

Seaspan CORP  
Form 6-K  
May 02, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**Form 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934**

**Date of Report: May 2, 2008**

**Commission File Number 1-32591**

**SEASPAN CORPORATION**

(Exact name of Registrant as specified in its Charter)

**Unit 2, 7th Floor**

**Bupa Centre**

**141 Connaught Road West**

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**Hong Kong**

**China**

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(1). Yes  No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(7). Yes  No

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes  No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_ .

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**Item 1 Information Contained in this Form 6-K Report**

Attached as Exhibit I is Seaspans Corporation s report on Form 6-K for the quarter ended March 31, 2008. This Form 6-K is filed with reference to and hereby incorporated by reference into the Registration Statement, filed with the Securities and Exchange Commission on April 18, 2007 on Form F-3 (Registration No. 333-142195) of Seaspans Corporation.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEASPAN CORPORATION

Date: May 2, 2008

By: /s/ SAI W. CHU  
Sai W. Chu  
Chief Financial Officer

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**EXHIBIT I**

**SEASPAN CORPORATION**

**REPORT ON FORM 6-K FOR THE QUARTER ENDED MARCH 31, 2008**

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## Interim Consolidated Balance Sheets

(Expressed in thousands of United States dollars)

	March 31, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,107	\$ 123,134
Accounts receivable	353	2,527
Prepaid expenses	4,429	4,657
	20,889	130,318
Vessels (note 3)	2,694,039	2,424,253
Deferred charges (note 4)	19,918	17,240
Other assets (note 5)	5,691	5,090
	\$ 2,740,537	\$ 2,576,901
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 8(a))	\$ 10,279	\$ 8,516
Deferred revenue	1,668	7,200
	11,947	15,716
Long-term debt (note 6)	1,364,999	1,339,438
Other long-term liability (note 7)	377,582	223,804
Fair value of financial instruments (note 11(c))	252,699	135,617
Shareholders equity:		
Share capital (note 8):		
Class A common shares; \$0.01 par value; 200,000,000 shares authorized; 50,453,750 shares issued and outstanding		
Class B common shares; \$0.01 par value; 25,000,000 shares authorized; 7,145,000 shares issued and outstanding		
Class C common shares; \$0.01 par value; 100 shares authorized; 100 shares issued and outstanding		
Preferred shares; \$0.01 par value; 65,000,000 shares authorized; none issued and outstanding	576	575
Additional paid in capital	1,047,052	1,046,412
Deficit	(187,340)	(122,317)
Accumulated other comprehensive loss	(126,978)	(62,344)
	733,310	862,326
	\$ 2,740,537	\$ 2,576,901

Commitments and contingent obligations (note 10)

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Subsequent events (note 12)

See accompanying notes to interim consolidated financial statements.

Approved on behalf of the Board:

Director

Director

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## Interim Consolidated Statement of Operations

(Unaudited)

(Expressed in thousands of United States dollars, except per share amount)

	<b>Three months ended March 31, 2008</b>	<b>Three months ended March 31, 2007</b>
Revenue	\$ 54,215	\$ 41,228
Operating expenses:		
Ship operating (note 2(a))	12,604	9,757
Depreciation	13,741	10,516
General and administrative	1,817	1,359
	28,162	21,632
Operating earnings	26,053	19,596
Other expenses (earnings):		
Interest expense	8,616	6,547
Interest income	(276)	(1,075)
Undrawn credit facility fee	1,112	661
Amortization of deferred charges (note 4)	462	181
Change in fair value of financial instruments	53,803	(1,445)
	63,717	4,869
Net earnings (loss)	\$ (37,664)	\$ 14,727
Weighted average shares used in computation of basic earnings (loss) per share	57,599	47,546
Weighted average shares used in computation of diluted earnings (loss) per share	57,599	47,563
Earnings (loss) per share, basic and diluted	\$ (0.65)	\$ 0.31

See accompanying notes to interim consolidated financial statements.

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## Interim Consolidated Statements of Shareholders' Equity

(Expressed in thousands of United States dollars, except number of shares)

Three months ended March 31, 2008

	Number of common shares			Common	Additional		Accumulated	Total	Total
	Class A	Class B	Class C	shares	paid-in	Deficit	other	shareholders	comprehensive
					capital		loss	equity	loss
Balance, December 31, 2006	40,377,250	7,145,000	100	\$ 475	\$ 748,410	\$ (17,658)	\$ (4,212)	\$ 727,015	\$
Class A common shares issued on secondary offering	9,975,000			100	309,864			309,964	
Fees and expenses in connection with issuance of common shares					(13,202)			(13,202)	
Share-based compensation expenses (note 8):									
Restricted Class A common shares and phantom share units issued	44,583				1,340			1,340	
Net loss						(10,408)		(10,408)	(10,408)
Other comprehensive loss:									
Change in fair value of financial instruments designated as cash flow hedging instruments							(58,132)	(58,132)	(58,132)
									\$ (68,540)
Dividends on common shares						(94,251)		(94,251)	
Balance, December 31, 2007	50,396,833	7,145,000	100	575	1,046,412	(122,317)	(62,344)	862,326	\$
Share-based compensation expenses (note 8):									
Restricted Class A common shares and phantom share units issued	56,917			1	640			641	
Net loss						(37,664)		(37,664)	(37,664)
Other comprehensive loss:									
Change in fair value of financial instruments							(67,321)	(67,321)	(67,321)



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designated as cash flow hedging instruments									
Amount reclassified to earnings (loss) during the period						2,687	2,687	2,687	
Other comprehensive loss									(64,634)
									\$ (102,298)
Dividends on common shares						(27,359)	(27,359)		
Balance, March 31, 2008	50,453,750	7,145,000	100	\$ 576	\$ 1,047,052	\$ (187,340)	\$ (126,978)	\$ 733,310	

See accompanying notes to interim consolidated financial statements.

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## Interim Consolidated Statement of Cash Flows

(Unaudited)

(Expressed in thousands of United States dollars)

	Three months ended March 31, 2008	Three months ended March 31, 2007
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ (37,664)	\$ 14,727
Items not involving cash:		
Depreciation	13,741	10,516
Share-based compensation (note 8)	641	325
Amortization of deferred charges (note 4)	462	181
Change in fair value of financial instruments	53,803	(1,445)
Change in assets and liabilities:		
Prepaid expenses and accounts receivable	2,402	243
Other assets and deferred charges	(601)	(1,108)
Accounts payable and accrued liabilities	1,763	474
Deferred revenue	(5,532)	1,404
Cash from operating activities	29,015	25,317
Financing activities:		
Draws on credit facilities (operating vessels) (note 6)		157,849
Draws on credit facilities (vessels under construction) (note 6)	163,561	14,561
Other long-term liability	35,405	
Repayment of credit facility	(138,000)	
Financing fees incurred (note 4)	(3,339)	(69)
Dividends on common shares	(27,359)	(21,230)
Cash from financing activities	30,268	151,111
Investing activities:		
Expenditures for vessels		(222,821)
Deposits on vessels	(164,955)	(11,790)
Cash payments on interest rate swaps	(1,355)	
Intangible assets		101
Cash used in investing activities	(166,310)	(234,510)
Decrease in cash and cash equivalents	(107,027)	(58,082)
Cash and cash equivalents, beginning of period	123,134	92,227
Cash and cash equivalents, end of period	\$ 16,107	\$ 34,145

Supplementary information (note 9(b))

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See accompanying notes to interim consolidated financial statements.

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**SEASPAN CORPORATION**

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**1. General:**

The accompanying financial information is unaudited and reflects all adjustments, consisting solely of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of results for the interim periods presented. They do not include all disclosures required under United States generally accepted accounting principles for annual financial statements. These financial statements should be read in conjunction with the December 31, 2007 financial statements filed with the Securities and Exchange Commission in the Company's Annual Report on Form 20-F.

**2. Related party transactions:**

(a) Management Agreements:

Seaspan Management Services Limited (the Manager) is owned by a group of individuals through companies and two trusts who also own the Company's 7,145,000 Class B common shares issued and outstanding, representing a 12.4% voting interest in the Company as at March 31, 2008.

The Management Agreement was entered into on August 8, 2005 for the provision of certain technical, strategic and administrative services for fees. In connection with entering into the agreement to provide the Company with strategic services, the Company previously issued 100 incentive shares to the Manager. The incentive shares are entitled to a share of incremental dividends, based on specified sharing ratios, once dividends on the Company's common and subordinated shares reach certain specified targets beginning with the first target of \$0.485 per share per quarter. At December 31, 2007, the incentive shares do not have rights to incremental dividends.

Under the Management Agreement, the Manager provides services to the Company for fees which are fixed through December 31, 2008 and thereafter will be subject to renegotiation every three years as follows:

Technical Services - The Manager is responsible for providing ship operating expenses to the Company in exchange for a fixed fee per day per vessel as described below. The technical services fee does not include certain extraordinary items.

Administrative and Strategic Services - The Manager provides administrative and strategic services to the Company for the management of the business for a fixed fee of \$72,000 per year. The Company will also reimburse all reasonable expenses incurred by the Manager in providing these services to the Company.

The Company has subsequently entered into other management agreements with the manager related to the other vessels.

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**2. Related party transactions (continued):**

## (a) Management Agreements (continued):

The initial technical service fee under each of the Management Agreements, as summarized below, is fixed through December 31, 2008 and thereafter will be subject to renegotiation every three years:

<b>Date of Management Agreement</b>	<b>Vessels subject to Management Agreement</b>	<b>Initial Technical Services Fees, in whole amounts (per vessel per day)</b>
May 4, 2007 (Amended Management Agreement)	IPO vessels	
	- 4250 TEU	\$ 4,500
	- 8500 TEU	6,000
	- 9600 TEU	6,500
	Mærsk vessels	
	- 4800 TEU	5,750
May 18, 2007 (2500/3500 Management Agreement)	Two 3500 TEU vessels constructed by Zhejiang Shipbuilding Co. Ltd.	4,200
	Eight of the ten 2500 TEU vessels being constructed by Jiangsu Yangzijiang Shipbuilding Co., Ltd., or Jiangsu	4,000
May 18, 2007 (5100 Management Agreement)	Four 5100 TEU vessels that will be constructed by Hyundai Heavy Industries Co., Ltd., or HHI	4,800
September 28, 2007 (2500/4250/8500 Management Agreement)	Two 2500 TEU vessels that will be constructed by Jiangsu	4,200
	Four 4250 TEU vessels being constructed by Jiangsu New Yangzi Shipbuilding Co., Ltd., or New Jiangsu	4,725
	Eight 8500 TEU vessels that will be constructed by HHI	6,000
January 28, 2008 (13100 Management Agreement, Hull no. 2177 and Hull no. S452)	Two 13100 TEU vessels that will be constructed by HHI and Hyundai Samho Heavy Industries Co., Ltd., or HSHI	6,750
March 31, 2008		6,750

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(13100 Management Agreement, Hull no.  
S453 and Hull no. 2178)

Two 13100 TEU vessels that will be  
constructed by HHI and HSHI

March 31, 2008

(13100 Management Agreement, Hull no.  
S454 and Hull no. 2179)

Two 13100 TEU vessels that will be  
constructed by HHI and HSHI.

6,750

For vessels operating or that began operations during the three months ended March 31, 2008, the Manager provided technical services at a cost of \$12,913,000 (2007 - \$10,185,000) to the Company. During the three months ended March 31, 2008, \$691,000 (2007 - \$546,000) of dry-dock activities, that forms a portion of the technical services fee, was paid to the Manager.

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## Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**2. Related party transactions (continued):**

## (a) Management Agreements (continued):

During the three months ended March 31, 2008, the Manager provided fixed fee administrative and strategic services at a cost of \$18,000 (2007 - \$18,000), and the Company has recorded \$495,000 (2007 - \$376,000) of costs incurred by the Manager.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## (b) Due to/from related parties:

As at March 31, 2008, \$2,074,000 (December 31, 2007 - \$1,584,000) is due to related parties for reimbursement of administrative and strategic services expenses, supervision services, dry-dock costs paid and acquisition costs paid on the Company's behalf. As at March 31, 2008, \$88,000 (December 31, 2007 - \$73,000) is due to related parties for amounts collected from or deducted by charterers by the Company on the behalf of related parties. These amounts are included in accounts payable and are to be repaid in the ordinary course of business. As at March 31, 2008, \$204,000 (December 31, 2007 - \$2,135,000) is due from related parties and included in accounts receivable.

**3. Vessels:**

<b>March 31, 2008</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Vessels	\$ 1,577,801	\$ 97,967	\$ 1,479,834
Deposits on vessels under construction	1,214,205		1,214,205
	\$ 2,792,006	\$ 97,967	\$ 2,694,039
<b>December 31, 2007</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Vessels	\$ 1,577,801	\$ 84,226	\$ 1,493,575
Deposits on vessels under construction	930,678		930,678
	\$ 2,508,479	\$ 84,226	\$ 2,424,253

During the three months ended March 31, 2008, the Company capitalized interest costs of \$12,922,000 (2007 - \$1,511,000) as deposits on vessels.





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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**4. Deferred charges:**

	Dry-docking	Financing fees	Total
December 31, 2007	\$ 2,126	\$ 15,114	\$ 17,240
Cost incurred		3,339	3,339
Amortization expensed	(144)	(318)	(462)
Amortization capitalized		(199)	(199)
March 31, 2008	\$ 1,982	\$ 17,936	\$ 19,918

**5. Other assets:**

	March 31, 2008	December 31, 2007
Prepaid expenses	\$ 4,141	\$ 3,540
Intangible assets	1,550	1,550
Other assets	\$ 5,691	\$ 5,090

**6. Long-term debt:**

	March 31, 2008	December 31, 2007
Long-term debt (operating vessels):		
\$1.3 billion revolving credit facility	\$ 502,259	\$ 640,259
Long-term debt (operating vessels)	\$ 502,259	\$ 640,259
Long-term debt (vessels under construction):		
\$1.3 billion revolving credit facility	\$ 249,858	\$ 117,631
\$920.0 million revolving credit facility	341,667	336,607
\$365.0 million revolving credit facility	120,995	111,207
\$218.4 million credit facility	100,220	83,734
\$150.0 million revolving credit facility	50,000	50,000
\$291.2 million credit facility		
\$235.3 million credit facility		

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Long-term debt (vessels under construction)	\$ 862,740	\$ 699,179
Long-term debt	\$ 1,364,999	\$ 1,339,438

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**6. Long-term debt (continued):**

(a) \$291.2 million credit facility:

On March 17, 2008, the Company entered into a \$291,200,000 credit facility agreement (the "\$291.2 million credit agreement"). The proceeds of this facility will be used by the Company to partially finance the construction of two of the Company's 13100 TEU vessels.

Under the \$291.2 million credit agreement, the Company may borrow up to the lesser of \$291.2 million and 80% of the vessel delivered costs provided that amounts borrowed in respect of vessel delivered costs that are not covered by the amount of the refund guarantees for the vessels may not exceed \$1,000,000 per vessel.

The facility has a term loan component of \$232,960,000, which is divided into two tranches, and a revolving loan component of \$58,240,000. One of the tranches of the term loan portion is guaranteed by the Export-Import Bank of Korea (KEXIM). The \$291.2 million credit agreement requires payment of interest on the outstanding revolving loan at a rate calculated as LIBOR plus 0.85% per annum, payment of interest on the outstanding term loan tranches at a rate calculated as the commercial interest reference rate of KEXIM plus 0.65% per annum for the first tranche and LIBOR plus 0.35% for the second tranche. The credit agreement also requires payment of a commitment fee of 0.30% per annum calculated on the undrawn, uncanceled portion of the total facility.

The Company can draw the term loans for a specified period of time following the scheduled delivery date of each vessel. After delivery of these vessels, the Company may use the revolving loan for general corporate purposes.

The final maturity date for the revolving loan is the earlier of the twelfth anniversary of the delivery date of the last vessel and December 31, 2023 and the final maturity date for the term loans is the earlier of the twelfth anniversary of the delivery date of the vessels to which those term loans relate and December 31, 2023.

The Company may prepay the term loans on a repayment date without penalty, other than breakage costs and opportunity costs in certain circumstances. The Company may prepay the revolving loan on the last day of any interest period except that the Company is not permitted to prepay a certain portion of the revolving loan during the pre-delivery period. Amounts of the revolving loan that are prepaid voluntarily may be re-borrowed up to the amount of the revolving loan. The Company will be required to prepay a portion of the outstanding loans in certain circumstances, including the sale or loss of a vessel, the cancellation of a ship building contract or if the guarantee provided by KEXIM ceases to be valid for certain reasons and KEXIM determines that there has been or could be a material adverse effect on the Company's ability to perform its payment obligations. The Company may also remove a vessel from the facility upon prepayment of the relevant portion of the outstanding loans.

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**6. Long-term debt (continued):**

(b) \$235.3 million credit facility:

On March 31, 2008, the Company entered into a \$235,300,000 credit facility agreement (the "\$235.3 million credit agreement") with the Sumitomo Mitsui Banking Corporation. The proceeds of this facility will be used by the Company to partially finance the construction of two of the Company's 13100 TEU vessels.

Under the \$235.3 million credit agreement, the Company may borrow up to the lesser of \$235.3 million and 65% of the vessel delivered costs provided that amounts borrowed in respect of vessel delivered costs that are not covered by the amount of the refund guarantees for the vessels may not exceed \$1,500,000 per vessel, except that it may be increased to \$2,500,000 per vessel with the consent of Sumitomo Mitsui Banking Corporation Brussels division. The financing will be made available in two loans (the "vessel loans"). Each vessel loan has a maximum principal amount of the lesser of (i) \$117,650,000, (ii) 65% of the vessel delivered costs relating to each vessel, and (iii) when aggregated with the other vessel loan, \$235,300,000.

The facility will be partly insured for both political and economic risks by the Korea Export Insurance Corporation ("KEIC"). For each vessel loan, KEIC will insure during the pre-delivery period the sum of the KEIC insurance premium plus 56% of the installments paid to the shipyards ("the KEIC covered portion"). The amount insured will not exceed \$93.6 million per vessel on delivery and will reduce progressively down to zero at maturity during the post-delivery period.

The KEIC premium is, for each vessel, the KEIC covered portion multiplied by the KEIC Insurance Premium Rate divided by the difference between 1 minus the Insurance Premium Rate of 1.52%.

The \$235.3 million credit agreement requires payment of interest on the outstanding loan at a rate calculated as (a) in respect of the uncovered portion, 1% per annum plus LIBOR, and (b) in respect of the KEIC covered portion, 0.4% per annum plus LIBOR. The credit agreement also requires payment of a commitment fee of 0.35% per annum calculated on the undrawn, uncanceled portion of the total facility.

The Company can draw up to the maximum available loan for a specified period of time from the date of the signing of the agreement to the earlier of the delivery date of the 2<sup>nd</sup> vessel, the date following 210 days after the scheduled delivery date of the 2<sup>nd</sup> vessel (scheduled date is July 11, 2011), and February 6, 2012.

The final maturity date for the credit facility is the earlier of the twelfth anniversary of the delivery date of the vessel which is delivered last and February 6, 2024.

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**6. Long-term debt (continued):**

## (b) \$235.3 million credit facility (continued):

The Company must repay the loans over twenty-four semi-annual repayment dates. The first repayment date will be six months after the delivery date of the last vessel to be delivered. The Company may prepay the loan in whole or from time to time in part on the last day of any period on which interest payable on a loan or an overdue amount is calculated.

The Company may prepay all loans without penalty, other than breakage costs in certain circumstances. No amounts prepaid under the credit agreement may be re-borrowed. The Company will be required to prepay a portion of the outstanding loans in certain circumstances, including the sale or loss of a Vessel or the cancellation of a ship building contract where the Company elects not to substitute another vessel within the time period and on the terms set out in the credit agreement or if the KEIC insurance policies (the KEIC Insurance ) cease to be valid or enforceable in any material respect other than in certain circumstances.

A prepayment must be in a minimum amount of \$5,000,000 and in integral multiples of \$1,000,000. No amounts prepaid may be reborrowed. The Company may also cancel the unutilized amount of the facility in whole or in part. Partial cancellation must be in a minimum amount of \$5,000,000 and in integral multiples of \$2,500,000 in excess of \$5,000,000.

## (c) Minimum repayments:

As at March 31, 2008, minimum repayments for the balances outstanding with respect to the credit facilities are as follows:

2010	\$ 5,130
2011	5,469
2012	46,182
Thereafter	1,308,218
	<b>\$ 1,364,999</b>

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**7. Other long-term liability:**

On November 29, 2007 and December 3, 2007, the Company agreed to purchase five 4500 TEU vessels that will be built by Samsung Heavy Industries Co., Ltd. (Samsung). The contractual purchase price is \$82,811,000 per vessel. The vessels are scheduled to be delivered between September 2010 and July 2011. On December 27, 2007, the Company entered into agreements to novate the shipbuilding contracts to an unrelated special purpose entity (the SPE). The Company also entered into agreements with the SPE to lease the five 4500 TEU vessels upon completion of the construction terms. Under the lease agreements, the Company will pay lease payments of 20% of the value of the vessels over the term of the first five years and a balloon payment at the termination of the leases for the remaining 80% of the value. Upon termination of the leases, the Company has the ability to purchase the vessels at the fair market value at that time. Under the lease agreements, the Company receives a rental rebate equal to 99.9% of the proceeds from the sale of each vessel.

All obligations under the lease are guaranteed by the Company. Under the terms of these arrangements, the novation of the shipbuilding contracts to the SPE does not constitute a sale-leaseback of the vessels. As a result, the Company will continue to recognize the amounts paid under the contracts with Samsung as Deposits on Vessels under Construction and the amounts paid by the SPE as Other Long-Term Liability. In addition, interest amount owing as a result of the rate implicit in the payment stream are included in Other Long-Term Liability and capitalized to Deposits on Vessels Under Construction as appropriate.

**8. Share-based compensation:**

In December 2005, the Company's board of directors adopted the Seaspan Corporation Stock Incentive Plan (the Plan), under which our officers, employees and directors may be granted options, restricted stock, phantom shares, and other stock-based awards as may be determined by the Company's board of directors. A total of 1,000,000 common shares were reserved for issuance under the Plan, which is administered by the Company's board of directors. The Plan expires 10 years from the date of its adoption.

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## Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**8. Share-based compensation (continued):**

Under the plan, the Company issued the following share-based awards during the three month period ended March 31, 2008:

- (a) 18,750 restricted Class A common shares to its independent directors as compensation for services for 2008. These shares will vest on December 31, 2008.

During the three months ended March 31, 2008, the following share-based awards vested:

- (b) On January 1, 2008, one third of the phantom share units issued to the Chief Executive Officer as compensation for services, vested. 33,167 Class A common shares were issued in exchange for the cancellation of the 33,167 vested phantom share units. The remaining 33,167 phantom share units outstanding as at March 31, 2008 are expected to be settled in Class A common shares in exchange for the cancellation of the phantom share units as they vest.
- (c) On January 1, 2008, one third of the phantom share units issued to the Chief Financial Officer as compensation for services, vested. 5,000 Class A common shares were issued in exchange for the cancellation of the 5,000 vested phantom share units. The remaining 10,000 phantom share units outstanding as at March 31, 2008 are expected to be settled in Class A common shares in exchange for the cancellation of the phantom share units as they vest.

Share based awards are summarized as follows:

	Restricted shares		Phantom share units	
	Number of shares	W.A. grant date FV	Number of shares	W.A. grant date FV
December 31, 2007		\$	216,333	\$ 24.27
Granted	18,750	24.42		
Vested			(38,167)	23.35
March 31, 2008	18,750	\$ 24.42	178,166	\$ 24.47
	Restricted shares	W.A. grant date FV	Phantom share units	W.A. grant date FV
	Number of shares		Number of shares	
December 31, 2006	14,500	\$ 22.40	99,500	22.40
Granted	18,750	23.93		
Vested	(4,833)	22.40	(33,167)	22.40
March 31, 2007	28,417	\$ 23.41	66,333	\$ 22.40





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## Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**8. Share-based compensation (continued):**

The above share-based awards are recognized as compensation costs over the requisite service period in the income statement based on the fair value of the award on the date of grant. During the three month period ended March 31, 2008 the Company recognized a total of \$641,000 (2007 - \$325,000) share-based compensation expenses. As at March 31, 2008, there was \$4,176,000 (December 31, 2007 - \$4,359,000) of total unrecognized compensation costs relating to the outstanding share-based awards. The unrecognized compensation cost to the independent directors is expected to be recognized over a nine month period and the unrecognized compensation costs relating to the share-based awards issued to the Chief Executive Officer and Financial Officer are expected to be recognized over a 33 month period.

**9. Other information:**

## (a) Accounts payable and accrued liabilities:

The principal components of accounts payable and accrued liabilities are:

	March 31, 2008	December 31, 2007
Due to related parties (note 2(b))	\$ 2,162	\$ 1,657
Accrued interest	4,171	3,735
Other accrued liabilities	3,946	3,124
	\$ 10,279	\$ 8,516

## (b) Supplementary information to the statement of cash flows consists of:

	March 31, 2008	March 31, 2007
Interest paid	\$ 10,466	\$ 6,232
Interest received	294	1,117
Undrawn credit facility fee paid	467	508
Non-cash transactions:		
Other long-term liability for vessels under construction	118,373	

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Notes to Interim Consolidated Financial Statements

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Three months ended March 31, 2008

**10. Commitments and contingent obligations:**

- (a) As at March 31, 2008, the Company has outstanding commitments for the purchase of additional vessels and installment payments for vessels under construction, as follows:

2008	\$ 434,847
2009	631,405
2010	672,234
2011	768,621
	<b>\$ 2,507,107</b>

- (b) As at March 31, 2008, based on 100% utilization, the minimum future revenues to be received on committed time charter party agreements are approximately:

2008	\$ 174,157
2009	296,695
2010	429,841
2011	619,214
2012	653,364
Thereafter	5,090,366
	<b>\$ 7,263,637</b>

- (c) Under the Management Agreement, the Manager provides services to the Company for fees which are fixed through December 31, 2008 and thereafter will be subject to renegotiation every three years. The fixed payments to the Manager for technical and administrative services under the current management agreement for the remainder of 2008 is \$41,497,000.

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**11. Financial instruments:**

## (a) Concentration of credit risk:

CSCL Asia, HL USA, APM and COSCON are the Company's only customers as at March 31, 2008. As at March 31, 2008, customers accounting for our total revenues are:

	March 31, 2008	March 31, 2007
CSCL Asia	\$ 27,552	\$ 21,622
HL USA	14,724	11,412
APM	8,481	8,194
COSCON	3,458	
	\$ 54,215	\$ 41,228

## (b) Fair value:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of their short term to maturity. The carrying value of long-term debt recalculated at current interest rates, approximates its carrying value.

The fair value of the financial instruments is recognized on the balance sheet.

## (c) Interest rate derivative financial instruments:

The Company uses derivative financial instruments, consisting of interest rate swap agreements and an interest rate swaption, to manage its exposure to adverse movements in interest rates. The fair value of these derivative financial instruments at March 31, 2008 was \$252,699,000 (December 31, 2007 - \$135,617,000).

As at March 31, 2008, the Company has entered into interest rate swap agreements to fix LIBOR at per annum interest rates on notional loan balances.

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Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**11. Financial instruments (continued):**

## (c) Interest rate risk derivative financial instruments:

The Company has designated certain of these interest rate swaps as hedging instruments in accordance with the requirements in FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, as follows:

	Fixed LIBOR	Notional amount as at March 31, 2008	Maximum notional amount <sup>(1)</sup>	Effective date	Ending date
Interest rate swap	4.6325%	\$ 663,399	\$ 663,399	September 15, 2005	July 16, 2012
Interest rate swap	5.2500%	100,473	200,000	September 29, 2006	June 23, 2010
Interest rate swap	5.5150%	59,700	59,700	February 28, 2007	July 31, 2012
Interest rate swap	5.2600%	55,625	106,800	July 3, 2006	February 26, 2021 <sup>(2)</sup>
Interest rate swap	5.6000%		200,000	June 23, 2010	December 23, 2021

On January 31, 2008, the Company de-designated two interest rate swaps: a fixed LIBOR of 5.64% with an effective date of August 31, 2007 and a fixed LIBOR of 5.315% with an effective date of August 15, 2006. The impact of these de-designations resulted in recognition of a charge of \$1,647,000 to earnings out of accumulated other comprehensive loss at the date of de-designation.

In addition, the Company has the following interest rate swaps that are not designated as hedges:

	Fixed LIBOR	Notional amount as at March 31, 2008	Maximum notional amount <sup>(1)</sup>	Effective date	Ending date
Interest rate swap	5.6400%	\$ 258,134	714,500	August 31, 2007	August 31, 2017
Interest rate swap	5.4200%	137,263	438,462	September 6, 2007	May 31, 2024
Interest rate swap	5.2000%	96,000	96,000	December 18, 2006	October 2, 2015
Interest rate swap	5.0275%	73,620	158,000	May 31, 2007	September 30, 2015
Interest rate swap	5.3150%	54,344	106,800	August 15, 2006	August 28, 2009
Interest rate swap	5.1700%	18,140	55,500	April 30, 2007	May 29, 2020
Interest rate swap	5.1750%		663,399	July 16, 2012	July 15, 2016
Interest rate swap	5.8700%		620,390	August 31, 2017	November 30, 2025
Interest rate swap	5.4975%		59,700	July 31, 2012	July 31, 2019
Interest rate swap	5.5950%		106,800	August 29, 2009	August 28, 2020

(1)

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Over the term of the interest rate swaps, the notional amounts increase and decrease. These amounts represent the peak notional during the term of the swap.

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**SEASPAN CORPORATION**

Notes to Interim Consolidated Financial Statements

(Tabular amounts in thousands of United States dollars, except per share amount and number of shares or as otherwise indicated)

Three months ended March 31, 2008

**11. Financial instruments (continued):**

(c) Interest rate derivative financial instruments:

- (2) The Company has entered into a swaption agreement with a bank (Swaption Counterparty) whereby the Swaption Counterparty has the option to require the Company to enter into an interest rate swap to pay LIBOR and receive a fixed rate of 5.26%. This is a European option and is open for a two hour period on February 26, 2014 after which it expires. The notional amount of the underlying swap is \$106,800,000 with an effective date of February 28, 2014 and an expiration of February 26, 2021. If the Swaption Counterparty exercises the swaption, the underlying swap effectively offsets the Company's 5.26% pay fixed LIBOR swap from February 28, 2014 to February 26, 2021.

**12. Subsequent events:**

- (a) On April 16, 2008, the Company completed an equity offering and issued 7,000,000 common shares at a price of \$27.25 per share. Certain of the Company's executive officers and members of the board of directors, certain affiliates of the Manager and certain of their executive officers and an immediate family member of the chairman purchased 663,300 common shares directly from the Company at the public offering price concurrently with the closing of this equity offering. Net proceeds from the underwritten public offering, after underwriting discounts but before offering expenses, and from the concurrent sale were \$201,195,000 and will be used for general corporate purposes, including repayment of indebtedness, capital expenditures, working capital and to make vessel acquisitions.
- (b) Subsequent to the quarter-end, the Company drew \$41,250,000 on its credit facilities to fund installment payments for vessels under construction. The Company also repaid \$180,000,000 of debt under the \$1.3 billion revolving credit facility.
- (c) On April 28, 2008, the Company declared a cash dividend of \$0.475 per share, representing a total cash distribution of \$30,999,000. The cash dividend is payable on May 12, 2008 to all shareholders of record on May 2, 2008.

**Table of Contents****ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION****Overview**

We are Seaspan Corporation, a Marshall Islands corporation that was incorporated on May 3, 2005. During the year ended December 31, 2007, Seaspan Corporation incorporated Seaspan Finance I Co. Ltd., Seaspan Finance II Co. Ltd., and Seaspan Finance III Co. Ltd. These entities are fully consolidated and the use of the terms "Seaspan", "the Company", "we", "our" and "us" refer to Seaspan Corporation and its wholly-owned subsidiaries. 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. Our primary objective is to continue to grow our business through accretive acquisitions in order to increase our dividend per share.

We currently own and operate a fleet of 29 containerships and have entered into contracts for the purchase or lease, as the case may be, of an additional 39 containerships. As of March 31, 2008, the average age of the 29 vessels currently in our fleet was 4.8 years.

Our customer selection process is targeted at well-established container liner companies that charter vessels on a long-term basis as part of their fleet expansion strategy. Currently, 14 containerships in our fleet are under time charters with China Shipping Container Lines (Asia) Co., Ltd., or CSCL Asia. CSCL Asia, a British Virgin Islands company, is a subsidiary of China Shipping Container Lines., Ltd, or CSCL. CSCL is the seventh largest container shipping company in the world based on TEU capacity as of April 15, 2008. CSCL Asia primarily operates in the China trade routes, which have experienced significant growth in the past few years. Nine containerships in our fleet are under time charters with Hapag-Lloyd USA, LLC, or HL USA, which is an affiliate of Hapag Lloyd, AG, the fifth largest container shipping company in the world by TEU capacity as of April 15, 2008. Our four 4800 TEU vessels are chartered to A.P. Møller-Mærsk, or APM, the world's largest container shipping company based on TEU capacity as of April 15, 2008. Two of our container ships are currently chartered to COSCO Container Lines Co., Ltd., or COSCON, the world's sixth largest container shipping company based on TEU capacity as of April 15, 2008. The 39 containerships that we have contracted to purchase or lease, as the case may be, will similarly be chartered on a long-term basis.

We intend to increase the size of our fleet through timely and selective acquisitions of new and secondhand vessel 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. However, we cannot assure you that we will successfully consummate any additional vessel acquisitions.

**Our Fleet**

The following chart details the number of vessels in our fleet based on size as we take contractual delivery:

Class	TEU Vessel Size	Actual	As of		Forecasted			
			March 31, 2008	2008	Year Ending December 31, 2009	2010	2011	
13100		13092						8
9600		9580	2	2	2	2	2	2
8500		8468	2	2	2	2	2	2
8500		8495			2	8		8
5100		5087			4	4	4	4
4800		4809	4	4	4	4	4	4
4500		4520					2	5
4250		4253	19	19	23	23	23	23
3500		3534	2	2	2	2	2	2
2500		2546		6	8	10		10
<b>Operating Vessels</b>			<b>29</b>	<b>35</b>	<b>47</b>	<b>57</b>	<b>68</b>	
<b>Actual Capacity (TEU)</b>			<b>143,207</b>	<b>158,483</b>	<b>217,925</b>	<b>283,027</b>	<b>401,323</b>	





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### **Our Financing Facilities**

#### *Our \$291.2 Million Credit Facility*

On March 17, 2008, we entered into a \$291.2 million credit facility agreement, or the \$291.2 Million Credit Agreement. The facility has a term loan component, which is divided into two tranches, and a revolving loan component, which is divided into a senior revolver and junior revolver. The proceeds of this facility are available to partially finance the construction of two of our 13100 TEU vessels, one of which is under construction by Hyundai Heavy Industries Co., Ltd., or HHI, and the other by Hyundai Samho Heavy Industries Co., Ltd., or HSHI. The term loans are available for drawing until a certain period of time following the scheduled delivery date of each vessel. After delivery of these vessels, we may use the revolving loan for general corporate purposes.

The final maturity date for the revolving loan is the earlier of the twelfth anniversary of the delivery date of the last vessel delivered and December 31, 2023, and the final maturity date for the term loans is the earlier of the twelfth anniversary of the delivery date of the vessels to which those term loans relate and December 31, 2023. The outstanding loans under the facility must be paid in full by the relevant final maturity date.

Our obligations under the \$291.2 Million Credit Agreement will be secured by, among other things, assignments of ship building contracts and refund guarantees for the vessels, assignments of time charters and earnings for the vessels, assignments of insurances for the vessels, mortgages of the vessels and an assignment of a management agreement for the vessels. One of the tranches of the term loan portion is guaranteed by the Export-Import Bank of Korea, or KEXIM.

Under the \$291.2 Million Credit Agreement, we may borrow up to the lesser of \$291.2 million and 80% of the vessel delivered costs (as defined in the credit agreement) and on an individual vessel basis, the lesser of \$145.6 million and 80% of the vessel delivered costs for that vessel provided that amounts borrowed in respect of vessel delivered costs that are not covered by the amount of the refund guarantees for the vessels may not exceed \$1.0 million per vessel. Consistent with export-import bank financing under the applicable OECD rules, we must pay 20% of the vessel delivered costs on or prior to the delivery date.

We may prepay the term loans on a repayment date (as defined in the credit agreement) without penalty, other than breakage costs and opportunity costs in certain circumstances. We may prepay the revolving loan on the last day of any interest period except that we are not permitted to prepay the junior revolving loan during the pre-delivery period. Amounts of the revolving loan that are prepaid voluntarily may be re-borrowed up to the amount of the revolving loan. We will be required to prepay a portion of the outstanding loans in certain circumstances, including the sale or loss of a vessel, the cancellation of a ship building contract or if the guarantee provided by KEXIM ceases to be valid for certain reasons and KEXIM determines that there has been or could be a material adverse effect on our ability to perform our payment obligations. We may also remove a vessel from the facility upon prepayment of the relevant portion of the outstanding loans.

The \$291.2 Million Credit Agreement requires payment of interest on the outstanding revolving loan at a rate calculated as LIBOR plus 0.85% per annum and payment of interest on the outstanding term loans at a rate calculated as the commercial interest reference rate of KEXIM plus 0.65% per annum for the first tranche, LIBOR plus 0.35% for the second tranche. The credit agreement also requires payment of a commitment fee of 0.30% per annum calculated on the undrawn, uncanceled portion of the facility. Prior to delivery of a vessel, interest and commitment fees associated with the loans for a vessel may be capitalized and added to the outstanding loans.

In addition to the security we have granted to secure the facility, we are also subject to other customary conditions precedent and other restrictions before we may borrow under the facility including, but not limited to, that no event of default is outstanding and that there has been no material adverse change in our ability to make all required payments under the credit agreement. In addition, the facility contains various covenants limiting our ability to, among other things:

allow liens to be placed on the collateral securing the facility;

enter into mergers with other entities;

conduct material transactions with affiliates; or

change the flag, class or management of the collateral vessels.

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The \$291.2 Million Credit Agreement also contains certain financial covenants including, but not limited to, those that require us to maintain:

a tangible net worth in excess of \$450.0 million;

total borrowings at less than 65% of the total assets;

cash on hand and cash equivalents of \$25.0 million if at any time more than 50% of the collateral vessels are subject to time charters having a remaining term of one year or less;

a net interest coverage ratio of 2.50 to 1.00; and

an interest and principal coverage ratio greater than or equal to 1.1 to 1.0.

The \$291.2 Million Credit Agreement contains certain events of default including, but not limited to, non-payment of principal or interest, breach of covenants, material inaccuracy of representations, default under other material indebtedness and bankruptcy.

*Our \$235.3 Million Credit Facility*

On March 31, 2008, we entered into a credit agreement with Sumitomo Mitsui Banking Corporation as mandated lead arranger, Sumitomo Mitsui Banking Corporation, Brussels Branch as original lender, Sumitomo Mitsui Banking Corporation Europe Limited as security trustee and Sumitomo Mitsui Banking Corporation, Brussels Branch as facility agent for a term loan facility in the maximum aggregate amount of \$235.3 million. The facility is partially insured by the Korea Export Insurance Corporation, or KEIC, and Sumitomo Mitsui Banking Corporation, Brussels Branch is acting as an agent for KEIC with respect to the facility.

The proceeds of the facility may be used by us to partially finance the construction, acquisition and vessel delivered costs (as defined in the credit agreement) of two of our 13100 TEU vessels, one to be constructed by HHI and the other to be constructed by HSHI.

The final maturity date for the facility is the earlier of the twelfth anniversary of the delivery date of the last vessel delivered and February 6, 2024. Our obligations under the credit agreement will be secured by, among other things, assignments of ship building contracts and refund guarantees for the vessels, assignments of time charters and earnings for the vessels, assignments of insurances for the vessels, mortgages of the vessels and an assignment of a management agreement for the vessels.

Under the facility, we may borrow up to the lesser of \$235.3 million and 65% of the vessel delivered costs (as defined in the credit agreement) and on an individual vessel basis, the lesser of \$117.65 million and 65% of the vessel delivered costs for that vessel provided that amounts borrowed in respect of vessel delivered costs that are not covered by the amount of the refund guarantees for the vessels may not exceed \$1.5 million per vessel except that it may be increased to an amount of up to \$2.5 million per vessel with the consent of the facility agent.

Beginning six months after the actual delivery date of the last delivered vessel securing the facility, the amount borrowed with respect to that vessel must be reduced by 24 semi-annual payments of \$2,693,750 until the maturity date. A final repayment of \$53.0 million of the amount borrowed with respect to that vessel is required upon the final maturity date.

We may prepay all loans without penalty, other than breakage costs in certain circumstances. No amounts prepaid under the credit agreement may be re-borrowed. We will be required to prepay a portion of the outstanding loans in certain circumstances, including the sale or loss of a vessel or the cancellation of a ship building contract where we elect not to substitute another vessel within the time period and on the terms set out in the credit agreement or if the KEIC insurance policies, or the KEIC Insurance, cease to be valid or enforceable in any material respect other than in certain circumstances.

The credit agreement requires payment of interest on the outstanding loans at a rate calculated as LIBOR plus 0.4% per annum on the portion of the facility covered by the KEIC Insurance and LIBOR plus 1.0% per annum on the portion of the facility that is not covered by the KEIC

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Insurance. The credit agreement also requires payment of a commitment fee of 0.35% per annum calculated on the undrawn, uncanceled portion of the facility. Prior to delivery of a vessel, interest and commitment fees associated with the loans for a vessel may be capitalized and added to the outstanding loans.

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In addition to the security granted by us to secure the facility, we are also subject to other customary conditions precedent before we may borrow under the facility including, but not limited to, that no event of default is outstanding and that there has been no material adverse change in our ability to make all required payments under the credit agreement. The credit agreement contains various covenants limiting our ability to, among other things:

allow liens to be placed on the collateral securing the facility;

enter into mergers with other entities;

conduct material transactions with affiliates; or

change the flag, class or management of the collateral vessels.

The credit agreement also contains certain financial covenants including, but not limited to, those that require us to maintain:

a tangible net worth in excess of \$450.0 million;

cash on hand and cash equivalents of \$25.0 million if at any time more than 50% of the collateral vessels are subject to time charters having a remaining term of one year or less;

a net interest coverage ratio of greater than 2.50 to 1.00; and

an interest and principal coverage ratio greater than or equal to 1.1 to 1.0.

The credit agreement contains customary events of default including, but not limited to, non-payment of principal or interest, breach of covenants, material inaccuracy of representations, default under other material indebtedness and bankruptcy.

## **Our Management Agreements**

During the first quarter of 2008, we also entered into three vessel management agreements with Seaspan Management Services Limited, or our Manager, Seaspan Advisory Services Limited, Seaspan Ship Management Ltd. and Seaspan Crew Management Ltd. Each of the management agreements provides technical services for two of our 13100 TEU vessels. Upon delivery, all six vessels will be chartered to COSCON.

The terms of each management agreement are substantially similar to those of our other management agreements with respect to the technical services and services related to pre-delivery matters. Under the management agreements, our Manager will provide technical ship management and pre-delivery services for the vessels, including managing day-to-day vessel operations, arranging 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 the hire of qualified officers and crew, training, transportation, compensation and insurance of the crew (including processing all claims), arranging normally scheduled dry-docking and general and routine repairs, arranging insurance for the vessels (including marine hull and machinery insurance, protection and indemnity insurance and risks and crew insurance), purchasing stores, supplies, spares, lubricating oil and making maintenance capital expenditures for the vessels, appointing supervisors and technical consultants, providing technical support, shoreside support and attending to all other technical matters necessary to run the vessels.

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Under the management agreements, we will pay an initial technical service fee of \$6,750 per vessel per day to our Manager for the management of each vessel once the relevant vessel is delivered. Consistent with our other management agreements, these fees will remain in effect until December 31, 2008 and will thereafter be adjusted every three years. The management agreements will expire on December 31, 2025, unless renewed or terminated earlier pursuant to its terms.

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### **Critical Accounting Policies**

We prepare our financial statements in accordance with accounting principles generally accepted in the United States ( GAAP ), and we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosures of contingent obligations. On an on-going basis, we evaluate our estimates and judgments. We base our estimate on historical experience and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates.

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

#### *Revenue Recognition*

Charter revenue is generated from long-term time charters for each vessel and commences as soon as the vessel is delivered. Time charter revenues are recorded on a straight-line basis over the initial term of the charter arrangement. The charters provide for a per vessel fixed daily charter hire rate. We do not enter into spot voyage arrangements with respect to any of our vessels. Although our charter revenues are fixed, and accordingly little judgment is required to be applied to the amount of revenue recognition, there is no certainty as to the daily charter rates or other terms that will be available upon the expiration of our existing charter party agreements.

#### *Vessel Lives*

Our vessels represent our most significant assets. The initial fleet of 10 vessels is carried at the historical carrying value of our predecessor, which includes capitalized interest during construction and other construction, design, supervision and predelivery costs, less accumulated depreciation. The difference between the purchase price of the initial fleet and the historical carrying value was charged against shareholders equity at the time of the acquisition. All additional vessels purchased subsequent to our initial public offering are recorded at their cost to us, reflecting the fair value of the consideration we pay upon their acquisition. We depreciate our vessels using the straight-line method over their estimated useful lives. We review the estimate of our vessels useful lives on an on-going basis to ensure they reflect current technology, service potential, and vessel structure. For accounting purposes, we estimate the useful life of the vessels will be 30 years from the date of initial completion. Should certain factors or circumstances cause us to revise our estimate of vessel service lives in the future, depreciation expense could be materially lower or higher. Such factors include, but are not limited to, the extent of cash flows generated from future charter arrangements, changes in international shipping requirements, and other factors, many of which are outside of our control.

#### *Impairment of Long-lived Assets*

We evaluate the net carrying value of our vessels for possible impairment when events or conditions exist that cause us to question whether the carrying value of the vessels will be recovered from future undiscounted net cash flows. Considerations in making such an impairment evaluation would include comparison of current carrying value to anticipated future operating cash flows, expectations with respect to future operations, and other relevant factors. To the extent that the carrying value of the vessels exceeds the undiscounted estimated future cash flows, the vessels would be written down to their fair value.

#### *Intangible Assets*

For certain vessels where we provide lubricants for the operation of such vessels, we have a contractual right to have the vessel returned with the same level and complement of lubricants. This contractual right is recorded as an intangible asset at the historical fair value of the lubricants at the time of delivery. Intangible assets are tested for impairment annually or more frequently due to events or changes in circumstances that indicate the asset might be impaired. An impairment loss is recognized when the carrying amount of the intangible asset exceeds its fair value.

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### *Derivative Instruments*

Our hedging policies permit the use of various derivative financial instruments to manage interest rate risk. We have entered into interest rate swap and swaption agreements to reduce our exposure to market risks from changing interest rates. Derivatives and hedging activities are accounted for in accordance with Financial Accounting Standards Board, or FASB, Statement No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. We recognize the interest rate swap and swaption agreements on the balance sheet at their fair value.

To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be formally designated as a hedge at the inception of the hedging relationship. We consider a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80% to 125% of the opposite change in the fair value of the hedged item attributable to the hedged risk. For interest rate swap agreements that are formally designated as cash flow hedges, the changes in the fair value of these interest rate swaps are recorded in other comprehensive income and are reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of the hedges are recognized in earnings as they occur. Actual cash receipts and/or payments and related accruals on derivatives related to hedges are recorded as adjustments to the interest income or interest expense associated with the hedged item. During the life of the hedge, we formally assess whether each derivative designated as a hedging instrument continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If we determine that a hedge has ceased to be highly effective, we will discontinue hedge accounting prospectively.

We believe our future borrowings and interest payments are probable based on the financing requirements for ships currently under contract. Our ongoing ability to employ hedge accounting is dependent on our ability to demonstrate that the hedges continue to be highly effective in offsetting the interest rate variability associated with the hedged interest payments. The effectiveness of these hedges is dependent on a variety of factors, including the amount of variable rate debt, the timing of borrowings (which is based on vessel construction payments), the interest reset terms, and the timing and frequency of interest payments.

If we de-designate a hedging relationship and discontinue hedge accounting, we evaluate the future settlements to determine whether there are any hedged interest rate payments that are improbable to occur. When such amounts are identified as being improbable, the balance pertaining to these amounts that is included in accumulated other comprehensive income is reversed through earnings immediately. When amounts are not identified as improbable, any balances recorded in accumulated other comprehensive income at the de-designation are recognized in earnings when the actual settlements under the interest rate swap occur.

During the quarter, we changed our forecasts of probable outstanding debt as a result of certain changes in economic factors and capital structuring. As a result of these changes to our forecasts, we determined that there may be insufficient debt during certain settlements periods over the length of the hedging relationship. We have de-designated two of our interest rate swap hedges based on this analysis.

Other interest rate swap agreements and the swaption agreement 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.

### *Important Financial and Operational Terms and Concepts*

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

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

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



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*Charterer.* The party that hires a ship for a period of time or for a voyage.

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

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

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

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

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

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

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

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

*Voyage charter.* A charter under which a shipowner hires out a ship for a specific voyage between the loading port and the discharging port. The shipowner is responsible for paying both ship operating expenses and voyage expenses. Typically, the charterer is responsible for any delay at the loading or discharging ports. The shipowner is paid freight on the basis of the cargo movement between ports.

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

### **Three Months Ended March 31, 2008 Compared with Three Months Ended March 31, 2007**

The following discussion of our financial condition and results of operations for the three months ended March 31, 2008 and 2007 has been prepared in accordance with United States GAAP.

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The following table presents our operating results for the three months ended March 31, 2008 and 2007:

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Statement of operations data (in thousands of dollars):</b>		
Revenue	\$ 54,215	\$ 41,228
Operating expenses:		
Ship operating	12,604	9,757
Depreciation	13,741	10,516
General and administrative	1,817	1,359
Operating earnings	26,053	19,596
Other expenses (earnings):		
Interest expense	8,616	6,547
Interest income	(276)	(1,075)
Undrawn credit facility fee	1,112	661
Amortization of deferred charges	462	181
Change in fair value of financial instruments	53,803	(1,445)
Net earnings (loss)	\$ (37,664)	\$ 14,727
<b>Common shares outstanding</b>	<b>57,598,850</b>	<b>47,574,267</b>
<b>Per share data (in dollars):</b>		
Basic and diluted earnings (loss) per share	\$ (0.65)	\$ 0.31
Cash dividends paid	\$ 0.4750	\$ 0.44625
<b>Statement of cash flows data (in thousands of dollars):</b>		
Cash flows provided by (used in):		
Operating activities	\$ 29,015	\$ 25,317
Financing activities	30,268	151,111
Investing activities	(166,310)	(234,510)
Net decrease in cash	\$ (107,027)	\$ (58,082)

	<b>As of March 31, 2008</b>
<b>Selected balance sheet data (in thousands of dollars):</b>	
Current assets	\$ 20,889
Vessels	2,694,039
Deferred charges	19,918
Other assets	5,691
Total assets	\$ 2,740,537
Current liabilities	\$ 11,947
Long-term debt	1,364,999
Other long-term liability	377,582
Fair value of financial instruments	252,699
Shareholders' equity	733,310
Total liabilities and shareholders' equity	\$ 2,740,537

**Other data, at quarter end:**

Number of vessels in operation	29
Average age of fleet in years	4.8
TEU capacity	143,207
Average remaining initial term on outstanding charters	7.7

The following table summarizes key facts regarding the 29 vessels in operation as of March 31, 2008. Each of the vessels listed below was built by Samsung Heavy Industries Co., Ltd, except for four 4800 TEU vessels, three of which were built in 1989 by Odense-Lindo Shipyard Ltd., and one of which was built in 1988 by Odense-Lindo Shipyard Ltd., and the two 3500 TEU vessels, which were built in 2007 by Zhejiang Shipbuilding Co. Ltd.

Vessel Name	Vessel Class (TEU)	Commencement of Charter	Year Built	Charterer	Length of Time Charter	Daily Charter Rate (in thousands)	Operating	Operating
							Days in Q1-08 / Available Days Q1-08	Days in Q1-07 / Available Days Q1-07
CSCL Zeebrugge	9600	03/15/07	2007	CSCL Asia	12 years	\$ 34.0 <sup>(1)</sup>	91/91	17/17
CSCL Long Beach	9600	07/05/07	2007	CSCL Asia	12 years	34.0 <sup>(1)</sup>	91/91	N/A
MSC Belgium	8500	12/4/04	2004	CSCL Asia	12 years + one 3-year option	29.5 <sup>(2)</sup>	91/91	90/90
CSCL Africa <sup>(3)</sup>	8500	1/24/05	2005	CSCL Asia	12 years + one 3-year option	29.5 <sup>(2)</sup>	91/91	90/90

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Vessel Name	Vessel Class (TEU)	Commencement of Charter	Year Built	Charterer	Length of Time Charter	Daily Charter Rate	Operating Days in Q1-08 / Available Days Q1-08	Operating Days in Q1-07 / Available Days Q1-07
CSCL Hamburg					10 years +			
	4250	7/3/01	2001	CSCL Asia	one 2-year option	18.3 <sup>(4)</sup>	66/91	90/90
CSCL Chiwan					10 years +			
	4250	9/20/01	2001	CSCL Asia	one 2-year option	18.3 <sup>(4)</sup>	91/91	81/90
CSCL Ningbo					10 years +			
	4250	6/15/02	2002	CSCL Asia	one 2-year option	19.7 <sup>(5)</sup>	91/91	79/90
CSCL Dalian					10 years +			
	4250	9/4/02	2002	CSCL Asia	one 2-year option	19.7 <sup>(5)</sup>	91/91	81/90
CSCL Felixstowe					10 years +			
	4250	10/15/02	2002	CSCL Asia	one 2-year option	19.7 <sup>(5)</sup>	91/91	90/90
CSCL Vancouver	4250	2/16/05	2005	CSCL Asia	12 years	17.0	91/91	90/90
CSCL Sydney	4250	4/19/05	2005	CSCL Asia	12 years	17.0	91/91	90/90
CSCL New York	4250	5/26/05	2005	CSCL Asia	12 years	17.0	91/91	90/90
CSCL Melbourne	4250	8/17/05	2005	CSCL Asia	12 years	17.0	91/91	90/90
CSCL Brisbane	4250	9/15/05	2005	CSCL Asia	12 years	17.0	91/91	90/90
New Delhi Express					3 years +			
					seven 1-year extensions +			
	4250	10/18/05	2005	HL USA	two 1-year options <sup>(6)</sup>	18.0 <sup>(7)</sup>	91/91	90/90
Dubai Express					3 years +			
					seven 1-year extensions +			
	4250	1/3/06	2006	HL USA	two 1-year options <sup>(6)</sup>	18.0 <sup>(7)</sup>	91/91	90/90
Jakarta Express					3 years +			
					seven 1-year extensions +			
	4250	2/21/06	2006	HL USA	two 1-year options <sup>(6)</sup>	18.0 <sup>(7)</sup>	91/91	90/90
Saigon Express					3 years +			
					seven 1-year extensions +			
	4250	4/6/06	2006	HL USA	two 1-year options <sup>(6)</sup>	18.0 <sup>(7)</sup>	91/91	90/90
Lahore Express					3 years +			
					seven 1-year extensions +			
	4250	7/11/06	2006	HL USA	two 1-year options <sup>(6)</sup>	18.0 <sup>(7)</sup>	91/91	90/90
Rio Grande Express	4250	10/20/06	2006	HL USA	3 years +	18.0 <sup>(7)</sup>	91/91	90/90
					seven 1-year extensions +			

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Santos Express					two 1-year options <sup>(6)</sup> 3 years +			
					seven 1-year extensions +			
	4250	11/13/06	2006	HL USA	two 1-year options <sup>(6)</sup> 3 years +	18.0 <sup>(7)</sup>	91/91	90/90
Rio de Janeiro Express					seven 1-year extensions +			
	4250	03/28/07	2007	HL USA	two 1-year options <sup>(6)</sup> 3 years +	18.0 <sup>(7)</sup>	90/91	4/4
Manila Express					seven 1-year extensions +			
	4250	05/23/07	2007	HL USA	two 1-year options <sup>(6)</sup> 5 years +	18.0 <sup>(7)</sup>	91/91	N/A
MSC Sweden					two 1-year options + one			
	4800	11/6/06	1989	APM	2-year option 5 years +	23.5 <sup>(8)</sup>	91/91	90/90
Mærsk Matane					two 1-year options + one			
	4800	11/20/06	1988	APM	2-year option 5 years +	23.5 <sup>(8)</sup>	91/91	90/90
Mærsk Marystown					two 1-year options + one			
	4800	12/6/06	1989	APM	2-year option 5 years +	23.5 <sup>(8)</sup>	91/91	90/90
Mærsk Moncton					two 1-year options + one			
	4800	12/22/06	1989	APM	2-year option	23.5 <sup>(8)</sup>	90/91	76/90
COSCO Fuzhou	3500	03/27/07	2007	COSCON	12 years	19.0	91/91	5/5
COSCO Yingkou	3500	07/05/07	2007	COSCON	12 years	19.0	91/91	N/A

(1) CSCL Asia has an initial daily charter rate of \$34,000 per day, increasing to \$34,500 per day after six years.

(2) CSCL Asia has an initial charter of twelve years with a charter rate of \$29,500 per day for the first six years, \$29,800 per day for the second six years, and \$30,000 per day during the option period.

(3) CSCL Asia sub-chartered the CSCL Africa to CMA-CGM on April 21, 2008 and the vessel was renamed CMA-CGM Africa. No changes were made to the time charter for this vessel as a result of the sub-charter.

(4) CSCL Asia has an initial charter of ten years with a charter rate of \$18,000 per day for the first five years, \$18,300 per day for the second five years, and \$19,000 per day for the final two-year option.

(5) The initial charter of ten years with a charter rate of \$19,933 per day for the first five years, \$19,733 per day for the second five years, and \$20,500 per day for the final two-year option.

(6) The initial term is three years that automatically extends for up to an additional seven years in successive one-year extensions, unless HL

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USA elects to terminate the charters with two years prior written notice. The charterer is required to pay a termination fee of approximately \$8.0 million to terminate a charter at the end of the initial term. The termination fee declines by \$1.0 million per year per vessel in years four through nine.

- (7) HL USA has an initial term of three years that automatically extends for up to an additional seven years with a charter rate of \$18,000 per day, and \$18,500 per day for the final two one-year options.
- (8) APM has a initial term for five years at \$23,450 per day, two consecutive one-year options to charter the vessel at \$22,400 and \$21,400 per day respectively and a final two-year option to charter the vessel at \$20,400 per day; provided, however, that APM may declare an initial term on one or two vessels that is up to 9 months less than 5 years so long as they declare an initial term which is correspondingly greater than 5 years for the same number of vessels. In addition, we will pay an affiliate of APM a 0.5% commission on all hire payments for each of the APM charters.

We began the year with 29 vessels in operations that contributed 2,612 operating days for the three months ended March 31, 2008. Operating days are the primary driver of revenue while ownership days are the driver for ship operating costs.

The following tables summarize vessel utilization and the impact of the off-hire experienced as a result of off-hire on our revenues for the three months ended March 31, 2008 and 2007:

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Vessel Utilization:</b>		
Ownership Days	2,639	2,096
Less Off-hire Days:		
Scheduled 5-Year Survey		(34)
Other unscheduled off-hire	(27)	(9)
<b>Operating Days</b>	<b>2,612</b>	<b>2,053</b>
<b>Vessel Utilization</b>	<b>99.0%</b>	<b>97.9%</b>

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
<b>Revenue Impact of Off-Hire:</b>		
100% Utilization	\$ 54,703	\$ 42,087
Less Off-hire:		
Scheduled 5-Year Survey		(688)
Other unscheduled off-hire	(488)	(171)
<b>Actual Revenue Earned</b>	<b>\$ 54,215</b>	<b>\$ 41,228</b>

*Revenue*

Revenue increased by 31.5%, or \$13.0 million, to \$54.2 million for the three months ended March 31, 2008, from \$41.2 million for the comparable quarter last year. The increase was mainly the result of the six vessels delivered during 2007, of which three were delivered in March 2007. Expressed in vessel operating days, our primary revenue driver, these six vessels contributed \$12.2 million in additional revenue or 519 of the 2,612 operating days in the quarter.

	<b>Three Months Ended</b>		<b>Increase</b>	
	<b>March 31,</b>		<b>Days</b>	<b>%</b>
	<b>2008</b>	<b>2007</b>		
Operating days	2,612	2,053	559	27.2
Ownership days	2,639	2,096	543	25.9



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Operating days increased by 27.2%, or 559 days, to 2,612 days for the three months ended March 31, 2008 from 2,053 operating days for the comparable quarter last year.

We incurred 27 days of off-hire for the quarter, which impacted revenue by \$0.5 million. The CSCL Hamburg was involved in a collision with a bulk carrier on March 5, 2008 and sustained damage that resulted in twenty-five unscheduled off-hire days for the first quarter of 2008 for repairs and preventative maintenance works. The collision did not result in environmental damage or loss of life. Repairs are likely covered by insurance, subject to the deductibles. For the quarter ended March 31, 2008, vessel utilization was 99.0% for the three months ended March 31, 2008, compared to 97.9% for the prior year's comparative quarter. During the three months ended March 31, 2007, the CSCL Ningbo, CSCL Dalian and Mærsk Moncton completed their regularly scheduled five-year special surveys and dry-dockings.

*Ship Operating Expenses*

Ship operating expense increased by 29.2%, or \$2.8 million, to \$12.6 million for the three months ended March 31, 2008, from \$9.8 million for the comparable prior year's quarter. The increase was due to the addition six vessels to our fleet, which are based on fixed daily operating rates for each vessel. Stated in ownership days, our primary driver for ship operating expense, these six deliveries contributed an additional 520 of the 2,639 ownership days for the three months ended March 31, 2008 compared to 2,096 ownership days for the comparable prior year's quarter.

*Depreciation*

Depreciation expense increased by 30.7%, or \$3.2 million, to \$13.7 million in the quarter from \$10.5 million for the comparable prior year's quarter. The increase was due to the six vessels added to our fleet in 2007 and the increase in number of ownership days.

*General and Administrative Expenses*

General and administrative expenses increased by 33.7%, or \$0.4 million, to \$1.8 million for the three months ended March 31, 2008, from \$1.4 million for the three months ended March 31, 2007. This increase is primarily due to increased costs to support our growth initiatives through strategic planning and investor relation activities. The increase is also due to the increase in share based compensation expense that includes an additional grant made to our Chief Executive Officer and an increase in the share price on a year over year basis.

*Interest Expense*

Interest expense increased by 31.6%, or \$2.1 million, to \$8.6 million for the three months ended March 31, 2008, from \$6.5 million for the three months ended March 31, 2007. Interest expense is composed primarily of two components: interest incurred on debt associated with operating vessels and amounts earned or incurred for the difference between the fixed and variable interest rates related to interest rate swaps that are not designated as hedges for which the interest is capitalized. The increase in interest expense is primarily due to the settlements on the interest rate swaps that are not designated as hedging instruments.

The interest incurred on our long-term debt for our vessels under construction is capitalized to the respective vessels under construction.

*Undrawn Facility Fee*

During the three months ended March 31, 2008, we incurred \$1.1 million in undrawn credit facility fees compared with \$0.7 million for the three months ended March 31, 2007, an increase of 68.2%. The increase in undrawn credit facility fees is primarily a result of credit facilities entered into since March 31, 2007, which have not yet been fully drawn. We pay commitment fees ranging from 0.2% to 0.35% on our credit facilities, which are expensed as incurred.



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### *Interest Income*

During the three months ended March 31, 2008, we earned interest income of \$0.3 million compared with \$1.1 million for the three months ended March 31, 2007 through investing excess cash balances in highly liquid securities with terms to maturity of three months or less. The decrease in interest income is due to the decrease in our average cash balance outstanding for the quarter, as well as a decrease in interest rates.

### *Amortization of Deferred Charges*

Amortization of deferred charges increased by 155.2%, or \$0.3 million, to \$0.5 million for the three months ended March 31, 2008, from \$0.2 million for the three months ended March 31, 2007.

Financing fees are deferred and amortized over the terms of the individual credit facilities using the effective interest yield basis. The amortization of the deferred financing fees on the \$1.3 billion credit facility and Tranche A of the \$365.0 million revolving credit facility are expensed as incurred while the amortization of the deferred financing fees on Tranche B of the \$365.0 million revolving credit facility, the \$218.4 million term loan facility, the \$920.0 million credit facility, the \$291.2 million credit facility and the \$235.3 million credit facility are being capitalized to the vessels under construction. As a result of the adoption of FSP AUG AIR-1, we have adopted the deferral method of accounting for dry-dock activities whereby actual costs incurred are deferred and amortized on a straight line basis over the period until the next scheduled dry-dock activity. Amortization of deferred charges relating to dry-docking increased to \$0.1 million for the three months ended March 31, 2008, from \$10,000 for the three months ended March 31, 2007.

### *Change in Fair Value of Financial Instruments*

The change in fair value of financial instruments resulted in a loss of \$53.8 million for the three months ended March 31, 2008 compared to a \$1.4 million gain for the three months ended March 31, 2007. We experienced a significant decline in the fair value of our undesignated interest rate swaps due to significant decreases in the forward LIBOR rate curves. The change in fair value of financial instruments is included in other expenses and is not part of operating earnings and has no cash impact. The financial instruments consist entirely of fixed interest rate swaps and a swaption that we enter into to lock in the return on our acquisitions and provide predictable long term cash earnings and distributions to our shareholders. Certain of our interest rate swaps are accounted for as hedging instruments in accordance with the requirements in accounting literature. As a result, the effective changes in the fair value of our interest rate swap agreements that qualify for hedge accounting are excluded from earnings until settled. The change in fair value of financial instruments represents the ineffective portion of our interest rate swap agreements that are accounted for as hedging instruments and the change in fair value of the financial instruments that do not qualify for hedge accounting. Included in the change in fair value of financial instruments is a \$1.6 million charge to earnings from accumulated other comprehensive loss for the two interest rate swaps that were de-designated during the three months ended March 31, 2008. We have de-designated these interest rate swaps as a result of certain changes in the forecasts of probable debt which decreased the probable notional debt balances at certain future interest settlement periods.

Please read Item 3 - Quantitative and Qualitative Disclosures About Market Risk for further discussion.

## **Liquidity and Capital Resources**

### *Liquidity and Cash Needs*

As of March 31, 2008, our cash and cash equivalents was \$16.1 million.

As of March 31, 2008, we have drawn \$752.1 million under our \$1.3 billion credit agreement to fund the delivery of and pay certain installments for certain of our vessels

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As of March 31, 2008, we have drawn \$121.0 million of the \$283.0 million available in the Tranche B under the \$365 million credit agreement to fund the construction of eight of our ten 2500 TEU vessels. No amounts to date have been drawn from the Tranche A of this credit facility.

As of March 31, 2008, we have drawn \$100.2 million under our \$218.4 million credit facility to fund the construction of the 5100 TEU vessels.

As of March 31, 2008, we have drawn \$341.7 million under our \$920 million facility to fund the construction of two of the ten 2500 TEU vessels under construction by Jiangsu Yangzijiang Shipbuilding Co. Ltd., the four 4250 TEU vessels to be constructed by Jiangsu New Yangzi Shipbuilding Co., Ltd. and the eight 8500 TEU vessels to be constructed by HHI.

As of March 31, 2008, we have drawn \$50.0 million of under our \$150 million credit facility to fund the construction of certain of our 13100 TEU vessels to be constructed by HHI and HSHI.

As of March 31, 2008, no amounts have been drawn from our \$291.2 million credit facility or our \$235.3 million credit facility.

Our primary short-term liquidity needs are to fund our operating expenses, including payments under our management agreement, and payment of our quarterly dividend. Our medium-term liquidity needs primarily relate to the purchase of the containerships we have contracted to purchase. Our long-term liquidity needs primarily relate to vessel acquisitions and debt repayment. We anticipate that our primary sources of funds for our short and medium-term liquidity needs will be our current credit facilities, new credit facilities, additional equity offerings as well as our cash from operations, while our long-term sources of funds will be from cash from operations and/or debt or equity financings. We believe that these sources of funds will be sufficient to meet our liquidity needs for the foreseeable future.

Our dividend policy will impact our future liquidity needs. Our board of directors has adopted a dividend policy to pay a regular quarterly dividend on our common and subordinated shares while reinvesting a portion of our operating cash flow in our business. Retained cash may be used to, among other things, fund vessel or fleet acquisitions, other capital expenditures and debt repayments, as determined by our board of directors. Our dividend policy reflects our judgment that by retaining a portion of our cash in our business over the long-term, we will be able to provide better value to our shareholders by enhancing our longer term dividend paying capacity. Although it is our goal to further grow our dividend through accretive acquisitions of additional vessels, there can be no assurance that we will be successful in meeting this goal. If our future liquidity needs are greater than currently anticipated, we could reduce or eliminate the cash available for distribution as dividends. In such event, our board of directors may change our dividend policy.

As of March 31, 2008, the estimated total purchase price of the 39 vessels that we have contracted to purchase was approximately \$2.5 billion, which we expect to fund primarily from our credit facilities and from additional equity offerings. Our obligation to purchase the vessels we have contracted to purchase is not conditional upon our ability to obtain financing for such purchases.

All of the vessels that are currently chartered and that we will acquire are chartered to charterers under long-term time charters, and these charterers' payments to us are and 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 have good commercial relations with each of our customers and we believe they will be able to meet their commitments under their charter agreements with us. Part of our business strategy is to grow our customer base. If our existing charters with CSCL Asia, HL USA, APM or COSCON were terminated, based on current charter rates, we believe we could recharter such vessels at rates higher than our existing rates over similar time periods, although we cannot assure you that this would be the case. If market rates decline and we recharter at lower rates, our results of operations and financial condition could be materially adversely affected.

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### **Statement of Cash Flows**

#### *Operating Activities Cash Flows*

Net cash from operating activities was \$29.0 million for the three months ended March 31, 2008 as compared with \$25.3 million for the three months ended March 31, 2007. The increase of \$3.7 million in the current year's quarter is due to a decrease in net earnings of \$52.4 million compared to the same quarter in the prior year and a decrease in the change in assets and liabilities of \$3.0 million, offset by the following increases in non-cash items: \$55.2 million for change in fair value of financial instruments, \$3.2 million in depreciation expense, \$0.3 million in share based compensation, and \$0.3 million in amortization of deferred charges.

#### *Investing Activities Cash Flows*

Net cash used for investing was \$166.3 million for the three months ended March 31, 2008 as compared with \$234.5 million for the same period in the prior year. The decrease in investing activities is primarily due to a decrease in amounts paid for vessels and vessels under construction.

#### *Financing Activities Cash Flows*

Net cash from financing activities was \$30.3 million for the three months ended March 31, 2008 while net cash from financing activities for the same period ended March 31, 2007 was \$151.1 million. The decrease in net cash is due to repayments under our \$1.3 billion credit facility of \$138.0 million in the current quarter while there were no repayments in the comparable quarter in the prior year. In addition, there was a decrease in borrowings on our credit facilities to fund the installment payments and construction costs of the vessels under construction of \$8.8 million in the current year. Net cash used for financing fees was also \$3.3 million higher for the current year's quarter as compared to prior year. Additional dividend payments also account for \$6.1 million of the increase in net cash used in the current quarter. These increases in cash used from financing activities are offset by cash inflows from Peony of \$35.4 million for reimbursements for the deposits on vessels under construction to be leased from Peony.

### **Off-Balance Sheet Arrangements**

Other than the commitments described above or in our financial statements for contractual obligations, debt instruments and derivative instruments, we do not have any other transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

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**FORWARD-LOOKING STATEMENTS**

This Report on Form 6-K for the quarter ended March 31, 2008 contains certain forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, the likelihood of our success in developing and expanding our business. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as expects, anticipates, intends, plans, believes, estimates, projects, forecasts, will, may, potential, should, and similar expressions are forward-looking statements. These forward-looking statements reflect management's current views only as of the date of this presentation and are not intended to give any assurance as to future results. As a result, you are cautioned not to rely on any forward-looking statements. Forward-looking statements appear in a number of places in this release. Although these statements are based upon assumptions we believe to be reasonable based upon available information, including operating margins, earnings, cash flow, working capital and capital expenditures, they are subject to risks and uncertainties. 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, dry-docking 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

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other factors detailed from time to time in our periodic reports or registration statements.

We expressly disclaim any obligation to update or revise any of these forward-looking statements, whether because of future events, new information, a change in our views or expectations, or otherwise. We make no prediction or statement about the performance of our common and subordinated shares.

**Table of Contents****ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***Interest Rate Risk*

We are exposed to market risk from changes in interest rates. We use interest rate swaps to manage interest rate price risks, but do not use these financial instruments for trading or speculative purposes.

**Interest Rate Risk**

As of March 31, 2008, our floating-rate borrowings totaled \$1.4 billion, of which we had entered into interest rate swap agreements to fix the rates on a notional principal of \$1.5 billion. These interest rate swaps have a fair value of \$253.0 million in the counterparties' favor.

The tables below provide information about our financial instruments at March 31, 2008 that are sensitive to changes in interest rates. The information in this table is based upon our credit facilities:

	2008	2009	Principal Repayment Dates			Thereafter
	(dollars in thousands)					
<b>Credit Facility:</b>						
Bearing interest at variable interest rates <sup>(1)</sup>			\$ 5,130	\$ 5,469	\$ 46,182	\$ 1,308,218

<sup>(1)</sup> Represents principal payments on our credit facility that bears interest at variable rates for which we have entered into interest rate swap agreements to fix the LIBOR.

Pursuant to the credit facility agreements, at March 31, 2008 we entered into interest rate swap agreements to fix LIBOR at per annum interest rates on notional loan balances.

We have designated certain of these interest rate swaps as hedging instruments in accordance with the requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, as follows:

	Fixed LIBOR	Notional Amount as at March 31, 2008	Maximum Notional Amount <sup>(1)</sup>	Effective Date	Ending Date
	(dollars in thousands)				
Interest rate swap	4.6325%	\$ 663,399	\$ 663,399	September 15, 2005	July 16, 2012
Interest rate swap	5.2500%	100,473	200,000	September 29, 2006	June 23, 2010
Interest rate swap	5.5150%	59,700	59,700	February 28, 2007	July 31, 2012
Interest rate swap	5.2600%	55,625	106,800	July 3, 2006	February 26, 2021 <sup>(2)</sup>
Interest rate swap	5.6000%		200,000	June 23, 2010	December 23, 2021

<sup>(1)</sup> Over the term of the interest rate swaps, the notional amounts increase and decrease. These amounts represent the peak notional during the term of the swap.

<sup>(2)</sup> We have entered into a swaption agreement with a bank ( Swaption Counterparty ) whereby the Swaption Counterparty has the option to require us to enter into an interest rate swap to pay LIBOR and receive a fixed rate of 5.26%. This is a European option and is open for a two-hour period on February 26, 2014 after which it expires. The notional amount of the underlying swap is \$106,800,000 with an effective date of February 28, 2014 and an expiration of February 26, 2021. If the Swaption Counterparty exercises the swaption, the underlying swap effectively offsets our 5.26% pay fixed LIBOR swap from February 28, 2014 to February 26, 2021.



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In addition, we have the following interest rate swaps that are not designated as hedges:

	<b>Fixed LIBOR</b>	<b>Notional Amount as at March 31, 2008</b>	<b>Maximum Notional Amount<sup>(1)</sup> (dollars in thousands)</b>	<b>Effective Date</b>	<b>Ending Date</b>
Interest rate swap	5.6400%	\$ 258,134	714,500	August 31, 2007	August 31, 2017
Interest rate swap	5.4200%	137,263	438,462	September 6, 2007	May 31, 2024
Interest rate swap	5.2000%	96,000	96,000	December 18, 2006	October 2, 2015
Interest rate swap	5.0275%	73,620	158,000	May 31, 2007	September 30, 2015
Interest rate swap	5.3150%	54,344	106,800	August 15, 2006	August 28, 2009
Interest rate swap	5.1700%	18,140	55,500	April 30, 2007	May 29, 2020
Interest rate swap	5.1750%		663,399	July 16, 2012	July 15, 2016
Interest rate swap	5.8700%		620,390	August 31, 2017	November 30, 2025
Interest rate swap	5.4975%		59,700	July 31, 2012	July 31, 2019
Interest rate swap	5.5950%		106,800	August 29, 2009	August 28, 2020

<sup>(1)</sup> Over the term of the interest rate swaps, the notional amounts increase and decrease. These amounts represent the peak notional during the term of the swap.

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.

On January 31, 2008, we de-designated two interest rate swaps due to changes in certain assumptions regarding probable outstanding debt notional balances.

Counterparties to these financial instruments expose us to credit-related losses in the event of nonperformance; however, counterparties to these agreements are major financial institutions, and we consider the risk of loss due to nonperformance to be minimal. We do not require collateral from these institutions. We do not hold and will not issue interest rate swaps for trading purposes.

*Foreign Currency Exchange Risk*

Substantially all of our operating revenues and costs have been and will be denominated in U.S. dollars. As such, historically we have not been, and in the future we will not be, exposed to the impact of changes in foreign currency exchange rates. We will not enter into derivative instruments to hedge the foreign currency translation of assets or liabilities or foreign currency transactions or use financial instruments for trading or other speculative purposes.



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**PART II OTHER INFORMATION**

**Item 1 Legal Proceedings**

None.

**Item 1A Risk Factors**

None.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3 Defaults Upon Senior Securities**

None.

**Item 4 Submission of Matters to a Vote of Security Holders**

None.

**Item 5 Other Information**

The CSCL Hamburg collided with a bulk carrier in the South China Sea on March 5, 2008. Both vessels sustained damage as a result of the collision. The CSCL Hamburg has been off-hire since the collision during which time it has undergone repair and other routine dry-docking work. We believe that the CSCL Hamburg will be off-hire for a total of approximately 57 days.