

Seaspan CORP
Form 6-K
July 20, 2006
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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: July 20, 2006

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

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.]

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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-I 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 Seaspn Corporation's report on Form 6-K for the quarter ended June 30, 2006.

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: July 20, 2006

By: /s/ Kevin M. Kennedy
Kevin M. Kennedy
Chief Financial Officer

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EXHIBIT I

SEASPAN CORPORATION

REPORT ON FORM 6-K FOR THE QUARTER ENDED JUNE 30, 2006

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Table of Contents**SEASPAN CORPORATION****PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS (UNAUDITED)**

Interim Balance Sheets

(Unaudited)

(Expressed in thousands of United States dollars)

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,272 | \$ 15,718 |
| Accounts receivable | 340 | |
| Prepaid expenses | 2,498 | 2,352 |
| | 13,110 | 18,070 |
| Vessels (note 4) | 800,549 | 621,163 |
| Deferred financing fees (note 5) | 7,172 | 6,526 |
| Fair value of financial instruments (note 11) | 32,271 | 4,799 |
| | \$ 853,102 | \$ 650,558 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 7(a)) | \$ 1,519 | \$ 1,467 |
| Deferred revenue | 2,318 | 2,759 |
| | 3,837 | 4,226 |
| Long-term debt (note 6) | 312,073 | 122,893 |
| Fair value of financial instruments (note 11) | 3,837 | |
| | 319,747 | 127,119 |
| Shareholders' equity: | | |
| Common shares | 512,589 | 512,589 |
| Additional paid-in capital (note 8) | 151 | |
| Retained earnings (deficit) | (7,918) | 6,051 |
| Accumulated other comprehensive income | 28,533 | 4,799 |
| | 533,355 | 523,439 |
| | \$ 853,102 | \$ 650,558 |

Commitments and contingent obligations (note 9)

Subsequent events (notes 4(b) and 12)

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See accompanying notes to interim financial statements.

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Interim Statement of Operations

(Unaudited)

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

| | Three Months Ended June 30, 2006 | Six Month Ended June 30, 2006 |
|---|---|--|
| Revenue | \$ 27,829 | \$ 52,636 |
| Operating expenses: | | |
| Ship operating (note 3) | 7,035 | 13,142 |
| Depreciation | 6,276 | 11,880 |
| General and administrative | 1,148 | 2,109 |
| | 14,459 | 27,131 |
| Operating earnings | 13,370 | 25,505 |
| Other expenses (earnings): | | |
| Interest expense | 3,988 | 6,691 |
| Interest income | (86) | (249) |
| Undrawn credit facility fee | 788 | 1,349 |
| Amortization of deferred financing fees | 490 | 978 |
| Change in fair value of financial instruments (note 11) | 99 | 99 |
| | 5,279 | 8,868 |
| Net earnings | \$ 8,091 | \$ 16,637 |
| Earnings per share, basic and diluted | \$ 0.22 | \$ 0.46 |

See accompanying notes to interim financial statements.

Table of Contents**SEASPAN CORPORATION**

Interim Statement of Shareholders' Equity

(Unaudited)

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

| | Number of Common Shares | | | Common Shares | Additional Paid-In Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income | Total Shareholders' Equity | Total Comprehensive Income |
|---|-------------------------|-----------|---------|------------------|----------------------------------|-----------------------------------|---|----------------------------------|----------------------------------|
| | Class A | Class B | Class C | | | | | | |
| Class A common shares issued on initial public offering | 28,570,000 | | | \$ 599,970 | \$ | | \$ | \$ 599,970 | |
| Class B common shares issued on initial public offering | | 7,145,000 | | 150,045 | | | | 150,045 | |
| Class C common shares issued on initial public offering | | | 100 | 1 | | | | 1 | |
| Excess of purchase price paid over historical cost on vessel purchase | | | | (197,904) | | | | (197,904) | |
| Class A common shares issued on exercise of overallotment option | 276,500 | | | 5,807 | | | | 5,807 | |
| Fees and expenses in connection with issuance of the common shares | | | | (45,330) | | | | (45,330) | |
| Net earnings | | | | | | 14,329 | | 14,329 | \$ 14,329 |
| Other comprehensive net income: | | | | | | | | | |
| Change in fair value of interest rate swaps designated as cash flow hedging instruments | | | | | | | 4,799 | 4,799 | 4,799 |
| | | | | | | | | | \$ 19,128 |
| Dividends on common shares | | | | | | (8,278) | | (8,278) | |
| Balance, December 31, 2005 | 28,846,500 | 7,145,000 | 100 | 512,589 | | 6,051 | 4,799 | 523,439 | |
| Class A common shares issued as compensation (note 8) | 15,000 | | | | 151 | | | 151 | |
| Net earnings | | | | | | 16,637 | | 16,637 | \$ 16,637 |
| Other comprehensive income: | | | | | | | | | |
| Change in fair value of interest rate swaps designated as cash flow hedging | | | | | | | 23,734 | 23,734 | 23,734 |

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instruments

| | | | | | | | | | | |
|---------------------------------------|------------|-----------|-----|------------|--------|------------|----|--------|----|-----------|
| | | | | | | | | | | \$ 40,371 |
| Dividends on common shares | | | | | | (30,606) | | | | (30,606) |
| Balance, June 30, 2006 (unaudited) | 28,861,500 | 7,145,000 | 100 | \$ 512,589 | \$ 151 | \$ (7,918) | \$ | 28,533 | \$ | 533,355 |

See accompanying notes to interim financial statements.

Table of Contents**SEASpan CORPORATION**

Interim Statement Of Cash Flows

(Unaudited)

(Expressed in thousands of United States dollars)

| | Three Months Ended June 30, 2006 | Six Month Ended June 30, 2006 |
|---|---|--|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net earnings | \$ 8,091 | \$ 16,637 |
| Items not involving cash: | | |
| Depreciation | 6,276 | 11,880 |
| Stock-based compensation (note 8) | 75 | 151 |
| Amortization of deferred financing fees | 490 | 978 |
| Change in fair value of financial instruments (note 11) | 99 | 99 |
| Change in non-cash operating working capital: | | |
| Prepaid expenses and accounts receivable | (392) | (486) |
| Accounts payable and accrued liabilities | 307 | 52 |
| Deferred revenue | (1,161) | (441) |
| Cash from operating activities | 13,785 | 28,870 |
| Investing activities: | | |
| Expenditures for vessels | (56,893) | (170,680) |
| Deposits on vessels | (16,556) | (20,556) |
| Cash used in investing activities | (73,449) | (191,236) |
| Financing activities: | | |
| Draws on credit facility: | | |
| Credit facility | 56,893 | 170,680 |
| Revolving credit facility | 18,500 | 18,500 |
| Financing fees incurred | (1,554) | (1,654) |
| Dividends on common shares | (15,303) | (30,606) |
| Cash from financing activities | 58,536 | 156,920 |
| Decrease in cash and cash equivalents | (1,128) | (5,446) |
| Cash and cash equivalents, beginning of period | 11,400 | 15,718 |
| Cash and cash equivalents, end of period | \$ 10,272 | \$ 10,272 |

Supplementary information (note 7(b))

See accompanying notes to interim financial statements.

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Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

1. Basis of presentation:

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, 2005 financial statements filed with the Securities and Exchange Commission in the Company's Annual Report on Form 20-F.

The following table sets out the vessels included in these financial statements:

| Vessel Name | Commencement of Charter | Size (TEUs) |
|--------------------------|--|------------------------|
| <i>CSCL Hamburg</i> | July 2001 | 4250 |
| <i>CSCL Chiwan</i> | September 2001 | 4250 |
| <i>CSCL Ningbo</i> | June 2002 | 4250 |
| <i>CSCL Dalian</i> | September 2002 | 4250 |
| <i>CSCL Felixstowe</i> | October 2002 | 4250 |
| <i>CSCL Oceania</i> | December 2004 | 8500 |
| <i>CSCL Africa</i> | January 2005 | 8500 |
| <i>CSCL Vancouver</i> | February 2005 | 4250 |
| <i>CSCL Sydney</i> | April 2005 | 4250 |
| <i>CSCL New York</i> | May 2005 | 4250 |
| <i>CSCL Melbourne</i> | August 2005 | 4250 |
| <i>CSCL Brisbane</i> | September 2005 | 4250 |
| <i>New Delhi Express</i> | October 2005 | 4250 |
| <i>Dubai Express</i> | January 2006 | 4250 |
| <i>Jakarta Express</i> | February 2006 | 4250 |
| <i>Saigon Express</i> | April 2006 | 4250 |

Commencement of charter is the month in which the vessel commenced revenue generating operations.

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Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

2. Significant accounting policies:

Except as disclosed below, the significant accounting policies used in preparing these financial statements are consistent with those used in preparing Seaspan Corporation's (the Company's) financial statements for the year ended December 31, 2005.

Effective January 1, 2006, the Company adopted FAS No. 123 (R), *Share-Based Payment*, which requires the fair value method of accounting for share based compensation awards. Share based awards may include options, restricted shares, phantom shares and other share-based awards. The fair value of restricted shares is based on the market value of the Company's common shares at the grant date. Compensation costs for share-based awards are recognized over the related service period. The Company had issued no share-based awards prior to December 31, 2005.

3. Related party transactions:

(a) Management Agreement:

Seaspan Management Services Limited and its wholly-owned subsidiaries (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 19.8% voting interest in the Company at June 30, 2006.

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 of \$4,000 per day for each 2500 TEU vessel, \$4,200 per day for each 3500 TEU vessel, \$4,500 per day for each 4250 TEU vessel, \$6,000 per day for each 8500 TEU vessel and \$6,500 per day for each 9600 TEU vessel. The technical services fee does not include certain extraordinary items. For vessels operating or that began operations during the six month period ended June 30, 2006, the Manager provided technical services at a cost of \$13,141,567 to the Company. For the New Delhi Express grounding dry dock repair, the Manager provided supervision services in the amount of \$27,800 that are not covered under the fixed technical services fee.

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. During the six month period ended June 30, 2006, the Manager provided fixed fee administrative and strategic services at a cost of \$36,000, and the Company reimbursed expenses incurred by the Manager in the amount of \$418,032.

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.

In connection with entering into the agreement to provide the Company with the above strategic services, the Company has 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 June 30, 2006, the incentive shares do not have rights to incremental dividends.

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(b) Due to related parties:

As at June 30, 2006, nil (December 31, 2005 - \$534,582) is due to related parties for reimbursement of administrative and strategic services expenses paid on the Company's behalf, \$27,800 (December 31, 2005 - nil) is

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Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

due to the Manager for supervision services that are not covered under the fixed technical services fee related to the New Delhi Express grounding dry dock repair, \$4,982 (December 31, 2005 nil) is due to the Manager for amounts collected from charterers by the Company on the Manager's behalf. The amounts are to be repaid in the ordinary course of business.

4. Vessels:

| June 30, 2006 | Cost | Accumulated Depreciation | Net Book Value |
|----------------------|-------------|-------------------------------------|-----------------------|
| Vessels | \$ 799,028 | \$ 19,065 | \$ 779,963 |
| Deposits on vessels | 20,586 | | 20,586 |
| | \$ 819,614 | \$ 19,065 | \$ 800,549 |

| December 31, 2005 | Cost | Accumulated Depreciation | Net Book Value |
|--------------------------|-------------|-------------------------------------|-----------------------|
| Vessels | \$ 628,349 | \$ 7,186 | \$ 621,163 |

(a) On February 14, 2006, the Company agreed to purchase two 3500 TEU vessels under construction from affiliates of Conti Holdings GmbH & Co. KG (Conti) that are being built by Zhejiang Shipbuilding Co. Ltd. (Zhejiang). The delivered cost is expected to be approximately \$50,000,000 per vessel. The Company paid a \$4,000,000 deposit upon signing the transaction. The vessels are expected to be delivered in February and July 2007.

(b) On February 28, 2006, the Company agreed to purchase four 2500 TEU vessels that will be built by Jiangsu Yangzijiang Shipbuilding in China (Jiangsu). The delivered cost is expected to be approximately \$44,500,000 per vessel. The vessels are expected to be delivered between August 2008 and February 2009.

In addition to the four 2500 TEU vessels that will be built, the Company has the option to order an additional eight 2500 TEU vessels, in two tranches of four vessels each, for the same price as the initial four vessels. The option for the first four of the option vessels was exercised by the Company on June 29, 2006. The delivered cost is expected to be approximately \$44,700,000 per vessel. The vessels are expected to be delivered between May and August 2009.

On July 4, 2006, the Company signed simultaneous 12 year charter agreements for the first of the four option 2500 TEU vessels with China Shipping Container Lines (Asia) Co. Ltd. (CSCL Asia), a subsidiary of China Shipping (Group) Company (CSCL) for an initial rate of \$16,750 per day, increasing to \$16,900 per day after six years (note 10(b)). These are the same terms and conditions as the charters for the first four vessels in the series.

The Company has until September 30, 2006 to exercise the option on the final tranche of the option vessels. The Company has made no commitment, financial or otherwise, to proceed with the order for the remainder of the optional vessels. The Company would only exercise its option with respect to the second group of option vessels if acceptable long-term charters were arranged.

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Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

5. Deferred financing fees:

| June 30, 2006 | \$1 billion credit facility | | \$365 million revolving credit facility | | Total |
|---|-----------------------------|-----------|---|-----------|----------|
| | Tranche A | Tranche B | Tranche A | Tranche B | |
| Deferred financing fees as at January 1, 2006 | \$ 5,217 | \$ 1,309 | \$ | \$ | \$ 6,526 |
| Costs incurred | 170 | | 333 | 1,151 | 1,654 |
| Amortization capitalized | | | (8) | (22) | (30) |
| Amortization expensed | (315) | (663) | | | (978) |
| Deferred financing fees as at June 30, 2006 | \$ 5,072 | \$ 646 | \$ 325 | \$ 1,129 | \$ 7,172 |

| December 31, 2005 | \$1 billion credit facility | | \$365 million revolving credit facility | | Total |
|---|-----------------------------|-----------|---|-----------|----------|
| | Tranche A | Tranche B | Tranche A | Tranche B | |
| Deferred financing fees, beginning of fiscal period | \$ | \$ | \$ | \$ | \$ |
| Costs incurred | 5,453 | 1,799 | | | 7,252 |
| Amortization expensed | (236) | (490) | | | (726) |
| Deferred financing fees, as at December 31, 2005 | \$ 5,217 | \$ 1,309 | \$ | \$ | \$ 6,526 |

6. Long-term debt:

| | June 30, 2006 | December 31, 2005 |
|---|---------------|-------------------|
| \$1 billion credit facility | \$ 293,573 | \$ 122,893 |
| \$365 million revolving credit facility | 18,500 | |
| Long-term debt | \$ 312,073 | \$ 122,893 |

On May 19, 2006, the Company entered into a \$365.0 million senior secured revolving credit facility agreement (Revolving Credit Facility) with certain lenders.

The total Revolving Credit Facility amount of \$365.0 million is divided into two Tranches: Tranche A, in the maximum amount of \$82.0 million and Tranche B, in the maximum amount of \$283.0 million. Tranche A will be used to fund the Corporation's purchase of the 3500 TEU vessels under construction from affiliates of Conti (note 4(a)) and Tranche B will be used to fund the purchase of up to eight 2500 TEU vessels being constructed by Jiangsu (note 4(b)). Both Tranche A and Tranche B will be divided into several advances.

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The Revolving Credit Facility requires payment of interest at a rate per annum, calculated as LIBOR plus 0.850% per annum for the first six years after the delivery date of the last delivered vessel in each Tranche and LIBOR plus 0.925% per annum thereafter. The Company has entered into hedging arrangements to manage the interest rate exposure from the floating rate under the facility.

The Revolving Credit Facility requires payments of a commitment fee of 0.3% per annum on the average undrawn facility amount.

Beginning six months from the delivery date of the last vessel securing Tranche A of the facility, but no later than March 31, 2008, the principal amount borrowed under the tranche will be reduced semiannually by amounts ranging from 2.2% to 3.5% of the amount borrowed until the maturity date, at which time the tranche will terminate. A final payment of approximately 47% of the amount borrowed is required upon termination of the tranche. Beginning six months from the delivery date of the last vessel securing Tranche B of the facility, but no later than April 30, 2010, the principal amount borrowed under the tranche will be reduced semiannually by amounts ranging from 2.1% to 3.3% of the amounts borrowed until the maturity date, at which time the tranche will terminate. A final payment of approximately 49% of the amount borrowed is required upon termination of the tranche.

Tranche A of the facility has a maturity date of the tenth anniversary of the delivery date of the last of the vessel or July 31, 2017, whichever is earlier. Tranche B of the facility has a maturity date of the tenth anniversary of the delivery date of the last of the vessel or August 31, 2019, whichever is earlier.

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SEASpan CORPORATION

Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

The Revolving Credit Facility is secured by the following, among others:

A first priority mortgage on the collateral vessels funded by the Revolving Credit Facility;

An assignment of the Company's time charters and earnings;

An assignment of the insurance on each of the vessels that are subject to a mortgage;

An assignment of the Company's shipbuilding contracts; and

A pledge of the Company's retention accounts.

The credit facility contains certain financial covenants including covenants requiring the Company to maintain a minimum tangible net worth, and interest and principal coverage ratios.

At June 30, 2006, the Revolving Credit Facility principal repayments due for the next five years and thereafter are:

| | Tranche A | Tranche B | Total |
|------------|------------------|------------------|--------------|
| 2006 | \$ | \$ | \$ |
| 2007 | | | |
| 2008 | | | |
| 2009 | | | |
| 2010 | | 784 | 784 |
| Thereafter | | 17,716 | 17,716 |
| | \$ | \$ 18,500 | \$ 18,500 |

7. Other information:

(a) Accounts payable and accrued liabilities:

The principal components of accounts payable and accrued liabilities are:

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| | June 30, 2006 | December 31, 2005 |
|------------------------------------|---------------|-------------------|
| Due to related parties (note 3(b)) | \$ 33 | \$ 535 |
| Accrued interest | 785 | 297 |
| Other accrued liabilities | 701 | 635 |
| | \$ 1,519 | \$ 1,467 |

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

| | Three Months Ended June 30, 2006 | Six Months Ended June 30, 2006 |
|---|-------------------------------------|-----------------------------------|
| Interest paid | \$ 3,889 | \$ 6,315 |
| Interest received | 86 | 249 |
| Undrawn credit facility fee paid | 788 | 1,356 |
| Non-cash transactions: | | |
| Fair value of interest rate swap (asset) | 3,738 | 3,738 |
| Fair value of interest rate swaption (liability) | 3,738 | 3,738 |
| Accrued and capitalized interest costs, including amortization of deferred financing fees | 86 | 86 |

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Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

8. Additional paid-in capital:

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 shares of common stock were reserved for issuance under the Plan, which is administered by the Company's board of directors. The Plan will expire 10 years from the date of its adoption. No grants had been made under the plan to December 31, 2005.

On February 10, 2006, the Company issued 3,750 shares to each independent director for a total of 15,000 shares as compensation for services for 2006. These shares have been recorded at their fair value on the date of issuance, and will be recorded as expense on a straight-line basis as the services are provided.

9. Commitments and contingent obligations:

Pursuant to the Asset Purchase Agreement, at June 30, 2006 the Company is committed to purchase the following additional seven vessels on completion of construction at the following predetermined purchase prices:

| Vendor | |
|--|------------|
| Seaspan Castle Shipping Company Limited (note 12(a)) | \$ 56,893 |
| Seaspan Pawn Shipping Company Limited | 56,893 |
| Seaspan Ace Shipping Company Limited | 56,893 |
| Seaspan Eagle Shipping Company Limited | 56,893 |
| Seaspan Birdie Shipping Company Limited | 56,893 |
| Hemlock Shipping Company Limited | 115,956 |
| Spruce Shipping Company Limited | 115,956 |
| | \$ 516,377 |

10. Charter party:

(a) The Company is committed under charter party agreements with CSCL Asia, a subsidiary of CSCL and CP Ships USA LLC ("CP USA"), a subsidiary of CP Ships Limited, as follows:

| Vessel Name | Time Charter (Years) | Commencement of Charter | Options (Years) | Daily Hire Rate |
|--------------------|---------------------------------|------------------------------------|----------------------------|------------------------|
| CSCL Hamburg | 10 | July 2001 | 2 | \$ 18.0 |
| CSCL Chiwan | 10 | September 2001 | 2 | 18.0 |
| CSCL Ningbo | 10 | June 2002 | 2 | 19.9 |

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| | | | | |
|-------------------|--------------------|----------------|---|------|
| CSCL Dalian | 10 | September 2002 | 2 | 19.9 |
| CSCL Felixstowe | 10 | October 2002 | 2 | 19.9 |
| CSCL Oceania | 12 | December 2004 | 3 | 29.5 |
| CSCL Africa | 12 | January 2005 | 3 | 29.5 |
| CSCL Vancouver | 12 | February 2005 | | 17.0 |
| CSCL Sydney | 12 | April 2005 | | 17.0 |
| CSCL New York | 12 | May 2005 | | 17.0 |
| CSCL Melbourne | 12 | August 2005 | | 17.0 |
| CSCL Brisbane | 12 | September 2005 | | 17.0 |
| New Delhi Express | 3+7 ⁽¹⁾ | October 2005 | 2 | 18.0 |
| Dubai Express | 3+7 ⁽¹⁾ | January 2006 | 2 | 18.0 |

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Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

| Vessel Name | Time Charter (Years) | Commencement of Charter | Options (Years) | Daily Hire Rate |
|-----------------|-------------------------|----------------------------|--------------------|-----------------|
| Jakarta Express | 3+7 ⁽¹⁾ | February 2006 | 2 | 18.0 |
| Saigon Express | 3+7 ⁽¹⁾ | April 2006 | 2 | 18.0 |

- (1) For the CP USA charters, the initial term is three years that automatically extends for up to an additional seven years in successive one-year extensions, unless CP USA elects to terminate the charter 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 three-year term. The termination fee declines by \$1.0 million per year in years four through nine.

The Company is committed under the charter party agreements with CSCL Asia to supply the vessel on a full-time basis for a fixed daily charter rate. The charter party agreements obligate the Company to certain performance criteria over the term of the agreement.

The Company is also committed under charter party agreements with CP USA to supply vessels on a full-time basis for a fixed daily charter rate, once vessel construction is complete. The charter party agreements obligate the Company to certain performance criteria over the term of the agreement.

- (b) The Company is committed under twelve-year charter party agreements with COSCON and CSCL Asia to supply the vessel on a full-time basis for a fixed daily charter rate, once vessel construction is completed. The following table indicates the contractual delivery date for each of the two 3500 TEU vessels being built by Zhejiang and the eight 2500 TEU vessels that will be constructed by Jiangsu.

| Vessel Name | Time Charter (Years) | Charterer | Contractual | |
|---|-------------------------|-----------|-------------------|---------------------|
| | | | Delivery Date | Daily Hire Rate |
| Zhejiang Shipbuilding Hull No. 125 | 12 | COSCON | February 28, 2007 | \$ 19.0 |
| Zhejiang Shipbuilding Hull No. 126 | 12 | COSCON | July 31, 2007 | 19.0 |
| Jiangsu Shipbuilding Hull YZJ 2006-696C | 12 | CSCL Asia | August 30, 2008 | 16.8 ⁽¹⁾ |
| Jiangsu Shipbuilding Hull YZJ 2006-716C | 12 | CSCL Asia | November 30, 2008 | 16.8 ⁽¹⁾ |
| Jiangsu Shipbuilding Hull YZJ 2006-717C | 12 | CSCL Asia | January 30, 2009 | 16.8 ⁽¹⁾ |
| Jiangsu Shipbuilding Hull YZJ 2006-718C | 12 | CSCL Asia | February 28, 2009 | 16.8 ⁽¹⁾ |
| Jiangsu Shipbuilding Hull YZJ 2006-719C | 12 | CSCL Asia | May 10, 2009 | 16.8 ⁽¹⁾ |
| Jiangsu Shipbuilding Hull YZJ 2006-720C | 12 | CSCL Asia | June 10, 2009 | 16.8 ⁽¹⁾ |
| Jiangsu Shipbuilding Hull YZJ 2006-721C | 12 | CSCL Asia | July 10, 2009 | 16.8 ⁽¹⁾ |
| Jiangsu Shipbuilding Hull YZJ 2006-722C | 12 | CSCL Asia | August 10, 2009 | 16.8 ⁽¹⁾ |

- (1) The initial daily hire rate is \$16,750 per day, increasing to \$16,900 per day after six years.

11. Financial instruments:

- (a) Concentration of credit risk:

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Notes to Interim Financial Statements

(Unaudited)

(Tabular amounts in thousands of United States dollars)

Three and six months ended June 30, 2006

CSCL Asia and CP USA are the Company's only customers as at June 30, 2006.

(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 risk management agreement:

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.

Pursuant to the credit facility agreements, at June 30, 2006 the Company has entered into interest rate swap agreements to fix LIBOR at per annum interest rates on notional loan balances as follows:

| | Notional Amount | Fixed LIBOR | Ending Date |
|---------------------|-----------------|-------------|-------------------|
| Interest rate swaps | \$ 261,258 | 4.6325% | July 16, 2012 |
| Interest rate swap | 18,500 | 5.2600% | February 26, 2021 |
| Interest rate swap | | 5.5150% | July 31, 2012 |

Over the term of the interest rate swaps, the notional amounts increase to \$663,399,000, \$106,800,000 and \$59,700,000 respectively.

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 28, 2021. If the Swaption Counterparty exercises the swaption, the underlying swap effectively offsets the Company's 5.26% pay fixed LIBOR swap from February 26, 2014 to February 28, 2021.

12. Subsequent events:

(a) On July 11, 2006 the Company purchased the Lahore Express from Seaspan Castle Shipping Company Limited at a cost of \$56,893,000 pursuant to the Asset Purchase Agreement. The Lahore Express is the fifth of the nine vessels subject to long-term, fixed-rate charters with CP USA.

On July 11, 2006, the Company drew an additional \$56,893,000 on Tranche A of the \$1 billion credit facility to fund the purchase of the Lahore Express.

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(b) On July 20, 2006, the Company declared a cash dividend of \$0.425 per share, representing a total cash distribution of \$15,303,000. The cash dividend is payable on August 11, 2006, to all shareholders of record on July 28, 2006.

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**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATION**

Overview

Our business is to own containerships, charter them pursuant to long-term, fixed-rate charters and grow our fleet through additional accretive vessel acquisitions. We were incorporated on May 3, 2005. We acquired our first ten vessels on completion of our initial public offering and began substantial operations on August 12, 2005. Between August 12, 2005 and June 30, 2006 we took delivery of an additional six vessels. We deploy all our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters. The charters on the 16 vessels in our operating fleet as of June 30, 2006 have an average remaining initial term of 8.9 years plus certain options. Our primary objectives are to maintain a stable base dividend, while growing our business in order to increase distributable cash flow per share.

We intend to continue our practice of acquiring vessels once we have entered into long-term, fixed-rate charters that begin at the time of delivery of the vessels, which we believe will provide us with stable future cash flows. We plan to expand our relationships with China Shipping Container Lines Company, Limited (CSCL) and CP Ships Limited (CP Ships), as well as add new container liner company customers such as COSCO Container Lines Co., Ltd., (COSCON). We believe that we will benefit from the continued growth of worldwide container demand, especially in certain high-growth markets, such as China, where we have strong existing customer relationships, and from the trend of container liner companies to outsource a portion of their vessel requirements to third party shipowners. We also believe that Seaspan Management Services Limited's (our Manager) experience in working with container liner companies to provide ship design, drawing approval, construction supervision and brokering services will improve our ability to secure new customers. We intend to increase the size of our fleet through timely and selective acquisitions of new and secondhand containerships that we believe will be accretive to distributable cash flow per share.

Currently, 12 containerships in our fleet are under time charters with China Shipping Container Lines (Asia) Co. Ltd., (CSCL Asia), as a result of a novation by China Shipping (Group) Company (China Shipping). CSCL Asia, a British Virgin Islands company, is the wholly owned subsidiary of CSCL, a majority owned subsidiary of China Shipping. Four containerships in our fleet are under time charters with CP Ships USA, LLC (CP USA), a subsidiary of CP Ships.

The remaining seven vessels completing our initial contracted fleet of 23 vessels are currently under construction at Samsung Heavy Industries Co. Ltd., (Samsung). These seven vessels are subject to long-term, fixed-rate charters. Two of these vessels are chartered to CSCL Asia and five are under time charters with CP USA. In addition, we have agreed to purchase eight 2500 TEU vessels from Jiangsu Yangzijiang Shipbuilding, (Jiangsu), which have also been chartered to CSCL Asia. We have agreed to purchase an additional two 3500 TEU vessels, which are currently under construction, from Container Schiffahrts GmbH & Co. KG Nr. 1 and Conti 52. Container Schiffahrts GmbH & Co. KG Nr. 1, (collectively referred to herein as Conti). These two 3500 TEU vessels are subject to long-term, fixed-rate charters to COSCON.

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All of our charter agreements are in good standing. The following table summarizes key facts regarding the 16 vessels in operation as of June 30, 2006:

| Vessel Name | Vessel Size | Commencement | | Length of Time Charter | Daily Charter Rate |
|----------------------|-------------|--------------------|--|---|--------------------|
| | | Date | | | (in thousands) |
| CSCL Hamburg | 4250 TEU | July 3, 2001 | | 10 Years + one 2-year option | \$ 18.0 |
| CSCL Chiwan | 4250 TEU | September 20, 2001 | | 10 Years + one 2-year option | 18.0 |
| CSCL Ningbo | 4250 TEU | June 15, 2002 | | 10 Years + one 2-year option | 19.9 |
| CSCL Dalian | 4250 TEU | September 4, 2002 | | 10 Years + one 2-year option | 19.9 |
| CSCL Felixstowe | 4250 TEU | October 15, 2002 | | 10 Years + one 2-year option | 19.9 |
| CSCL Oceania | 8500 TEU | December 4, 2004 | | 12 Years + one 3-year option | 29.5 |
| CSCL Africa | 8500 TEU | January 24, 2005 | | 12 years + one 3-year option | 29.5 |
| CSCL Vancouver | 4250 TEU | February 16, 2005 | | 12 years | 17.0 |
| CSCL Sydney | 4250 TEU | January 24, 2005 | | 12 years | 17.0 |
| CSCL New York | 4250 TEU | February 16, 2005 | | 12 years | 17.0 |
| CSCL Melbourne | 4250 TEU | August 17, 2005 | | 12 years | 17.0 |
| CSCL Brisbane | 4250 TEU | September 15, 2005 | | 12 years | 17.0 |
| New Delhi Express(1) | 4250 TEU | October 18, 2005 | | 3 years + 7 one year extensions, + 2 one year extensions | 18.0 |
| Dubai Express | 4250 TEU | January 3, 2006 | | 3 years + 7 one year extension, + 2 one year extensions | 18.0 |
| Jakarta Express | 4250 TEU | February 21, 2006 | | 3 years + 7 one year extensions, + 2 one year extensions | 18.0 |
| Saigon Express | 4250 TEU | April 6, 2006 | | 3 years + 7 one year extensions, + 2 one year extensions | 18.0 |

(1) The New Delhi Express was previously known as the CP Kanha and was renamed on March 21, 2006.

Under the management agreement, ship operating expenses are borne by our Manager in exchange for the payment of a fixed daily operating expense fee which covers all operating expenses, including crewing, victualling, stores, lube oils, communication expenses, general and routine repairs, general vessel maintenance, insurance and other expenses related to the technical management of the vessels. Also as part of this agreement, the Manager is responsible for the normally scheduled periodic drydocking of our vessels.

As previously disclosed in the Company's report on Form 6-K dated April 17, 2006, during the first quarter of 2006 cracks were detected on the rudder horn sections of certain of the Company's 4250 TEU vessels built by Samsung. Our Manager continues to work with Samsung on permanent solutions to this problem and the Company does not anticipate any further significant losses, including off-hire or significant interruptions to operations relating to this matter.

On April 15, 2006, the New Delhi Express, one of the 4250 TEU containerships on charter to CP Ships USA, went aground for approximately two hours at the entrance to Newark Bay, New Jersey, during heavy fog. Subsequent to the grounding, the vessel discharged all her containers and eventually moved, under her own power, to a local drydock for permanent repairs on April 19, 2006. The vessel sustained damage to her bottom plating on her starboard side. The cost of repairs and other pollution avoidance measures amounted to approximately \$1.9 million to date, of which \$1.7 million is covered by insurance and \$0.2 million is the insurance deductible. The vessel was placed off-hire by CP Ships for 24.3 days, who deducted approximately \$0.5 million from hire payments.

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Of this \$0.5 million, \$0.4 million relates to loss of charter hire revenue and \$0.1 million to bunker costs. The Company expects to incur total losses of \$0.7 million relating to the \$0.5 million loss of hire and \$0.2 million insurance deductible. There were no injuries and no adverse environmental impact sustained as a result of the incident. The Company is exploring the possibility of pursuing insurance claims to recover all losses incurred, including off-hire.

Our operating expenses per vessel are equal to the number of days in the period, multiplied by the applicable fixed daily operating expense rate, and any volatility in actual ship operating expenses will be absorbed by our Manager, except for certain extraordinary costs and expenses that are not covered by our Manager's technical services fee.

The fixed daily operating expense rate commences on the delivery date for the related vessel and is set forth in the following table:

| Vessel Name | Daily Operating Expense Rate (in thousands) |
|-------------------|---|
| CSCL Hamburg | \$ 4.5 |
| CSCL Chiwan | 4.5 |
| CSCL Ningbo | 4.5 |
| CSCL Dalian | 4.5 |
| CSCL Felixstowe | 4.5 |
| CSCL Oceania | 6.0 |
| CSCL Africa | 6.0 |
| CSCL Vancouver | 4.5 |
| CSCL Sydney | 4.5 |
| CSCL New York | 4.5 |
| CSCL Melbourne | 4.5 |
| CSCL Brisbane | 4.5 |
| New Delhi Express | 4.5 |
| Dubai Express | 4.5 |
| Jakarta Express | 4.5 |
| Saigon Express | 4.5 |

Our Contracted Fleet

On the completion of our initial public offering, we acquired eight 4250 TEU vessels and two 8500 TEU vessels (our initial fleet) from wholly owned subsidiaries (the Predecessor) of Seaspan Container Lines Limited (SCLL). On August 8, 2005, we entered into a purchase agreement with certain wholly owned subsidiaries of SCLL (all 13 subsidiaries collectively referred to as VesselCos) to acquire an additional 13 new containerships as they are completed and delivered. The additional 13 containerships consist of eleven 4250 TEU vessels and two 9600 TEU vessels of which we have acquired six 4250 TEU vessels as at June 30. We will acquire the remaining seven vessels over approximately the next 14 months. We refer to these 23 vessels collectively as our initial contracted fleet.

Our Additional Vessels

We have also entered into ship building contracts with Jiangsu, pursuant to which we have agreed to acquire eight 2500 TEU vessels as each containership is delivered and passes inspection. In February 2006, the Company signed a contract to build four 2500 TEU vessels from Jiangsu with an option to order an additional eight 2500 TEU vessels, in two tranches of four vessels each, for the same price as the initial four. The aggregate delivered cost for the initial four 2500 TEU vessels is expected to be \$178.0 million, subject to certain pre-delivery expenses remaining at budgeted levels. On June 29, 2006, we exercised our option on the first tranche and

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agreed to purchase the first four of the option 2500 TEU vessels. Although we exercised our option on June 29, 2006, the formal written agreement was entered into on July 4, 2006. The aggregate delivered cost for the first four option 2500 TEU vessels is expected to be \$178.8 million, subject to certain pre-delivery expenses remaining at budgeted levels. The aggregate delivered cost of the eight 2500 TEU vessels purchased to date from Jiangsu is expected to be \$356.8 million. These eight vessels will be built by Jiangsu at its shipyards in Jiangsu Province, China, pursuant to the ship building contracts. Each 2500 TEU vessel is subject to a 12 year time charter with CSCL Asia.

In addition to the eight 2500 TEU vessels that will be built for us, we have the option to order an additional four 2500 TEU vessels. The Company has until September 30, 2006 to exercise the option on the final tranche of the option vessels. The Company has made no commitment, financial or otherwise, to proceed with the order for the remainder of the optional vessels. The Company would only exercise its option with respect to the second group of optional vessels if acceptable long-term charters were arranged.

We have also agreed to purchase two 3500 TEU vessels from Conti, as each vessel is delivered and passes inspection. The two 3500 TEU vessels are being built by Zhejiang Shipbuilding Co. Ltd (Zhejiang) at its shipyard in Ningbo, China, pursuant to a ship building contract between Conti and Zhejiang. It is not anticipated that these ship building contracts will be assigned to us by Conti prior to the delivery. Conti will be responsible for all payments related to the construction and delivery of the two 3500 TEU vessels. We are responsible for the costs related to certain supplies and to the supervision and survey of the construction of the vessels. Our Manager will perform all tasks related to the supervision and survey of the construction of the vessels.

The aggregate purchase price for the two 3500 TEU vessels is approximately \$100.0 million. We have paid to Conti an aggregate of \$4.0 million, from operating funds, as the first installment for the vessels and the remainder of the purchase price will be due upon delivery of each vessel. In the event the ship building contract is cancelled, rescinded or terminated due to Conti's default under the ship building contract, Conti is obligated to return the \$4.0 million payment. Conti Holding GmbH & Co. KG, or Conti Holding, an affiliate of Conti, has guaranteed repayment of the \$4.0 million in the event that Conti fails to repay the \$4.0 million when required to do so.

Our initial contracted fleet of 23 vessels plus the 10 additional vessels, as identified above, are collectively referred to as our contracted fleet of 33 vessels.

The average age of the 16 vessels in our operating fleet as of June 30, 2006 is 2.0 years. The following chart details the number of vessels in our fleet based on size as we take scheduled delivery:

| Vessel Size | Upon Closing of IPO | Third Quarter 2005 | Actual | | | Forecasted | | Thereafter |
|---------------------------|---------------------|--------------------|---------------------|--------------------|---------------------|-------------------------------|---------|------------|
| | | | Fourth Quarter 2005 | First Quarter 2006 | Second Quarter 2006 | Years Ending December 31 2006 | 2007 | |
| 2500 TEU Class | | | | | | | | 8 |
| 3500 TEU Class | | | | | | | | 2 |
| 4250 TEU Class | 8 | 10 | 11 | 13 | 14 | 16 | 19 | 19 |
| 8500 TEU Class | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| 9600 TEU Class | | | | | | | | 2 |
| Operating Vessels | 10 | 12 | 13 | 15 | 16 | 18 | 25 | 33 |
| Capacity (TEU) (1) | 50,960 | 59,466 | 63,719 | 72,225 | 76,478 | 84,984 | 123,971 | 144,339 |

(1) Our 2500 TEU vessels, 3500 TEU vessels, 4250 TEU vessels, 8500 TEU vessels, and 9600 TEU vessels have an actual capacity of 2546 TEU, 3534 TEU, 4253 TEU, 8468 TEU, and 9580 TEU, respectively.

Our Credit Facility

On August 8, 2005, we entered into a \$1.0 billion secured loan facility agreement with certain lenders. This credit facility will be used in part to fund our acquisition of the contracted fleet and additional new or used containerships we may decide to acquire. Our credit facility has a maturity date of the seventh anniversary of the delivery date of the last of the 23 vessels comprising the initial contracted fleet and any additional containerships we may finance under this facility or October 31, 2014, whichever is earlier.

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The total facility amount of \$1.0 billion is divided into two Tranches: Tranche A, in the maximum amount of \$750.0 million and Tranche B, in the maximum amount of \$250.0 million. Tranche A will be used to fund our acquisition of the contracted fleet while Tranche B will be used to fund our acquisition of additional vessels we may decide to acquire. Both Tranche A and Tranche B will be split into several advances. All Tranche A advances must be drawn within three months of the delivery of the last of the 23 vessels in our initial contracted fleet (but not before the acquisition date of the vessel to which the loan relates), and in any event, no later than December 31, 2007. Each Tranche B advance will occur on or after the acquisition date of an additional vessel beyond our contracted fleet, if any. All Tranche B advances must be drawn prior to December 31, 2006 (but not before the acquisition date of the vessel to which the loan relates). Any commitment undrawn by those dates will be canceled.

During the quarter ended June 30, 2006, we drew a total of \$56.9 million to purchase the Saigon Express for a total drawn balance of \$293.6 million of the \$750.0 million available in Tranche A. No amounts to date have been drawn from the Tranche B of our credit facility.

Our Revolving Credit Facility

On May 19, 2006, we entered into a 10 to 13-year (based on the delivery dates of certain vessels), senior secured, \$365.0 million revolving credit facility with certain lenders.

The facility is split into two separate tranches, one to fund the acquisition of the two 3500 TEU container vessels and the second to fund the construction of the eight 2500 TEU container vessels. Our obligations under the facility are secured by first-priority mortgages on our two 3500 TEU container vessels and the eight 2500 TEU container vessels. Also, the facility is secured by a first-priority assignment of our earnings related to the collateral vessels, including time-charter revenues and any insurance proceeds.

We may prepay all loans at any time without penalty, other than breakage costs in certain circumstances. Amounts that have been prepaid, may be reborrowed. We are required to prepay a portion of the outstanding loans under certain circumstances, including the sale or loss of a vessel if we do not substitute another vessel. Beginning six months from the delivery date of the last vessel securing the first tranche of the facility, but no later than March 31, 2008, the total amounts available for borrowing under the first tranche will be reduced semiannually until the maturity date, at which time the facility will terminate. Beginning six months from the delivery date of the last vessel securing the second tranche of the facility, but no later than April 30, 2010, the total amounts available for borrowing under the second tranche will be reduced semiannually until the maturity date, at which time the facility will terminate.

Indebtedness under the revolving credit facility bears interest at a rate equal to LIBOR + 0.850% until approximately July 31, 2013, for the first tranche, and approximately August 31, 2015, for the second tranche, and LIBOR + 0.925% thereafter. We incur a commitment fee on the unused portion of the revolving credit facility at a rate of 0.30% per annum.

We are subject to other customary conditions precedent before we may borrow under the facility, including that no event of default is ongoing and there having occurred no material adverse effect on our ability to perform our payment obligations under the facility. In addition, the credit facility contains various covenants limiting our ability to:

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

Enter into mergers with other entities;

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

Change the flag, class, or management of our vessels.

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Our revolving credit facility agreement contains certain financial covenants including covenants requiring the Company to maintain a minimum tangible net worth, maximum leverage and minimum interest coverage and principal and interest coverage ratios.

The credit agreement contains customary definitions of events of default, including nonpayment of principal or interest, breach of covenants or material inaccuracy of representations, default under other material indebtedness, bankruptcy, and change of control.

During the quarter ended June 30, 2006, we drew \$18.5 million to pay for the deposits on the first four 2500 TEU vessels to be constructed for a total drawn balance of \$18.5 million of the \$283.0 million available in Tranche B. No amounts to date have been drawn from the Tranche A of our revolving credit facility.

Our Dividend Policy

Our board of directors has adopted a dividend policy to pay a regular quarterly dividend of \$0.425 per share on our common and subordinated shares throughout the period of the delivery of our initial contracted fleet of 23 vessels. Declaration and payment of dividends is at the discretion of our board of directors and there can be no assurance we will not reduce or eliminate our dividend.

We estimate that throughout the period of the delivery of our initial contracted fleet, we will pay aggregate dividends approximately equal to our operating cash flow (which includes a deduction for drydocking costs and other expenses pursuant to our management agreement). Our board of directors will assess when we will have sufficient operating cash flow in order to retain a portion of our cash for reinvestment in our business.

As we complete the acquisition of our initial contracted fleet and achieve a more balanced capital structure, we expect our operating cash flow per share to increase, which will allow us to retain a portion of our cash flow for reinvestment in our business while continuing to pay our regular quarterly dividends. Retained cash flow may be used, among other things, to 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 flow in our business, we will be able to provide better value to our shareholders by enhancing our longer term dividend paying capacity. It is our goal to grow our dividend through accretive acquisitions of additional vessels beyond our contracted fleet. There can be no assurance that we will be successful in meeting our goal.

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 estimates 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.

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Vessel Lives

Our vessels represent our most significant assets. The initial fleet 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 predetermined purchase price 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 ongoing 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. 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.

Share-based Compensation

Effective January 1, 2006, the Company adopted FAS No. 123 (R), *Share-Based Payment*, which requires the fair value method of accounting for share based compensation awards. Share based awards may include options, restricted shares, phantom shares and other share-based awards. The fair value of restricted shares is based on the market value of the Company's common shares at the grant date. Compensation costs for share-based awards are recognized over the related service period.

Impairment of Long-lived Assets

We will 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.

Derivative Instruments

In connection with our credit facilities, we have entered into interest rate swap agreements to reduce our exposure to market risks from changing interest rates. Certain swaps are accounted for as hedging instruments in accordance with the requirements in accounting literature, as they are expected to be effective in mitigating the risk of changes in interest rates over the term of the debt. We have recognized these derivative instruments on the balance sheet at their fair value. Changes in the fair value of the interest rate swaps that are accounted for as hedging instruments are excluded from earnings until settled. We have not held or issued, and will not hold or issue, derivative financial instruments for trading or other speculative purposes.

Other 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.

Related Party Transactions

Under the management agreement, we are committed to pay our Manager for the following fees which are fixed through December 31, 2008 and thereafter will be subject to renegotiation every three years (provided that the fee for the three-year period beginning January 1, 2009 will not be less than the initial technical services fee):

technical services - our Manager provides us with technical services which cover all operating expenses, including crewing, victualling, stores, lube oils, communication expenses, repairs and maintenance, performing normally scheduled drydocking and general and routine repairs, insurance and other expenses related to the technical management of the vessels in exchange for a fixed fee of \$4,000 per day for each 2500 TEU vessel, \$4,200 per day for each 3500 TEU vessel, \$4,500 per day for each 4250 TEU vessel, \$6,000 per day for each 8500 TEU vessel and \$6,500 per day for each 9600 TEU vessel; and

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administrative and strategic services our Manager provides us with administrative and strategic services for the management of the business for a fixed fee of \$72,000 per year. We will also reimburse all reasonable costs and expenses incurred by our Manager in providing us with such services.

In connection with providing us with the above strategic services, we have issued 100 incentive shares to the Manager, which our Manager has acquired for \$1,000. The incentive shares are entitled to a share of incremental dividends, based on specified sharing ratios, once dividends on our common and subordinated shares reach certain specified targets beginning with the first target of \$0.485 per share per quarter.

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.

Items You Should Consider When Evaluating Our Results of Operations

On the completion of our initial public offering, we acquired our initial fleet of 10 vessels from the Predecessor. Since that time, we have acquired an additional six vessels that were part of our initial contracted fleet. We also entered into our management agreement, whereby we pay our Manager certain fees related to technical, administrative and strategic services that our Manager provides to us (whereas during the periods of our predecessor's operations, our predecessor was responsible for paying the historical actual ship operating expenses). Furthermore, we designated certain derivative instruments as hedging instruments as they are expected to be effective in mitigating the risk of changes in interest rates over the term of our debt, and as a result, changes in the fair value of the interest rate swap are excluded from earnings until settled. As a result of the acquisitions, entering into our management agreement and designating certain interest rate swap agreements as hedging instruments, we believe that, with respect to our current results of operations for the quarter ended June 30, 2006, a comparison to the predecessor's prior periods, where such factors did not exist, is not helpful in assessing our financial condition and results of operations.

Results of Operations

The following discussion of our financial condition and results of operations, as of June 30, 2006, has been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and, except where otherwise specifically indicated, all amounts are expressed in United States dollars.

The following table presents our operating results for the three and six month periods ended June 30, 2006:

| | Three Months | Six Months |
|--|----------------------|----------------------|
| | Ended | Ended |
| | June 30, 2006 | June 30, 2006 |
| Statement of operations data | | |
| (in thousands of dollars, except where otherwise stated): | | |
| Revenue | \$ 27,829 | \$ 52,636 |
| Operating expenses: | | |
| Ship operating | 7,035 | 13,142 |
| Depreciation | 6,276 | 11,880 |
| General and administrative | 1,148 | 2,109 |
| Operating earnings | 13,370 | 25,505 |
| Other expenses (earnings): | | |
| Interest expense | 3,988 | 6,691 |
| Interest income | (86) | (249) |
| Undrawn facility fee | 788 | 1,349 |
| Amortization of deferred financing fee | 490 | 978 |
| Change in fair value of financial instruments | 99 | 99 |
| Net earnings | \$ 8,091 | \$ 16,637 |
| Common shares outstanding | 36,006,600 | 36,006,600 |

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| | Three Months | |
|--|------------------------|--------------------------------------|
| | Ended June 30, 2006 | Six Months Ended June 30, 2006 |
| Per share data: | | |
| Earnings per share, basic and diluted in dollars | \$ 0.225 | \$ 0.462 |
| Cash dividends paid | \$ 0.425 | \$ 0.850 |
| Statement of cash flows data: | | |
| Cash flows provided by (used in): | | |
| Operating activities | \$ 13,785 | \$ 28,870 |
| Investing activities | (73,449) | (191,236) |
| Financing activities | 58,536 | 156,920 |
| Net decrease in cash | \$ (1,128) | \$ (5,446) |
| Selected balance sheet data: | | |
| Cash and cash equivalents | | \$ 10,272 |
| Vessels | | 800,549 |
| Fair value of financial instruments | | 32,271 |
| Other assets | | 10,010 |
| Total assets | | \$ 853,102 |
| Current liabilities | | \$ 3,837 |
| Long-term debt | | 312,073 |
| Fair value of financial instruments | | 3,837 |
| Shareholders' equity | | 533,355 |
| Total liabilities and shareholders' equity | | \$ 853,102 |
| Other data, at quarter end: | | |
| Number of vessels in operation | | 16 |
| Average age of fleet in years | | 2.0 |
| TEU capacity | | 76,478 |
| Average remaining initial term on outstanding charters | | 8.9 |
| Quarter ended June 30, 2006 | | |

We had thirteen 4250 TEU vessels and two 8500 TEU vessels in operation for the entire quarter ended June 30, 2006. On April 6, 2006, the 4250 TEU Saigon Express was delivered to us and began operations approximately ten weeks ahead of the contractual delivery date. During the quarter and for the remainder of the year, there are no vessels scheduled for their regularly scheduled five-year special surveys. During the quarter ended June 30, 2006, the New Delhi Express went a ground resulting in an off-hire period for repair.

The following tables summarize vessel utilization and the impact of the off-hire experienced as a result of the drydocking for special surveys and hull repairs on Seaspan's revenues for the first and second quarter:

| | First Quarter 2006 # of Days | Second Quarter 2006 # of Days | YTD 2006 # of Days |
|---------------------------------------|---------------------------------|----------------------------------|-----------------------|
| Vessel Utilization: | | | |
| Ownership Days | 1,296 | 1,450 | 2,746 |
| Less Off-hire Days: | | | |
| Scheduled 5-Year Survey | (20) | | (20) |
| Incremental Due to Rudder Horn Repair | (17) | | (17) |
| Grounding | | (24) | (24) |
| Operating Days | 1,259 | 1,426 | 2,685 |

| | | | |
|---------------------------|-------|-------|-------|
| Vessel Utilization | 97.1% | 98.3% | 97.8% |
|---------------------------|-------|-------|-------|

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| Revenue | Impact of Off-hire (in 000s of US dollars): | First Quarter 2006 Revenue | Second Quarter 2006 Revenue | YTD 2006 Revenue |
|---------------------------------------|--|---------------------------------------|--|-----------------------------|
| 100% fleet utilization | | \$ 25,470 | \$ 28,267 | \$ 53,737 |
| Less Off-hire: | | | | |
| Scheduled 5-Year Survey | | (360) | | (360) |
| Incremental Due to Rudder Horn Repair | | (303) | | (303) |
| Grounding | | | (438) | (438) |
| Actual Revenue Earned | | \$ 24,807 | \$ 27,829 | \$ 52,636 |

Revenue

Charter revenue was \$27.8 million for the quarter ended June 30, 2006. Revenue is based on contracted daily rates for each vessel. The delivery of the Saigon Express resulted in an increase in charter revenue of \$1.5 million for the three months ended June 30, 2006. During the three months ended June 30, 2006, the grounding of the New Delhi Express resulted in a \$0.4 million loss of charter hire revenue.

Ship Operating Expenses

Ship operating costs were \$7.0 million for the quarter ended June 30, 2006. Operating expenses are based on contracted daily rates for each vessel, as specified in our management agreement. The delivery of the Saigon Express resulted in an increase in ship operating expenses of \$0.4 million for the three months ended June 30, 2006. Included in ship operating expenses for the quarter ended June 30, 2006 is \$0.2 million insurance deductible paid to the insurance company for the hull repairs to the New Delhi Express in addition to \$0.1 million in bunker costs.

Depreciation

Depreciation expense was \$6.3 million for the quarter ended June 30, 2006.

General and Administrative Expenses

General and administrative expenses were \$1.1 million for the quarter ended June 30, 2006. These costs represent executive salaries, travel, board of directors fees, insurance, audit, agency fees, and other costs during the quarter.

Interest Expense

Interest expense was \$4.0 million for the quarter ended June 30, 2006. Interest expense for the quarter is based on the debt drawn under our \$1.0 billion credit facility.

On April 6, 2006, we drew \$56.9 million on the \$1.0 billion credit facility to purchase the Saigon Express. The \$1.0 billion credit facility requires that we pay interest of LIBOR plus a margin, which is based on our loan to asset value.

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We have entered into interest rate swap agreements to reduce our exposure to market risks from changing interest rates on the \$1.0 billion credit facility. The swap agreements fix LIBOR at 4.6325% based on expected drawdowns and outstanding debt through July 2012.

During the quarter ended June 30, 2006, we drew \$18.5 million on our revolving credit facility for the deposits on the first four 2500 TEU vessels. The \$365.0 million revolving credit facility requires that we pay interest of LIBOR plus a margin of 0.850% per annum for the first six years after the delivery date of the last delivered vessel in each Tranche and LIBOR plus a margin of 0.925% per annum thereafter. The interest paid on the \$365.0 revolving credit facility for Tranche B is being capitalized to the four 2500 TEU vessels under construction.

We have entered into two interest rate swap agreements to reduce our exposure to market risks from changing interest rates on the \$365.0 revolving credit facility. The Tranche A swap agreement fixes LIBOR at 5.5150% based on expected drawdowns and outstanding debt through July 31, 2012. The Tranche B swap agreement fixes LIBOR at 5.2600% based on expected drawdowns and outstanding debt through February 26, 2021.

The Tranche A swap agreement is accounted for as a hedging instrument in accordance with the requirements in accounting literature, as it is effective in mitigating the risks of changes in interest rates over the term of the debt. As a result, changes in the fair value of this interest rate swap agreement are excluded from earnings until settled.

The Tranche B swap agreement is not designated as a hedging instrument and is marked to market. The swap is recorded on the balance sheet at fair value and the changes in the fair value of the swap are recorded in earnings.

Undrawn Facility Fee

Undrawn credit facility fee expense was \$0.8 million for the quarter ended June 30, 2006. Our undrawn credit facilities fee relates to the commitment fees incurred on our credit facilities. The commitment fee \$0.5 million on the \$1.0 billion credit facility is 37.5% of the applicable margin on the difference between our total credit facility amount and our principal amounts outstanding under the credit facility. The commitment fee of \$0.3 million on the \$365.0 million revolving credit facility is 0.3% per annum on the average undrawn facility amount. The commitment fees are expensed as incurred.

Amortization of Deferred Financing Fees

During the quarter ended June 30, 2006, we amortized \$0.5 million in deferred financing fees. The financing fees incurred on the \$1.0 billion credit facility are being deferred and amortized over the terms of the credit facility using the interest yield basis. During the quarter ended June 30, 2006, we incurred financing fees of \$0.1 million on our \$1.0 billion credit facility.

The amortization of the deferred financing fees for the \$365.0 million revolving credit facility is currently being capitalized to the vessels under construction. During the quarter ended June 30, 2006, we incurred financing fees of \$1.5 million on our \$365.0 million revolving credit facility. The financing fees incurred on the \$365.0 million revolving credit facility are being deferred and amortized over the terms of the credit facility using the interest yield basis.

Change in fair value of financial instruments

On June 7, 2006, along with the Tranche B swap agreement for the \$365.0 million revolving credit facility, we entered into a swaption agreement to sell an option allowing the buyer to enter into a swap with a notional amount of \$106.8 million. The swap has an effective date of February 28, 2014 and an expiration of February 28, 2021. If the option is exercised by the buyer, the underlying swap effectively offsets our 5.26% pay fixed LIBOR swap from February 26, 2014 to February 28, 2021. This is a European option and is open for a two hour period on February 26, 2014 after which it expires.

The \$0.1 million change in the fair value of financial instruments recorded in the statement of operations represents the change in the fair value of the interest rate swaption from the trade date to June 30, 2006.

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Other Comprehensive Income

During the quarter ended June 30, 2006, the change in other comprehensive net income for the change in fair value of interest rate swaps designated as hedging instruments is \$10.1 million. \$9.8 million and \$0.3 million of the change relate to the interest rate swaps on the \$1.0 billion credit facility and the \$365.0 million revolving credit facility respectively.

Please also read *Quantitative and Qualitative Disclosures About Market Risk* for further discussion.

Liquidity and Capital Resources

Liquidity and Cash Needs

As of June 30, 2006, our cash totaled \$10.3 million. As of June 30, 2006, we have drawn \$293.6 million of an available \$750.0 million from Tranche A of our \$1.0 billion credit facility to fund the purchase of our contracted fleet. The remaining \$456.4 million will be available to fund the acquisition of the remaining seven vessels in our contracted fleet. No amounts have been drawn to date from Tranche B of our \$1.0 billion credit facility, of which \$250.0 million is available to fund the acquisition of new or used containerships. On April 6, 2006, we drew \$56.9 million from Tranche A of our credit facility to fund the purchase of Saigon Express.

As of June 30, 2006 we have drawn \$18.5 million of an available \$283.0 million from Tranche B of our \$365.0 million revolving credit facility to fund the deposits on the first four 2500 TEU vessels. The remaining \$264.5 million will be available to fund the construction of the eight 2500 TEU vessels. No amounts have been drawn to date from Tranche A of our \$365.0 million revolving credit facility, of which \$82.0 million is available to fund the purchase of the two 3500 TEU vessels.

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 remaining vessels of the initial contracted fleet under the asset purchase agreement, funding the purchase of the two 3500 TEU vessels and funding the construction of the eight 2500 TEU vessels. 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 credit facility, our revolving credit facility, 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.

Statement of Cash Flows

Operating Activities Cash Flows

Net cash from operating activities was \$13.8 million for the quarter ended June 30, 2006. Cash flows from operations for the three months ended June 30, 2006 reflects net earnings from operations of \$8.1 million, non-cash depreciation and amortization of \$6.8 million, stock compensation of \$0.1 million, change in fair value of interest rate swaption of \$0.1 million and a decrease in non-cash operating working capital of \$1.2 million.

Investing Activities Cash Flows

Net cash used for investing was \$73.4 million for the quarter ended June 30, 2006. On April 6, 2006, we purchased the Saigon Express for \$56.9 million. During the quarter, we also paid a deposit of \$16.5 million to Jiangsu for the construction of the four 2500 TEU vessels. During the quarter, we incurred \$0.1 million of interest on our revolving credit facility for the construction of the first four 2500 TEU vessels. This interest has been capitalized to the vessels under construction.

Financing Activities Cash Flows

Net cash from financing activities was \$58.5 million for the quarter ended June 30, 2006. During the quarter ended June 30, 2006, we drew \$56.9 million from our \$1.0 billion credit facility to fund the purchase of the Saigon Express. We also drew \$18.5 million from our \$365.0 million revolving credit facility during the quarter ended June 30, 2006 to fund the construction of the first four 2500 TEU vessels. During the quarter, we also paid a cash dividend of \$15.3 million and incurred deferred financing fees of \$1.6 million.

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In December 2005, our board of directors adopted the Seaspan Corporation Stock Incentive Plan, or 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 our board of directors. A total of 1,000,000 shares of common stock were reserved for issuance under the Plan, which is administered by our board of directors. The Plan will expire 10 years from the date of its adoption. During the quarter ended March 31, 2006, we issued 3,750 shares to each independent director for a total of 15,000 shares as compensation for services for 2006. No additional shares have been issued for the quarter ended June 30, 2006. These shares have been recorded at their fair value on the date of issuance, and will be recorded as expense on a straight line basis as the services are provided.

Contractual Obligations

On a pro forma basis our long-term undiscounted contractual obligations as of June 30, 2006, excluding amounts payable under our credit facility, our revolving credit facility, interest rate swaps, and interest rate swaption consists of the following:

| | 2006 (six months) | 2007 | 2008 | 2009 (in thousands) | 2010 | Thereafter | Total |
|---|-------------------|------------|------------|------------------------|-----------|------------|--------------|
| Purchase agreement for additional vessels | \$ 146,786 | \$ 557,579 | \$ 107,250 | \$ 123,750 | \$ | \$ | \$ 935,365 |
| Fixed payments to the Manager for technical and administrative services under our management agreement(1) | 14,534 | 38,565 | 44,205 | 51,979 | 55,151 | 827,861 | 1,032,295 |
| | \$ 161,320 | \$ 596,144 | \$ 151,455 | \$ 175,729 | \$ 55,151 | \$ 827,861 | \$ 1,967,660 |

(1) The technical services portion of the fees are fixed through December 31, 2008 and includes payments for the vessels currently operating in our fleet as at June 30, 2006, and fees for the remaining undelivered vessels in our contracted fleet of 33 vessels based on their contracted delivery dates. The administrative services portion of the fees are capped at \$6,000 per month, plus reimbursement for all reasonable costs and expenses incurred by our Manager and its affiliates in providing us with such services. For purposes of this table only, we have assumed the same rate for 2009 to 2025, the end of the initial term of the management agreement. The amounts presented above do not include reimbursements that may become payable to our Manager for administrative or strategic services provided.

As of June 30, 2006, our amounts payable under our credit facility and our revolving credit facility consists of the following:

| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter | Total |
|---|------|------|------|------|--------|------------|------------|
| \$1.0 billion credit facility | \$ | \$ | \$ | \$ | \$ | \$ 293,573 | \$ 293,573 |
| \$365.0 million revolving credit facility | | | | | 784 | 17,716 | \$ 18,500 |
| Total principal payments | \$ | \$ | \$ | \$ | \$ 784 | \$ 311,289 | \$ 312,073 |

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FORWARD-LOOKING STATEMENTS

This Report on Form 6-K for the quarter ended June 30, 2006, 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, drydocking requirements and insurance costs; general market conditions and shipping market trends, including charter rates and factors affecting supply and demand; our financial condition and liquidity, including our ability to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities; estimated future capital expenditures needed to preserve our capital base; our expectations about the availability of ships to purchase, the time that it may take to construct new ships, or the useful lives of our ships; our continued ability to enter into long-term, fixed-rate time charters with our customers; our ability to leverage to our advantage our Manager's relationships and reputation in the containership industry; changes in governmental rules and regulations or actions taken by regulatory authorities; changes in worldwide container demand; changes in trading patterns; competitive factors in the markets in which we operate; potential inability to implement our growth strategy; potential for early termination of long-term contracts and our potential inability to renew or replace long-term contracts; ability of our customers to make charter payments; potential liability from future litigation; conditions in the public equity markets; and other factors detailed from time to time in our periodic reports, including our Prospectus filed with the SEC on August 8, 2005. 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.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to the impact of interest rate changes primarily through our floating-rate borrowings. Significant increases in interest rates could adversely affect our results of operations and our ability to service our debt. In connection with our credit facilities, we have entered into interest rate swap agreements to reduce our exposure to market risks of changing interest rates. We are accounting for certain interest rate swap agreements as hedges in accordance with 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. These swaps are accounted for as hedging instruments as they are effective in mitigating the risks of changes in interest rates over the term of the debt. As a result, changes in the fair value of the interest rates swap are excluded from earnings until settled.

As of June 30, 2006, our floating-rate borrowings totaled \$312.1 million, of which we had entered into interest rate swap agreements to fix the rates on notional principal of \$279.8 million. These interest rate swaps have a fair value of \$32.3 million in our favor.

We have also entered into an interest rate swap agreement and interest rate swaption agreement to act as economic hedges of our borrowings. At June 30, 2006, the interest rate swaption had a fair value of \$3.8 million in the counterparty's favor, the interest rate swap agreement had a fair value of \$3.7 million in our favor. As these instruments are not designated as hedging instruments in accordance with FASB Statement No. 133, all changes in fair value are reflected in the income statement.

For our credit facility, our draws are not repayable until five years and three months from the earlier of the date delivery of the last vessel in our contracted fleet and December 31, 2007.

For our revolving credit facility, our draws are repayable beginning six months from the delivery date of the last vessel securing the first tranche of the facility, but no later than March 31, 2008. The total amounts available for borrowing under the first tranche will be reduced semiannually until the maturity date, at which time the facility will terminate. Beginning six months from the delivery date of the last vessel securing the second tranche of the facility, but no later than April 30, 2010, the total amounts available for borrowing under the second tranche will be reduced semiannually until the maturity date, at which time the facility will terminate.

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.

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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PART II OTHER INFORMATION

Item 1 Legal Proceedings

None

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities:

On August 12, 2005, concurrently with completion of our initial public offering, in a private sale exempt from the registration requirements of the Securities Act pursuant to Section 4(2), we sold all of our subordinated shares at a price per share equal to the initial public offering price of our common shares to Dennis Washington, The Kevin Lee Washington Trust II, 0731455 B.C. Ltd. and Tiger Container Shipping Company Limited.

Use of Proceeds:

On August 12, 2005, we completed our initial public offering of 28,570,000 common shares and 7,145,000 subordinated shares at a price of \$21.00 per unit. The managing underwriters were Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. The common shares sold in the offering were registered under the Securities Act of 1933 on Registration Statement Form F-1 (File No. 333-126762), which the SEC declared effective on August 4, 2005. For information regarding the use of proceeds, please read Part I Item 1 Financial Statements: Note 2 Initial Public Offering.

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None