Hyundai Smart, Hyundai Speed, Hyundai Ambition, Hyundai Together, Hyundai Tenacity, Hanjin Greece, Hanjin Italy, Hanjin Germany and CMA CGM Rabelais) collateralizing the January 2011 Credit Facilities, calculated on a charter-free basis, plus the net realizable value of any additional collateral, to (ii) our aggregate debt outstanding under the January 2011 Credit Facilities of 100% from September 30, 2012 through September 30, 2018;
- maintain minimum free consolidated unrestricted cash and cash equivalents, less the amount of the aggregate variable principal amortization amounts, described above, of $30.0 million at the end of each calendar quarter;
- ensure that our (i) consolidated total debt less unrestricted cash and cash equivalents to (ii) consolidated EBITDA (defined as net income before interest, gains or losses under any hedging arrangements, tax, depreciation, amortization and any other non-cash item, capital gains or losses realized from the sale of any vessel, finance charges and capital losses on vessel

cancellations and before any non-recurring items and excluding any accrued interest due to us

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but not received on or before the end of the relevant period; provided that non-recurring items excluded from this calculation shall not exceed 5% of EBITDA calculated in this manner) for the last twelve months does not exceed a maximum ratio gradually decreasing from 12:1 on December 31, 2010 to 4.75:1 on September 30, 2018. This ratio was required to be 7.0:1 as of December 31, 2015;

ensure that the ratio of our (i) consolidated EBITDA for the last twelve months to (ii) net interest expense (defined as interest expense (excluding capitalized interest), less interest income, less realized gains on interest rate swaps (excluding capitalized gains) and plus realized losses on interest rate swaps (excluding capitalized losses)) exceeds a minimum level of 1.50:1 through September 30, 2013 and thereafter gradually increasing to 2.80:1 by September 30, 2018. This ratio was required to be 2.0:1 as of December 31, 2015; and

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

The provisions of our KEXIM-ABN Amro credit facility, which is not covered by the Bank Agreement, have been aligned with the above covenants through November 20, 2018 and our Sinosure-CEXIM credit facility has similar financial covenants and a collateral coverage covenant of 125% per tranche as described in "Item 5. Operating and Financial Review and Prospects." In addition, under our KEXIM credit facility, we must comply with a collateral coverage covenant of 130%.

If we fail to meet our payment or covenant compliance obligations under the terms of the Bank Agreement covering our credit facilities or our other financing arrangements, our lenders could then accelerate our indebtedness and foreclose on the vessels in our fleet securing those credit facilities, which could result in cross-defaults under our other credit facilities, and the consequent acceleration of the indebtedness thereunder and the commencement of similar foreclosure proceedings by other lenders. The loss of any of these vessels would have a material adverse effect on our operating results and financial condition.

Substantial debt levels could limit our flexibility to obtain additional financing and pursue other business opportunities and our ability to service our outstanding indebtedness will depend on our future operating performance, including the charter rates we receive under charters for our vessels.

As of December 31, 2015, we had outstanding indebtedness of $2.8 billion and, while we have no remaining borrowing availability under our existing loan agreements, we may incur substantial additional indebtedness, as market conditions warrant over the medium to long-term and to the extent permitted by our existing lenders, further grow our fleet. This level of debt could have important consequences to us, including the following:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may be unavailable on favorable terms;

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

our debt level could make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally; and our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. In particular, the charter rates we obtain for our vessels, including the nine vessels with charters expiring between March 2016 and October 2016, and any reductions in contracted charter rates for our vessels and other concessions, such as we agreed in 2014 with ZIM for six of our vessels and such as Hyundai is currently seeking from containership charter-owners, will have a significant impact on our ability to service our indebtedness. Due to the restrictions on the use of cash from operations and other sources for purposes other than the repayment of indebtedness, even if we otherwise generate sufficient cash flow to service our debt, we may still be forced to take actions such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt or seeking additional equity capital. We may not be able to effect any of these remedies on satisfactory terms, or at all. In addition, restrictions in the Bank Agreement in respect of our credit facilities and a relative lack of liquidity in the debt and equity markets could hinder our ability to refinance our debt or obtain additional financing on favorable terms in the future.

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

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

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

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. Major market disruptions and the current adverse changes in market conditions and the regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts

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under any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition or cash flows, have caused the price of our common stock to decline and could cause the price of our common stock to decline further.

In addition, as a result of the ongoing economic slump in Greece resulting from the sovereign debt crisis and the related austerity measures implemented by the Greek government, our operations in Greece may be subjected to new regulations that may require us to incur new or additional compliance or other administrative costs and may require that we pay to the Greek government new taxes or other fees. Furthermore, the change in the Greek government and potential shift in its policies may undermine Greece's political and economic stability, which may adversely affect our operations and those of our manager located in Greece. We also face the risk that strikes, work stoppages, civil unrest and violence within Greece, as well as the capital controls in effect in Greece since mid-2015, may disrupt our shoreside operations and those of our manager located in Greece.

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

Economic conditions have remained relatively weak since the 2008-2009 economic crisis and renewed concerns about the pace of the recovery in different parts of the world, including China, have emerged in recent months. Continuing concerns regarding the possibility of sovereign debt defaults by European Union member countries, including Greece, and the potential for recession in Europe have resulted in devaluation of the Euro and have led to concerns regarding consumer demand both in Europe and other parts of the world, including the United States. The deterioration in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods and, thus, container shipping. Continuing economic instability could have a material adverse effect on our financial condition and results of operations. In particular, we anticipate a significant number of the port calls made by our vessels will continue to involve the loading or unloading of containers in ports in the Asia Pacific region. As a result, negative changes in economic conditions in any Asia Pacific country, and particularly in China, may exacerbate the effect of the significant downturns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial position and results of operations, as well as our future prospects. In recent years, China has been one of the world's fastest growing economies in terms of gross domestic product, which has had a significant impact on shipping demand. Recently, however, significant concerns have arisen over slowing growth in China and other countries in the Asia Pacific region and regarding how long such countries may experience slowed or even negative economic growth in the future. Moreover, the current relative weakness in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. In particular, the possibility of sovereign debt defaults by European Union member countries, including Greece, and any resulting weakness of the Euro, including against the Chinese renminbi, could adversely affect European consumer demand, particularly for goods imported, many of which are shipped in containerized form, from China and elsewhere in Asia, and reduce the availability of trade financing which is vital to the conduct of international shipping. In addition, the charters that we enter into with Chinese customers, including the charters we currently have with China Shipping for four of our vessels, may be subject to new regulations in China that may require us to incur new or additional compliance or other administrative costs and may require that we pay to the Chinese government new taxes or other fees. Changes in laws and regulations, including with regards to tax matters, and their implementation by local authorities could affect our vessels chartered to Chinese customers as well as our vessels calling to Chinese ports and could have a material adverse effect on our business, results of operations and financial condition. Our business, financial condition, results of operations, ability to pay dividends, if any, as well as our future prospects, will likely be materially and adversely affected by a further economic downturn in any of these countries.

Demand for the seaborne transport of products in containers, which has declined sharply since mid-2015, has a significant impact on the financial performance of liner companies and, in turn, demand for containerships and our charter counterparty risk.

Demand for the seaborne transportation of products in containers, which is significantly impacted by global economic activity, has declined sharply since mid-2015, reaching the lowest levels since the historically low levels of 2008 and 2009. Consequently, the cargo volumes and freight rates achieved by liner companies, with which all of the existing vessels in our fleet are chartered, have declined sharply, reducing liner company profitability and, at times, failing to cover the costs of liner companies operating vessels on their shipping lines. In response to such reduced cargo volume and freight rates, the number of vessels being actively deployed by liner companies decreased, with approximately 7% of the world containership fleet estimated to be out of service at the end of 2015, which was below the 12% high of December 2009 but up significantly from 1.3% at the end of 2014. Moreover, newbuilding containerships with an aggregate capacity of approximately 3.8 million TEUs, representing approximately 19% of the existing global fleet capacity at the end of 2015, were under construction, which may exacerbate the surplus of containership capacity further reducing charterhire rates or increasing the number of unemployed vessels. Many liner companies, including some of our customers, reported substantial losses in 2015 and other recent years, as well as having announced plans to reduce the number of vessels they charter-in and form cooperative alliances as part of efforts to reduce the size of their fleets to better align fleet capacity with the reduced demand for marine transportation of containerized cargo.

The reduced demand and resulting financial challenges faced by our liner company customers has significantly reduced demand for containerships and may increase the likelihood of one or more of our customers being unable or unwilling to pay us the contracted charterhire rates, such as we agreed with ZIM in 2014, which are generally significantly above prevailing charter rates, under the charters for our vessels, including our charters with Hyundai for which it is currently seeking concessions. We generate all of our revenues from these charters and if our charterers fail to meet their obligations to us, we would sustain significant reductions in revenue and earnings, which could materially adversely affect our business and results of operations, as well as our ability to comply with covenants in our credit facilities.

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

While the size of the containership order book has declined from the historic highs reached in mid-2008, at the end of 2015 newbuilding containerships with an aggregate capacity of approximately 3.8 million TEUs were under construction, representing approximately 19% of the existing global fleet capacity. The size of the orderbook is large relative to historic levels and, notwithstanding that some orders may be cancelled or delayed, will likely result in a significant increase in the size of the world containership fleet over the next few years. An over-supply of containership capacity, particularly in conjunction with the currently low level of demand for the seaborne transport of containers, which proposed liner company alliances may accentuate, could exacerbate the recent decrease in charter rates or prolong the period during which low charter rates prevail. We do not hedge against our exposure to changes in charter rates, due to increased supply of containerships or otherwise. As such, if the current low charter rate environment persists, or a further reduction occurs, during a period when the current charters for our containerships expire or are terminated, we may only be able to recharter those containerships at reduced or unprofitable rates or we may not be able to charter those vessels at all. As

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of February 29, 2016, two vessels owned by Gemini are not employed and the charters for nine of our vessels expire between March 2016 and October 2016.

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

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

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

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

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

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

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

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

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

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

- work stoppages or other labor disturbances or other events that disrupt the operations of the shipyard building the vessels;
- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- lack of raw materials;
- bankruptcy or other financial crisis of the shipyard building the vessel;
- our inability to obtain requisite financing or make timely payments;
- a backlog of orders at the shipyard building the vessel;
- hostilities or political or economic disturbances in the countries where the containerships are being built;
- weather interference or catastrophic event, such as a major earthquake or fire;
- our requests for changes to the original vessel specifications;
- requests from the liner companies, with which we have arranged charters for such vessels, to delay construction and delivery of such vessels due to weak economic conditions and container shipping demand;

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

our inability to obtain requisite permits or approvals; or

a dispute with the shipyard building the vessel.

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

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

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

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

Containership values have recently decreased significantly, and may remain at these depressed levels, or decrease further, and over time may fluctuate substantially. Depressed vessel values could cause us to incur impairment charges, such as the $41.1 million and $75.8 million impairment losses we recorded as of December 31, 2015 and December 31, 2014, respectively, for our older vessels, or to incur a loss if these values are low at a time we are attempting to dispose of a vessel.

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

- prevailing economic conditions in the markets in which containerships operate;
- changes in and the level of world trade;
- the supply of containership capacity;
- prevailing charter rates; and

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

We review our vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. As of December 31, 2015 and December 31, 2014, we concluded that events occurred and circumstances had changed, which may trigger the existence of potential impairment of our long-lived assets and we performed impairment testing and we recorded an impairment loss of $41.1 million and $75.8 million, respectively for our older vessels, and we have incurred impairment charges in prior years as well. In the future, if the market values of our vessels experience further deterioration or we lose the benefits of the existing charter arrangements for any of our vessels and cannot replace such arrangements with charters at comparable rates, we may be required to record additional impairment charges in our financial statements, which could adversely affect our results of operations. Any impairment charges incurred as a result of declines in charter rates could negatively affect our financial condition and results of operations. In addition, if we sell any vessel at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel's carrying amount on our financial statements, resulting in a loss and a reduction in earnings.

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

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

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

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

If we are unable to fund our capital expenditures for additional vessels, we may not be able to grow our fleet.

We would have to make substantial capital expenditures to grow our fleet. We have no remaining borrowing availability under our existing credit facilities. In order to fund capital expenditures for future fleet growth to the extent feasible given the current restrictions in our Bank Agreement and other financing arrangements, we generally plan to use equity financing given the restrictions that are contained in our restructured credit facilities and other financing arrangements on the use of cash from our operations, debt financings and asset sales for purposes other than debt repayment. Our ability to access the capital markets through future offerings may be limited by our financial condition at the time of any such offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Moreover, only a portion of the proceeds from any equity financings that we are able to complete will be permitted to be used for purposes other than debt repayment under our restructured and other financing arrangements, which could also adversely affect our ability to complete an equity financing on favorable terms. Our failure to obtain funds for future capital expenditures could limit our ability to grow our fleet.

We must make substantial capital expenditures to maintain the operating capacity of our fleet, which may reduce the amount of cash available for other purposes.

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

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

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

The derivative contracts we have entered into to hedge our exposure to fluctuations in interest rates could result in higher than market interest rates and charges against our income.

We have entered into interest rate swaps, in an aggregate notional amount of $775 million as of December 31, 2015 (two of which with an aggregate notional amount of approximately $575 million are forward starting), generally for purposes of managing our exposure to fluctuations in interest rates applicable to indebtedness under our credit facilities, which were advanced at floating rates based on LIBOR, as well as two interest rate swap agreements, in an aggregate notional amount of $8.2 million as of December 31, 2015, converting fixed interest rate exposure under our credit facilities advanced at a fixed rate of interest to floating rates based on LIBOR. Our hedging strategies, however, may not be effective and we may again incur substantial losses, as we did in 2015 and prior years. In addition, interest rates have been at historically low levels and if such rates rise at times when our interest rate exposure is not hedged, we could have increased interest expense.

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

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Our financial condition could also be materially adversely affected to the extent we do not hedge our exposure to interest rate fluctuations under our financing arrangements under which loans have been advanced at a floating rate based on LIBOR. Although relatively stable from 2009 through 2015, LIBOR was volatile in prior years, during which the spread between LIBOR and the prime lending rate widened, at times significantly.

In recent years, there have been proposals to increase government oversight of, and change the method for, the calculation of LIBOR. We cannot predict what changes, if any, will be implemented and what effect any such changes would have on LIBOR.

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

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

We generate all of our revenues in United States dollars and for the year ended December 31, 2015, we incurred approximately 28.2% of our vessels' expenses in currencies other than United States dollars, mainly Euros. This difference could lead to fluctuations in net income due to changes in the value of the United States dollar relative to the other currencies, in particular the Euro. Expenses incurred in foreign currencies against which the United States dollar falls in value could increase, thereby decreasing our net income. We have not hedged our currency exposure and, as a result, our U.S. dollar-denominated results of operations and financial condition could suffer. In addition, to the extent charter hire rates with respect to any port calls our vessels may make in Iran must be paid in a currency other than the U.S. dollar, due to continuing U.S. primary sanctions applicable to U.S. dollar transfers, we would be exposed to fluctuations in the value of that currency.

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

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

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

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

- locating and acquiring suitable vessels;
- identifying and consummating vessel acquisitions or joint ventures relating to vessel acquisitions;
- enlarging our customer base;
- developments in the charter markets in which we operate that make it attractive for us to expand our fleet;
- managing any expansion;
- the operations of the shipyard building any newbuilding containerships we may order; and

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

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

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

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

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

The operation of our vessels is also affected by the requirements set forth in the International Maritime Organization's, or IMO's, International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. Failure to comply with the ISM

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Code may subject us to increased liability, may decrease available insurance coverage for the affected ships, and may result in denial of access to, or detention in, certain ports.

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

Climate change and greenhouse gas restrictions may adversely impact our operations.

Due to concern over the risks of climate change, a number of countries and the International Maritime Organization, or "IMO", have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emission from ships. These regulatory measures may include adoption of cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. Emissions of greenhouse gases from international shipping currently are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, or the "Kyoto Protocol", or any amendments or successor agreements. The Paris Agreement adopted under the United Nations Framework Convention on Climate Change in December 2015, which contemplates commitments from each nation party thereto to take action to reduce greenhouse gas emissions and limit increases in global temperatures but did not include any restrictions or other measures specific to shipping emissions. However, restrictions on shipping emissions are likely to continue to be considered and a new treaty may be adopted in the future that includes additional restrictions on shipping emissions to those already adopted under the International Conventi