

Seaspan CORP  
Form 6-K  
August 06, 2018

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

Commission File Number 1-32591

SEASPAN CORPORATION

(Exact name of Registrant as specified in its Charter)

Unit 2, 2nd 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.  
Form 20-F      Form 40-F

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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

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

Attached as Exhibit I is Seaspan Corporation's report on Form 6-K, or this Report, for the quarter ended June 30, 2018. This Report is hereby incorporated by reference into: the Registration Statement of Seaspan Corporation filed with the Securities and Exchange Commission, or the SEC, on May 30, 2008 on Form F-3D (Registration No. 333-151329), the Registration Statement of Seaspan Corporation filed with the SEC on March 31, 2011 on Form S-8 (Registration No. 333-173207), the Registration Statement of Seaspan Corporation filed with the SEC on June 20, 2013 on Form S-8 (Registration No. 333-189493), the Registration Statement of Seaspan Corporation filed with the SEC on April 24, 2012 on Form F-3 (Registration No. 333-180895), as amended on March 22, 2013, the Registration Statement of Seaspan Corporation filed with the SEC on April 29, 2014 on Form F-3 (Registration No. 333-195571), as amended on March 3, 2017 and April 19, 2017, the Registration Statement of Seaspan Corporation filed with the SEC on November 28, 2014 on Form F-3 (Registration No. 333-200639), as amended on March 3, 2017 and April 19, 2017, the Registration Statement of Seaspan Corporation filed with the SEC on November 28, 2014 on Form S-8 (Registration No. 333-200640), the Registration Statement of Seaspan Corporation filed with the SEC on March 12, 2015 on Form F-3D (Registration No. 333-202698), the Registration Statement of Seaspan Corporation filed with the SEC on May 23, 2016 on Form F-3 (Registration No. 333-211545), as amended on March 3, 2017, March 7, 2017 and April 19, 2017, the Registration Statement of Seaspan Corporation filed with the SEC on June 24, 2016 on Form S-8 (Registration No. 333-212230) and the Registration Statement of Seaspan Corporation filed with the SEC on April 13, 2018 on Form F-3D (Registration No. 333-224291), the Registration Statement of Seaspan Corporation filed with the SEC on May 3, 2018 on Form F-3/A (Registration No. 333-224288), as amended on May 7, 2018 and the Registration Statement of Seaspan Corporation filed with the SEC on June 15, 2018 on Form F-4 (Registration No. 333-225681).

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: August 6, 2018 By: /s/ Ryan Courson  
Ryan Courson  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

EXHIBIT I

SEASPAN CORPORATION  
REPORT ON FORM 6-K FOR THE QUARTER ENDED JUNE 30, 2018

INDEX

|   |    |
|---|----|
| <u>PART I — FINANCIAL INFORMATION</u>   | 1  |
| <u>Item 1 — Interim Consolidated Financial Statements (Unaudited)</u>                                 | 1  |
| <u>Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 38 |
| <u>Item 3 — Quantitative and Qualitative Disclosures About Market Risk</u>                            | 59 |
| <u>PART II — OTHER INFORMATION</u>  | 61 |
| <u>Item 1 — Legal Proceedings</u>   | 61 |
| <u>Item 1A — Risk Factors</u>   | 61 |
| <u>Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 64 |
| <u>Item 3 — Defaults Upon Senior Securities</u>   | 64 |
| <u>Item 4 — Mine Safety Disclosures</u>   | 64 |
| <u>Item 5 — Other Information</u>   | 64 |
| <u>Item 6 — Exhibits</u>  | 64 |

Unless we otherwise specify, when used in this Report, the terms “Seaspan”, the “Company”, “we”, “our” and “us” refer to Seaspan Corporation and its subsidiaries. References to our “Manager” are to Seaspan Management Services Limited and its wholly-owned subsidiaries which provide us with all of our technical, administrative and strategic services.

References to shipbuilders are as follows:

| Shipbuilder                                 | Reference     |
|---|---------------|
| Jiangsu New Yangzi Shipbuilding Co., Ltd.   | New Jiangsu   |
| Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd. | Jiangsu Xinfu |



References to customers are as follows:

| Customer  | Reference            |
|---|----------------------|
| ANL Singapore Pte. Ltd. <sup>(1)</sup>                            | ANL                  |
| APL Co. Pte. Ltd. <sup>(1)</sup>                                  | APL                  |
| CMA CGM S.A.  | CMA CGM              |
| Cheng Lie Navigation Co., Ltd. <sup>(1)</sup>                     | CNC                  |
| China Shipping Container Lines (Asia) Co., Ltd. <sup>(2)(3)</sup> | CSCL Asia            |
| COSCO Shipping Lines Co., Ltd. <sup>(3)(4)</sup>                  | COSCON               |
| COSCO (Cayman) Mercury Co., Ltd. <sup>(5)</sup>                   | COSCO Mercury        |
| COSCO Shipping Lines (Europe) GmbH <sup>(5)</sup>                 | COSCO Europe         |
| New Golden Sea Shipping Pte. Ltd. <sup>(5)</sup>                  | COSCO New Golden Sea |
| Hapag-Lloyd AG  | Hapag-Lloyd          |
| Kawasaki Kisen Kaisha Ltd. <sup>(6)</sup>                         | K-Line               |
| Maersk Line A/S <sup>(7)</sup>                                    | Maersk               |
| MCC Transport Singapore Pte. Ltd. <sup>(8)</sup>                  | MCC                  |
| MSC Mediterranean Shipping Company S.A.                           | MSC                  |
| Mitsui O.S.K. Lines, Ltd. <sup>(6)</sup>                          | MOL                  |
| VASI Shipping Pte. Ltd.   | VASI                 |
| Yang Ming Marine Transport Corp.                                  | Yang Ming Marine     |

<sup>(1)</sup>A subsidiary of CMA CGM.

<sup>(2)</sup>A subsidiary of China Shipping Container Lines Co., Ltd., or CSCL.

<sup>(3)</sup>While we continue to charter our vessels to CSCL Asia and COSCON, CSCL Asia and COSCON merged their container shipping businesses in March 2016.

<sup>(4)</sup>A subsidiary of China COSCO Holdings Company Limited.

<sup>(5)</sup>A subsidiary of COSCON.

<sup>(6)</sup>On April 1, 2018, MOL, K-Line and Nippon Yusen Kabushiki Kaisha integrated their container shipping businesses under a new joint venture company, Ocean Network Express Pte. Ltd.

<sup>(7)</sup>A subsidiary of A.P. Moller-Maersk A/S.

<sup>(8)</sup>A subsidiary of Maersk

We use the term “twenty-foot equivalent unit”, or TEU, the international standard measure of containers, in describing the capacity of our containerships, which are also referred to as our “vessels”. We identify the classes of our vessels by the approximate average TEU capacity of the vessels in each class. However, the actual TEU capacity of a vessel may differ from the approximate average TEU capacity of the vessels in such vessel’s class.

The information and the unaudited consolidated financial statements in this Report should be read in conjunction with the consolidated financial statements and related notes and the Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 20-F for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission, or the SEC, on March 6, 2018, or our 2017 Annual Report. Unless otherwise indicated, all amounts in this Report are presented in U.S. dollars, or USD. We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, or U.S. GAAP.



## SEASPAN CORPORATION

## PART I — FINANCIAL INFORMATION

## ITEM 1 — INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## SEASPAN CORPORATION

## Interim Consolidated Balance Sheets

(Unaudited)

(Expressed in thousands of United States dollars, except number of shares and par value amounts)

|  | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
| <b>Assets</b>  |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | \$ 269,070       | \$ 253,176           |
| Short-term investments   | 2,400            | 104                  |
| Accounts receivable (note 3)   | 14,372           | 11,678               |
| Loans to affiliate (note 3)  | —                | 36,100               |
| Prepaid expenses and other   | 42,702           | 44,869               |
| Fair value of financial instruments (note 17)                          | 277              | —                    |
| Gross investment in lease (note 4)                                     | 44,348           | 35,478               |
|  | 373,169          | 381,405              |
| Vessels (note 5)   | 6,037,798        | 4,537,216            |
| Deferred charges (note 6)  | 60,624           | 62,020               |
| Gross investment in lease (note 4)                                     | 839,987          | 687,896              |
| Goodwill   | 75,321           | 75,321               |
| Other assets   | 166,648          | 134,284              |
|  | \$ 7,553,547     | \$ 5,878,142         |
| <b>Liabilities, Puttable Preferred Shares and Shareholders' Equity</b> |                  |                      |
| Current liabilities:   |                  |                      |
| Accounts payable and accrued liabilities                               | \$ 101,375       | \$ 63,220            |
| Current portion of deferred revenue (note 7)                           | 55,929           | 55,367               |
| Current portion of long-term debt (note 8)                             | 663,294          | 257,800              |
|  | 47,588           | 43,912               |



|  |              |              |
|--|--------------|--------------|
| Current portion of long-term obligations under capital lease (note 9)                |              |              |
| Current portion of other long-term liabilities (note 10)                             | 37,562       | 23,635       |
|  | 905,748      | 443,934      |
| Deferred revenue (note 7)  | 393,779      | 328,681      |
| Long-term debt (note 8)  | 3,182,448    | 2,192,833    |
| Long-term obligations under capital lease (note 9)                                   | 615,992      | 595,016      |
| Other long-term liabilities (note 10)  | 193,188      | 199,386      |
| Fair value of financial instruments (note 17)  | 123,733      | 168,860      |
| Total liabilities  | 5,414,888    | 3,928,710    |
| Puttable preferred shares; \$0.01 par value; 1,986,449 shares issued and outstanding |              |              |
| (2017 - nil) (notes 2 and 11)  | 47,256       | —            |
| Shareholders' equity:  |              |              |
| Share capital (note 11):   |              |              |
| Preferred shares; \$0.01 par value; 150,000,000 shares authorized;                   |              |              |
| 32,872,706 shares issued and outstanding (2017 - 32,872,706)                         |              |              |
| Class A common shares; \$0.01 par value; 400,000,000 shares authorized;              |              |              |
| 137,283,264 shares issued and outstanding (2017 - 131,664,101)                       | 1,702        | 1,646        |
| Treasury shares  | (371 )       | (377 )       |
| Additional paid in capital   | 2,862,936    | 2,752,988    |
| Deficit  | (749,752 )   | (781,137 )   |
| Accumulated other comprehensive loss   | (23,112 )    | (23,688 )    |
|  | 2,091,403    | 1,949,432    |
|  | \$ 7,553,547 | \$ 5,878,142 |

Basis of presentation and going concern (note 1(a))

Commitments and contingencies (note 15)

Subsequent events (note 19)

See accompanying notes to interim consolidated financial statements.

1

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## SEASPAN CORPORATION

## Interim Consolidated Statements of Operations

(Unaudited)

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

|  | Three months ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,<br>2018   | 2017      | June 30,<br>2018 | 2017      |
| Revenue  | \$281,662          | \$204,609 | \$506,438        | \$405,930 |
| Operating expenses:  |                    |           |                  |           |
| Ship operating   | 58,766             | 44,823    | 108,315          | 90,430    |
| Depreciation and amortization                                | 62,107             | 49,798    | 116,032          | 99,744    |
| General and administrative                                   | 9,073              | 7,486     | 16,346           | 14,975    |
| Operating leases   | 32,329             | 28,148    | 63,523           | 54,658    |
| Expenses related to customer bankruptcy                      | —                  | —         | —                | 1,013     |
|  | 162,275            | 130,255   | 304,216          | 260,820   |
| Operating earnings   | 119,387            | 74,354    | 202,222          | 145,110   |
| Other expenses (income):                                     |                    |           |                  |           |
| Interest expense and amortization of deferred financing fees | 57,266             | 28,261    | 96,247           | 56,729    |
| Interest income  | (495 )             | (1,193 )  | (1,765 )         | (2,365 )  |
| Undrawn credit facility fees                                 | 84                 | 635       | 295              | 1,265     |
| Acquisition related gain on contract settlement              | —                  | —         | (2,430 )         | —         |
| Change in fair value of financial instruments (note 17)      | (5,927 )           | 13,610    | (25,249 )        | 17,027    |
| Equity income on investment                                  | —                  | (1,642 )  | (1,216 )         | (2,529 )  |
| Other expenses   | 446                | 6,399     | 611              | 6,676     |
|  | 51,374             | 46,070    | 66,493           | 76,803    |
| Net earnings   | \$68,013           | \$28,284  | \$135,729        | \$68,307  |
| Earnings per share (note 12):                                |                    |           |                  |           |
| Class A common share, basic                                  | \$0.36             | \$0.11    | \$0.73           | \$0.33    |
| Class A common share, diluted                                | \$0.34             | \$0.11    | \$0.71           | \$0.33    |

See accompanying notes to interim consolidated financial statements.

## SEASPAN CORPORATION

## Interim Consolidated Statements of Comprehensive Income

(Unaudited)

(Expressed in thousands of United States dollars)

|   | Three months ended<br>June 30, |           | Six months ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2018                           | 2017      | 2018                         | 2017      |
| Net earnings  | \$ 68,013                      | \$ 28,284 | \$ 135,729                   | \$ 68,307 |
| Other comprehensive income:                             |                                |           |                              |           |
| Amounts reclassified to net earnings during the period  |                                |           |                              |           |
| relating to cash flow hedging instruments (note 17 (c)) | 276                            | 662       | 576                          | 2,138     |
| Comprehensive income                                    | \$ 68,289                      | \$ 28,946 | \$ 136,305                   | \$ 70,445 |

See accompanying notes to interim consolidated financial statements.

## SEASPAN CORPORATION

## Interim Consolidated Statements of Puttable Preferred Shares and Shareholders' Equity

(Unaudited)

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

Six months ended June 30, 2018 and year ended December 31, 2017

|  | Series D puttable preferred shares | Number of common shares | Number of non-puttable preferred shares |               | Common shares | Preferred shares | Treasury shares | Additional paid-in capital | Deficit    | Accumulated other comprehensive loss |                      | Total shareholders' equity |
|--|------------------------------------|-------------------------|---|---------------|---------------|------------------|-----------------|----------------------------|------------|--------------------------------------|----------------------|----------------------------|
|  |                                    |                         | puttable shares                         | Common shares |               |                  |                 |                            |            | shareholders' equity                 | shareholders' equity |                            |
| Balance, December 31, 2016   | —                                  | 105,722,646             | 32,751,629                              | \$1,057       | \$328         | \$(367)          | \$2,580,274     | \$(807,496)                | \$(26,547) | \$1,747,249                          |                      |                            |
| Net earnings   | —                                  | —                       | —                                       | —             | —             | —                | —               | 175,237                    | —          | 175,237                              |                      |                            |
| Other comprehensive income   | —                                  | —                       | —                                       | —             | —             | —                | —               | —                          | 2,859      | 2,859                                |                      |                            |
| Preferred shares issued  | —                                  | —                       | 121,077                                 | —             | 1             | —                | 2,956           | —                          | —          | 2,957                                |                      |                            |
| Class A common shares issued   | —                                  | 19,550,000              | —                                       | 196           | —             | —                | 121,152         | —                          | —          | 121,348                              |                      |                            |
| Fees and expenses in connection with issuance of common and preferred shares | —                                  | —                       | —                                       | —             | —             | —                | (2,649)         | —                          | —          | (2,649)                              |                      |                            |
| Dividends on Class A common  | —                                  | —                       | —                                       | —             | —             | —                | —               | (83,615)                   | —          | (83,615)                             |                      |                            |

|  |   |     |             |            |         |       |         |             |             |            |             |
|--|---|-----|-------------|------------|---------|-------|---------|-------------|-------------|------------|-------------|
| shares   |   |     |             |            |         |       |         |             |             |            |             |
| Dividends on preferred shares  | — | —   | —           | —          | —       | —     | —       | —           | (64,416 )   | —          | (64,416 )   |
| Shares issued through dividend reinvestment program  | — | —   | 3,300,537   | —          | 33      | —     | —       | 21,752      | —           | —          | 21,785      |
| Share-based compensation expense   |   |     |             |            |         |       |         |             |             |            |             |
| (note 13):   |   |     |             |            |         |       |         |             |             |            |             |
| Restricted Class A common shares, phantom share units, stock appreciation rights, restricted stock units and performance stock units | — | —   | 1,246,604   | —          | 13      | —     | —       | 17,307      | —           | —          | 17,320      |
| Other share-based compensation   | — | —   | 1,846,892   | —          | 18      | —     | —       | 12,196      | (847 )      | —          | 11,367      |
| Treasury shares  | — | —   | (2,578 )    | —          | —       | —     | (10 )   | —           | —           | —          | (10 )       |
| Balance, December 31, 2017, carried forward  | — | \$— | 131,664,101 | 32,872,706 | \$1,317 | \$329 | \$(377) | \$2,752,988 | \$(781,137) | \$(23,688) | \$1,949,432 |

See accompanying notes to consolidated financial statements.

SEASPAN CORPORATION

Interim Consolidated Statements of Puttable Preferred Shares and Shareholders' Equity (Continued)

(Unaudited)

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

Six months ended June 30, 2018 and year ended December 31, 2017

|                                      | Series D puttable preferred shares |        | Number of common shares | Number of non-puttable preferred shares | Common shares | Preferred shares | Treasury shares | Additional paid-in capital | Deficit     | Accumulated other comprehensive loss | Total shareholders' equity |
|--------------------------------------|------------------------------------|--------|-------------------------|---|---------------|------------------|-----------------|----------------------------|-------------|--------------------------------------|----------------------------|
|                                      | Shares                             | Amount | shares                  | shares                                  | shares        | shares           | shares          | capital                    | Deficit     | loss                                 | equity                     |
| Balance, December 31, 2017,          |                                    |        |                         |   |               |                  |                 |                            |             |                                      |                            |
| Carried forward                      | —                                  | \$—    | 131,664,101             | 32,872,706                              | \$1,317       | \$329            | \$(377)         | \$2,752,988                | \$(781,137) | \$(23,688)                           | \$1,949,4                  |
| Earnings                             | —                                  | —      | —                       | —                                       | —             | —                | —               | —                          | 135,729     | —                                    | 135,729                    |
| Other comprehensive income           | —                                  | —      | —                       | —                                       | —             | —                | —               | —                          | —           | 576                                  | 576                        |
| Class A common shares issued         | —                                  | —      | 2,514,996               | —                                       | 25            | —                | —               | 13,883                     | —           | —                                    | 13,908                     |
| Preferred shares issued (note 2)     | 1,986,449                          | 47,256 | —                       | —                                       | —             | —                | —               | —                          | —           | —                                    | —                          |
| Warrants issued (note 11)            | —                                  | —      | —                       | —                                       | —             | —                | —               | 77,561                     | —           | —                                    | 77,561                     |
| Expenses in connection with issuance |                                    |        |                         |   |               |                  |                 |                            |             |                                      |                            |
| Common shares                        | —                                  | —      | —                       | —                                       | —             | —                | —               | (30 )                      | —           | —                                    | (30                        |
| Dividends on Class A common          | —                                  | —      | —                       | —                                       | —             | —                | —               | —                          | (50,658 )   | —                                    | (50,658                    |

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|                      |           |          |             |            |         |       |         |             |             |            |           |
|----------------------|-----------|----------|-------------|------------|---------|-------|---------|-------------|-------------|------------|-----------|
| shares               |           |          |             |            |         |       |         |             |             |            |           |
| dividends on         |           |          |             |            |         |       |         |             |             |            |           |
| preferred            |           |          |             |            |         |       |         |             |             |            |           |
| shares               | —         | —        | —           | —          | —       | —     | —       | —           | (52,872 )   | —          | (52,872 ) |
| retention of         |           |          |             |            |         |       |         |             |             |            |           |
| preferred            |           |          |             |            |         |       |         |             |             |            |           |
| shares               |           |          |             |            |         |       |         |             |             |            |           |
| with holder          |           |          |             |            |         |       |         |             |             |            |           |
| option               | —         | —        | —           | —          | —       | —     | —       | —           | (582 )      | —          | (582 )    |
| shares issued        |           |          |             |            |         |       |         |             |             |            |           |
| through              |           |          |             |            |         |       |         |             |             |            |           |
| dividend             |           |          |             |            |         |       |         |             |             |            |           |
| investment           |           |          |             |            |         |       |         |             |             |            |           |
| program              | —         | —        | 2,008,034   | —          | 20      | —     | —       | 14,665      | —           | —          | 14,685    |
| employee-based       |           |          |             |            |         |       |         |             |             |            |           |
| compensation         |           |          |             |            |         |       |         |             |             |            |           |
| expense              |           |          |             |            |         |       |         |             |             |            |           |
| (Note 13):           |           |          |             |            |         |       |         |             |             |            |           |
| restricted           |           |          |             |            |         |       |         |             |             |            |           |
| Class A              |           |          |             |            |         |       |         |             |             |            |           |
| common               |           |          |             |            |         |       |         |             |             |            |           |
| shares,              |           |          |             |            |         |       |         |             |             |            |           |
| phantom share        |           |          |             |            |         |       |         |             |             |            |           |
| units, stock         |           |          |             |            |         |       |         |             |             |            |           |
| appreciation         |           |          |             |            |         |       |         |             |             |            |           |
| rights,              |           |          |             |            |         |       |         |             |             |            |           |
| restricted stock     |           |          |             |            |         |       |         |             |             |            |           |
| options              |           |          |             |            |         |       |         |             |             |            |           |
| and                  |           |          |             |            |         |       |         |             |             |            |           |
| performance          |           |          |             |            |         |       |         |             |             |            |           |
| restricted units     | —         | —        | 190,873     | —          | 2       | —     | —       | 1,427       | —           | —          | 1,429     |
| employee-based       |           |          |             |            |         |       |         |             |             |            |           |
| compensation         | —         | —        | 906,258     | —          | 9       | —     | —       | 2,442       | (232 )      | —          | 2,219     |
| treasury shares      | —         | —        | (998 )      | —          | —       | —     | 6       | —           | —           | —          | 6         |
| balance,             |           |          |             |            |         |       |         |             |             |            |           |
| as of March 30, 2018 | 1,986,449 | \$47,256 | 137,283,264 | 32,872,706 | \$1,373 | \$329 | \$(371) | \$2,862,936 | \$(749,752) | \$(23,112) | \$2,091,4 |

See accompanying notes to interim consolidated financial statements.





## SEASPAN CORPORATION

## Interim Consolidated Statements of Cash Flows

(Unaudited)

(Expressed in thousands of United States dollars)

|   | Three months ended |           | Six months ended |            |
|---|--------------------|-----------|------------------|------------|
|   | June 30,           |           | June 30,         |            |
|   | 2018               | 2017      | 2018             | 2017       |
| Cash from (used in):  |                    |           |                  |            |
| Operating activities:   |                    |           |                  |            |
| Net earnings  | \$68,013           | \$28,284  | \$135,729        | \$68,307   |
| Items not involving cash:   |                    |           |                  |            |
| Depreciation and amortization   | 62,107             | 49,798    | 116,032          | 99,744     |
| Share-based compensation (note 13)  | 923                | 1,989     | 1,550            | 3,870      |
| Amortization of deferred financing fees, debt discount and fair value of long term debt | 4,478              | 3,185     | 8,557            | 6,213      |
| Amounts reclassified from other comprehensive loss                                      |                    |           |                  |            |
| to interest expense   | 86                 | 401       | 174              | 1,680      |
| Unrealized change in fair value of financial instruments                                | (18,310 )          | (1,037 )  | (48,909 )        | (13,185 )  |
| Acquisition related gain on contract settlement   | —                  | —         | (2,430 )         | —          |
| Equity income on investment   | —                  | (1,642 )  | (1,216 )         | (2,529 )   |
| Operating leases  | (5,350 )           | (5,500 )  | (11,809 )        | (10,767 )  |
| Amortization of acquired revenue contracts  | 6,250              | —         | 7,359            | —          |
| Other   | (4 )               | 6,389     | 11               | 6,467      |
| Changes in assets and liabilities:  |                    |           |                  |            |
| Accounts receivable   | (2,138 )           | 3,692     | 1,867            | 9,205      |
| Lease receivable  | 11,056             | —         | 21,918           | —          |
| Prepaid expenses and other  | 7,074              | 1,442     | 8,047            | (6,340 )   |
| Other assets and deferred charges   | (531 )             | 294       | (8,239 )         | (1,536 )   |
| Accounts payable and accrued liabilities  | (11,788 )          | (11,955 ) | (14,087 )        | (6,281 )   |
| Deferred revenue  | (6,864 )           | (11,757 ) | (29,992 )        | (13,056 )  |
| Other long-term liabilities   | (3,801 )           | —         | (3,801 )         | —          |
| Fair value of financial instruments   | 1,991              | (1,284 )  | 1,991            | (2,575 )   |
| Cash from operating activities  | 113,192            | 62,299    | 182,752          | 139,217    |
| Financing activities:   |                    |           |                  |            |
| Common shares issued, net of issuance costs   | —                  | 33,362    | —                | 57,266     |
| Draws on credit facilities  | 225,600            | —         | 325,600          | —          |
| Repayment of credit facilities  | (71,165 )          | (75,627 ) | (134,744 )       | (171,157 ) |
| Fairfax notes and warrants issued   | —                  | —         | 250,000          | —          |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Draws on long-term obligations under capital lease                 | —         | —         | 46,964    | —         |
| Repayment of long-term obligations under capital lease             | (12,264 ) | (6,508 )  | (23,307 ) | (12,873 ) |
| Senior unsecured notes repurchased, including related expenses     | —         | (2,665 )  | —         | (3,122 )  |
| Financing fees   | (7,983 )  | (2,314 )  | (13,115 ) | (2,314 )  |
| Dividends on common shares   | (9,484 )  | (6,433 )  | (18,809 ) | (45,711 ) |
| Dividends on preferred shares                                      | (18,394 ) | (16,103 ) | (34,960 ) | (32,208 ) |
| Net proceeds from sale-leaseback of vessel                         | —         | 90,753    | —         | 90,753    |
| Cash from (used in) financing activities                           | 106,310   | 14,465    | 397,629   | (119,366) |
| Investing activities:  |           |           |           |           |
| Expenditures for vessels   | (281,107) | (84,453 ) | (301,013) | (96,361 ) |
| Short-term investments   | (2,400 )  | —         | (2,296 )  | 308       |
| Other assets   | (80 )     | (53 )     | 2,711     | 44        |
| Loans to affiliate (note 3)  | —         | (790 )    | (427 )    | (1,585 )  |
| Repayments of loans to affiliate (note 3)                          | —         | 18,068    | —         | 21,233    |
| Acquisition of GCI (note 2)  | —         | —         | (333,581) | —         |
| Cash acquired from GCI acquisition (note 2)                        | —         | —         | 70,121    | —         |
| Cash used in investing activities                                  | (283,587) | (67,228 ) | (564,485) | (76,361 ) |
| Increase (decrease) in cash and cash equivalents                   | (64,085 ) | 9,536     | 15,896    | (56,510 ) |
| Cash and cash equivalents and restricted cash, beginning of period | 347,217   | 315,914   | 267,236   | 381,960   |
| Cash and cash equivalents and restricted cash, end of period       | \$283,132 | \$325,450 | \$283,132 | \$325,450 |
| Supplemental cash flow information (note 14)                       |           |           |           |           |

See accompanying notes to interim consolidated financial statements.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

1. Significant accounting policies:

(a) Basis of presentation and going concern:

These consolidated financial statements have been prepared by management on a going concern basis, which contemplates that the Company will be able to continue operations for the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of operations.

At June 30, 2018, the Company has a working capital deficiency of \$532,579,000 which includes \$337,925,000 of senior unsecured notes maturing in April 2019. The working capital deficiency may increase in future periods as described below. These factors indicate that a material uncertainty exists that casts substantial doubt about the Company's ability to continue as a going concern. In order to alleviate this uncertainty, the Company will rely, in part, upon the continued financial support of Fairfax Financial Holdings Ltd. and its affiliates ("Fairfax"), which includes not exercising the debenture put right and the successful closing of the agreements described below. The Company also expects to further address this deficiency through cash generated from operations and additional sources of funds in the capital markets to the extent available.

On February 14, 2018 and March 13, 2018, the Company and Fairfax entered into agreements for a total \$500,000,000 investment in debentures, \$250,000,000 in each agreement, and warrants to purchase a total of 76,923,078 Class A common shares of the Company, 38,461,539 in each agreement, for an aggregate total purchase price of \$500,000,000 (note 8(e)). The March 13, 2018 agreement will be funded, and the warrants issued, in January 2019 subject to closing conditions.

On May 31, 2018, the Company and Fairfax entered into agreements to invest an additional \$500,000,000 of equity in the Company through the exercise of the warrants issued in February 2018 (note 11) and the warrants to be issued in January 2019 under the March 13, 2018 agreement. On July 16, 2018, Fairfax exercised 38,461,539 warrants at an exercise price of \$6.50 per share from its February 14, 2018 agreement. The gross proceeds of \$250,000,000 were partially used to redeem the Company's outstanding Series F preferred shares (note 19(a) and 19(b)). Under the terms of the May 31, 2018 agreement, expected to close in January 2019, Fairfax will immediately exercise all of the warrants that are issuable under the March 13, 2018 agreement.

The May 31, 2018 agreements which closed July 16, 2018 provide Fairfax with the right to put each of the February 14, 2018 and March 13, 2018 debentures on their applicable anniversary dates subject to submitting an annual put right notice commencing 150 days and ending 120 days prior to each applicable anniversary date. As the right to put the debentures is solely within the control of Fairfax, the February 14, 2018 debentures will be reclassified from long-term liabilities to current liabilities as of July 16, 2018. Upon funding of the March 13, 2018 debentures and exercise of the March 13, 2018 warrants upon closing in January 2019, the debentures will be classified as a current liability.

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Fairfax owns 22% of the class A common shares outstanding as at August 3, 2018 and is considered a related party. Fairfax will own an additional 38,461,539 common shares if the warrants from the March 13, 2018 investment are exercised.

These consolidated financial statements do not include the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

1. Significant accounting policies (continued):

(b) Recently adopted accounting pronouncements:

Revenue recognition

Effective January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers”, that introduced a new five-step revenue recognition model to determine how an entity should recognize revenue related to the transfer of goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services.

The Company’s revenue is comprised primarily of time charter revenue and interest income from leasing. The time charter revenue includes a lease element, which is evaluated under Accounting Standards Codification (“ASC”) 840 “Leases”, and a service element, which is evaluated under ASU 2014-09. Under previous accounting standards, service revenue was recognized when the amounts were fixed or determinable, services had been rendered and collectability was reasonably assured. Under ASU 2014-09, recognition of such service revenue occurs when the services are provided and the performance obligations are satisfied. The Company evaluated the service revenue under ASU 2014-09 and determined that the amounts recognized and the pattern of recognition are substantially the same as the previous revenue standard. The Company adopted ASU 2014-09 using the modified retrospective method and applied the new standard only to contracts not completed as of January 1, 2018. There is no impact on the Company’s consolidated financial statements.

Definition of a Business

Effective January 1, 2018, the Company adopted ASU 2017-01, “Clarifying the Definition of a Business”, which provides a new framework for determining whether transactions should be accounted for as acquisitions of assets or businesses. The Company analyzed its March 13, 2018 acquisition of Greater China Intermodal Investments LLC (“GCI”) under this standard (see note 2).

Statement of Cash Flows – Restricted Cash

Effective January 1, 2018, the Company adopted ASU 2016-18, “Statement of Cash Flows – Restricted Cash”, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash. In addition, the amounts of restricted cash and nature of the restrictions are required to be disclosed. The Company’s consolidated statements of cash flows and supplemental cash flow note reflect the changes as required.

Equity-linked financial instruments with down round features

Effective January 1, 2018, the Company elected to early adopt ASU 2017-11, which changes the classification analysis of certain equity-linked financial instruments with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. There is no impact on the Company's consolidated financial statements.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

1. Significant accounting policies (continued):

(c) Recent accounting pronouncements

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, “Leases”, which requires lessees to recognize all leases, including operating leases, with a term greater than 12 months on the balance sheet, for the rights and obligations created by those leases. The accounting for lessors will remain largely unchanged from the existing accounting standards. The standard is effective for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years.

Under ASU 2016-02, each lease agreement will be evaluated to identify the lease components and non-lease components at lease inception. The total consideration in the lease agreement will be allocated to the lease and non-lease components based on their relative standalone selling prices. Lessors will continue to recognize the lease revenue component using an approach that is substantially equivalent to existing guidance for operating leases (straight-line basis). Sale-type and direct financing leases will be accounted for as financing transactions with the lease payments being allocated to principal and interest utilizing the effective interest rate method.

In July 2018, the FASB issued ASU 2018-11, “Leases – Targeted Improvements” that allows lessors to elect, as a practical expedient, to not separate lease and non-lease components and allows these components to be accounted for as a single lease component if both (i) the timing and pattern of transfer to the lessee of the lease component and the related non-lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease. In addition, a company is permitted to use its effective date as the date of initial application. Therefore, a company electing this option will not restate comparative period financial information, will not make the new required lease disclosures in comparative periods beginning before the effective date and will recognize its cumulative effect transition adjustment as of the effective date. Under the practical expedient mentioned above, it is expected that time charter revenue and service revenue will be presented under a single lease component presentation. The amendments have the same effective date as ASC 2016-02.

The Company intends to adopt ASU 2016-02 on January 1, 2019 whereby a cumulative effect adjustment will be made as of that day with no retrospective effect. The Company also intends to elect to apply the package of practical expedients such that for any expired or existing leases it will not reassess lease classification, initial direct costs or whether any expired or existing contracts are or contain leases.

The adoption of ASU 2016-02 will result in a change in the accounting method for certain of the Company’s sale-leaseback transactions and office leases. Under ASU 2016-02, the Company will recognize a right-of-use asset and a lease liability on the balance sheet for these sale-leaseback transactions and office leases based on the present



value of the future minimum lease payments, whereas currently no right-of-use asset or lease liability is recognized. The existing deferred gain related to the sale-leaseback transactions will be eliminated through a credit directly to retained earnings. The impact on the Company's consolidated financial statements will be an increase to its assets and liabilities. The Company is currently determining the impact on its statement of operations.

## SEASPAN CORPORATION

## Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

1. Significant accounting policies (continued):

The adoption of ASU 2016-02 will require the Company to complete its lease classification assessment at lease commencement rather than when a lease is entered into. Historically, for charters that were negotiated concurrently with the construction of the related vessels, the fair value of the constructed asset was presumed to be its newbuilding cost. If such charters were classified as direct financing leases at the time the lease was entered into, no gain or loss was recognized subsequently on commencement of the charter. On adoption of ASU 2016-02, the fair value of the vessel will be determined based on information available at the lease commencement date, rather than lease inception date, and any difference in the fair value of the vessel upon commencement of the charter and its carrying value will be recognized as a gain or loss upon commencement of the charter.

2. Acquisition of Greater China Intermodal Investments LLC:

On March 13, 2018, the Company acquired the remaining 89.2% that it did not own of GCI from affiliates of The Carlyle Group and the minority owners of GCI. GCI's fleet of 18 containerships, including two newbuilds, was comprised of 10000 TEU and 14000 TEU eco-class vessels.

The aggregate purchase price was \$498,050,000, comprised of:

|  |           |
|--|-----------|
| Cash   | \$331,904 |
| 1,986,449 of the Company's Series D preferred shares | 47,158    |
| 2,514,996 of the Company's Class A common shares     | 13,908    |
| Settlement of intercompany balances                  | 41,279    |
| Carrying value of previously held equity interest    | 61,891    |
| Transaction fees                                     | 1,910     |
| Aggregate purchase price                             | \$498,050 |

Under the Agreement and Plan of Merger (the "Merger Agreement"), \$10,000,000 was deposited in escrow for settlement of potential indemnifiable damages. If there are no claims for indemnification, the escrowed amount will be released within two business days after March 13, 2019.

The value of the Company's Series D preferred shares and Class A common shares was determined based on the closing market price of those shares on March 13, 2018, which was the date the acquisition closed. As the initial holders of the 1,986,449 Series D preferred shares have a right commencing on September 13, 2019 and ending on October 13, 2019 to cause the Company to repurchase any of these shares they hold at that time for a price of \$24.84 per share, these Series D preferred shares are recorded as temporary equity.

The Company incurred \$1,910,000 of acquisition-related costs that have been capitalized as a cost of the net assets acquired.

The Company accounted for the transaction as an asset acquisition as substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable group of similar identifiable assets.

Accordingly, the consideration has been allocated on a relative fair value basis to the assets acquired and liabilities assumed.

## SEASPAN CORPORATION

## Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

## 2. Acquisition of Greater China Intermodal Investments LLC (continued):

The following table summarizes the fair value of the identifiable assets acquired and liabilities assumed:

|                             |           |
|-----------------------------|-----------|
| Cash and cash equivalents   | \$70,121  |
| Current assets              | 5,316     |
| Vessels                     | 1,369,628 |
| Vessels under construction  | 28,924    |
| Other assets                | 107,407   |
| Total assets acquired       | 1,581,396 |
| Debt assumed                | 1,038,081 |
| Current liabilities         | 31,115    |
| Other long-term liabilities | 14,150    |
| Net assets acquired         | \$498,050 |

The Company purchased identifiable intangible assets (time charters) with an estimated useful life of 5.3 years and is recorded in Other Assets.

## 3. Related party transactions:

(a) Prior to March 13, 2018, the Company had a 10.8% equity interest in GCI. The Company purchased the remaining 89.2% interest in GCI on March 13, 2018 (see note 2) and consolidated GCI from the date of acquisition.

The Company had \$293,000 (December 31, 2017 – \$318,500) due from other related parties included in accounts receivable

(b) The Company incurred the following income or expenses with related parties:

|                  | Three months ended |       | Six months ended |       |
|------------------|--------------------|-------|------------------|-------|
|                  | June 30,           |       | June 30,         |       |
|                  | 2018               | 2017  | 2018             | 2017  |
| Fees incurred:   |                    |       |                  |       |
| Interest expense | \$ 5,265           | \$ —  | \$ 8,092         | \$ —  |
| Arrangement fees | —                  | 1,872 | —                | 1,872 |
| Transaction fees | —                  | 989   | —                | 1,054 |

|                 |   |       |     |       |
|-----------------|---|-------|-----|-------|
| Income earned:  |   |       |     |       |
| Interest income | — | 790   | 427 | 1,585 |
| Management fees | — | 1,077 | 914 | 2,140 |

The income or expenses with related parties relate to amounts paid to or received from individuals or entities that are associated with the Company or the Company's directors or officers and these transactions are governed by pre-arranged contracts.

In February 2018, the Company issued to certain affiliates of Fairfax, in a private placement, \$250,000,000 aggregate principal of 5.50% senior notes due 2025 ("Fairfax Notes") and warrants ("Fairfax Warrants") (note 11) to purchase 38,461,539 of the Company's Class A common shares for an aggregate issue price of \$250,000,000. The Fairfax Notes are guaranteed by certain of the Company's subsidiaries. The proceeds of the Fairfax Notes and Fairfax Warrants were allocated to each security on a relative fair value basis. The indenture relating to the Fairfax Notes provides that, subject to certain limitations, the Fairfax investors will have the right to designate a maximum of two members to our board of directors. Fairfax became a related party as a result of this private placement. Interest expense relates to interest expense on the Fairfax Notes.

## SEASPAN CORPORATION

## Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

## 3. Related party transactions (continued):

In 2017, transaction fees were paid to the Company's former chief executive officer ("former CEO") in connection with services he provided related to new build contracts and purchase or sale contracts, and these fees were capitalized to vessels. Transaction fees were paid in the Company's common shares, certain of which were paid in 2018 and contractually entered into while he was employed by the Company (note 13(b)). The former CEO's employment ended on December 31, 2017 and as of that date he was no longer a related party.

Interest income was earned on loans to affiliate, prior to March 13, 2018. Management fees were earned from GCI for the management of GCI's vessels, prior to March 13, 2018, and are included in revenue.

## 4. Gross investment in lease:

|                           | June 30,<br>2018 | December 31,<br>2017 |
|---------------------------|------------------|----------------------|
| Gross investment in lease | \$884,335        | \$ 723,374           |
| Current portion           | (44,348 )        | (35,478 )            |
|                           | \$839,987        | \$ 687,896           |

In April 2015, the Company entered into an agreement with MSC to bareboat charter five 11000 TEU vessels for a 17-year term, beginning from the vessel delivery dates. Pursuant to the Company's right of first refusal agreement with GCI, the Company retained three of the vessels and GCI acquired the remaining two vessels. In June 2016, two of the five 11000 TEU vessels and associated bareboat charter contracts were acquired by the Company from GCI. At the end of each 17-year bareboat charter term, MSC has agreed to purchase each vessel for \$32,000,000. Each transaction is considered a direct financing lease and accounted for as a disposition of vessels upon delivery of each vessel.

In 2017, four of the five 11000 TEU vessels delivered and commenced their 17-year bareboat charters. In January 2018, the fifth 11000 TEU vessel delivered and commenced its 17-year bareboat charter.

## 5. Vessels:

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| June 30, 2018 | Cost        | Accumulated depreciation | Net book value |
|---------------|-------------|--------------------------|----------------|
| Vessels       | \$7,866,015 | \$ 1,828,217             | \$6,037,798    |

| December 31, 2017          | Cost        | Accumulated depreciation | Net book value |
|----------------------------|-------------|--------------------------|----------------|
| Vessels                    | \$6,116,091 | \$ 1,725,237             | \$4,390,854    |
| Vessels under construction | 146,362     | —                        | 146,362        |
| Vessels                    | \$6,262,453 | \$ 1,725,237             | \$4,537,216    |

During the three and six months ended June 30, 2018, the Company capitalized interest costs of \$256,000 and \$769,000, respectively, (June 30, 2017 - \$2,926,000 and \$5,786,000) to vessels under construction.

## SEASPAN CORPORATION

## Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

## 6. Deferred charges:

|                       | Dry-docking | Financing<br>fees | Total    |
|-----------------------|-------------|-------------------|----------|
| December 31, 2017     | \$ 42,536   | \$ 19,484         | \$62,020 |
| Cost incurred         | 8,239       | 27                | 8,266    |
| Amortization expensed | (8,554 )    | (1,108 )          | (9,662 ) |
| June 30, 2018         | \$ 42,221   | \$ 18,403         | \$60,624 |

## 7. Deferred revenue:

|                                       | June 30,<br>2018 | December 31,<br>2017 |
|---------------------------------------|------------------|----------------------|
| Deferred revenue on time charters     | \$21,669         | \$ 26,907            |
| Deferred interest on lease receivable | 428,039          | 355,451              |
| Other deferred revenue                | —                | 1,690                |
| Deferred revenue                      | 449,708          | 384,048              |
| Current portion                       | (55,929 )        | (55,367 )            |
| Deferred revenue                      | \$393,779        | \$ 328,681           |

## 8. Long-term debt:

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Long-term debt:                               |                  |                      |
| Revolving credit facilities <sup>(a)(c)</sup> | \$ 821,500       | \$ 854,121           |
| Term loan credit facilities <sup>(b)(c)</sup> | 2,457,673        | 1,196,016            |



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|                                       |             |              |
|---------------------------------------|-------------|--------------|
| Senior unsecured notes <sup>(d)</sup> | 417,925     | 417,925      |
| Senior notes due 2025 <sup>(e)</sup>  | 174,335     | —            |
| Deferred financing fees               | (25,691 )   | (17,429 )    |
| Long-term debt                        | 3,845,742   | 2,450,633    |
| Current portion                       | (663,294 )  | (257,800 )   |
| Long-term debt                        | \$3,182,448 | \$ 2,192,833 |

(a) Revolving facilities

In February 2018, the Company cancelled its \$120,000,000 364-day, unsecured revolving loan facility, which had not been drawn.

At June 30, 2018, the one month average LIBOR was 2.1% (December 31, 2017 – 1.5%) and the margins ranged between 0.5% and 0.9% (December 31, 2017 – 0.5% and 1.4%) for revolving credit facilities. The weighted average rate of interest, including the margin, for our revolving credit facilities was 2.7% at June 30, 2018 (December 31, 2017 – 2.2%). Interest payments are made monthly.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

8. Long-term debt (continued):

(b) Term loan credit facilities

In March 2018, the Company entered into a secured term loan facility for \$100,000,000 which bears interest at LIBOR plus a margin. The facility is secured by 11 vessels currently owned by the Company which were previously unencumbered.

As part of the acquisition of GCI on March 13, 2018, the Company assumed long-term debt which was recorded at its fair value of \$1,038,081,000 (see note 2). The assumed long-term debt consists primarily of 12 term loans to finance the 16 operating vessels. The term loans bear interest at LIBOR plus a margin.

In April 2018, the Company entered into a secured term loan facility for up to \$120,000,000 to finance two 10000 TEU vessels that were delivered in May 2018. The loan bears interest at LIBOR plus a margin.

At June 30, 2018, the one month, three month and six month average LIBOR was 2.1%, 2.3% and 2.4%, respectively (December 31, 2017 – 1.6%, 1.5% and 1.5%, respectively) and the margins ranged between 0.4% and 4.8% (December 31, 2017 – 0.4% and 4.8%) for term loan credit facilities.

For certain of our term loan credit facilities with a total principal outstanding of \$71,901,000, interest is calculated based on the Export-Import Bank of Korea (KEXIM) rate plus 0.7% per annum.

For one of our unsecured term loan facilities with a total principal outstanding of \$29,000,000, interest is a fixed rate of 7.0%.

The weighted average rate of interest, including the margin, was 4.6% at June 30, 2018 (December 31, 2017 – 3.6%) for term loan credit facilities. Interest payments are made in monthly, quarterly or semi-annual payments.

Waivers

For one of the Company's term loan credit facilities, the Company initially obtained a waiver from the lender extending the grace period for securing acceptable replacement charters for two of the vessels to the fourth quarter of 2017. In September 2017, the Company received another waiver from the lender which extends the grace period for securing replacement charters to October 2020. If either of the vessels remains unemployed for a consecutive period of more than 90 days, then the waiver will be terminated. For four GCI vessels financed by the same lender, a similar waiver was received by GCI.

For another one of the Company's term loan credit facilities, the Company entered into a supplement to the loan agreement with the lender for one vessel, extending the grace period for securing an acceptable replacement charter for the vessel to the fourth quarter of 2018. In March 2018, the Company entered into another supplement to the loan agreement with the lender to remove the requirement to secure an acceptable replacement charter by the fourth quarter of 2018. In connection with this supplement to the loan agreement the Company prepaid \$10,000,000 of the loan balance in March 2018. The final maturity of this facility is December 2022.

(c) Credit facilities – other terms

As of June 30, 2018, our credit facilities, including those of GCI, are secured by first-priority mortgages granted on 76 of our vessels, together with other related security, such as assignments of shipbuilding contracts and refund guarantees for the vessels, assignments of time charters and earnings for the vessels, assignments of insurances for the vessels and assignments of management agreements for the vessels.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

8. Long-term debt (continued):

The Company may prepay certain amounts outstanding without penalty, other than breakage costs in certain circumstances. In certain circumstances a prepayment may be required as a result of certain events, including the sale or loss of a vessel, a termination or expiration of a charter (and the inability to enter into a charter suitable to lenders within a period of time). The amount that must be prepaid may be calculated based on the loan to market value. In these circumstances, valuations of our vessels are conducted on a “without charter” basis as required under the credit facility agreement.

Each credit facility, other than credit facilities of GCI’s subsidiaries, contains financial covenants requiring the Company to maintain minimum liquidity, tangible net worth, interest coverage ratios, interest and principal coverage ratios, and debt-to-assets ratios, as defined. For GCI, each borrower under each facility is a special purpose entity and subsidiary of GCI. Each facility is guaranteed by GCI and as the guarantor, GCI must meet certain consolidated financial covenants under these term loan facilities including maintaining certain minimum tangible net worth, cash requirements and debt to asset ratios. Some of the facilities also have an interest and principal coverage ratio requirement for the subsidiary borrower. The Company was in compliance with these covenants at June 30, 2018.

(d) Senior unsecured notes

In March 2017, the Company entered into a repurchase plan for up to \$10,000,000 of its senior unsecured notes which mature in April 2019. During the six months ended June 30, 2018, the Company did not repurchase any senior unsecured notes.

(e) Senior notes due 2025

In February 2018, the Company issued to certain affiliates of Fairfax, in a private placement, \$250,000,000 aggregate principal of 5.50% senior notes due 2025 and warrants (note 11) to purchase 38,461,539 of the Company’s Class A common shares for an aggregate issue price of \$250,000,000. The Fairfax Notes are guaranteed by certain of the Company’s subsidiaries. The proceeds of the Fairfax Notes and Fairfax Warrants were allocated to each security on a relative fair value basis.

In March 2018, the Company entered into a subscription agreement with Fairfax pursuant to which the Company will sell and Fairfax will purchase \$250,000,000 aggregate principal of 5.50% interest bearing debentures and warrants to purchase 38,461,539 Class A common shares of the Company for an aggregate purchase price of \$250,000,000 (the “Second Fairfax Investment”). The Second Fairfax Investment is expected to close in January 2019, subject to customary closing conditions.

## 9. Long-term obligations under capital lease:

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Long-term obligations under capital lease | 672,496          | 648,840              |
| Deferred financing fees                   | (8,916 )         | (9,912 )             |
| Long-term obligations under capital lease | 663,580          | 638,928              |
| Current portion                           | (47,588 )        | (43,912 )            |
| Long-term obligations under capital lease | \$615,992        | \$ 595,016           |

## SEASPAN CORPORATION

## Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

## 10. Other long-term liabilities:

|                                  | June 30,<br>2018 | December 31,<br>2017 |
|----------------------------------|------------------|----------------------|
| Deferred gain on sale-leasebacks | 192,134          | 203,737              |
| Other                            | 38,616           | 19,284               |
| Other long-term liabilities      | 230,750          | 223,021              |
| Current portion                  | (37,562 )        | (23,635 )            |
| Other long-term liabilities      | \$193,188        | \$ 199,386           |

## 11. Puttable preferred shares and share capital:

## Common shares:

At its April 2018 annual general meeting, the Company amended its number of authorized Class A common shares from 200,000,000 to 400,000,000 common shares.

In November 2017, the Company entered into a second equity distribution agreement under which the Company may, from time to time, issue Class A common shares in ATM offerings for up to \$100,000,000. During the three and six months ended June 30, 2018, the Company did not issue any Class A common shares under the ATM offerings.

## Preferred shares:

At June 30, 2018, the Company had the following preferred shares outstanding:

| Series | Shares     |        | Dividend<br>rate<br>per<br>annum | Redemption<br>by Company<br>permitted on<br>or after | Liquidation preference |                      |
|--------|------------|--------|----------------------------------|--|------------------------|----------------------|
|        | Authorized | Issued |                                  |  | June 30,<br>2018       | December 31,<br>2017 |
| A      | 315,000    | —      | —                                | —  | \$ —                   | \$ —                 |
| B      | 260,000    | —      | —                                | —  | —                      | —                    |

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|   |            |                          |       |                                       |                        |         |
|---|------------|--------------------------|-------|---------------------------------------|------------------------|---------|
| C | 40,000,000 | —                        | —     | —                                     | —                      | —       |
| D | 20,000,000 | 7,017,313 <sup>(1)</sup> | 7.95  | January 30,<br>% 2018 <sup>(2)</sup>  | 175,433 <sup>(1)</sup> | 125,772 |
| E | 15,000,000 | 5,415,937                | 8.25  | February 13,<br>% 2019 <sup>(2)</sup> | 135,398                | 135,398 |
| F | 20,000,000 | 5,600,000                | 10.50 | January 1,<br>% 2018 <sup>(3)</sup>   | 140,000                | 140,000 |
| G | 15,000,000 | 7,800,800                | 8.20  | June 16,<br>% 2021 <sup>(2)</sup>     | 195,020                | 195,020 |
| H | 15,000,000 | 9,025,105                | 7.875 | August 11,<br>% 2021 <sup>(2)</sup>   | 225,628                | 225,628 |
| R | 1,000,000  | —                        | —     | —                                     | —                      | —       |

<sup>(1)</sup>Includes 1,986,449 puttable preferred shares with a liquidation preference of \$49,661,000.

<sup>(2)</sup>Redeemable by the Company, in whole or in part, at a redemption price of \$25.00 per share plus unpaid dividends. The preferred shares are not convertible into common shares and are not redeemable by the holder.

<sup>(3)</sup>The Series F preferred shares can be converted to Class A common shares at a conversion price of \$18.00 per share. The Company has the right to call the Series F preferred shares at par plus any accumulated and unpaid dividends any time and exercised that right to redeem all of the Series F preferred shares on July 23, 2018.

## SEASPAN CORPORATION

## Notes to Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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

## 11. Puttable preferred shares and share capital (continued):

## Dividends:

In June 2018, the Company declared a quarterly dividend of \$0.125 per common share. The dividend was paid on July 30, 2018 to all shareholders of record as of July 10, 2018.

The Company also declared quarterly dividends of \$0.496875, \$0.515625, \$0.65625, \$0.512500 and \$0.492188 per Series D, Series E, Series F, Series G and Series H preferred share, respectively, representing a total distribution of \$18,395,000. The dividends were paid on July 30, 2018 to all shareholders of record on July 27, 2018.

## Warrants:

The Fairfax Warrants entitle the holder to purchase one share of the Company's Class A common shares at an exercise price of \$6.50. Each warrant is exercisable within seven years and the exercise price of the Fairfax Warrants is subject to customary anti-dilution adjustments. The Company can elect to require early exercise of the warrants, at any time after February 14, 2022, if the volume weighted average price of the Company's Class A common shares, averaged over a 20-day period, equals or exceeds twice the exercise price of the Fairfax Warrants at that time. The proceeds of the Fairfax Notes and Fairfax Warrants were allocated to each security on a relative fair value basis.

## 12. Earnings per share ("EPS"):

|                                 | Three months ended June 30,<br>2018 |               |              | Three months ended June 30,<br>2017 |               |              |
|---------------------------------|-------------------------------------|---------------|--------------|-------------------------------------|---------------|--------------|
|                                 | Earnings                            | Shares        | Per<br>share | Earnings                            | Shares        | Per<br>share |
|                                 | (numerator)                         | (denominator) | amount       | (numerator)                         | (denominator) | amount       |
| Net earnings                    | \$68,013                            |               |              | \$28,284                            |               |              |
| Less preferred share dividends: |                                     |               |              |                                     |               |              |
| Series D                        | (3,922 )                            |               |              | (2,475 )                            |               |              |
| Series E                        | (2,793 )                            |               |              | (2,769 )                            |               |              |
| Series F                        | (3,675 )                            |               |              | (2,433 )                            |               |              |



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|                          |          |             |         |          |
|--------------------------|----------|-------------|---------|----------|
| Series G                 | (3,998 ) |             |         | (3,997 ) |
| Series H                 | (4,442 ) |             |         | (4,430 ) |
| Basic EPS:               |          |             |         |          |
| Earnings attributable to |          |             |         |          |
| common shareholders      | \$49,183 | 137,311,000 | \$ 0.36 | \$       |