Global Ship Lease, Inc.
Form 20-F
May 19, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2010

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from ______ to ______

Commission file number 1-34153

Global Ship Lease, Inc.

(Exact name of Registrant as specified in its charter)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

c/o Portland House

Stag Place

London SW1E 5RS

United Kingdom

(Address of principal executive offices)

Table of Contents

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

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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

47,130,467 Class A Common Shares, par value of $0.01 per share

7,405,956 Class B Common Shares, par value of $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

U.S. GAAP x International Financial Reporting Standards as Issued by the International Accounting Standards Board ¨ Other ¨

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

Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Table of Contents

GLOBAL SHIP LEASE, INC.

INDEX TO REPORT ON FORM 20-F

		Page
PART I		1
Item 1.	Identity of Directors, Senior Management and Advisors	2
Item 2.	Offer Statistics and Expected Timetable	2
Item 3.	Key Information	2
	A. Selected Financial Data	2
	B. Capitalization and Indebtedness	4
	C. Reasons for the Offer and Use of Proceeds	4
	D. Risk Factors	4
Item 4.	Information on the Company	19
	A. History and Development of the Company	19
	B. Business Overview	19
	C. Organizational Structure	35
	D. Property, Plants and Equipment	35
Item 5.	Operating and Financial Review and Prospects	35
	A. Results of Operations	35
	B. Liquidity and Capital Resources	44
	C. Research and Development	48
	D. Trend Information	48
	E. Off-Balance Sheet Arrangements	48
	F. Contractual Obligations	48
Item 6.	Directors, Senior Management and Employees	49
	A. Directors and Senior Management	49
	B. Compensation	51
	C. Board Practices	53
	D. Employees	54
	E. Share Ownership	54
Item 7.	Major Shareholders and Related Party Transactions	54
	A. Major Shareholders	54
	B. Related Party Transactions	55
Item 8.	Financial Information	56
	A. Financial Statements and Other Financial Information	56
	B. Significant Changes	57

Item 9.	The Offer and Listing	57

Table of Contents

		Page
Item 10.	Additional Information	58
	A. Share Capital	58
	B. Memorandum and Articles of Association	58
	C. Material Contracts	58
	D. Exchange Controls	58
	E. Taxation	58
	F. Dividends and Paying Agents	64
	G. Statements by Experts	64
	H. Documents on Display	64
Item 11.	Quantitative and Qualitative Disclosures About Market Risk	64
Item 12.	Description of Securities Other than Equity Securities	65
PART II		66
Item 13.	Defaults, Dividend Arrearages and Delinquencies	66
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	66
Item 15.	Controls and Procedures	66
Item 16A.	Audit Committee Financial Expert	67
Item 16B.	Code of Ethics	67
Item 16C.	Principal Accountant Fees and Services	67
Item 16D.	Exemptions from the Listing Standards for Audit Committees	67
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	67
Item 16F.	Change in Registrants Certifying Accountant	67
Item 16G.	Corporate Governance	67
PART III		68
Item 17.	Financial Statements	68
Item 18.	Financial Statements	68
Item 19.	Exhibits	69

Table of Contents

PART I

This Annual Report contains forward-looking statements. Forward-looking statements provide our current expectations or forecasts of future events. Forward-looking statements include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as anticipate, believe, continue, estimate, expect, intend, may, ongoing, plan, potential, predict, project, will or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Examples of forward-looking statements in this Annual Report include, but are not limited to, statements regarding our disclosure concerning our operations, cash flows, financial position, dividend policy and likelihood of success in acquiring additional vessels to expand our business.

Forward-looking statements appear in a number of places in this Annual Report including, without limitation, in the sections entitled Business Overview, Management s Discussion and Analysis of Financial Conditions and Operations, and Dividend Policy. The risks and uncertainties include, but are not limited to:

future operating or financial results;

expectations regarding the future growth of the container shipping industry, including the rates of annual demand and supply growth;

the financial condition of CMA CGM, our sole charterer and only source of operating revenue, and its ability to pay charterhire in accordance with the charters;

our financial condition and liquidity, including our ability to obtain additional waivers which might be necessary under the existing credit facility or obtain additional financing to fund capital expenditures, vessel acquisitions and other general corporate purposes;

our ability to meet our financial covenants and repay our credit facility;

our expectations relating to dividend payments and forecasts of our ability to make such payments including the availability of cash and the impact of constraints under our credit facility;

future acquisitions, business strategy and expected capital spending;

operating expenses, availability of crew, number of off-hire days, drydocking and survey requirements and insurance costs;

general market conditions and shipping industry trends, including charter rates and factors affecting supply and demand;

assumptions regarding interest rates and inflation;

changes in the rate of growth of global and various regional economies;

risks incidental to vessel operation, including piracy, discharge of pollutants and vessel accidents and damage including total or constructive total loss;

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 or renew long-term, fixed-rate charters;

the continued performance of existing long-term, fixed-rate time charters;

our ability to capitalize on our management s and board of directors relationships and reputations in the containership industry to our advantage;

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

expectations about the availability of insurance on commercially reasonable terms;

unanticipated changes in laws and regulations including taxation;

potential liability from future litigation; and

other factors discussed in Risk Factors.

Table of Contents

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the factors described in Risk Factors in this Annual Report. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Annual Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission, or SEC, after the date of this Annual Report.

Unless the context otherwise requires, references to the company , we , us or our refers to Global Ship Lease, Inc.; CMA CGM refers to CMA CGM S.A. and Ship Manager refers to CMA Ships, a wholly-owned subsidiary of CMA CGM and our current ship manager.

For the definition of certain terms used in this Annual Report, please see Glossary of Shipping Terms at the end of this Annual Report.

Unless otherwise indicated, all references to $ and dollars in this Annual Report are in United States dollars. We use the term TEU , meaning twenty-foot equivalent unit, the international standard measure of container size, in describing volumes in world container trade and other measures, including the capacity of our containerships, which we also refer to as vessels. Unless otherwise indicated, we calculate the average age of our vessels on a weighted average basis, based on TEU capacity.

Item 1. Identity of Directors, Senior Management and Advisors
Not applicable.

Item 2. Offer Statistics and Expected Timetable
Not applicable.

Item 3. Key Information
A. Selected Financial Data

You should read the information set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our combined financial statements and notes thereto, which are referred to as our combined financial statements, included elsewhere in this Annual Report.

This selected historical combined financial and operating information gives effect to the merger of Global Ship Lease, Inc and Marathon Acquisition Corp as described further below (Merger) as at August 14, 2008 and consequently the selected combined financial statements up to December 31, 2010 include two distinct reporting periods (i) January 1, 2006 through August 14, 2008 (Predecessor) and (ii) August 15, 2008 through December 31, 2010 (Successor), which relate to the period preceding the Merger and the period succeeding the Merger, respectively. Further, although we derived all of our revenue in 2010 and 2009 and virtually all of our revenue in 2008 from chartering out our vessels under our continuing business of long-term fixed rate time charters, for periods before 2008, under predecessor accounting rules, we earned all or virtually all of our revenue from carrying containerized cargo when the vessels were owned and operated by CMA CGM and its subsidiaries. We use the term Predecessor Group to mean the container shipping services provided by the 10 secondhand vessels, which we purchased in December 2007, and two newly built vessels, which we purchased in January 2008, in our initial fleet when these vessels were owned and operated by CMA CGM and its subsidiaries rather than to mean any particular entity or entities.

There are significant differences between our business after the acquisition of our initial fleet of 12 vessels in December 2007 and January 2008, when we started our time charter business, and the business of our Predecessor Group when the vessels earned revenue from carrying cargo for customers. Accordingly, the selected historical combined financial data prior to January 2008, which includes mainly the Predecessor Group s trading activities of the vessels earning revenue from carrying cargo for third party customers, are not indicative of the results we would have achieved had we historically operated as an independent ship-owning company earning charterhire or of our future results.

The combined financial statements for the Successor period after August 14, 2008 reflect the acquisition of Global Ship Lease, Inc., as a result of the Merger, under the purchase method of accounting. The results of the Successor are not comparable to the results of the Predecessor due to the difference in the basis of presentation under purchase accounting as compared to historical cost and due to the changes in capital and legal structure following the Merger including our becoming listed on the New York Stock Exchange.

The historical selected combined financial data as of December 31, 2010, 2009, 2008, 2007 and 2006 and for each of the years then ended (2008 including two distinct reporting periods before and after the Merger) have been derived from our audited combined financial statements and have been prepared in accordance with United States generally accepted accounting principles. The historical selected combined financial data as of December 31, 2006 and for the year then ended together with such financial data for 2007 relating to the initial 10 vessels until their purchase by us in December 2007 and the two new vessels when they were in CMA CGM s ownership for the last few days of 2007 until their purchase by us in January 2008 is derived from carve-out information of the

Table of Contents

Predecessor Group prepared by management of CMA CGM. Certain financial information has been rounded, and, as a result, certain totals shown in this Annual Report may not equal the arithmetic sum of the figures that should otherwise aggregate to those totals.

This selected financial information should be read together with, and is qualified in its entirety by, our combined financial statements and the notes thereto included elsewhere in this Annual Report.

(in millions of U.S. dollars, except per share data)

	2010 Successor	2009 Successor	August 15 to December 31 2008 Successor	January 1 to August 14 2008 Predecessor	2007 Predecessor	2006 Predecessor
Statement of Income						
Operating revenues:						
Freight revenue (1)	$	$	$	$ 2.1	$ 332.2	$ 299.6
Time charter revenue (2)	158.8	148.7	39.1	55.9	2.9	
Operating expenses:						
Voyage expenses (3)				(1.9)	(249.5)	(213.1)
Vessel expenses	(42.1)	(41.4)	(11.9)	(18.1)	(24.0)	(22.6)
Depreciation	(40.1)	(37.3)	(8.7)	(12.2)	(16.1)	(16.7)
General and administrative (4)	(8.3)	(8.7)	(3.7)	(3.8)	(17.8)	(11.3)
Impairment charge (5)	(17.1)					
Other operating income (expense)	0.4	0.4	0.1	(0.1)	2.3	11.9
Total operating expenses	**(107.1)**	**(87.0)**	**(24.2)**	**(36.1)**	**(304.9)**	**(251.9)**
Operating income	**51.8**	**61.7**	**14.9**	**21.9**	**30.2**	**47.7**
Non operating income (expense)						
Interest income	0.2	0.5	0.4	0.4	0.2	
Interest expense	(23.8)	(24.2)	(3.8)	(17.6)	(13.6)	(15.1)
Realized and unrealized (loss) gain on interest rate derivatives	(32.0)	4.8	(55.3)	2.7		
(Loss) income before income taxes	**(3.9)**	**42.8**	**(43.9)**	**7.4**	**16.8**	**32.7**
Taxes on income	(0.1)	(0.4)	(0.1)			
Net (loss) income	**$ (4.0)**	**$ 42.4**	**$ (44.0)**	**$ 7.4**	**$ 16.8**	**$ 32.7**
Net income per share in thousand $ per share						
Basic and diluted (6)	n.a.	n.a.	n.a.	74	168	327
Weighted average number of common shares outstanding						
Basic and diluted	n.a.	n.a.	n.a.	100	100	100
Net (loss) income per Class A common share in $						
Basic and diluted (6)	(0.08)	0.91	(1.30)	n.a.	n.a.	n.a.
Weighted average number of Class A common shares outstanding						
Basic in millions	46.9	46.5	33.8	n.a.	n.a.	n.a.
Diluted in millions	46.9	46.8	33.8	n.a.	n.a.	n.a.
Net (loss) per Class B common share in $						
Basic and diluted	Nil	Nil	Nil	n.a.	n.a.	n.a.

Weighted average number of Class B common shares outstanding						
Basic and diluted in millions	7.4	7.4	7.4	n.a.	n.a.	n.a.
Statement of cash flow						
Net cash from operating activities	$ 85.0	$ 72.9	$ 14.0	$ 20.7	$ 56.6	$ 22.8
Net cash (used in) provided by Investing Activities	(32.1)	(96.8)	37.3	(4.9)	(183.8)	(106.3)
Net cash (used in) provided by Financing Activities	(55.4)	28.3	(25.5)	(1.5)	129.1	83.5
Balance sheet data (at period end)						
Total current assets	41.0	44.2	32.9	n.a.	192.9	32.1
Total vessels	922.5	961.7	906.9	n.a.	475.3	286.2
Total assets	981.0	1,027.4	966.6	n.a.	674.6	344.5
Long-term debt (current and non-current portion)	532.8	588.2	542.1	n.a.	401.1	139.2
Shareholder loan (7)				n.a.	176.9	
Preferred shares	48.0	48.0	48.0			
Stockholders equity	324.6	327.6	295.0	n.a.	87.5	170.0

3

Table of Contents

	2010 Successor	2009 Successor	August 15 to December 31 2008 Successor	January 1 to August 14 2008 Predecessor	2007 Predecessor	2006 Predecessor
Other data (time charter business)						
Number of vessels in operation at period end	17	17	16	12	10	n.a
Ownership days	6,205	5,968	1,717	2,699	159	n.a
Utilization (8)	100.0%	98.8%	99.8%	98.5%	99.6%	n.a

(1) This line item reports revenue earned by the Predecessor Group from carrying cargo on the vessels.
(2) This line item reports revenues earned from our chartering business following the purchase of our vessels commencing December 2007.
(3) This line item reports the voyage related expenses of carrying cargo by the Predecessor Group.
(4) Our combined financial statements include the general and administrative expenses incurred by our Predecessor Group related to its operations and such costs incurred by us as a wholly owned subsidiary of CMA CGM in the predecessor period prior to the Merger. Subsequent to the completion of the Merger, we have incurred additional administrative expenses, including legal, accounting, treasury, premises, securities regulatory compliance and other costs normally incurred by an independent listed public entity. Accordingly, general and administrative expenses incurred by and allocated to the Predecessor Group and incurred in the Predecessor period do not purport to be indicative of future expenses.
(5) On November 8, 2010, we signed agreements with the sellers of two 4,250 TEU container vessels which terminated our purchase obligations totaling $154.8 million. Under the agreements we (i) released deposits, including accrued interest and totaling approximately $8.1 million per vessel (ii) made a further cash payment of approximately $6.2 million per vessel and (iii) transferred to the sellers certain supplies purchased for the vessels which are valued at approximately $0.4 million per vessel. The total value of these items was $14.7 million per vessel. In exchange, we acquired purchase options giving us the right, but not the obligation, to purchase each vessel on the first anniversary of its delivery by the builder to the seller, for a final payment of $61.25 million per vessel. Each purchase option is to be exercised no later than 270 days after the delivery of the vessel by the builder to the seller. The vessels were delivered by the builder in December 2010 and January 2011 respectively. Under US GAAP (i) the estimated fair value of the two purchase options was recorded as an asset in the balance sheet at $13.6 million and (ii) an impairment charge of $17.1 million has been recognized which is comprised of $15.5 million released deposits, $1.3 million capitalized interest and $0.3 million other predelivery capital expenditure for the newbuildings.
(6) The weighted average number of our common shares outstanding as of June 30, 2008 has been used for purposes of computing earnings per share for all periods prior to this date as financial information for 2007 and 2006 periods were carved-out from our Predecessor Group.
(7) Amounts due to the former shareholder were not assumed by us following completion of the Merger.
(8) Utilization is used to measure our efficiency in operating the fleet and is calculated by dividing the total number of operating days when hire was being earned by the total number of ownership days, with the result expressed as a percentage. Operating days represent the aggregate number of days in the period that the vessels were available and were not off-hire for any reason, including scheduled dry-dockings, breakdowns or repairs. Ownership days represent the number of days in the period that we owned the relevant vessels. These data are non-GAAP statistical measures used by management to assess operating performance and are not included in combined financial statements prepared under U.S. GAAP.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

We are highly dependent on charter payments from CMA CGM.

All of our vessels are chartered to CMA CGM. CMA CGM s payments to us under the charters are currently our sole source of operating revenue. We are consequently highly dependent on the performance by CMA CGM of its obligation under the charters. The container shipping industry suffered a significant cyclical downturn in the second half of 2008 and through 2009 and many container shipping companies, including CMA CGM, reported substantial losses. Further, CMA CGM announced in September 2009 that it and its lenders were exploring a potential financial restructuring to address its short and medium term financing requirements. We have not

Table of Contents

been involved in these discussions and it is not possible to predict the outcome. In addition, we have experienced from time to time delays in receiving charterhire payments from CMA CGM, where between one and three installments have been outstanding, which under the charter contracts are due to be paid every 15 days in advance. Positive industry conditions returned in 2010 with most carriers reporting significant improvement in financial performance. In November 2010, CMA CGM announced that final agreement had been reached between its shareholders and Yildirim Group of Turkey which had agreed to invest $500 million in CMA CGM by acquiring five year ORA (convertible) notes giving access to 20% of CMA CGM s share capital. In January 2011, CMA CGM announced that this investment had been completed. Further, in April 2011 CMA CGM placed $475m of dollar-denominated senior notes that mature in 2017 with a coupon of 8.500%, and 325m of 8.875% euro-denominated senior notes that mature in 2019. CMA CGM has represented to us that with the recent bond issue, it has substantially completed its financial restructuring.

Nevertheless, if CMA CGM ceases doing business or fails to perform its obligations under our charters, our business, financial position and results of operations would be materially adversely affected as it is probable that, even if we were able to find replacement charters, such replacement charters would be at significantly lower daily rates and shorter durations. If such events occur, there would be significant uncertainty about our ability to continue as a going concern.

Our credit facility contains restrictive covenants including a maximum leverage ratio based on borrowings under the credit facility expressed as a percentage of charter-free market value of our secured vessels. If the leverage ratio under our credit facility exceeds the permitted level, the lenders under the credit facility may require us to make an additional prepayment of the borrowings or provide additional security, which we may not be able to do and would likely cause a default under the credit facility and which would raise substantial doubt about our ability to continue as a going concern.

We have a credit facility with ABN AMRO Bank N.V. (also the Agent), Citibank Global Markets Limited, HSH Nordbank AG, Sumitomo Mitsui Banking Corporation, Brussels Branch, KFW Ipex Bank GmbH, DnB NOR Bank ASA and Bank of Scotland plc. As of December 31, 2010, outstanding borrowings under the credit facility were $532.8 million. The credit facility contains restrictive financial and other covenants including minimum cash, minimum net worth, minimum EBITDA to debt service, maximum financial net debt to total capital and maximum leverage ratio, which is the ratio of borrowings under the credit facility to the charter-free market value of security posted.

If the leverage ratio when tested exceeds 75% or we are otherwise in potential default under the credit facility, and if an amendment to or waiver under the credit facility or other relief is not obtained, the Agent may require a prepayment of borrowings or the delivery of additional security. In such an event, we are likely to go into default under the credit facility, which would raise substantial doubt about our ability to continue as a going concern.

The credit facility also imposes scheduled repayments and additional operating and financial restrictions on us. These restrictions may limit our ability to, among other things:

- incur additional indebtedness in the vessel owning subsidiaries, including through the issuance of guarantees;
- change the management of our vessels without the prior consent of the lender;
- permit liens on our assets;
- sell our vessels or change the ownership of our subsidiaries;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; and
- enter into certain types of charters.

Therefore, we may need to seek consent from our lenders in order to engage in certain corporate actions. Our lenders interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders consent when needed. This may limit our ability to pay dividends, finance our future operations, make acquisitions or pursue business opportunities. Please see Item 4B Business Overview Our Credit Facility for more information.

The Credit Facility Amendment provides that we may not declare or pay common dividends unless the leverage ratio is no more than 75%.

The Credit Facility Amendment provides that we may not declare or pay common dividends unless the leverage ratio is no more than 75%. The leverage ratio was tested as at April 30, 2011 and was less than 75%. Additionally, our credit facility provides that we may not pay dividends if there is a continuing default under the facility. We are also prohibited from paying dividends if the payment of the dividend would result in a default and any payments to be made into the retention account are not fully up to date. The charter-free market value of our vessels can fluctuate substantially depending on market supply and demand for vessels. In addition, it is probable that the market value of our vessels will decrease over time, as vessels generally decrease in value as they age. Consequently, the leverage ratio is

Table of Contents

volatile and will likely increase over time, which will negatively affect our ability to comply with our leverage ratio covenant. This, in turn, will impact our ability to resume or continue dividend payments in the future.

We cannot give assurance that we will be able to refinance any indebtedness incurred under our credit facility.

We cannot assure you that at the credit facility s final maturity date in August 2016 or when otherwise required, we will be able to refinance our indebtedness at all or on terms that are acceptable to us. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our fleet, among other things, may materially affect our ability to obtain new or replacement debt financing. If we are not able to refinance our indebtedness, we will have to dedicate cash flow from operations not already committed to prepay borrowings to pay the principal and interest of our indebtedness. We cannot assure you that we will be able to generate cash flow in amounts that are sufficient for these purposes. If we are not able to satisfy our debt service obligations with our cash flow from operations, we may have to sell some or all of our assets, which may not be possible and which would have an adverse effect on our cash flows and results of operations. If we are unable to meet our debt obligations for any reason, our lenders could declare our debt, together with accrued interest and fees, to be immediately due and payable and foreclose on vessels in our fleet.

We currently do not have financing to pay for any further vessel acquisitions, including those for which we hold options to purchase in December 2011 and January 2012.

On September 11, 2008, we entered into contracts to purchase from German interests two 4,250 TEU containerships for a price of approximately $77.4 million each. A deposit of 10% was paid when the purchase contracts were signed and the balance of 90%, or approximately $139.3 million in total, was due upon delivery which was anticipated to be in the fourth quarter 2010.

On November 8, 2010, we amended these purchase agreements whereby our purchase obligations were converted into purchase options. We agreed to (i) release the deposits and accrued interest totaling approximately $8.1 million per vessel to the sellers (ii) make a further cash payment of approximately $6.1 million per vessel and (iii) transfer to the sellers certain supplies purchased for the vessels which were valued at approximately $0.5 million per vessel. The total value of these items was $14.7 million per vessel. In exchange, we acquired purchase options giving us the right, but not the obligation, to purchase each vessel on the first anniversary of its delivery by the builder to the seller, for a final payment of $61.25 million per vessel. Each purchase option is to be exercised no later than 270 days after the delivery of the vessel by the builder to the seller, which was December 20, 2010 for the first vessel and January 7, 2011 for the second. If we do not exercise the purchase options, the sellers retain all monies paid to them and we will have no further liability.

The vessels are chartered to Zim Integrated Shipping Services Limited (Zim) by the present owners for seven to eight years from delivery by the builders.

We have no capacity to borrow any further amounts under the credit facility to fund the purchase price of $122.5 million for these two vessels, and as such, must secure other sources of financing to complete these purchases.

Charterer s consent is required for a change in ownership of the two 4,250 TEU containerships for the continuation of the charters currently in place.

The consent of Zim, as charterer, not to be unreasonably withheld, is required for a continuation of the charters of the two 4,250 TEU vessels should we exercise our options to purchase the vessels. The charters would, upon purchase by us, have a remaining term of six to seven years at a net rate of $28,000 per vessel per day. If Zim does not give consent and we purchase the vessels, we could become the owner of the vessels with no effective charters in place.

CMA CGM and CMA Ships are privately held companies and there is little or no publicly available information about them.

CMA CGM is our sole Charterer and its wholly owned subsidiary, CMA Ships, is our Ship Manager. CMA CGM has guaranteed the performance of CMA Ships under the ship management agreements. CMA CGM s ability to continue to pay charterhire and CMA Ships ability to render ship management services will depend in part on their own financial strength.

Circumstances beyond their control could impair CMA CGM s and CMA Ships financial position, and because they are privately held companies, information about their financial position is not publicly available. As a result, we and an investor in our securities might have little advance warning of financial or other problems affecting CMA CGM or its wholly owned subsidiaries even though their financial or other difficulties could have a material adverse effect on us.

6

Table of Contents

CMA CGM and CMA Ships have conflicts of interest with us which may make them favor their own interests to our detriment.

Conflicts of interest may arise between us, on the one hand, and CMA CGM, our Charterer, and CMA Ships, our Ship Manager, on the other hand. As a result of these conflicts, CMA Ships may favor its own or its parent company s interests over our interests. These conflicts may have unfavorable consequences for us. Although our ship management agreements expressly prohibit CMA Ships from giving preferential treatment when performing any of its ship management services to any other vessel that is affiliated with it, or otherwise controlled by CMA CGM, conflicts of interest may arise between us, and our Ship Manager and our Charterer.

Our financial reporting is dependent on CMA Ships.

Under the ship management agreement with CMA Ships, the Ship Manager is obliged to provide us with requisite financial information on a timely basis so that we can meet our own reporting obligations under U.S. securities laws. CMA Ships and its parent company CMA CGM are privately held corporations with financial reporting schedules different from ours. If CMA Ships or any of its affiliates is delayed in providing us with key financial information, we could fail to meet our financial reporting deadlines.

CMA CGM could compete with us.

Along with many other vessel-owning companies, CMA CGM, currently our sole Charterer and largest holder of our common shares, could compete with us for the purchase of newbuildings and secondhand vessels. Further, CMA CGM is not precluded from acting as an owner in the direct chartering market. While we understand that CMA CGM currently has no intention of doing so, competition from CMA CGM may potentially harm our ability to grow the business and may decrease our results of operations.

Certain terms in our agreements with CMA CGM and its affiliates may be the result of negotiations that were not conducted at arms-length and may not reflect market standard terms. In addition, they may include terms that may not be obtained from future negotiations with unaffiliated third parties.

The charters, the ship management agreements and the other contractual agreements we have entered into with CMA CGM and its wholly owned subsidiaries were made during an affiliated relationship in the context of a previously contemplated public offering of our Class A common shares in 2007, the Merger in August 2008 and other related transactions. Our agreements with CMA CGM may include terms that could not have been obtained from arms-length negotiations with unaffiliated third parties for similar services and assets. As a result, our future operating results may be negatively affected if we do not receive terms as favorable in future negotiations with unaffiliated third parties.

Our growth depends on our ability to purchase further vessels, obtain new charters and maintain and potentially expand our relationship with CMA CGM. We will require additional financing to be able to grow and will face substantial competition.

One of our objectives is to grow by acquiring additional vessels and chartering them out to container shipping companies including potentially CMA CGM. Acquisition of vessels will be challenging as, inter alia, we will need to obtain additional financing in order to complete vessel purchases. Due to the recent global banking crisis and the continuing effects on the banking sector of the 2008/2009 severe cyclical downturn in the containership industry, financing for investment in containerships, whether newbuildings or existing vessels, is severely limited.

The process of obtaining new charterers is highly competitive. Charters are awarded based upon a variety of factors relating to the vessel owner, including:

- competitiveness of overall price;
- availability of committed financing;
- containership experience and quality of ship operations (including cost effectiveness);

- shipping industry relationships and reputation for reliability, customer service and safety;
- quality and experience of seafaring crew;
- ability to finance containerships at competitive rates and financial stability generally;
- relationships with shipyards and the ability to get suitable berths for newbuildings; and
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications.

We will face substantial competition in expanding our business from a number of experienced companies. Many of these competitors may have greater financial resources than us, may also operate larger fleets, may have been established for longer and may be able to offer better charter rates. During any industry downturn there are an increased number of vessels available for charter, including many from owners with strong reputations and experience. The potential excess supply of vessels results in greater price competition for charters. As a result of these factors, we may be unable to purchase additional containerships, expand our relationships with CMA

Table of Contents

CGM or to obtain new charterers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition.

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

Unless we maintain reserves or are able to borrow or otherwise raise funds for vessel replacement, we will be unable to replace the vessels in our fleet upon the expiration of their remaining useful lives. Our cash flows and income depend upon the revenues earned by the chartering of our vessels to customers. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our results of operations and financial condition will be harmed.

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

Our growth strategy includes, among other things, selectively acquiring newbuildings and secondhand vessels. Growing any business through acquisition presents numerous risks, such as undisclosed liabilities and obligations, the possibility that indemnification agreements will be unenforceable or insufficient to cover potential losses and obtaining the necessary resources to manage an enlarged business. We cannot give any assurance that we will be successful in executing our growth plans, that we will be able to employ any acquired vessels under long-term charters or have ship management agreements with similar or better terms than those we have obtained from CMA Ships or that we will not incur significant expenses and losses in connection with our future growth.

Factors that may limit our ability to acquire additional vessels include competition from other owners, availability of financing, shipyard capacity for newbuildings and the limited number of modern vessels with appropriate characteristics not already subject to existing long-term or other charters. Competition from other purchasers could reduce our acquisition opportunities or cause us to pay higher prices.

Global financial markets have been disrupted in recent years. The debt and equity capital markets have been distressed, and it has been difficult generally to obtain financing. Further, the cost of any available financing increased significantly. In addition, in recent years, the number of lenders for shipping companies has decreased and ship-funding lenders have generally lowered their loan-to-value ratios, shortened loan terms and accelerated repayment schedules. These factors may hinder our ability to access financing and we may be unable to obtain adequate funding for growth.

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

- fail to obtain financing, ship management agreements and charters on acceptable terms;
- be unable, including through our ship managers, to hire, train or retain qualified shore and seafaring personnel to manage and operate our enlarged business and fleet;
- fail to realize anticipated benefits of cost savings or cash flow enhancements;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions or by additional repayments of debt;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;

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

not be able to pay dividends.

Secondhand vessels typically do not carry warranties as to their condition at the time of acquisition. While we would generally inspect secondhand containerships prior to purchase, such an inspection would normally not provide us with as much knowledge of the vessel s condition as if it had been built for and operated by us during its life. Future repairs and maintenance costs for secondhand vessels are difficult to predict and may be substantially higher than for equivalent vessels of which we have had direct experience. These additional costs could decrease our cash flow and reduce our liquidity.

Our ability to grow may be reduced by the introduction of new accounting rules for leasing.

International and U.S. accounting standard-setting organizations have proposed the elimination of allowing operating leases to not be recorded on the balance sheet. The proposals are expected to be finalized in 2011 and implemented in 2013 or later. If the proposals are adopted as currently proposed, they would have the effect of bringing most off-balance sheet operating leases, including time charters, onto a lessee s balance sheet as liabilities. This proposed change could affect charterers by causing them to breach certain financial covenants. This may make them less likely to enter into time charters for our containerships, which could reduce our growth opportunities.

Our business depends upon certain individuals who may not necessarily continue to be affiliated with us.

Our current performance and future success depends to a significant extent upon our Chief Executive Officer, Ian J. Webber, our Chief Financial Officer, Susan J. Cook, our Chief Commercial Officer, Thomas A. Lister and our Chief Technical Officer, Vivek Puri. Mr. Webber, Ms. Cook, Mr. Lister and Mr. Puri have an aggregate of over 80 years of experience in the shipping industry and have worked with several of the world s largest shipping companies. They and members of the board of directors are crucial to the execution of the company s business strategies and to the growth and development of our business. If these individuals were no longer to be affiliated with us, or if we were to otherwise cease to receive advisory services from them, we may be unable to recruit other employees with equivalent talent and experience, and our business and financial condition may suffer as a result.

We have a limited operating history and our historical financial and operating data are not representative of our future results.

We have a limited operating history. The historical combined financial statements included in this Annual Report include, mainly for periods up to January 31, 2008, our Predecessor Group s historical business activities as a container shipping company earning revenue from transporting shippers cargo and incurring both vessel and voyage expenses, including fuel costs and all costs related to handling of containers for our vessels while the vessels were owned and operated by CMA CGM or its subsidiaries until the date of the individual transfer of each of 10 vessels in December 2007 and two further vessels in January 2008. The historical combined financial statements reflect our results as a vessel owner rather than operator under our fixed-rate long-term charters, ship management agreements and our financing arrangements only from the date of the individual transfer to us of the relevant vessels in December 2007 and January 2008. Further, our capital and legal structure changed significantly as a result of the Merger in August 2008, including our becoming listed on the New York Stock Exchange. Consequently, historical financial information prior to August 15, 2008 is not a meaningful representation of our future results of operations.

We have not performed and may not perform underwater inspections of vessels prior to purchase.

Although we performed physical inspections of the vessels prior to their purchase, we did not perform any underwater inspections. As a result, we will not be aware of any damage to a vessel that may have existed at the time of purchase and which could only be discovered through an underwater inspection. We purchased the vessels from CMA CGM between December 2007 and August 2009 on an as is basis, subject to CMA CGM being responsible for any class condition or recommendation that existed at the date of delivery of the vessels. However, if any damage is subsequently found, we could incur substantial costs to repair the damage which would not be recoverable from the sellers.

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

We are a holding company and have no significant assets other than the equity interests in our subsidiaries. Our subsidiaries own all of the vessels and payments under charters are made to them. As a result, our ability to pay dividends and meet any debt service obligations and other liabilities depends on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make these distributions could be affected by a claim or other action by a third party, including a creditor, or by Marshall Islands law or the laws of any jurisdiction which regulates the payment of dividends by companies. If we are unable to obtain funds from our subsidiaries, we may not be able to meet our debt service obligations, pay dividends, including on our preferred shares or meet our other liabilities.

As our fleet ages, we may incur increased operating costs, which would adversely affect our earnings.

In general, the day-to-day cost of operating and maintaining a vessel increases with age. In addition, older vessels are typically less fuel efficient and may attract lower charter rates compared to modern more fuel efficient vessels. Governmental regulations and safety or other equipment standards may also require expenditures for modifications, or the addition of new equipment and may restrict the type of activities in which our vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify any such expenditures or expenditures to otherwise improve their operating characteristics, such as fuel efficiency to enable us to operate our vessels profitably during the remainder of their useful lives.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations.

The shipping industry has inherent operational risks. Although we carry hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes coverage for environmental damage and pollution) and other insurances commonly used by vessel owners, we may not be adequately insured against all risks or our insurers may not pay every claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to obtain a replacement vessel in the event of a total or constructive total loss in a timely manner. Further, under the terms of our credit facility, we are subject to restrictions on the use of any proceeds we may receive under claims in the event of a total or constructive total loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. In addition, insurers typically charge additional premiums if vessels transit certain excluded areas which may be subject to higher risk of piracy, war or terrorism. We cannot be certain that our insurers will continue to provide such cover, or that we will be able to recover these increased costs from our charterers. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

In addition, we do not presently carry loss-of-hire insurance, which covers the loss of revenue during extended vessel off-hire periods, such as those that might occur during an unscheduled drydocking due to damage to the vessel from a major accident. Accordingly, any vessel that is off-hire for an extended period of time, due to an accident or otherwise, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

We cannot assure you if and when we will resume paying dividends.

As a result of the Credit Facility Amendment, we are prohibited from declaring or paying any common dividend until the leverage ratio is no more than 75%. The leverage ratio as at April 30, 2011 was less than 75% and greater than 65%. The declaration and payment of dividends is also subject at all times to the discretion of our board of directors. Whilst we may resume the distribution of a portion of our cash flow to our shareholders, while retaining the remaining cash flow for reinvestment in our business, to fund vessel or fleet acquisitions, make debt repayments and for other purposes, as determined by our management and board of directors. There can be no assurance that our actual results will be as anticipated, that our board of directors will not increase the level of cash reserves or otherwise change our dividend policy or that we will not have additional cash expenses or liabilities, including extraordinary expenses.

In addition to restrictions imposed by the credit facility, the timing and amount of future dividends, if any, could also be affected by various factors, including:

- our earnings, financial condition and anticipated cash requirements;
- unexpected repairs to, or required expenditures on, vessels or drydocking costs in excess of those anticipated;

additional acquisitions of vessels;

the loss of a vessel; and

the provisions under Marshall Islands law affecting distributions to shareholders, which generally prohibit the payment of dividends other than from surplus (retained earnings and the excess of consideration received from the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such dividend.

Table of Contents

We have anti-takeover provisions in our organizational documents that may discourage a change of control.

Certain provisions of our articles of incorporation and bylaws may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders.

Certain of these provisions provide for:

- a classified board of directors with staggered three-year terms;
- restrictions on business combinations with certain interested shareholders;
- directors only to be removed for cause and only with the affirmative vote of holders of at least a majority of the common shares entitled to vote in the election of directors;
- advance notice for nominations of directors by shareholders and for shareholders to include matters to be considered at annual meetings; and
- a limited ability for shareholders to call special shareholder meetings.

These anti-takeover provisions could make it more difficult for a third party to acquire us, even if the third party s offer may be considered beneficial by many shareholders. As a result, shareholders may be limited in their ability to obtain a premium for their shares.

The price of our securities may be volatile.

The price of our common shares may be volatile and may fluctuate due to factors such as:

- actual or anticipated fluctuations in our quarterly revenues and earnings and those of publicly held containership owners or operators;
- market conditions in the industry;
- perceived counterparty risk;
- shortfalls in our operating results from levels forecasted by securities analysts;
- announcements concerning us or other containership owners or operators;
- mergers and strategic alliances in the shipping industry;

changes in government regulation including taxation; and

the general state of the securities markets.

The international containership industry has been highly unpredictable and volatile. The market for common shares in companies operating in this industry may be equally volatile.

There will be a substantial number of our common shares available for sale in the future that may adversely affect the market price of our Class A common shares.

The common shares (not including the common shares purchased by Mr. Gross and CMA CGM on the closing date of the Merger pursuant to assignment and acceptance agreements with Marathon) issued in the Merger to Marathon s initial stockholders and to CMA CGM were subject to transfer restrictions set forth in the stockholders agreement. Generally, such shares could not be sold for one year from the date of the Merger. Pursuant to the registration rights agreement entered into at the effective time of the Merger, Marathon s initial stockholders and CMA CGM can demand that we register the resale of their common shares at any time after the one year anniversary of the Merger. The registration and availability of such a significant number of securities for trading in the public market may have an adverse effect on the market price of our Class A common shares.

The Class A Warrants may be exercised in the future, which would increase the number of shares eligible for future resale in the public market and would result in dilution to our shareholders.

There are 6,188,088 Class A warrants expiring September 1, 2013 with an exercise price of $9.25. These are owned by CMA CGM, Michael Gross and other initial stockholders of Marathon. These warrants would likely only be exercised if the $9.25 per share exercise price is below the market price of the Class A common shares. To the extent they are exercised, additional Class A common shares will be issued, which will result in dilution to our shareholders and increase the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our shares.

We have entered into interest rate derivatives to swap a notional amount of $580 million of debt from a floating rate based on LIBOR to a fixed rate until at least February 2013. We are therefore locked into a fixed base borrowing rate, before margin,

Table of Contents

averaging 3.59% on a notional amount of $580 million of debt. We have removed most of the volatility from our cash interest cost, other than for changes in the applicable margin, and are unable to benefit from falling LIBOR rates.

As part of our risk management strategy and in order to avoid volatility in our cash interest expense as well as meet the requirement of the credit facility to fix the interest rate on at least 50% of drawn debt, we have entered into interest rate derivatives to swap a notional amount of $580 million of floating rate debt based on LIBOR into fixed rate debt averaging 3.59% until at least February 2013. We are therefore unable to benefit from falling LIBOR rates. Further, due to required prepayment of outstanding borrowings, we expect to remain in an over-hedged position.

Depending on fluctuations in LIBOR, our interest rate swap agreements and their accounting treatment in our financial statements could result in volatility in our reported net income.

We have entered into certain financial instrument contracts to hedge our exposure to interest rate fluctuations. These derivative instruments are recorded in our balance sheet under U.S. GAAP at market value, as none of the derivatives qualify for hedge accounting, with changes in the value being recognized directly in our combined statement of income. During the year ended December 31, 2009, the relative LIBOR forward interest rate curve experienced upward movement which significantly impacted the market value of our financial instruments, resulting in a non-cash gain of $17.9 million. However, for the year ended December 31, 2010, due to reverses in the forward interest rate curve, we recorded a non-cash loss of $15.3 million. As of December 31, 2010 these derivatives represented a liability of $44.4 million. Future interest rate volatility may expose our net income to significant variations.

Risks Related to Our Industry

Our growth and long term profitability depend mainly upon growth in demand for containerships and the condition of the charter market. The container shipping industry is cyclical and volatile. It has recently experienced a severe cyclical downturn from mid 2008 through 2009.

The container shipping industry is cyclical, showing significant volatility in vessel values, freight rates, charter rates and financial performance. For example, containership charter rates peaked in 2005 and generally stayed strong until the middle of 2008, when the global economic crisis began to affect global container trade, driving charter rates to 10 year lows. In 2010, due to improved economic conditions and increased demand for container shipping services, containership charter rates improved significantly although they remain generally below long term averages. The recent improvement in charter rates may not be sustainable and rates could decline again.

Weak conditions in the containership sector may affect our ability to generate cash flows and maintain liquidity, as well as adversely affect our ability to obtain financing.

The factors affecting the supply and demand for containerships and container shipping services are outside our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence demand for containership capacity include:

- supply and demand for products suitable for shipping in containers;
- changes in the pattern of global production of products transported by containerships;
- the globalization of manufacturing;
- global and regional economic and political conditions;

- developments in international trade;
- changes in seaborne and other transportation patterns, including changes in the distances over which container cargoes are transported, the size of containerships, the extent of trans-shipments and the competitiveness of other forms of marine transportation including dry bulk and refrigerated vessels;
- environmental and other legal and regulatory developments;
- the price of oil and economics of slow steaming;
- the availability of trade finance and currency exchange rates; and
- port and canal congestion.

The factors that influence the supply of containership capacity include:

- the containership newbuilding orderbook;
- the availability of financing;

Table of Contents

- the scrapping rate of older containerships;
- the number of containerships off-hire or otherwise idle including laid-up;
- the price of steel and other raw materials;
- changes in environmental and other laws and regulations that may limit the useful life of containerships;
- the availability of shipyard capacity;
- port and canal congestion; and
- the extent of slow steaming.

Our ability to recharter our containerships upon the expiration or termination of their current charters and the charter rates receivable under any renewal or replacement charters will depend upon, among other things, the prevailing state of the containership charter market. If the charter market is depressed when our charters expire, we may be forced to recharter our containerships at reduced or even unprofitable rates, or we may not be able to recharter them at all, which may reduce or eliminate our earnings or make our earnings volatile. The same issues will exist in respect of any additional vessels we may acquire either when obtaining the initial charters or on rechartering at their expiry.

Weak economic conditions throughout the world, particularly the Asia Pacific region and recent EU sovereign debt default fears, could have a material adverse effect on our business, financial condition and results of operations.

Negative trends in the global economy emerged in 2008 and continued into 2009, and economic conditions remain fragile. The current global recovery is proceeding at varying speeds across regions and is still subject to downside risks stemming from factors like fiscal fragility in advanced economies, highly accommodative macroeconomic policies and persistent difficulties in access to credit. In particular, recent concerns regarding the possibility of sovereign debt defaults by European Union member countries, including Greece, Ireland and Portugal, have significantly weakened the Euro zone, disrupted financial markets throughout the world, and may lead to weaker consumer demand in the European Union, the United States, and other parts of the world. The deterioration in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods shipped in containerized form.

We anticipate that a significant number of port calls made by our containerships will continue to involve the loading or unloading of container cargoes in ports in the Asia Pacific region. In recent years, China has been one of the world s fastest growing economies in terms of gross domestic product, which has had a significant impact on shipping demand. In 2010, growth in China s gross domestic product was 10.3%. However, if China s growth in gross domestic product declines and other countries in the Asia Pacific region experience slowed or negative economic growth in the future, then this may exacerbate the effect of the significant downturns in the economies of the United States and the European Union, and thus, may negatively impact container shipping demand. For example, the possibility of sovereign debt defaults by European Union member countries, including Greece, Ireland and Portugal, and the possibility of market reforms to float the Chinese renminbi, either of which development could weaken the Euro against the Chinese renminbi, could adversely affect consumer demand in the European Union. Such weak economic conditions could have a material adverse effect on our business, results of operations and financial condition.

Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a material adverse impact on our results of operations, financial condition and cash flows.

The United States and other parts of the world exhibited weak economic trends and were in a recession in 2008 and 2009. The credit markets in the United States have experienced significant contraction, deleveraging and reduced liquidity, and the United States federal government and state governments have implemented and are also considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The U.S. SEC, other regulators, self regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

Global financial markets and economic conditions were severely disrupted and volatile in 2008 and 2009 and, while generally stabilizing in 2010, remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and limited supply of credit. Credit markets and the debt and equity capital markets were exceedingly distressed in 2008 and 2009 and have only marginally rebounded in 2010. The credit crisis in Greece, for example, and concerns over debt levels of certain other European Union member states, has increased volatility in global credit and equity markets. These issues, along with the re-pricing of credit risk and the difficulties currently experienced by financial institutions have made, and will likely continue to make, it difficult to obtain financing. As a result of the disruptions in the credit markets, many lenders have increased margins, enacted tighter lending standards, required more restrictive terms (including higher

Table of Contents

collateral ratios for advances, shorter maturities and smaller loan amounts), or refused to refinance existing debt at all or on terms similar to our current debt. Furthermore, certain banks that have historically been significant lenders to the shipping industry have announced an intention to reduce or cease lending activities in the shipping industry. New banking regulations, including larger capital requirements and the resulting policies adopted by lenders, could reduce lending activities. We may experience difficulties obtaining financing commitments in the future if our lenders are unwilling to extend financing to us or unable to meet their funding obligations due to their own liquidity, capital or solvency issues.

A decrease in the level of China s export of goods or an increase in trade protectionism could have a material adverse impact on our charterer s business and, in turn, could cause a material adverse impact on our results of operations, financial condition and cash flows.

China exports considerably more goods than it imports. Our containerships are deployed on routes involving containerized trade in and out of emerging markets, and our charterer s container shipping and business revenue may be derived from the shipment of goods from the Asia Pacific region to various overseas export markets including the United States and Europe. Any reduction in or hindrance to the output of China based exporters could have a material adverse effect on the growth rate of China s exports and on our charterers business. For instance, the government of China has recently implemented economic policies aimed at increasing domestic consumption of Chinese made goods. This may have the effect of reducing the supply of goods available for export and may, in turn, result in a decrease of demand for container shipping. Additionally, though in China there is an increasing level of autonomy and a gradual shift in emphasis to a market economy and enterprise reform, many of the reforms, particularly some limited price reforms that result in the prices for certain commodities being principally determined by market forces, are unprecedented or experimental and may be subject to revision, change or abolition. Furthermore, if China was to permit the renminbi to float to a free market rate of exchange, it is widely anticipated that the renminbi would appreciate significantly in value against the U.S. dollar. An increase in the value of the renminbi may negatively impact the United States demand for imported goods, many of which are shipped in containerized form. The level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government.

Our operations expose us to the risk that increased trade protectionism will adversely affect our business. If the incipient global recovery is undermined by downside risks and the recent economic downturn is prolonged, governments may turn to trade barriers to protect their domestic industries against foreign imports, thereby depressing the demand for shipping. Specifically, increasing trade protectionism in the markets that our charterer serves has caused and may continue to cause an increase in: (i) the cost of goods exported from China, (ii) the length of time required to deliver goods from China and (iii) the risks associated with exporting goods from China, as well as a decrease in the quantity of goods to be shipped.

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

We may incur a financial loss if we attempt to sell one or more of our vessels.

Containership values can fluctuate substantially over time. While there has been recovery in containership values in 2010 following significant declines mid 2008 to end 2009, containership values remain generally below long term averages. A number of factors may contribute to a decrease in the market value of containerships, including:

- unfavorable economic conditions;
- a substantial or extended decline in world trade growth leading to reduced demand for container shipping services;
- increases or an oversupply in containership capacity;
- increased age;

- prevailing charter rates; and

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

If a charter terminates when the charter market for containerships is depressed, we may be unable to recharter the vessel at attractive rates and, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. It is likely that in such circumstances asset values will also be depressed. Inability to dispose of the containership at a reasonable price could result in a loss on the vessel s sale and adversely affect our results of operations and financial condition.

Table of Contents

Future fluctuations in charter rates and vessel values may trigger a possible impairment of our vessels as described in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates.

Depressed market values of our vessels pledged as security under the credit facility may also impact our ability to satisfy our leverage ratio covenant under the credit facility.

We may have more difficulty entering into long-term charters if a more active and cheaper short-term or spot container shipping market develops.

At the expiration of our charters or if a charter terminates early for any reason or if we acquire vessels charter-free, we will need to charter or recharter our vessels. If an excess of vessels is available on the spot or short-term market at the time we are seeking to fix new long-term charters, we may have difficulty entering into such charters at profitable rates and for any term other than short term and, as a result, our cash flow may be subject to instability in the long-term. In addition, it would be more difficult to fix relatively older vessels should there be an oversupply of younger vessels on the market. A more active short-term or spot market may require us to enter into spot or short-term charters based on prevailing market rates, as opposed to long-term contracts, which could result in a decrease in our cash flow in periods when charter rates are depressed.

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

While the size of the containership orderbook has declined over the last two years, the containership newbuilding orderbook as at December 31, 2010 had an aggregate capacity of 3.9 million TEUs, representing approximately 28% of the total on the water fleet capacity. The size of the orderbook, which, subject to deliveries, will increase as new orders are placed, will result in an increase in the size of the world containership fleet over the next few years. An over-supply of containership capacity, combined with any decline in the demand for containerships, may result in a reduction of charter hire rates. If such a reduction occurs when we seek to charter newbuilding vessels, our growth opportunities may be diminished. If such a reduction occurs upon the expiration or termination of our containerships current time charters, we may only be able to recharter our containerships for reduced rates or unprofitable rates or we may not be able to recharter our containerships at all.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Piracy is an inherent risk in the operation of ocean-going vessels and particularly affects vessels trading in specific regions of the world such as the South China Sea, the Gulf of Aden, the Arabian Sea and especially off the coast of Somalia. In recent years, the frequency of piracy incidents against commercial shipping vessels has increased significantly, particularly in the Gulf of Aden and off the coast of Somalia. Generally, we do not control the routing of our vessels which is determined by the charterer. Pirate attacks on any of the company s vessels could result in loss of life, the kidnapping of crew or the theft, damage or destruction of vessels or of containers or cargo being transported thereon. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on our business, results of operations and financial condition. In addition, insurance premiums and costs such as onboard security guards, should we decide to employ them, could increase in such circumstances. Further, acts of piracy may materially adversely affect our charterer s business, impairing its ability to make payments to us under our charters.

Terrorist attacks and international hostilities could affect our results of operations and financial condition.

Terrorist attacks, such as the attacks on the United States on September 11, 2001, and the continuing response of the United States and other countries to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets and may affect our business, results of operations and financial condition from increased security costs and more rigorous inspection procedures at borders and ports. From time to time acts of terrorism, regional conflict and other armed conflict around the world, may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

Terrorist attacks targeted at oceangoing vessels may also negatively affect our future operations and financial condition from, for example, increased insurance costs, and directly impact our containerships or our charterer. Future terrorist attacks could result in increased market volatility or even a recession in the United States or elsewhere or negatively affect global financial markets, and could further increase inspection and security requirements and regulation that could slow our operations and negatively affect our profitability. Any of these occurrences could have a material adverse impact on our operating results, revenue and costs.

Risks inherent in the operation of containerships could impair the ability of the charterer to make payments to us, increase our costs or reduce the value of our assets.

Our containerships and their cargoes are at risk of being damaged or lost because of events such as marine accidents, bad weather, mechanical failures, human error, war, terrorism, piracy, environmental accidents and other circumstances or events. Any of these events connected to our vessels or other vessels under the charterer s control, or any other factor which negatively affects the charterer s business such as economic downturn and significant cyclical depression in the container shipping industry, could impair

Table of Contents

the ability of the charterer to make payments to us pursuant to our charters. Although the charterer is obligated to pay us charterhire regardless of the amount of cargo being carried on board, it is possible that generally low cargo volumes and low freight rates or events noted above may render the charterer financially unable to pay us its hire. Furthermore, there is a risk that a vessel may become damaged, lost or destroyed during normal operations and any such occurrence may cause us additional expenses to repair or substitute the vessel or may render us unable to provide the vessel for chartering, which will cause us to lose charter revenue.

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

Maritime claimants could arrest our vessels, which could interrupt the charterer s or our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels, for valid or invalid reasons, could interrupt the charterer s or our cash flow and require the charterer or us or our insurance to pay a significant amount to have the arrest lifted. In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel that is subject to the claimant s maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet for claims relating to another vessel in our fleet. In any event, any lien imposed may adversely affect our results of operations by delaying the revenue gained from ships.

Governments could requisition our vessels during a period of war or emergency without adequate compensation.

A government could requisition one or more of our vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes its owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes its charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would likely be entitled to compensation in the event of a requisition of one or more of our vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of our vessels may negatively impact our revenues and cash flow.

Technological innovation could reduce our charter income and the value of our vessels.

The charter rates and the value and operational life of a vessel are determined by a number of factors including the vessel s efficiency, operational flexibility and physical condition. Efficiency includes speed, fuel economy and the ability to load and discharge containers quickly. Flexibility includes the ability to enter harbors with draft or other physical considerations, utilize related dock facilities, such as cranes, load or unload with on-board cranes, carry temperature controlled containers and pass through canals and straits. Physical condition is related to the original design and construction, maintenance and the impact of the stress of operations. If new containerships are built that are more efficient or more flexible or have longer physical lives than our vessels, competition from these more technologically advanced containerships could adversely affect the amount of charterhire we receive for our vessels once their initial charters expire and the resale value of our vessels could significantly decrease.

Compliance with safety and other vessel requirements imposed by classification societies may be costly and may adversely affect our business and operating results.

The hull and machinery of every commercial vessel must conform to the rules and standards of a classification society approved by the vessel s country of registry. Such societies set the rules and standards for the design, construction, classification, and surveys of vessels and conduct surveys to determine whether vessels are in compliance with such rules and standards. A certification by the society is an attestation that the vessel is in compliance with the society s rules and standards. A vessel involved in international trade must also conform to national and international regulations on safety, environment and security, including (but not limited to) the Safety of Life at Sea Convention, or SOLAS, and the International Convention for the Prevention of Pollution from Ships. A vessel conforms to such regulations by obtaining certificates from its country of registry and/or a classification society authorized by the country of registry.

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special or class renewal survey, a vessel s machinery may be reviewed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Please see Business Overview Inspection by Classification Societies for more information regarding annual surveys, intermediate surveys and special surveys. Bureau Veritas, Lloyd s Register and Germanischer Lloyd, the classification societies for the vessels in our fleet, may approve and carry out in-water inspections of the underwater parts of our vessels once every three to five years, in lieu of drydocking inspections. In-water inspections are typically less expensive than drydocking inspections and we intend to conduct in-water inspections when that option is available to us.

If a vessel does not maintain its in class certification or fails any annual survey, intermediate survey or special survey, port authorities may detain the vessel, refuse her entry into port or refuse to allow her to trade resulting in the vessel being unable to trade and therefore rendering her unemployable. In the event that a vessel becomes unemployable, we could also be in violation of provisions in our charters, insurance coverage, covenants in our loan agreements and ship registration requirements and our revenues and future profitability would be negatively affected.

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

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

Environmental requirements can also affect the value or useful lives of vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations and natural resource damages, in the event that there is a release of oil-based products or other hazardous materials from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of hazardous materials associated with our existing or historic operations. Violations of, or liabilities under, environmental requirements can result in substantial penalties, fines and other sanctions, including in certain instances, criminal liabilities or seizure or detention of our vessels.

In addition, significant compliance costs could be incurred due to existing environmental laws and regulations and those that may be adopted, which could require new maintenance and inspection procedures and new restrictions on air emissions from our containerships, the development of contingency arrangements for potential spills and/or obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become increasingly strict in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. We believe that regulation of the shipping industry will continue to become more stringent and more expensive for us and our competitors. Substantial violations of applicable requirements or a catastrophic release of bunker fuel from one of our containerships, among other events, could have a material adverse impact on our business, financial condition and results of operations. For additional information on these and other environmental requirements, you should review the information contained in Business Overview Environmental and Other Regulations.

Risks Related to Tax Matters

Our operating income could fail to qualify for an exemption from U.S. federal income taxation, which will reduce our cash flow.

We do not expect to be engaged in a U.S. trade or business. In the case of a foreign corporation that is not so engaged, the Internal Revenue Code of 1986, as amended (the Code), imposes a 4% U.S. federal income tax (without allowance of any deductions) on 50% of the corporation s gross transportation income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States, unless the corporation qualifies for the exemption provided in Section 883 of the Code. The imposition of this tax could have a negative effect on our business, financial condition and results of operations. Under the charter agreements, the charterer has agreed to provide reimbursement for any such taxes as the charterer determines where each vessel trades.

There are factual circumstances, such as the composition of our shareholder base, beyond our control that could cause it not to have the benefit of the exemption provided by Section 883 of the Code and thereby be subject to the 4% tax described above. Based on information that we have as to our shareholders and other matters, we expect to qualify for Section 883 exemption for 2010. Because the availability of the Section 883 exemption depends on matters over which we have no control, however, we can give no assurances that we will or will continue to qualify for the Section 883 exemption. See Additional Information Taxation Taxation of Global Ship Lease The Section 883 exemption.

We could be taxed as a U.S. corporation.

Section 7874 of the Code provides that a foreign corporation which acquires substantially all the properties of a U.S. corporation is generally treated as though it were a U.S. corporation for U.S. federal income tax purposes if, after the acquisition, at least 80% (by vote or value) of the stock of the foreign corporation is owned by former shareholders of the U.S. corporation by reason of owning stock in the U.S. corporation. Although we believe that this rule should not apply to us in the context of the Merger, there is no definitive legal authority applying the principles of Section 7874 of the Code and therefore there can be no assurance that the Internal Revenue Service (the IRS) would not seek to challenge such position, or that such a challenge would not be successful. If we were to be treated as a U.S. corporation, our net income would be subject to U.S. federal corporate income tax, with the highest statutory rate currently being 35%. The imposition of this tax would likely have a negative effect on our business, financial condition and results of operations. Please see Additional Information Taxation Taxation of Global Ship Lease Possibility of taxation as a U.S. corporation for a more comprehensive discussion of the tax consequences of us being taxed as a U.S. corporation.

Certain adverse U.S. federal income tax consequences could arise for United States holders.

Shareholders of a passive foreign investment company, or PFIC, that are United States persons within the meaning of the Code, which we refer to as United States shareholders, are subject to a disadvantageous U.S. federal income tax regime with respect to the distributions they receive from a PFIC and the gain, if any, they derive from the sale or other disposition of their shares in a PFIC (as discussed below). In addition, dividends paid by a PFIC do not constitute qualified dividend income and, hence, are ineligible for the preferential rate of tax that applies to qualified dividend income.

A foreign corporation is treated as a PFIC if either (1) 75% or more of its gross income for any taxable year consists of certain types of passive income or (2) 50% or more of the average value of the corporation s assets produce or are held for the production of those types of passive income. For purposes of these tests, passive income includes dividends, interest and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business; income derived from the performance of services does not, however, constitute passive income.

Based on the projected composition of our income and valuation of our assets, we do not expect that we will constitute a PFIC with respect to the current or any future taxable year, although there can be no assurance in this regard. Our expectation is based principally on the position that, for purposes of determining whether we are a PFIC, the majority, if not all, of the gross income we derive from our chartering activities should constitute services income rather than rental income. Correspondingly, we believe such income should not constitute passive income, and the assets owned and operated by us in connection with the production of such income (in particular, the vessels) should not constitute passive assets under the PFIC rules.

We believe there is substantial legal authority supporting our position consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters as services income for other tax purposes. There is, however, no direct legal authority under the PFIC rules addressing our current and projected future operations. Accordingly, no assurance can be given that the IRS will not assert that we are a PFIC with respect to any taxable year, nor that a court would not uphold any such assertion. Moreover, no assurance can be given that we will be able to avoid PFIC classification for any future taxable year if we decide to change the nature and/or extent of our operations.

Further, in a recent case not concerning PFICs, Tidewater Inc. v. U.S., 2009-1 USTC ¶ 50,337, the Fifth Circuit held that a vessel time charter at issue generated rental, rather than services, income. However, the court s ruling was contrary to the position of the IRS that the time charter income should be treated as services income, and the terms of the time charter in that case differ in material respects from the terms of our time charters. No assurance can be given that the IRS or a court of law would accept our position, and there is a risk that the IRS or a court of law could determine that the company is a PFIC.

If the IRS were to determine that we are or have been a PFIC for any taxable year, our United States shareholders will face adverse United States tax consequences. Distributions paid by us with respect to our shares will not constitute qualified dividend income if we were a PFIC in the year we pay a dividend or in the prior taxable year and, hence, will not be eligible for the preferential rate of tax that applies to qualified dividend income. In addition, our United States shareholders (other than shareholders who have made a qualified electing fund or mark-to-market election) will be subject to special rules relating to the taxation of excess distributions with excess distributions being defined to include certain distributions we may make on our Class A common shares as well as gain recognized by a U.S. holder on a disposition of our Class A common shares. In general, the amount of any excess distribution will be allocated ratably to each day of the U.S. holder s holding period for our Class A common shares. The amount allocated to the current year and any taxable year prior to the first taxable year for which we were a PFIC will be included in the U.S. holder s gross income for the current year as ordinary income. With respect to amounts allocated to prior years for which we were a PFIC, the tax imposed for the current year will be increased by the deferred tax amount, which is an amount calculated with respect to each prior year by multiplying the amount allocated to such year by the highest rate of tax in effect for such year, together with an interest charge as though the amounts of tax were overdue. See Additional Information Taxation Taxation of Global Ship Lease Tax Consequences of Holding Class A Common Shares U.S. holders Consequences of possible passive foreign investment company classification for a more comprehensive discussion of the U.S. federal income tax consequences to United States shareholders if we were treated as a PFIC (including those applicable to United States shareholders who make a qualified electing fund or mark-to-market election).

Table of Contents

We may be subject to taxation on all or part of our income in the United Kingdom, which could have a material adverse effect on our results of operations.

If we were considered to be a resident of the United Kingdom or to have a permanent establishment in the United Kingdom, all or a part of our profits could be subject to UK corporate tax, which had a maximum rate of 28% up to March 31, 2011 reducing to 26% for the year ending March 31, 2012 and to 25% thereafter. We are strategically managed and controlled from outside the United Kingdom and restrict our activities within the United Kingdom. Certain intra-group services are provided from within the United Kingdom and UK corporate tax will be payable on the arms-length price for those services. The appropriate arms-length price in these circumstances is likely to be a matter of negotiation with the UK taxing authorities.

Because some administrative and executive services are provided to us by a subsidiary company located in the United Kingdom and certain of our directors reside in the United Kingdom, and because UK statutory and case law fail to definitively identify the activities that constitute a trade being carried on in the United Kingdom through a permanent establishment, the UK taxing authorities may contend that we are subject to UK corporate tax on all of our income, or on a greater portion of our income than we currently expect to be taxed. If the UK taxing authorities made such a contention, we could incur substantial legal costs defending our position, and, if we were unsuccessful in our defense, our results of operations would be materially adversely affected.

Item 4. Information on the Company
A. History and Development of the Company

We are a Republic of the Marshall Islands corporation that owns a fleet of modern containerships of a range of sizes. Our business is to charter out our fleet under long-term, fixed-rate charters to reputable container shipping companies to generate stable revenues and predictable cashflows.

We were formed in 2007 to purchase and charter back containerships then owned or to be purchased by CMA CGM. Pursuant to an asset purchase agreement dated December 5, 2007 (the asset purchase agreement) with CMA CGM and certain of its vessel-owning subsidiaries, we acquired from CMA CGM our current fleet of 17 containerships between December 2007 and August 2009. All of the vessels are time chartered to CMA CGM for initial terms between five and 17 years equal to a non-weighted average term of 8.1 years remaining at December 31, 2010 and an average age weighted by TEU capacity of 6.8 years, below the weighted average age of the global fleet of 8.1 years. Our management team undertakes all management of our fleet and supervises the day-to-day ship management of our vessels which is currently provided by CMA Ships (the Ship Manager), a wholly owned subsidiary of CMA CGM, pursuant to ship management agreements, with an agreement to cap the reimbursement by us of expenses incurred on our behalf providing us with a predictable cost structure.

On March 21, 2008, Global Ship Lease entered into a merger agreement pursuant to which Marathon Acquisition Corp. (Marathon) and Global Ship Lease, then a subsidiary of CMA CGM, merged with and into GSL Holdings, Inc. (GSL Holdings), Marathon s newly-formed wholly owned Marshall Islands subsidiary, with GSL Holdings (now renamed Global Ship Lease, Inc.) continuing as the surviving company incorporated in the Republic of the Marshall Islands (collectively, Merger). The Merger was consummated on August 14, 2008.

Pursuant to the Merger, holders of shares of Marathon common stock (other than Marathon Founders, LLC and the other initial stockholders of Marathon) received one Class A common share of Global Ship Lease for each share of Marathon common stock issued and outstanding immediately prior to the effective time of the Merger. In respect of the aggregate 9,375,000 shares of Marathon common stock held by them, Marathon Founders, LLC and the other initial stockholders of Marathon received in the Merger an aggregate of 2,846,906 Class A common shares of Global Ship Lease, 3,471,906 Class B common shares and warrants to acquire an aggregate of 3,056,188 Class A common shares at an exercise price of $9.25. CMA CGM received consideration consisting of 6,778,650 Class A common shares, 3,934,050 Class B common shares, 12,375,000 Class C common shares, 1,000 Series A preferred shares, warrants to acquire 3,131,900 Class A common shares at an exercise price of $9.25, and $18,570,135 in cash. The rights of holders of Class B common shares are identical to those of holders of Class A common shares subject to meeting certain tests, except that the holders of Class B common shares are not entitled to receive any dividends with respect to any quarter prior to the fourth quarter of 2008 and their dividend rights are subordinated to those of holders of Class A common shares until at least the third quarter of 2011. The Class C common shares automatically converted into Class A common shares on a one-for-one basis on January 1, 2009. Pursuant to the Merger, CMA CGM holds approximately 45% of our outstanding common shares. See Major Shareholders and Related Party Transactions Major Shareholders.

Our Class A common shares are listed on the NYSE under the symbol GSL .

The mailing address of our principal executive office is c/o Global Ship Lease Services Limited, Portland House, Stag Place, London SW1E 5RS, United Kingdom, and our telephone number is 44 (0) 20 7869 8006.

B. Business Overview

Table of Contents

Our Fleet

Our fleet, as of December 31, 2010, consisted of 17 containerships with an aggregate capacity of 66,297 TEU and a weighted average age of approximately 6.8 years and a non-weighted average age of 7.9 years.

The table below provides information about our current fleet. Each vessel is on charter to CMA CGM:

Vessel Name	Size (TEU)	Year Built	Classification Society	Commencement of Charter	Remaining Charter Period (1) (years)	Net Daily Rate ($)
Ville d Orion	4,113	1997	Bureau Veritas	December 2007	2.0	28,500
Ville d Aquarius	4,113	1996	Bureau Veritas	December 2007	2.0	28,500
CMA CGM Matisse	2,262	1999	Bureau Veritas	December 2007	6.0	18,465
CMA CGM Utrillo	2,262	1999	Bureau Veritas	December 2007	6.0	18,465
Delmas Keta	2,207	2003	Bureau Veritas	December 2007	7.0	18,465
Julie Delmas	2,207	2002	Bureau Veritas	December 2007	7.0	18,465
Kumasi	2,207	2002	Bureau Veritas	December 2007	7.0	18,465
Marie Delmas	2,207	2002	Bureau Veritas	December 2007	7.0	18,465
CMA CGM La Tour	2,272	2001	Bureau Veritas	December 2007	6.0	18,465
CMA CGM Manet	2,272	2001	Bureau Veritas	December 2007	6.0	18,465
CMA CGM Alcazar	5,100	2007	Bureau Veritas	January 2008	10.0	33,750
CMA CGM Château d If	5,100	2007	Bureau Veritas	January 2008	10.0	33,750
CMA CGM Thalassa	10,960	2008	Bureau Veritas	December 2008	15.0	47,200
CMA CGM Jamaica	4,298	2006	Germanischer Lloyd	December 2008	12.0	25,350
CMA CGM Sambhar	4,045	2006	Lloyd s Register	December 2008	12.0	25,350
CMA CGM America	4,045	2006	Lloyd s Register	December 2008	12.0	25,350
CMA CGM Berlioz	6,627	2001	Bureau Veritas	August 2009	10.7	34,000

(1) As of December 31, 2010

In addition, we have options to purchase from German interests two further containerships (with charters attached) as set out below:

Vessel Name	Size (TEU)	Year Built	Option Expiration Date (1)	Charterer	Commencement of Charter by GSL (1)	Initial Charter Period (years) (2)	Net Daily Rate ($)
Zim Alabama	4,250	2010	September 19, 2011	Zim	December 2011	7-8	28,000
Zim Texas	4,250	2011	October 6, 2011	Zim	January 2012	7-8	28,000

(1) If purchase options exercised.

(2) Seven to eight year charter from initial delivery of the vessels by the builder in December 2010 and January 2011.

We agreed in September 2008 to purchase these two vessels from German interests in the fourth quarter of 2010 for approximately $77.4 million each. A deposit of 10% was paid. On November 8, 2010 we signed agreements with the sellers of these vessels which terminated our purchase obligations and gave us purchase options giving us the right, but not the obligation, to purchase each vessel on the first anniversary of its delivery by the builders to the sellers, for a payment of $61.25 million per vessel. We released the deposits and accrued interest totaling $8.1 million per vessel to the sellers. In addition, we (i) made a further cash payment of $6.2 million per vessel and (ii) transferred to the sellers certain supplies purchased for the vessels valued at $0.4 million per vessel. The total value of all these items is $14.7 million per vessel. Each purchase option is to be exercised no later than 270 days after the delivery of the vessels by the builders to the sellers, one was delivered in December 2010 and the other in January 2011. The purchase of each vessel is to be completed one year after its delivery. If we do not exercise a purchase option, the sellers retain all monies paid to them in respect of that vessel and we have no further liability. The charters to ZIM, subject to charterer s consent to a change of ownership of the vessels, will at the date of purchase have a remaining term of six to seven years at ZIM s option. We currently do not have financing to purchase these vessels.

Table of Contents

Time Charters

A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. Under a time charter, the vessel owner provides crew, lubricating oil, all maintenance and other services related to the vessel s operation, the cost of which is included in the daily rate. The vessel owner is also responsible for insuring its interests in the vessel and liabilities as owner arising from its use. The charterer is responsible for substantially all of the vessel s voyage costs, such as fuel and cargo handling charges.

Initial Term

Each of the vessels in our current fleet is subject to a long-term time charter with CMA CGM. We have separate subsidiaries to own each vessel in our fleet. We guarantee the obligations of each of our subsidiaries under the charters. Each of our charters commenced on each vessel s delivery. Due to different delivery dates and durations, our charters will expire on different dates and over a period of time. We believe the staggered expirations of our charters will reduce our exposure to rechartering risk upon expiration of our initial charters and may mitigate the impact of the cyclical nature of the container shipping industry. The charters have initial terms of five to 17 years (plus or minus 90 days at charterer s option) and our fleet has a non-weighted average charter period of 8.1 years remaining at December 31, 2010.

Net Daily Rate

Net daily rate refers to the basic payment by the charterer to the owner for the use of the vessel, net of any chartering commission (if applicable). Under all of the time charters for our current fleet, hire is payable to us in advance every 15 days in United States dollars. The net daily rate is a fixed daily amount that will remain the same for the duration of the charter, although in certain circumstances the charter rate can increase. For example, under the global expense agreement, CMA CGM has agreed, effective as of the fourth year of each charter agreement and provided that CMA Ships is no longer our ship manager, to compensate us for any vessel in our fleet on charter to CMA CGM by the amount by which actual operating costs per day (excluding any drydock costs and insurance premiums) are greater than $500 over a specified amount, which specified amount is based on projected operating costs over the life of each charter, provided more than 50% of such increase is attributable to crew and lubricating oil costs, such compensation not to exceed $500 per day per vessel.

Operations and Expenses

As owner, we are required to maintain each vessel in class and in an efficient state of hull and machinery and are responsible for vessel costs such as crewing, lubricating oil, maintenance, insurance and drydocking. The charterer is responsible for the voyage costs, which includes bunker fuel, stevedoring, port charges and towage. As described below, we have entered into ship management agreements and the global expense agreement with our Ship Manager.

For vessels in the current fleet, costs incurred due to structural changes because of changes in legal, classification society or regulatory requirements regarding the vessel shall be paid by us although if the annual costs aggregate to more than $100,000 for each vessel impacted by such changes, CMA CGM will compensate us through an increase in charterhire.

The charter agreements for vessels in the current fleet stipulate that CMA CGM should reimburse us for any costs of war risks insurance additional premiums and additional crew expenses, if any, that are applicable if it acts outside the insurance limits and for entering areas which are specified by the insurance underwriters as being subject to additional premiums.

Right of First Refusal

Pursuant to the terms of the time charter, CMA CGM has a right of first refusal to purchase the vessel at matching terms to any offer of any third party if we decide to sell the vessel during, or at the end of, the charter period. Should CMA CGM not exercise its right of first refusal in case of a sale during the charter period, we will be entitled to sell the vessel, subject to CMA CGM s approval, which shall not be unreasonably withheld. CMA CGM has the right to reject a sale of a vessel to owners whose business or shareholding is determined to be detrimental or contrary to its interest.

Off-hire

Under the time charter, when the vessel is not available for service, and is off-hire, CMA CGM generally is not required to pay charter hire (unless CMA CGM is responsible for the circumstances giving rise to the ship s unavailability), and we are responsible for costs during any off-hire period, and possible additional costs of fuel to regain lost time. A vessel generally will be deemed to be off-hire if there is an occurrence that affects the full working condition of the vessel, such as:

any drydocking for repairs, maintenance or classification society inspection;

any damage, defect, breakdown or deficiency of the ship s hull, machinery or equipment or repairs or maintenance thereto;

any deficiency of the ship s master, officers and/or crew, including the failure, refusal or inability of the ship s master, officers and/or crew to perform the service immediately required, whether or not within its control;

its deviation, other than to save life or property, which results in CMA CGM s lost time;

crewing labor boycotts or certain vessel arrests; or

our failure to maintain the vessel in compliance with the charter s requirements, such as maintaining operational certificates.

Ship Management and Maintenance

Under each of our time charters, we are responsible for the operation and technical management of each vessel, which includes crewing, provision of lubricating oils, maintaining the vessel, periodic drydocking and performing work required by regulations. The day-to-day crewing and technical management of our vessels are provided by our Ship Manager pursuant to the terms of the ship management agreements.

Termination and Withdrawal

If a vessel in the current fleet is off-hire for more than 90 consecutive days, then CMA CGM may cancel the charter without any further consequential claims provided the vessel is free of cargo.

If a vessel s fuel consumption is increased for a prolonged period above a specified percentage or speed is decreased below a specified level, the time charter provides that hire payments under the time charter may be adjusted until or unless the speed and fuel consumption return to the level specified in the time charter. If a vessel s fuel consumption exceeds a higher percentage than the percentages specified in the charter over a continuous period of 30 days, and the reason is within our or the vessel s control, CMA CGM may request that we cure the deficiency. If the deficiency is not cured within 30 days after we receive notice, then CMA CGM may terminate the charter.

If either party informs the other party of a default under the charter, and the default is not rectified within 60 days of such notice, then the party giving the notice has the right to terminate the time charter with respect to that vessel.

The charter will terminate in the event of a total (actual or constructive) loss of the vessel or if the vessel is requisitioned.

We may suspend the performance of our obligations under the charter if CMA CGM defaults on its payment obligations under the charter.

Ship Management Agreements

For the current fleet our Ship Manager, CMA Ships, a subsidiary of CMA CGM, provides day-to-day technical ship management services, including purchasing, crewing, provision of lubricating oil, vessel maintenance including arranging drydocking inspections and ensuring compliance with flag, class and other statutory requirements necessary to support our business. CMA CGM guarantees the performance of all services and any payment due to us by our Ship Manager pursuant to the ship management agreements.

Pursuant to our ship management agreements, we pay our Ship Manager for its services an annual management fee of $114,000 per vessel. Under the ship management agreements, our Ship Manager is responsible for all day-to-day ship management, including crewing, purchasing stores, lubricating oils and spare parts, paying wages, pensions and insurance for the crew, and organizing other vessel operating necessities, including the arrangement and management of drydocking. We will reimburse the Ship Manager for costs it incurs on our behalf. However, such cost reimbursement is capped on a quarterly basis pursuant to the global expense agreement described in more detail below in Global Expense Agreement. Each ship management agreement provides that we have the right to audit the accounts of our Ship Manager to verify the costs incurred. The Ship Manager has agreed to maintain our vessels so that they remain in class with valid certification. In addition, the Ship Manager will be responsible for our current fleet s compliance with all government and other regulations, and compliance with class certifications.

The Ship Manager has established an accounting system and maintains the records of all costs and expenditures incurred as well as data necessary for the settlement of accounts between parties.

The Ship Manager is required to use its best endeavors to provide the services specified in the ship management agreements. Pursuant to the terms of the ship management agreements, we will indemnify our Ship Manager and its employees, agents and sub-contractors and hold them harmless against all actions, proceedings, claims, demands or liabilities which may be brought against them or incurred by them arising out of or in connection with the performance of the ship management agreements, unless the same is proved to have resulted solely from the negligence, gross negligence or willful default of the Ship Manager, its employees, agents and sub-contractors.

Our Ship Manager will not be permitted to sub-contract its obligations under the ship management agreements without our consent, which we will not unreasonably withhold. With our consent, the Ship Manager has sub-contracted all of its management services under its ship management agreements to its UK subsidiary, CMA Ships UK. Our ship management agreements with the Ship

Table of Contents

Manager have a term of three years from delivery of each vessel, subject to the termination rights set forth below. Accordingly, the original term of 12 of the 17 ship management agreements have expired, with such agreements remaining in place on an at-will basis.

The ship management agreements are cancelable by us if our Ship Manager fails to meet its obligations for any reason within its control and fails to remedy the default. In addition, after a ship management agreement has been in effect for one year, we have the option of terminating the ship management agreement upon three months notice if we can secure more competitive pricing from a recognized third party, approved by CMA CGM as charterer of the vessels, such approval not to be unduly withheld, subject to CMA Ships right to match the third party s terms.

Our Ship Manager can terminate the agreement prior to the end of its term if, among other things: (a) it has not been paid within 30 days of a written request for payment (and we fail to remedy such default) or (b) we undergo a change in control.

Either party may terminate a ship management agreement in the event of an order being made or a resolution being passed for the winding up, dissolution or bankruptcy of either party, or if a receiver is appointed, or if it suspends payment, ceases to carry on business or makes a special arrangement with its creditors. The ship management agreement will also terminate if the vessel becomes a total loss, is declared as a constructive or compromised or arranged total loss, is requisitioned or sold.

We intend that the ship management of Zim Alabama and Zim Texas, if they are purchased in December 2011 and January 2012 respectively pursuant to the option agreements described in more detail in Our Fleet above, will be contracted to a third party ship manager unrelated to CMA CGM.

Insurance

We arrange for insurance coverage for each of our vessels, including hull and machinery insurance, protection and indemnity insurance and war risk insurance. We are responsible for the payment of all premiums.

Global Expense Agreement

Pursuant to the ship management agreements with CMA Ships, ship operating expenses incurred by the Ship Manager on our behalf in the operation of our fleet on charter to CMA CGM will be reimbursed. Pursuant to the global expense agreement that we entered into with our Ship Manager, these expenses will be subject to a quarterly cap. Drydocking expenses and insurance premiums are not included in the cap arrangements. For each quarterly period, our Ship Manager bears the amount (if any) by which the actual aggregate expenses, excluding drydocking expenses and insurance premiums and costs of accidents and incidents, incurred with respect to all vessels in service exceed the aggregate cap for such quarterly period. The table below sets out the per diem cap per vessel.

Vessel Name	Per Diem Cap ($)
Ville d Orion	6,400
Ville d Aquarius	6,400
CMA CGM Matisse	5,400
CMA CGM Utrillo	5,400
Delmas Keta	5,400
Julie Delmas	5,400
Marie Delmas	5,400
CMA CGM La Tour	5,400
CMA CGM Manet	5,400
Kumasi	5,400
CMA CGM Alcazar	5,900
CMA CGM Château d If	5,900
CMA CGM Thalassa	8,800
CMA CGM Jamaica	6,650
CMA CGM Sambhar	6,650
CMA CGM America	6,650
CMA CGM Berlioz	7,800

Once our ship management agreements and the global expense agreement with our Ship Manager expire or are terminated, we may not be able to negotiate similar terms in replacement agreements.

Also in the global expense agreement, CMA CGM has agreed, provided that CMA Ships is no longer the ship manager and therefore the cap arrangements are no longer applicable, effective as of the fourth year of each charter agreement, to compensate us, for any vessel in our current fleet by the amount by which actual operating costs per day (excluding any drydock costs and insurance premiums) are greater than $500 over a specified amount, which specified amount is based on projected operating costs over the life

Table of Contents

of each charter, provided more than 50% of such increase is attributable to crew and lubricating oil costs, such compensation not to exceed $500 per day per vessel.

Credit Facility

We have a senior secured credit facility with ABN AMRO Bank N.V. (also the Agent), Citibank Global Markets Limited, HSH Nordbank AG, Sumitomo Mitsui Banking Corporation, Brussels Branch, KFW Ipex Bank GmbH, DnB NOR Bank ASA and Bank of Scotland plc, which we refer to as our credit facility. We drew funds under our credit facility to finance in part the purchase of our vessels from CMA CGM. All of our subsidiaries are included as borrowers and guarantors jointly and severally guaranteeing our obligations under the credit facility.

The credit facility was entered into in 2007 and was originally an $800 million revolving facility, non amortizing for five years and with a term of eight years.

Credit Facility Amendment

The credit facility has a leverage ratio test which provides that, if the leverage ratio exceeds 75%, the Agent may require a prepayment of the borrowings or the delivery of additional security to the extent necessary to reduce the leverage ratio to 75%.

Due to the possibility that we would exceed the maximum permitted leverage ratio under the credit facility as a result of the declines in market values of our vessels from mid 2008 due to adverse market conditions, our lenders agreed to enter into the Credit Facility Amendment whereby, effective as of August 20, 2009, the credit facility effectively became a term loan of approximately $600 million with an unchanged final maturity date of August 14, 2016. Following the Credit Facility Amendment, there is no undrawn capacity under the credit facility and prepayments were accelerated.

Under the Credit Facility Amendment, the maximum 75% leverage ratio will not apply until the leverage ratio is first tested after the expiration of the waiver period which is up to and including November 30, 2010. Consequently the first such test was scheduled to be as of April 30, 2011. The leverage ratio as at that date was less than 75% and greater than 65%. Commencing June 30, 2010 the credit facility was repaid quarterly in an amount equal to free cash in excess of $20.0 million determined as at the previous month end subject to a minimum of $40.0 million repayment a year on a rolling 12 month trailing basis as long as the leverage ratio is, or is deemed to be, over 75%. When the leverage ratio becomes 75% or less, as it was as at April 30, 2011, scheduled repayments will be set at $10.0 million per quarter. The next leverage ratio test including updated vessel valuations is as at November 30, 2011.

If any additional capital is raised, 25% of such additional capital, net of expenses, must be used to prepay borrowings under the credit facility. This provision terminates when the repayment profile of the credit facility is reduced to 18 years or lower, based on the market value and weighted average age of the vessels. In the event of a sale of a vessel or a total loss or constructive total loss of a vessel, the proceeds received from such sale, total loss or constructive total loss must be used to prepay borrowings under the credit facility.

Further, the undrawn portion of the credit facility amounting to approximately $200.0 million was cancelled and we have agreed that we will not declare or pay any dividends to common shareholders during the waiver period or thereafter unless the leverage ratio is 75% or below.

In connection with the Credit Facility Amendment, CMA CGM agreed not to reduce its holding of approximately 24.4 million common shares in us at least until November 30, 2010 and to defer the redemption of the $48.0 million preferred shares until after the final maturity of the credit facility remains August 14, 2016.

General Borrowing Terms

Borrowings under the credit facility bear interest at a rate of the margin over one, three, six, nine or 12 month United States Dollar LIBOR, or such other periods as the Agent may agree. The margin depends on the leverage ratio, which is defined as the ratio of the aggregate amount outstanding under our credit facility, net of surplus cash held in the retention account, to the aggregate charter-free market value of the vessels securing the credit facility plus the value of any other security held. The charter-free market value of a vessel is calculated semi-annually in April and November as the arithmetic average of valuations determined by two independent sale and purchase brokers acceptable to the Agent. If only one such valuation is available at the relevant time, then the result of that valuation will be used to assess the leverage ratio until a second valuation, to be sought monthly, becomes available and the two valuations can be averaged. If no current valuations are available at the relevant time, the leverage ratio will be assumed to be over 100%. The margin was fixed at 3.50% until the leverage ratio test as at April 30, 2011. Set forth below is the margin that applies for the relevant leverage ratio once the fixed margin period expires.

24

Table of Contents

Leverage Ratio	Margin
Up to 65%	2.50%
Greater than 65% up to 75%	3.00%
Greater than 75%	3.50%

During the continuance of any principal or interest default, the margin on the overdue amounts increases by 2% per annum. Pursuant to the terms of the credit facility, we must hedge at least 50% of the amounts outstanding under the credit facility. We hedged, prior to the Merger, the majority of the amounts anticipated to be outstanding under the credit facility.

Until undrawn commitments were cancelled pursuant to the Credit Facility Amendment, we paid a commitment fee of 0.50% per annum on the undrawn portion of the credit facility. We are responsible for the duly justified costs properly incurred in connection with the establishment and the maintenance of the credit facility.

We are permitted to make early prepayments that can reduce subsequent prepayment obligations. Any amount outstanding under the credit facility at the final maturity date on August 14, 2016 must be repaid in one installment.

Security

Our credit facility provides that borrowings under the credit facility are secured by the following:

- a first priority pledge over our bank accounts, and those of our subsidiaries owning vessels in the security package, which are held with the Agent;
- cross-collateralized first priority mortgages on each of the vessels in the security package registered or flagged in a jurisdiction acceptable to the lenders;
- marine and war risks insurance covering a minimum of 110% of the outstanding credit facility amount;
- a first priority assignment of time charter contracts, in respect of the vessels in the security package;
- a first priority assignment of insurances in respect of each of the vessels in the security package;
- a first priority pledge over the shares of our subsidiaries;
- corporate guarantees for our obligations from guarantors being our subsidiaries under this credit facility;
- a first priority assignment of the unconditional and irrevocable corporate guarantee from CMA CGM to us for the obligations of CMA CGM, under the time charters, in cases where the charterer is a subsidiary of CMA CGM;
- a first priority assignment of the management agreements for the vessels in the security package; and
- a first priority (general) assignment of the earnings of the vessels in the security package.

In the event of either the sale or total loss of a vessel, the amount available for us to borrow under our credit facility will be reduced so that our borrowings under the credit facility does not exceed 70% of the market value of the remaining vessels that secure our obligations under the credit facility.

Covenants

Our credit facility contains covenants that require us to ensure, among other things, that:

- the employment details of additional vessels that we acquire are given to the Agent;
- technical and/or operational management of all the vessels secured under this facility and/or the supervisor in respect of newbuildings to be executed by CMA CGM or any of its wholly owned subsidiaries, or any other company internationally recognized and acceptable to the Agent;
- the earnings accounts and retention account in relation to the vessels are held with the Agent;
- the vessels are in class, free of any material overdue recommendations, and the classification society is part of the IACS. No change of class without the prior written consent of the Agent, such consent not to be unreasonably withheld;
- we are only to be involved in the business of ownership of vessels, technical and commercial management of such vessels and related activities;
- we may not charter-in vessels, lease vessels or enter into any similar arrangement without the prior written approval of the Agent, other than time chartering up to three months, such consent not to be unreasonably withheld, unless the arrangement is with or to us or our subsidiaries, in which case no approval from the Agent shall be required;
- we provide a list of acceptable flags approved by the Agent. We may change flag to another approved flag provided the Agent receives the required documentation;

Table of Contents

- we are restricted from certain asset acquisitions and disposals with respect to our subsidiaries other than disposals made in the ordinary course of business of the disposing subsidiary on arms-length terms and for fair value or any disposal of assets (other than vessels) in exchange for other assets comparable or superior as to type, value and quality;
- there are restrictions on the ability of our subsidiaries to incur additional indebtedness;
- we will at all times comply with the International Maritime Code for the Safe Operation of Ships and for Pollution Prevention adopted by the IMO;
- there is no change of ownership of any of our subsidiaries;
- we will provide the Agent with audited annual consolidated accounts, quarterly management accounts and, in respect of each subsidiary, annual unaudited accounts as soon as they are made available, in no event later than 120 days of the year-end and 60 days of the end of each quarter. Further relevant financial information will be provided on demand;
- we will, at the same time the audited annual consolidated accounts and management accounts are due, provide the Agent with compliance certificates confirming compliance with the financial covenants. A listing of charter rates is also to be included;
- we cannot dispose of net assets in excess of $300.0 million (of which a maximum of $200.0 million in aggregate should be in respect of our initial and contracted fleet) over any period of three consecutive calendar years other than with the consent of the Agent; and
- we may pay dividends if (1) no event of default has occurred or is continuing, (2) the payment of such a dividend does not trigger an event of default and (3) any payments to be made into the retention account are fully up to date.

Our credit facility contains financial covenants requiring that, among other things:

- our cash balance on a consolidated basis must be a minimum of $15.0 million or six months net interest expense at all times;
- our financial net debt to total capitalization ratio shall not exceed 75%;
- our ratio of EBITDA to debt service, on a trailing four-quarter basis, shall be no less than 1.10 to 1. (Under the Credit Facility Amendment, $10.0 million per quarter is the amount of debt prepayment deemed to be the scheduled prepayment for the purposes of determining debt service); and
- we maintain a minimum net worth of $200.0 million.

Events of Default

Among other things, each of the following events with respect to us or any of our subsidiaries, in some cases after the passage of time or notice or both, is an event of default under the credit facility agreement:

- non-payment of amounts due and payable under this credit facility within four business days of the due date;
- our or our subsidiaries breach of our non-financial covenants and failure to remedy within seven business days of receipt of a notice;
- our breach of a financial covenant;
- cross default with respect to our and our subsidiaries other obligations for any amount in excess of $15.0 million (with respect to us) and $10.0 million (with respect to our subsidiaries);
- if any person other than CMA CGM, and not agreed to by the lenders, acquires more than 51% of our outstanding voting shares; and
- default of CMA CGM or the Charter Guarantor which is continuing in respect of three or more of the time charter contracts associated with our initial and contracted fleet or default of more than half by number of the time charters associated with any approved charterer (provided such charterer is the charterer of at least 25% of our vessels).

The credit facility agreement provides that upon the occurrence of an event of default, the lenders may require that all amounts outstanding under the credit facility be repaid immediately and terminate our ability to borrow under the credit facility and foreclose on the mortgages over the vessels and the related collateral.

Inspection by Classification Societies

Every seagoing vessel must be classed by a classification society. The classification society certifies that the vessel is in class, signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel s country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

Table of Contents

The classification society, on request, also undertakes other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned. In addition, the classification society will make recommendations, including imposing a timetable, for repairs following accidents and check to confirm such repairs have been effected to an acceptable standard.

For maintenance of the class, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed, are required to be performed as follows:

Annual Surveys. For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed.

Intermediate Surveys. Also referred to as extended annual surveys, intermediate surveys are typically conducted two and one-half years after (a) commissioning the vessel and (b) after each class renewal. A drydocking is usually required during the intermediate survey for inspection of underwater parts and for repairs related to inspections. However, by increasing the resilience of the underwater coating and marking the vessel s hull to accommodate in-water inspection by divers, in-water inspections may be accepted by classification societies in lieu of drydockings at intermediate surveys. If any defects are found, the classification surveyor will issue a recommendation that must be rectified by the ship-owner within prescribed time limits. A drydocking would only be required if the in-water inspection showed urgent repairs that could only be carried out in drydock. In-water inspections are typically less expensive than drydocking inspections and we intend to conduct in-water inspections when that option is available to it.

Class Renewal Surveys. Class renewal surveys, also known as special surveys, are carried out typically every five years on the ship s hull, machinery, including the electrical plant, and any special equipment classed, at the intervals indicated by the character of classification for the hull. Vessels are required to be inspected in a drydock as part of the special survey. At the special survey, the vessel is thoroughly examined including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. Substantial expense may have to be incurred for steel renewals to pass a special survey if the vessel has experienced excessive wear and tear. As an alternate to carrying out all of the required inspections at the special survey every five years, a ship-owner has the option of arranging with the classification society for the vessel s hull or machinery to be on a continuous basis, in which every relevant part of the vessel would be surveyed on a five year cycle. A dry-docking is still required at the fifth year anniversary to inspect underwater parts. The process of continuous class renewal spreads out the required inspections and their associated cost, while the vessel is still in service, and reduces the amount of inspection required each fifth year.

As a condition for obtaining insurance coverage, each of our vessels needs to be certified in class by a member of the IACS. Pursuant to the terms of the asset purchase agreement. We are also indemnified for a period of two years from the date of the purchase of each vessel for certain losses incurred prior to the full repair of any vessel that arise out of any recommendations existing on the vessel or suspensions from class at the time of sale. Generally, if recommendations are not sufficiently corrected as determined by a member of the IACS, then the vessel may not remain in class. If a vessel is not in class, it may not be covered by insurance, and may not be available for charter. In addition, our vessels must remain in class as a condition to obtaining financing from the lenders under our credit facility.

The following table lists the month by which the vessels in our fleet need to have completed their next drydocking:

Vessel Name	**Drydocking Month***
Ville d Orion	January 2012
Ville d Aquarius	December 2011
CMA CGM Matisse	November 2014
CMA CGM Utrillo	December 2014
Delmas Keta	March 2013
Julie Delmas	October 2012
Marie Delmas	January 2012

CMA CGM La Tour	June 2011
CMA CGM Manet	October 2011
Kumasi	March 2012
CMA CGM Alcazar	November 2012
CMA CGM Château d If	December 2012
CMA CGM Thalassa	December 2013
CMA CGM Jamaica	September 2011

Table of Contents

Vessel Name	Drydocking Month*
CMA CGM Sambhar	July 2011
CMA CGM America	September 2011
CMA CGM Berlioz	July 2016

* Expected month of drydocking assume that the vessels qualify for in-water inspections.

Competition

We operate in markets that are highly competitive. We expect to compete for vessel purchases and charters based upon price, customer relationships, operating expertise, professional reputation and size, age and condition of the vessel. We also expect to compete with many other companies, including CMA CGM and its subsidiaries, to, among other things, purchase newbuildings and secondhand vessels to grow our fleet.

We expect substantial competition in obtaining new containership charters from a number of experienced and substantial companies. Many of these competitors may have greater financial resources than us, and may also operate larger fleets and may be able to offer better charter rates. Due to the recent industry downturn, there have been an increased number of vessels available for charter, including many from owners with strong reputations and experience. The lack of available financing and excess supply of vessels in the container shipping market results in a more active short-term charter market and greater price competition for charters. As a result of these factors, we may be unable to purchase additional containerships, expand our relationships with CMA CGM or to obtain new charterers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition.

Permits and Authorizations

We are required by various governmental and other agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required depend upon several factors, including the commodities transported, the waters in which the vessel operates, the nationality of the vessel s crew and the age of a vessel. Not all of the permits, licenses and certificates currently required to operate the vessels globally have been obtained by us or our Ship Manager. For example, the Delmas Keta, Julie Delmas, Kumasi and Marie Delmas have not been certified to comply with all United States, Canadian and Panama Canal regulations, as CMA CGM does not intend to operate them in these waters.

Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of vessels. We are subject to international conventions and codes, and national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, and water discharges and ballast water management. Compliance with these laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures, and are subject to frequent change.

A variety of governmental and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities, United States Coast Guard, harbor master or equivalent, classification societies, flag state administrations, country of registry, charterers, and terminal operators. Certain of these entities require us to obtain permits, licenses and certificates for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial penalties, costs or temporarily suspend the operation of one or more of our vessels in one or more ports.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the shipping industry.

Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We will be required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations. Because such laws and regulations are changed frequently and may impose increasingly strict requirements, future environmental regulations may limit our ability to do business, increase our operating costs, force the early retirement of our vessels and/or affect their resale value, all of which could have a material adverse affect on our financial condition and results of operations.

International Maritime Organization

Our vessels are subject to standards imposed by the International Maritime Organization, or IMO, the United Nations agency for maritime safety and the prevention of pollution by ships. The IMO has negotiated international conventions and implemented regulations that address oil discharges, ballasting and unloading operations, sewage, garbage and air emissions, and impose liability for pollution in international waters and a signatory s territorial waters.

Table of Contents

The IMO s International Convention for the Prevention of Pollution from Ships, or MARPOL, imposes environmental standards on the shipping industry relating to oil spills, management of garbage, the handling and disposal of noxious liquids, harmful substances in packaged forms, sewage and air emissions. Annex I specifies requirements for continuous monitoring of oily water discharges and establishes a number of special areas in which more stringent discharge standards are applicable. Carriage of chemicals in bulk is covered by regulations MARPOL Annex II. Annex III of MARPOL regulates the transportation of packaged dangerous goods (marine pollutants) and includes standards on packing, marking, labeling, documentation, stowage, quantity limitations and pollution prevention. These Annex III requirements have been expanded by the International Maritime Dangerous Goods Code, which imposes additional standards for all aspects of the transportation of dangerous goods and marine pollutants by sea. Annex IV contains a set of regulations regarding the discharge of sewage into the sea, the configuration and operation of ships equipment and systems for the control of sewage discharge, and requirements for survey and certification. Annex V totally prohibits the disposal of plastics anywhere into the sea, and severely restricts discharges of other garbage from ships into coastal waters and special areas. MARPOL s Annex VI sets limits on sulfur oxide, nitrogen oxide, carbon dioxide and particulate matter emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. We have registered the vessels in our fleet in flag states that have ratified Annex VI, which require that we obtain International Air Pollution Prevention Certificates, or IAPP Certificates, for the vessels in our fleet, from those flag states. As of December 31, 2010, all of the vessels in the fleet had IAPP Certificates. On July 21, 2008, the United States enacted the Maritime Pollution Protection Act of 2008, implementing Annex VI in territorial waters of the United States and subsequently delivered the instrument of ratification to the IMO, making the United States a party to Annex VI. On October 9, 2008, the Member States of the IMO adopted amendments to Annex VI that came into force on July 1, 2010 creating more stringent standards for engines and fuels The main changes to MARPOL Annex VI will see a progressive reduction in sulphur oxide (SOx) emissions from ships, with the global sulphur cap reduced initially to 3.50% (from the current 4.50%), effective from 1 January 2012; then progressively to 0.50 %, effective from 1 January 2020, subject to a feasibility review to be completed no later than 2018.

The limits applicable in Sulphur Emission Control Areas (SECAs) were reduced to 1.00%, beginning on 1 July 2010 (from the prior 1.50 %); being further reduced to 0.10 %, effective from 1 January 2015.

Progressive reductions in nitrogen oxide (NOx) emissions from marine engines were also agreed, with the most stringent controls on so-called Tier III engines, i.e. those installed on ships constructed on or after 1 January 2016, operating in Emission Control Areas.

Effective August 2012, certain waters adjacent to the United States Atlantic, Pacific, Gulf of Mexico and Hawaiian coasts up to the United States 200 nautical mile Exclusive Economic Zone limit will be regulated as Emission Control Areas. These and similar requirements could require modifications to our vessels to achieve compliance. We are evaluating these requirements and the alternatives for achieving compliance. The costs to comply with these requirements may be material or significant to our operations.

The operation of our vessels is also affected by the requirements set forth in the International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code, compliance with which is required under the International Convention of Safety of Life at Sea, or SOLAS. The ISM Code requires ship-owners or any other entity such as a manager or a bareboat charterer, who has assumed the responsibility for operating and managing the vessel, to develop and maintain a Safety Management System, which includes the requirements to assess all identified risks, adopt a safety and environmental protection policy achieving the ISM Code objectives ; adopt instructions and procedures to ensure safe operation of ships and protection of the environment pursuant to international and flag state laws and regulations; defined levels of authority and lines of communication between, and among, shore and shipboard personnel; procedures for reporting accidents and non-conformities with the provision of the ISM Code and corrective action; procedures to prepare guidelines and respond to emergency situation; and procedures for regular internal audits and management reviews including evaluating effectiveness. The ISM Code requires that the vessel operator be issued a Document of Compliance and the vessels it operates be issued a Safety Management Certificate, evidencing compliance by the vessel s management with ISM Code requirements for a Safety Management System. The failure of a ship-owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. As of December 31, 2010, each of the vessels in our fleet, and the entities managing them, were certified pursuant to requirements of ISM Code. There can be no assurance that any certification will be maintained indefinitely. SOLAS itself specifies minimum standards for the construction, equipment and operation of ships, compatible with their safety. Flag states are responsible for ensuring that ships under their jurisdictions comply with these requirements, and require various certificates pursuant to SOLAS as proof of such compliance.

In 2004, the IMO has also adopted an International Convention for the Control and Management of Ships Ballast Water and Sediments, or BWM Convention. The BWM Convention s implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 IMO Member States, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world s merchant shipping. The BWM Convention has not yet been ratified by the required number of states to come into force. Please see Ballast Water Management, below, for a discussion of possible impacts of increased ballast water management regulation.

29

Table of Contents

In 2001, the IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, which imposes strict liability on ship owners for pollution damage in jurisdictional waters of convention states caused by discharges of Bunker Oil. The Bunker Convention defines Bunker Oil as any hydrocarbon mineral oil, including lubricating oil, used or intended to be used for the operation or propulsion of the ship, and any residues of such oil. The Bunker Convention also requires registered owners of ships over a certain size to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). The Bunker Convention took effect on November 21, 2008.

On September 17, 2008, the International Convention on the Control of Harmful Anti-fouling Systems on Ships, or AFSC, came into force. It prohibits the use of harmful organo-tins in anti-fouling paints used on ships and will establish a mechanism to prevent the potential future use of other harmful substances in anti-fouling systems. Our vessels are required to obtain certification of compliance. As of December 31, 2010 each of our vessels was in possession of a Statement of Compliance issued by the Classification Society.

Increasingly, independent agencies representing various nations and regions are adopting additional unilateral requirements on the operation of vessels in their territorial waters. These regulations, as described below, apply to our vessels when they are in their waters and can add to the costs of operating and maintaining those vessels as well as increasing the potential liabilities that apply to spills or releases of oil or other materials or violations of the applicable requirements.

United States

The United States Oil Pollution Act of 1990

The United States Oil Pollution Act of 1990, or OPA, establishes an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA applies to discharges of any oil from a vessel, including discharges of fuel and lubricants and affects all owners and operators whose vessels trade to the United States, including its territories and possessions, or whose vessels operate in United States waters, which includes the United States territorial sea and its two hundred nautical mile exclusive economic zone. Although OPA is primarily directed at oil tankers (which are not owned or operated by us), it also applies to non-tank ships, including containerships, with respect to the fuel oil, or bunkers, used to power such ships.

Under OPA, vessel owners, operators and bareboat charterers are responsible parties and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:

- natural resources damage and the costs of assessment thereof;
- real and personal property damage;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage; and
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

On July 1, 2009 the United States Coast Guard by Interim Rule increased the limits of the liability of responsible parties with effect from July 31, 2009. For any non-tank vessel, the new limits on liability are the greater of $1,000 per gross ton or $854,400. These limits of liability do not apply if an incident was directly caused by violation of applicable United States federal safety, construction or operating regulations or by a responsible party s gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities. Additionally, OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. We intend to comply with all applicable state regulations in the ports where our vessels call.

We intend to maintain pollution liability coverage insurance in the amount of $1.0 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage, it could have an adverse effect on our business and results of operation.

OPA requires owners and operators of vessels to obtain a certificate of financial responsibility by establishing and maintaining with the United States Coast Guard, or Coast Guard, evidence of financial responsibility sufficient to meet their potential liabilities under the OPA; an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessels in the fleet having the greatest maximum liability under OPA. An owner or operator may evidence its financial responsibility by showing proof of insurance, surety bond, self-insurance or guaranty. Under the self-insurance provisions, the ship-owner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. For our vessels that are likely to enter U.S. waters, we intend to comply with the United States Coast Guard regulations by providing a certificate of responsibility from third party entities that are acceptable to the United States Coast Guard evidencing sufficient insurance.

The United States Coast Guard s regulations concerning certificates of financial responsibility provide, in accordance with OPA, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility. In the event that such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. Certain organizations, which had typically provided certificates of financial responsibility under pre-OPA laws, including the major protection and indemnity organizations, have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses. This requirement may have the effect of limiting the availability of the type of coverage required by the Coast Guard and could increase costs of obtaining this insurance for us and our competitors.

In addition, Title VII of the Coast Guard and Maritime Transportation Act of 2004, or CGMTA, amended OPA to require the United States Coast Guard to issue regulations to require the owner or operator of any non-tank vessel of 400 gross tons or more that carries oil of any kind as a fuel for main propulsion, to prepare and submit a response plan for each vessel. The United States Coast Guard has not issued such regulations yet, but has published a guidance document that allows for the issuance of interim authorization letters until the final regulations are promulgated. The vessel response plans include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or threat of discharge of oil from the vessel due to operational activities or casualties. Regulations issued under CGMTA that require Government-Initiated Unannounced Exercises (GIUE) to test the response plans are being extended to non-tank vessels. GIUE are paid for by the ship owner. We have plans to comply with the requirements of the CGMTA and OPA. Our vessels that call at U.S. ports have appropriate vessel response plans filed with the United States Coast Guard and copies are available onboard.

Following the "*Deepwater Horizon"* incident a number of legislative proposals have been made in the U.S Senate that may repeal the Limitation of Liability Act of 1851, remove or increase the cap on liability provided by OPA 90 and provide for non-pecuniary loss and punitive damages by amending the Death on the High Seas Act and Jones Act. We continue to monitor these proposals.

The Comprehensive Environmental Response, Compensation, and Liability Act

The Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, governs spills or releases of hazardous substances other than petroleum or petroleum products. CERCLA imposes joint and several liability, without regard to fault, on the owner or operator of a ship, vehicle or facility from which there has been a release, along with other specified responsible parties. Costs recoverable under CERCLA include cleanup and removal costs, natural resource damages and governmental oversight costs. Liability under CERCLA is generally limited to the greater of $300 per gross ton or $0.5 million unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations, in which case liability is unlimited. These liability amounts are included in the total financial responsibility amounts required to obtain a Coast Guard certificate of financial responsibility, as described above.

Ballast Water Management

The National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into United States ports through ballast water taken on by ships in foreign ports. Under NISA, the Coast Guard requires mandatory ballast water management practices for all vessels equipped with ballast water tanks bound for United States ports or entering United States waters and requires vessels to maintain a ballast water management plan that is specific for that vessel and assigns responsibility to the master or appropriate official to understand and execute the ballast water management strategy for that vessel.

Coast Guard regulations also establish penalties for ships headed to the United States that fail to submit a ballast water management reporting form, as well as vessels bound for the Great Lakes or portions of the Hudson River that violate mandatory ballast water management requirements. The Coast Guard may now impose a civil penalty of up to $27,500 per day or, in the case of knowing violations, Class C Felony charge for non-submittal. On August 28, 2009, the Coast Guard proposed to amend its regulations to establish allowable concentrations of living organisms in discharged ballast water and establish an approval process for ballast water management systems. However, final regulations have yet to be promulgated.

In the absence of comprehensive federal standards, states have enacted legislation or regulations to address invasive species through ballast water and hull cleaning management and permitting requirements.

On October 10, 2007, the California governor signed into law legislation, or A.B. 740, expanding the state s marine invasive species ballast water regulatory program (A.B. 433, California s Marine Invasive Species Act, which regulates the discharge and/or exchange of ballast water of vessels coming from outside the exclusive economic zone into a California port) to regulate hull fouling organisms. A.B. 740 gives the State Lands Commission until 2012 to adopt regulations requiring vessels owners and operators to use

Table of Contents

best available and economically feasible inwater technology to remove aquatic species from submerged parts of vessels. Until the regulations can be implemented, A.B. 740 specifies that hull fouling organisms, such as barnacles, algae, mussels, and worms that attach to the hard parts of ships, must be removed and disposed of on a regular basis. Furthermore, on October 15, 2007, the California State Lands Commission approved regulations governing the discharge of ballast water for vessels operating in California waters, which among other things, sets limits for the number of living organisms allowed in ballast water discharge. The regulations will be implemented on a graduated time schedule beginning on January 1, 2010 for new vessels and from January 1, 2014 for existing vessels. Other states may create other similar hull cleaning regulations or ballast water performance standards that could increase the costs of operating in state waters of the United States.

The Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in United States navigable waters without a permit and imposes strict liability in the form of penalties for any unauthorized discharges. Current Environmental Protection Agency, or EPA, regulations exempt ships in United States navigable waters from the requirement to obtain CWA permits for discharges of ballast water and other substances incidental to the normal operation of vessels. However, a United States District Court ruled in 2006 that EPA lacks the authority to exclude discharges of vessel ballast water from permitting requirements under the CWA, invalidating the blanket exemption in EPA regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directed EPA to develop a system for regulating all discharges from vessels by that date. EPA s appeal failed and the Ninth Circuit Court of Appeals upheld the District Court s ruling on July 23, 2008. In response, EPA issued a Vessel General Permit, or the VGP, covering the discharges incidental to the operation of vessels greater than 79 feet in length on December 18, 2008. Vessels were required to comply with the VGP by February 6, 2009. The VGP requires the use of Best Management Practices, inspections, and monitoring of the areas of the vessel the permit addresses. States may also add additional conditions. For example, California requires that all vessel discharges in its waters comply with numeric effluent limitations.

Changes in ballast water management rules and regulations, either in the United States or internationally (please see International Maritime Organization above), could increase the cost of compliance for ocean carriers, including requiring installation of equipment of ballast water treatment systems on vessels at substantial cost.

Clean Air Act

The Federal Clean Air Act of 1970, as amended by the Clean Air Act Amendments of 1977 and 1990, or the CAA, requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. The company s vessels are subject to vapor control and recovery requirements when cleaning fuel tanks and conducting other operations in regulated port areas and emissions standards for compression-ignition marine engines operating in U.S. waters. These types of engines are called Category 3 marine diesel engines and are typically found on large oceangoing vessels. These rules are currently limited to new engines beginning with the 2004 model year. More recently, on December 22, 2009, the EPA issued more stringent emission standards for new Category 3 marine engines. The standards are consistent with the amendments to Annex VI of MARPOL discussed above. Certain emission standards will take effect as early as 2011. We may incur costs to install equipment in these vessels to comply.

The CAA also requires states to draft State Implementation Plans, or SIPs, designed to attain national health-based air quality standards in primarily major metropolitan and/or industrial areas. Where states fail to present approvable SIPs or SIP revisions by certain statutory deadlines, the federal government is required to draft a Federal Implementation Plan. Several SIPs regulate emissions resulting from degassing operations by requiring the installation of vapor control equipment on vessels. There is a risk that new regulations could require significant capital expenditures and otherwise increase our costs.

After a previous attempt to regulate the emissions of auxiliary diesel engines on ocean-going vessels was rejected by the Ninth Circuit, California s Air Resources Board, or CARB, approved new regulations on July 24, 2008. These regulations apply to ocean-going vessels main diesel engines, auxiliary engines, and auxiliary boilers when operating within 24 miles of the California coast and require operators to use low sulfur fuels. The Office of Administrative Law approved the rulemaking and filed it with the Secretary of State on May 29, 2009. The regulation became effective on June 28, 2009.

California also approved regulations on December 3, 2008 to reduce emissions from diesel auxiliary engines on certain ocean-going vessels while in California ports, including container ship fleets that make 25 or more annual visits to California ports. The regulations became effective January 2, 2009 and require vessel operators to either (1) turn off auxiliary engines for most of their stay and connect the vessel to some other source of power, most likely a shore-based grid, or (2) use alternative control techniques to achieve equivalent emission reductions. These requirements may increase operating costs while in California ports.

European Union

In waters of the European Union, or the EU, our vessels are subject to regulation EU-level directives implemented by the various nations through laws and regulations of these requirements. These laws and regulations prescribe measures to prevent pollution, protect the environment, and support maritime safety. For instance, the EU has adopted directives that require member states to refuse

Table of Contents

access to their ports to certain sub-standard vessels, according to vessel type, flag, and number of previous detentions. Member states must inspect at least 25% of vessels using their ports annually and provide increased surveillance of vessels posing a high risk to maritime safety or the marine environment. If deficiencies are found that are clearly hazardous to safety, health or the environment, the state is required to detain the vessel until the deficiencies are addressed. Member states are also required to implement a system of penalties for breaches of these standards.

EU Directive 2009/16/EC introduces a new harmonized and coordinated regime for port state control inspections and from January 1, 2011 a new on-line register to make public both the poorly performing shipping companies (who will attract more intensive and c