

Diana Containerships Inc.
Form 20-F
March 26, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _____ to _____

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.

Commission file number 001-35025

DIANA CONTAINERSHIPS INC.

(Exact name of Registrant as specified in its charter)

Diana Containerships Inc.

(Translation of Registrant's name into English)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

Pendelis 18, 175 64 Palaio Faliro, Athens, Greece

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

Title of each class	Name of each exchange on which registered
Common stock, \$0.01 par value	Nasdaq Global Market
Preferred stock purchase rights	Nasdaq Global Market

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

None
(Title of Class)

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

None
(Title of Class)

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.

As of December 31, 2013, there were 35,051,567 shares of the registrant's common stock outstanding.

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 No

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

Yes No

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

Large accelerated filer Accelerated filer
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 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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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FORWARD-LOOKING STATEMENTS

Diana Containerships Inc., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe", "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect" and similar expressions identify forward-looking statements.

Please note in this annual report, "we", "us", "our" and "the Company" all refer to Diana Containerships Inc. and its subsidiaries.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the container shipping industry, changes in the Company's operating expenses, including bunker prices, crew costs, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the SEC.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data and other operating data. The selected consolidated financial data in the table as of and for the years ended December 31, 2013, 2012 and 2011 and for the period from January 7, 2010, the inception date of the Company, to December 31, 2010, are derived from our audited consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles, or "U.S. GAAP". The following data should be read in conjunction with Item 5. "Operating and Financial Review and Prospects", the consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

	For the years ended December 31,			For the period from
	2013	2012	2011	January 7,
	(in thousands of U.S. dollars, except for share and per share data)			2010
				(inception date) to
				December
				31,
				2010
Income Statement Data:				
Time charter revenues	\$74,337	\$68,835	\$26,992	\$5,735
Prepaid charter revenue amortization	(20,322)	(12,204)	-	-
Time charter revenues, net	54,015	56,631	26,992	5,735
Voyage expenses	705	1,404	731	267
Vessel operating expenses	30,870	28,969	11,134	2,885
Depreciation	11,070	12,476	5,937	1,454
Management fees	305	1,551	650	203
General and administrative expenses	5,059	3,468	3,442	3,524
Impairment losses	42,323	-	-	-
Loss on vessels' sale	16,481	-	-	-
Foreign currency losses / (gains)	66	(194)	18	(1,044)
Operating income / (loss)	(52,864)	8,957	5,080	(1,554)

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Interest and finance costs	(4,554)	(3,066)	(1,604)	(511)
Interest income	72	78	154	64
Net income / (loss)	\$(57,346)	\$5,969	\$3,630	\$(2,001)
Earnings / (loss) per common share, basic and diluted	\$(1.73)	\$0.22	\$0.23	\$(0.45)
Dividends declared and paid, per share	\$0.90	\$1.00	\$0.18	\$-
Weighted average number of common shares, basic	33,159,328	26,934,533	15,536,028	4,449,431
Weighted average number of common shares, diluted	33,159,328	26,934,533	15,543,916	4,449,431

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	As of and for the years ended December 31,			As of and for the period from January 7, 2010 (inception date) to December 31, 2010
	2013	2012	2011	
(in thousands of U.S. dollars, except for fleet data and average daily results)				
Balance Sheet Data:				
Cash and cash equivalents	\$ 19,685	\$ 31,526	\$ 41,354	\$ 11,098
Total current assets	22,980	36,912	43,559	12,376
Vessels' net book value	265,372	260,945	158,827	92,077
Total assets	316,709	337,045	210,011	105,349
Total current liabilities	3,779	6,110	3,114	2,429
Long-term bank debt (net of unamortized deferred financing costs)	98,102	91,906	-	19,490
Related party financing, non-current	50,233	-	-	-
Deferred revenue, non-current	50	271	364	182
Total stockholders' equity	\$ 164,465	\$ 238,758	\$ 206,533	\$ 84,611
Cash Flow Data:				
Net cash provided by / (used in) operating activities	\$ 31,740	\$ 31,346	\$ 12,504	\$ (186)
Net cash used in investing activities	(81,663)	(149,960)	(79,321)	(93,531)
Net cash provided by financing activities	38,082	108,786	97,073	103,764
Fleet Data:				
Average number of vessels (1)	9.6	8.6	3.6	1.0
Number of vessels at end of period	9.0	10.0	5.0	2.0
Ownership days (2)	3,516	3,156	1,320	361
Available days (3)	3,516	3,156	1,320	361
Operating days (4)	3,442	3,150	1,311	352
Fleet utilization (5)	97.9 %	99.8 %	99.3 %	97.5 %
Average Daily Results:				
Time charter equivalent (TCE) rate (6)	\$ 15,162	\$ 17,499	\$ 19,895	\$ 15,146
Daily vessel operating expenses (7)	8,780	9,179	8,435	7,991

(1) Average number of vessels is the number of vessels that constituted our fleet for the relevant period, as measured by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in the period.

- (2) Ownership days are the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.
- (3) Available days are the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.
- (4) Operating days are the number of available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.
- (5) We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning.
- (6) Time charter equivalent rates, or TCE rates, are defined as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel) expenses, canal charges and commissions. TCE rate is a non-GAAP measure, and is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters are generally expressed in such amounts. The following table reflects the calculation of our TCE rates for the periods presented.

	For the years ended December 31,			For the period from January 7, 2010 (inception date) to December 31, 2010
	2013	2012	2011	2010
	(in thousands of U.S. dollars, except for available days and TCE rate)			
Time charter revenues, net of prepaid charter revenue amortization	\$ 54,015	\$ 56,631	\$ 26,992	\$ 5,735
Less: voyage expenses	(705)	(1,404)	(731)	(267)
Time charter equivalent revenues	\$ 53,310	\$ 55,227	\$ 26,261	\$ 5,468
Available days	3,516	3,156	1,320	361
Time charter equivalent (TCE) rate	\$ 15,162	\$ 17,499	\$ 19,895	\$ 15,146

(7) Daily vessel operating expenses, which include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, are calculated by dividing vessel operating expenses by ownership days for the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

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C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and our business in general. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition or operating results or the trading price of our common stock.

Industry Specific Risk Factors

The containership sector is cyclical and volatile, with charter hire rates and profitability at reduced levels, and the continued global economic recession has resulted in decreased demand for container shipping.

Our growth generally depends on continued growth in world and regional demand for containership services, and the global economic slowdown that commenced in 2008 and from which the global economy has not fully recovered resulted in decreased demand for containerships and a related decrease in charter rates that have not fully recovered.

The ocean-going containership sector is both cyclical and volatile in terms of charter hire rates and profitability. Containership charter rates peaked in 2005 and generally stayed strong until the middle of 2008, when the effects of the 2008 economic crisis began to affect global container trade. Containership charter rates have since improved and stabilized somewhat, although such improvement may not be sustainable and rates remain below their long-term averages and could decline again. Fluctuations in charter rates result from changes in the supply and demand for ship capacity and changes in the supply and demand for the major products internationally transported by containerships. The factors affecting the supply and demand for containerships and supply and demand for products shipped in containers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. We cannot assure you that we will be able to successfully charter our vessels in the future or renew existing charters upon their expiration or termination, of which four are scheduled to expire in 2014 (one charter expires in April 2014, one in September 2014 and two in late December 2014), assuming the earliest redelivery dates, at rates sufficient to allow us to meet our obligations or at all.

The factors that influence demand for containership capacity include:

- supply and demand for products suitable for shipping in containers;
- changes in global production of products transported by containerships;
- the distance container cargo products are to be moved by sea;
- 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;
- environmental and other regulatory developments;
- currency exchange rates; and
- weather.

The factors that influence the supply of containership capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older containerships;
- containership owner access to capital to finance the construction of newbuildings;
- the price of steel and other raw materials;
- changes in environmental and other regulations that may limit the useful life of containerships;
- the number of containerships that are sailing at reduced speed, or slow-steaming, to conserve fuel;
 - the number of containerships that are out of service; and
 - port congestion and canal closures.

Our ability to employ any containerships that we acquire in the future and recharter our containerships upon the expiration or termination of their current charters, and the charter rates payable under any charters or renewal options or replacement charters will depend upon, among other things, the prevailing state of the containership charter market, which can be affected by consumer demand for products shipped in containers. For instance, we have vessels whose charter expire in 2014, for which the current one-year time charter rate is significantly less than the charter rate payable under the charters we currently have in place. When our containerships' charters expire, we may be forced to recharter our containerships at reduced or even unprofitable rates, or we may not be able to recharter our vessels at all, which may reduce or eliminate our earnings or make our earnings volatile. The same issues will exist if we acquire additional vessels and attempt to obtain multi-year time charter arrangements as part of our acquisition and financing plan, which may affect our ability to operate our vessels profitably. The containership market also affects the value of our vessels, which follow the trends of freight rates and containership rates.

Liner companies, which are the most significant charterers of containerships, have been placed under significant financial pressure, thereby increasing our charter counterparty risk.

The decline in global trade due to the economic slowdown has resulted in a significant decline in demand for the seaborne transportation of products in containers, including for exports from China to Europe and the United States. Consequently, the cargo volumes and freight rates achieved by liner companies, which charter containerships from ship owners like us, had declined, adversely affecting their profitability. The financial challenges faced by liner companies, some of which announced efforts to obtain third party aid and restructure their obligations, reduced demand for containership charters. The combination of the current surplus of containership capacity and the expected increase in the size of the world containership fleet over the next several years may make it difficult to secure substitute employment for our containerships if our counterparties fail to perform their obligations under the currently arranged time charters, and any new charter arrangements we are able to secure may be at lower rates.

We are dependent upon a limited number of customers in a consolidating industry for a large part of our revenues. The loss of these customers could adversely affect our financial performance.

Our vessels are currently employed on time charter, to an aggregate of 6 different charterers. Should charter rates for containerships improve, we will seek to charter a greater portion of our containerships pursuant to medium- and long-term fixed-rate time charters with leading liner companies, and we may remain dependent upon a limited number of liner operators. In addition, in recent years there have been significant examples of consolidation in the containership sector. Financial difficulties in the industry may accelerate the trend towards consolidation. The cessation of business with liner companies to which our vessels are chartered or their failure to fulfill their obligations under the charters for our containerships could have a material adverse effect on our financial condition and results of operations, as well as our cash flows.

An over-supply of containership capacity may lead to a further reduction in charter rates, which may limit our ability to operate our vessels profitably.

According to industry sources, as of February 1, 2014, newbuilding containerships with an aggregate capacity of 4.0 million TEUs, representing approximately 23% of the total worldwide containership fleet capacity as of that date, were under construction. . The size of the orderbook when compared to the fleet is small relative to historical levels and will result in the increase in the size of the world containership fleet over the next few years. However, the orderbook remains heavily skewed towards ships of at least 8,000 TEU in size. An over-supply of containership capacity, combined with a decline in the demand for containerships, may result in a further reduction of charter hire rates. If such a reduction continues in the future, we may only be able to charter our fleet for reduced rates or unprofitable rates or we may not be able to charter our containerships at all.

The state of global financial markets and economic conditions may adversely impact our ability to obtain financing on acceptable terms, which may hinder or prevent us from expanding our business.

Global financial markets and economic conditions have been, and continue to be, volatile. During the economic downturn that began in 2008, the debt and equity capital markets were severely distressed. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk and continuing weak economic conditions have made, and will likely continue to make, it difficult to obtain financing. A weak state of global financial markets and economic conditions might adversely impact our ability to issue additional equity at prices that will not be dilutive to our existing shareholders or preclude us from issuing equity at all.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that financing will be available if needed, and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to enhance our existing business, or otherwise take advantage of business opportunities as they arise.

The instability of the euro or the inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism, or the ESM, which was established on September 27, 2012, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

Changes in the economic and political environment in China and policies adopted by the government to regulate its economy may have a material adverse effect on our business, financial condition and results of operations.

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Prior to 1978, the Chinese economy was a planned economy. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. Annual and five-year State Plans are adopted by the Chinese government in connection with the development of the economy. Although state-owned enterprises still account for a substantial portion of the Chinese industrial output, in general, the Chinese government is reducing the level of direct control that it exercises over the economy through State Plans and other measures. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Limited price reforms were undertaken, with the result that prices for certain commodities are principally determined by market forces. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition based upon the outcome of such experiments. If the Chinese government does not continue to pursue a policy of economic reform, 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, such as changes in laws, regulations or export and import restrictions, all of which could adversely affect our business, operating results and financial condition.

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 charterers' 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 may be deployed on routes involving containerized trade in and out of emerging markets, and our charterers' 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 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. 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. Specifically, increasing trade protectionism in the markets that our charterers serve 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 charterers' business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our shareholders.

Vessel values may fluctuate which may adversely affect our financial condition, result in the incurrence of a loss upon disposal of a vessel or increase the cost of acquiring additional vessels.

Vessel values may fluctuate due to a number of different factors, including: general economic and market conditions affecting the shipping industry; competition from other shipping companies; the types and sizes of available vessels; the availability of other modes of transportation; increases in the supply of vessel capacity; the cost of newbuildings; governmental or other regulations; and the need to upgrade secondhand and previously owned vessels as a result of charterer requirements, technological advances in vessel design or equipment or otherwise. In addition, as vessels grow older, they generally decline in value. Due to the cyclical nature of the containership market, if for any reason we sell any of our owned vessels at a time when prices are depressed, we could incur a loss and our business, results of operations, cash flow and financial condition could be adversely affected. Moreover, if the book value of a vessel is impaired due to unfavorable market conditions we may incur a loss that could adversely affect our operating results. During 2013, impairment losses were recorded for certain of our vessels, as our impairment test exercise indicated that the carrying values of these vessels were not recoverable.

Conversely, if vessel values are elevated at a time when we wish to acquire additional vessels, the cost of acquisition may increase and this could adversely affect our business, results of operations, cash flow and financial condition.

The containership sector is highly competitive, and we may be unable to compete successfully for charters with established companies or new entrants that may have greater resources and access to capital, which may have a material adverse affect on us.

The containership sector is a highly competitive industry that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom may have greater resources and access to capital than we have. Competition among vessel owners for the seaborne transportation of semi-finished and finished consumer and industrial products can be intense and depends on the charter rate, location, size, age, condition and the acceptability of the vessel and its operators to charterers. Due in part to the highly fragmented market, many of our competitors with greater resources and access to capital than we have could operate larger fleets than we may operate and thus be able to offer lower charter rates or higher quality vessels than we are able to offer. If this were to occur, we may be unable to retain or attract new charterers on attractive terms or at all, which may have a material adverse effect on our business, prospects, financial condition, liquidity and results of operations.

An increase in operating costs could adversely affect our cash flows and financial condition.

Vessel operating expenses include the costs of crew, provisions, deck and engine stores, lube oil, bunkers, insurance and maintenance and repairs, which depend on a variety of factors, many of which are beyond our control. Some of these costs, primarily relating to insurance and enhanced security measures implemented after September 11, 2001 and as a result of a recent increase in the frequency of acts of piracy, have been increasing. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. Increases in any of these costs could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Fuel, or bunker prices, may adversely affect profits.

While we generally do not bear the cost of fuel, or bunkers, for vessels operating on time charters, fuel is a significant factor in negotiating charter rates. As a result, an increase in the price of fuel beyond our expectations may adversely affect our profitability at the time of charter negotiation. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns.

Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

Increased inspection procedures, tighter import and export controls and new security regulations could increase costs and cause disruption of our business.

The international containership sector is subject to additional security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. These security procedures can result in cargo seizure, delays in the loading, offloading, trans-shipment, or delivery of containers and the levying of customs duties, fines or other penalties against exporters or importers and, in some cases, carriers.

Since the events of September 11, 2001, U.S. authorities have significantly increased the levels of inspection for all imported containers. Government investment in non-intrusive container scanning technology has grown, and there is

interest in electronic monitoring technology, including so-called "e-seals" and "smart" containers that would enable remote, centralized monitoring of containers during shipment to identify tampering with or opening of the containers, along with potentially measuring other characteristics such as temperature, air pressure, motion, chemicals, biological agents and radiation.

It is unclear what changes, if any, to the existing security procedures will ultimately be proposed or implemented, or how any such changes will affect the containership sector. These changes have the potential to impose additional financial and legal obligations on carriers and, in certain cases, to render the shipment of certain types of goods by container uneconomical or impractical. These additional costs could reduce the volume of goods shipped in containers, resulting in a decreased demand for containerships. In addition, it is unclear what financial costs any new security procedures might create for containership owners and operators. Any additional costs or a decrease in container volumes could have an adverse impact on our ability to attract customers and therefore have an adverse impact on our ability to operate our vessels profitably.

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

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention.

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle under which the machinery would be surveyed periodically over a five-year period. If any vessel does not maintain its class and/or fails any annual survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable. This could negatively impact our results of operations and financial condition.

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

Our business and the operations of our containerships will be 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 (including greenhouse gases), water discharges and ballast water management. These regulations include, but are not limited to, European Union regulations, the U.S. Oil Pollution Act of 1990, or OPA, requirements of the U.S. Coast Guard and the U.S. Environmental Protection Agency, or EPA, the U.S. Clean Air Act, U.S. Clean Water Act and the U.S. Marine Transportation Security Act of 2002, and regulations of the United Nation's International Maritime Organization, or the IMO, including the International Convention on Civil Liability for Oil Pollution Damage of 1969, the International Convention for the Prevention of Pollution from Ships of 1975, the International Convention for the Prevention of Pollution from Ships of 1973, or MARPOL, including designations of Emission Control Areas, or ECAs thereunder, the IMO International Convention for the Safety of Life at Sea of 1974, the International Convention on Load Lines of 1966, the International Convention of Civil Liability for Bunker Oil Pollution Damage, and the International Management Code for the Safe Operation of Ships and Pollution Prevention. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such requirements or the impact thereof on the re-sale price or useful life of any containership that we own or will acquire. 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. Government regulation of vessels, particularly in the areas of safety and environmental requirements, continue to change, requiring us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. In addition, we may incur significant costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential environmental violations and in obtaining insurance coverage. For example, the cost of compliance with any new emissions regulation that may be adopted by the United Nations Framework Convention on Climate Change may be substantial, or we may face

substantial taxes on bunkers. Additionally, we cannot predict the cost of compliance with any new regulation that may be promulgated by the United States as a result of the 2010 BP plc Deepwater Horizon oil spill in the Gulf of Mexico.

The operation of our containerships will also be affected by the requirements set forth in the International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. Failure to comply with the ISM Code may subject us to increased liability, may decrease available insurance coverage for the affected ships and may result in denial of access to, or detention in, certain ports.

In addition, we are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates, approvals and financial assurances with respect to our operations. Our failure to maintain necessary permits, licenses, certificates, approvals or financial assurances could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet, or lead to the invalidation or reduction of our insurance coverage.

We may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business.

Our success will depend in large part on our ability and the ability of Unitized Ocean Transport Limited, which we refer to as UOT or our Manager, our wholly-owned subsidiary, to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense. If we are not able to increase our rates to compensate for any crew cost increases, it could have a material adverse effect on our business, results of operations, cash flows and financial condition. Any inability we, or our Manager, experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business, which could have a material adverse effect on our financial condition, results of operations and cash flows.

Labor interruptions could disrupt our business.

Our vessels are manned by masters, officers and crews that are employed by our vessel-owning subsidiaries. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out normally and could have a material adverse effect on our financial condition, results of operations and cash flows.

Our vessels may suffer damage due to the inherent operational risks of the seaborne transportation industry and we may experience unexpected drydocking costs, which may adversely affect our business and financial condition.

Our vessels and their cargoes may be at risk of being damaged or lost because of events such as:

- marine disasters;
- bad weather;
- business interruptions caused by mechanical failures;
- grounding, fire, explosions and collisions; and
- human error, war, terrorism, piracy and other circumstances or events.

These hazards may result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to our customer relationships, delay or rerouting. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and may be substantial. We may have to pay drydocking costs that our insurance does not cover in full. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or our vessels may be forced to travel to a drydocking facility that is not conveniently located relative to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to steam to more distant drydocking facilities would decrease our earnings. The involvement of our vessels in an environmental disaster may also harm our reputation as a safe and reliable vessel owner and operator.

World events could affect our results of operations and financial condition.

Continuing conflicts and recent developments in the Middle East including Libya and Syria and North Africa, including Egypt, and the presence of United States and other armed forces in Afghanistan, may lead to additional acts of terrorism and armed conflict around the world, which 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. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and the Gulf of Aden off the coast of Somalia. Any of these occurrences could have a material adverse impact on our operating results, revenues and costs.

Acts of piracy on ocean-going vessels could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide continued to decrease during 2013 to its lowest level since 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones, as the Gulf of Aden has been since May 2008, or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, due to employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention hijacking, involving the hostile detention of a vessel, as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition, results of operations.

If our vessels call on ports located in countries that are subject to restrictions imposed by the U.S. or other governments, that could adversely affect our reputation and the market for our common stock.

Although we intend to comply with all applicable sanctions and embargo laws and regulations, there can be no assurance that we will maintain such compliance, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expanded the application of the prohibitions to additional activities of non-U.S. companies and introduced limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, in 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to

another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the "Joint Plan of Action" ("JPOA"). Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is used only for peaceful purposes, the U.S. and E.U. would voluntarily suspend certain sanctions for a period of six months.

On January 20, 2014, the U.S. and E.U. indicated that they would begin implementing the temporary relief measures provided for under the JPOA. These measures include, among other things, the suspension of certain sanctions on the Iranian petrochemicals, precious metals, and automotive industries from January 20, 2014 until July 20, 2014.

Although it is our intention to comply with the provisions of the JPOA, there can be no assurance that we will be in compliance in the future as such regulations and U.S. Sanctions may be amended over time, and the U.S. retains the authority to revoke the aforementioned relief if Iran fails to meet its commitments under the JPOA.

Due to the nature of our business and the evolving nature of the foregoing sanctions and embargo laws and regulations, there can be no assurance that we will be in compliance at all times in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any violation of such restrictions could result in fines, penalties or other sanctions that could severely impact our ability to access U.S. capital markets and conduct our business, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in, or to divest from, our common stock may adversely affect the price at which our common stock trades. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. In addition, our reputation and the market for our securities may be adversely affected if we engage in certain other activities, such as entering into charters with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Current or future counterparties of ours may be affiliated with persons or entities that are or may be in the future the subject of sanctions imposed by the Obama administration, the European Union and/or other international bodies as a result of the annexation of Crimea by Russia in March 2014. If we determine that such sanctions require us to terminate existing or future contracts to which we or our subsidiaries are party or if we are found to be in violation of such applicable sanctions, our results of operations may be adversely affected or we may suffer reputational harm. Currently, we do not believe that any of our existing counterparties are affiliated with persons or entities that are subject to such sanctions.

Governments could requisition our vessels during a period of war or emergency, resulting in loss of earnings.

A government of a vessel's registry could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. A government could also requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could have a material adverse effect on our business, results of operations, cash flows and financial condition.

The smuggling of drugs or other contraband onto our vessels may lead to governmental claims against us.

We expect that our vessels will call in ports in areas where smugglers attempt to hide drugs and other contraband on vessels, with or without the knowledge of crew members. To the extent our vessels are found with contraband, whether inside or attached to the hull of our vessel and whether with or without the knowledge of any of our crew, we may face governmental or other regulatory claims which could have an adverse effect on our business, results of operations, cash flows and financial condition.

Maritime claimants could arrest our vessels, which would interrupt our business.

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 could interrupt our business or require us to pay large sums of funds to have the arrest lifted, which would have a negative effect on our cash flows.

In addition, in some jurisdictions, such as South Africa, under the "sister-ship" theory of liability, a claimant may arrest both the vessel which 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 of our ships.

There is a lack of historical operating history provided with our secondhand vessel acquisitions and profitable operation of the vessels will depend on our skill and expertise.

Consistent with shipping industry practice, other than inspection of the physical condition of the vessels and examinations of classification society records, neither we nor our Manager will conduct any historical financial due diligence process when we acquire vessels. Accordingly, neither we nor our Manager will obtain the historical operating data for any secondhand vessels we may acquire in the future from the sellers because that information is not material to our decision to make acquisitions, nor do we believe it would be helpful to potential investors in assessing our business or profitability. Most vessels are sold under a standardized agreement, which, among other things, provides the buyer with the right to inspect the vessel and the vessel's classification society records. The standard agreement does not give the buyer the right to inspect, or receive copies of, the historical operating data of the vessel. Prior to the delivery of a purchased vessel, the seller typically removes from the vessel all records, including past financial records and accounts related to the vessel. In addition, the technical management agreement between the seller's technical manager and the seller is automatically terminated and the vessel's trading certificates are revoked by its flag state following a change in ownership.

Consistent with shipping industry practice, we treat the acquisition of a vessel (whether acquired with or without charter) as the acquisition of an asset rather than a business. Although vessels are generally acquired free of charter, we have acquired and may also in the future acquire some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is delivered to the buyer free of charter, and it is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer's entering into a separate direct agreement with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter, because it is a separate service agreement between the vessel owner and the charterer.

Due to the differences between the prior owners of these vessels and the Company with respect to the routes we expect to operate, our future customers, the cargoes we expect to carry, the freight rates and charter hire rates we will charge in the future and the costs we expect to incur in operating our vessels, we believe that our operating results will be significantly different from the operating results of the vessels while owned by the prior owners. Profitable operation of the vessels will depend on our skill and expertise. If we are unable to operate the vessels profitably, it may have an adverse affect on our financial condition, results of operations and cash flows.

Company Specific Risk Factors

The market values of our vessels have decreased, which could limit the amount of funds that we can borrow under our credit facilities.

The fair market value of our vessels is related to prevailing freight charter rates. While the fair market value of vessels and the freight charter market have a very close relationship as the charter market moves from trough to peak, the time lag between the effect of charter rates on market values of ships can vary. The fair market values of our vessels have generally experienced high volatility, and you should expect the market value of our vessels to fluctuate depending on a number of factors including:

- the prevailing level of charter hire rates;
- general economic and market conditions affecting the shipping industry;
- competition from other shipping companies and other modes of transportation;
 - the types, sizes and ages of vessels;
 - the supply and demand for vessels;
 - applicable governmental regulations;
 - technological advances; and
 - the cost of newbuildings.

The market values of our vessels may decrease, which could cause us to breach covenants in our credit facility and adversely affect our operating results.

We believe that the market value of the mortgaged vessels in our fleet is in excess of amounts required under our current credit facility with RBS. However, if the market values of our vessels, which are at relatively low levels, decrease further, we may breach some of the covenants contained in the financing agreements relating to our indebtedness at the time. If we do breach such covenants and we are unable to remedy the relevant breach, our lenders could accelerate our debt and foreclose on our fleet. In addition, if the book value of a vessel is impaired due to unfavorable market conditions or a vessel is sold at a price below its book value, we would incur a loss that could adversely affect our operating results.

Our growth in the future depends on our ability to successfully charter our vessels, for which we will face substantial competition.

The process of obtaining new long-term time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Containership charters are awarded based upon a variety of factors relating to the vessel operator, including:

- shipping industry relationships and reputation for customer service and safety;
- containership experience and quality of ship operations, including cost effectiveness;

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

We expect substantial competition for providing new containership service from a number of experienced companies, including state-sponsored entities and major shipping companies. Many of these competitors have significantly greater financial resources than we do, and can therefore operate larger fleets and may be able to offer better charter rates. As a result of these factors, we may be unable to obtain new customers on a profitable basis, if at all, which will impede our ability to establish our operations and implement our growth successfully.

Furthermore, if our vessels become available for employment under new time charters during periods when charter rates are at depressed levels, we may have to employ our containerships at depressed charter rates, if we are able to secure employment for our vessels at all, which would lead to reduced or volatile earnings. Future charter rates may not be at a level that will enable us to operate our containerships profitably to allow us to implement our growth strategy successfully, pay dividends or repay our debt.

We cannot assure you that our board of directors will declare dividends.

In 2013, 2012 and 2011 we made dividend payments in the aggregate amount of \$0.90, \$1.00 and \$0.18 per share, respectively, and have declared a dividend of \$0.15 per share on February 17, 2014, with respect to the fourth quarter of 2013. We currently intend to declare a variable quarterly dividend each February, May, August and November equal to a substantial portion of available cash from operations during the previous quarter after the payment of cash expenses and reserves for scheduled drydockings, intermediate and special surveys and other purposes as our board of directors may from time to time determine are required, after taking into account contingent liabilities, the terms of any credit facility, our growth strategy and other cash needs and the requirements of Marshall Islands law.

The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things, our earnings, financial condition and cash requirements and availability, our ability to obtain debt and equity financing on acceptable terms as contemplated by our growth strategy and provisions of Marshall Islands law affecting the payment of dividends. The international containership sector is highly volatile, and we cannot predict with certainty the amount of cash, if any, that will be available for distribution as dividends in any period. Also, there may be a high degree of variability from period to period in the amount of cash that is available for the payment of dividends.

We may incur expenses or liabilities or be subject to other circumstances in the future that reduce or eliminate the amount of cash that we have available for distribution as dividends, including as a result of the risks described in this section of the annual report. Our growth strategy contemplates that we will finance the acquisition of additional vessels through a combination of debt and equity financing on terms acceptable to us. If financing is not available to us on acceptable terms, our board of directors may determine to finance or refinance acquisitions with cash from operations, which would reduce or even eliminate the amount of cash available for the payment of dividends.

Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for 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 a dividend. In addition, any credit facilities that we may enter into in the future may include restrictions on our ability to pay dividends.

The failure of our counterparties to meet their obligations to us under any vessel purchase agreements or time charter agreements could cause us to suffer losses or otherwise adversely affect our business.

Currently, we have secured time charters for our vessels with minimum remaining durations between 1 and 24 months. Generally, we intend to selectively employ our vessels under short-, medium- or long-term time charters. The ability and willingness of each of our counterparties to perform its obligations under a vessel purchase agreement or time charter agreement with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the containership market and the overall financial condition of the counterparty. If the seller of a vessel fails to deliver a vessel to us as agreed, or if we cancel a purchase agreement because a seller has not met its obligations, this may have a material adverse effect on our business. In addition, in depressed market conditions, there have been reports of charterers renegotiating their charters or defaulting on their obligations under charters and our future customers may fail to pay charterhire or attempt to renegotiate charter rates. If our future charterers fail to meet their obligations to us or attempt to renegotiate our future

charter agreements, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may be unable to locate suitable vessels which would adversely affect our ability to operate our business.

We intend to further grow our fleet through selective acquisitions. Our business strategy is dependent on identifying and purchasing suitable vessels. Changing market and regulatory conditions may limit the availability of suitable vessels because of customer preferences or because they are not or will not be compliant with existing or future rules, regulations and conventions. Additional vessels of the age and quality we desire may not be available for purchase at prices we are prepared to pay or at delivery times acceptable to us, and we may not be able to dispose of vessels at reasonable prices, if at all. If we are unable to purchase and dispose of vessels at reasonable prices in accordance with our business strategy or in response to changing market and regulatory conditions, our business would be adversely affected.

Our purchasing and operating secondhand vessels may result in increased operating costs and vessels off-hire, which could adversely affect our earnings.

Our current business strategy includes growth through the acquisition of previously owned vessels. While we will typically inspect secondhand vessels before purchase, this does not provide us with the same knowledge about their condition that we would have had if these vessels had been built for and operated exclusively by us. Accordingly, we may not discover defects or other problems with such vessels before purchase. Any such hidden defects or problems, when detected, may be expensive to repair, and if not detected, may result in accidents or other incidents for which we may become liable to third parties. In addition, when purchasing secondhand vessels, we do not receive the benefit of any builder warranties if the vessels we buy are older than one year.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel efficient than more recently constructed vessels due to improvements in engine technology. Potential charterers may also choose not to charter older vessels. Governmental regulations, safety and other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment to some of our vessels and may restrict the type of activities in which these vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives. As a result, regulations and standards could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may not be able to implement our growth successfully.

Our business plan is to identify and acquire suitable vessels at favorable prices and trade our vessels on short-, medium- or long-term time charters. Our business plan will therefore depend upon our ability to identify and acquire suitable vessels to grow our fleet in the future and successfully employ our vessels.

Growing any business by acquisition presents numerous risks, including undisclosed liabilities and obligations, difficulty obtaining additional qualified personnel and managing relationships with customers and suppliers. In addition, competition from other companies, many of which may have significantly greater financial resources than us, may reduce our acquisition opportunities or cause us to pay higher prices. We cannot assure you that we will be successful in executing our plans to establish and grow our business or that we will not incur significant expenses and losses in connection with these plans. Our failure to effectively identify, purchase, develop and integrate any vessels could impede our ability to establish our operations or implement our growth successfully. 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 realize anticipated benefits, such as cost savings or cash flow enhancements;

- incur or assume unanticipated liabilities, losses or costs associated with any vessels or businesses acquired, particularly if any vessel we acquire proves not to be in good condition;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;

- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
 - significantly increase our interest expense or financial leverage if we incur debt to finance acquisitions; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

We have acquired re-sale newbuilding vessels in the past and we may in the future agree to acquire additional newbuilding vessels, and any delay in the delivery of vessels under contract could have a material adverse effect on us.

We have acquired re-sale newbuilding vessels in the past. As we grow our fleet in the future, we may acquire additional newbuildings. The completion and delivery of newbuildings could be delayed because of, among other things:

- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
 - work stoppages or other labor disturbances at the shipyard;
 - bankruptcy of or other financial crisis involving the shipyard;
 - a backlog of orders at the shipyard;
 - political, social or economic disturbances;
 - weather interference or a catastrophic event, such as a major earthquake or fire;
 - requests for changes to the original vessel specifications;
 - shortages of or delays in the receipt of necessary construction materials, such as steel;
 - an inability to finance the constructions of the vessels; or
 - an inability to obtain requisite permits or approvals.

If the seller of any newbuilding vessel we have contracted to purchase is not able to deliver the vessel to us as agreed, or if we cancel a purchase agreement because a seller has not met his obligations, it may result in a material adverse effect on our business, prospects, financial condition, liquidity and results of operations.

Increased competition in technological innovation could reduce the demand for our vessels and our ability to successfully implement our business strategy.

The charter hire 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 life. Efficiency includes speed, fuel economy and the ability to be loaded and unloaded quickly. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. Physical life 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 flexible or have longer

physical lives than our vessels, competition from these more technologically advanced containerships could adversely affect the amount of charter hire payments we receive for our vessels or our ability to charter our vessels at all.

Our executive officers and directors will not devote all of their time to our business, which may hinder our ability to operate successfully.

Our executive officers and directors will be involved in other business activities, such as the operation of Diana Shipping Inc., which may result in their spending less time than is appropriate or necessary to manage our business successfully. This could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Diana Shipping and the Company's management currently own a significant portion of our outstanding common shares, which may limit your ability to influence our actions.

Diana Shipping currently owns approximately 9.3% of our outstanding common stock and our executive officers collectively own approximately 7.7% of our outstanding common stock. Accordingly, Diana Shipping and our management have the power to exert considerable influence over our actions, including the election of directors, the adoption or amendment of provisions in our articles of incorporation and possible mergers or other significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, merger, consolidation, takeover or other business combination. This concentration of ownership could also discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could in turn have an adverse effect on the market price of our shares. So long as Diana Shipping and our management continue to own a significant amount of our equity, even though such amount represents less than 50% of our voting power, they will continue to be able to exercise considerable influence over our decisions.

Diana Shipping will not provide any guarantee of the performance of our obligations nor will you have any recourse against Diana Shipping should you seek to enforce a claim against us.

Diana Shipping currently owns approximately 9.3% of our common stock, but will not provide any guarantee of the performance of our obligations. Further, you will have no recourse against Diana Shipping should you seek to enforce a claim against us.

The fiduciary duties of our officers and directors may conflict with those of the officers and directors of Diana Shipping and/or its affiliates.

Our officers and directors have fiduciary duties to manage our business in a manner beneficial to us and our shareholders. However, our Chief Executive Officer and Chairman, President, Chief Operating Officer and Chief Financial Officer also serve as executive officers and/or directors of Diana Shipping. As a result, these individuals have fiduciary duties to manage the business of Diana Shipping and its affiliates in a manner beneficial to such entities and their shareholders. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Diana Shipping and us are in conflict. Although Diana Shipping is contractually restricted from competing with us in the containership sector, there may be other business opportunities for which Diana Shipping may compete with us such as hiring employees, acquiring other businesses, or entering into joint ventures, which could have a material adverse effect on our business. In addition, we are contractually restricted from competing with Diana Shipping in the drybulk carrier sector, which limits our ability to expand our operations.

Because the Public Company Accounting Oversight Board is not currently permitted to inspect our independent accounting firm, you may not benefit from such inspections.

Auditors of U.S. public companies are required by law to undergo periodic Public Company Accounting Oversight Board (PCAOB) inspections that assess their compliance with U.S. law and professional standards in connection with performance of audits of financial statements filed with the Commission. Certain European Union countries, including Greece, do not currently permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries, even if they are part of major international firms. Accordingly, unlike for most U.S. public companies, the PCAOB is prevented from evaluating our auditor's performance of audits and its quality control procedures, and, unlike shareholders of most U.S. public companies, we and our shareholders are deprived of the possible benefits of such inspections.

Restrictive covenants in our credit facilities may impose financial and other restrictions on us.

We entered into a \$100.0 million secured revolving credit facility with the Royal Bank of Scotland plc, or RBS, in December 2011 in order to refinance part of the acquisition costs of the container vessels m/vSagitta and m/v Centaurus, to finance part of the acquisition cost of our container vessels, m/v Cap Domingo (ex Cap San Marco), m/v Cap Doukato (ex Cap San Raphael) and m/v APL Sardonyx and m/v APL Spinel. In addition, in May 2013, we entered into an unsecured loan agreement of up to \$50.0 million with Diana Shipping Inc., one of our major shareholders, to be used to fund vessels acquisitions and for general corporate purposes. As of December 31, 2013 and the date hereof, we had \$148.7 million of debt outstanding under our facilities. As of December 31, 2013 and the date hereof we did not have any remaining borrowing capacity under our loan agreements.

Our credit facilities impose operating and financial restrictions on us. These restrictions may limit our ability to, among other things:

- pay dividends or make capital expenditures if we do not repay amounts drawn under our loan facilities, if there is a default under the loan facilities or if the payment of the dividend or capital expenditure would result in a default or breach of a loan covenant;
 - incur additional indebtedness, including through the issuance of guarantees;
 - change the flag, class or management of our vessels;
 - create liens on our assets;
 - sell our vessels;
- enter into a time charter or consecutive voyage charters that have a term that exceeds, or which by virtue of any optional extensions may exceed a certain period;
 - merge or consolidate with, or transfer all or substantially all our assets to, another person; and
 - enter into a new line of business.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may limit our ability to pay any dividends to you, finance our future operations, make acquisitions or pursue business opportunities.

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

The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional capital resources that we will require to purchase additional vessels in the future or may significantly increase our costs of obtaining such capital. Our inability to obtain financing at all or at a higher than anticipated cost may materially affect our results of operation and our ability to implement our business strategy.

We may be unable to attract and retain key management personnel and other employees in the shipping industry, which may negatively impact the effectiveness of our management and results of operations.

Our success depends to a significant extent upon the abilities and efforts of our management team, our Chief Executive Officer, Mr. Symeon Palios; our President, Mr. Anastasios Margaronis; our Chief Financial Officer and Treasurer, Mr. Andreas Michalopoulos; and our Chief Operating Officer and Secretary, Mr. Ioannis Zafirakis. Our success will depend upon our ability to retain key members of our management team and to hire new members as may be necessary. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining replacement personnel could adversely affect our business, results of operations and ability to pay dividends. We do not intend to maintain "key man" life insurance on any of our officers or other members of our management team.

If our insurance is insufficient to cover losses that may occur to our vessels or result from our operations due to the inherent operational risks of the shipping industry, it could adversely affect our financial condition.

The operation of an ocean-going vessel carries inherent risks, any of which could increase our costs or lower our revenues. These risks include the possibility of:

- marine disaster;
- environmental accidents;
- cargo and property losses or damage;
- business interruptions caused by mechanical failure, human error, political action in various countries, war, labor strikes, or adverse weather conditions; and
- loss of revenue during vessel off-hire periods.

Under the vessel management agreements, our Manager is responsible for procuring and paying for insurance for our vessels. Our insurance policies contain standard limitations, exclusions and deductibles. The policies insure against those risks that the shipping industry commonly insures against, which are hull and machinery, protection and indemnity and war risk. The Manager currently maintains hull and machinery coverage in an amount at least equal to the vessels' fair market value. The Manager maintains an amount of protection and indemnity insurance that is at least equal to the standard industry level of coverage. We cannot assure you that the Manager will be able to procure adequate insurance coverage for our fleet in the future or that our insurers will pay any particular claim.

We expect to continue to operate substantially outside the United States, which will expose us to political and governmental instability, which could harm our operations.

We expect that our operations will continue to be primarily conducted outside the United States and may be adversely affected by changing or adverse political and governmental conditions in the countries where our vessels are flagged or registered and in the regions where we otherwise engage in business. Any disruption caused by these factors may interfere with the operation of our vessels, which could harm our business, financial condition and results of operations. Past political efforts to disrupt shipping in these regions, particularly in the Arabian Gulf, have included attacks on ships and mining of waterways. In addition, terrorist attacks outside this region, such as the attacks that occurred against targets in the United States on September 11, 2001, Spain on March 11, 2004, London on July 7, 2005, Mumbai on November 26, 2008 and continuing hostilities in the Middle East and the world may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States and elsewhere. Any such attacks or disturbances may disrupt our business, increase vessel operating costs, including insurance costs, and adversely affect our financial condition and results of operations. Our operations may also be adversely affected by expropriation of vessels, taxes, regulation, tariffs, trade embargoes, economic sanctions or a disruption of or limit to trading activities or other adverse events or circumstances in or affecting the countries and regions where we operate or where we may operate in the future.

We generate all of our revenues in dollars and incur a portion of our expenses in other currencies, and therefore exchange rate fluctuations could have an adverse impact on our results of operations.

We generate all of our revenues in dollars and incur a portion of our expenses in currencies other than the dollar. This difference could lead to fluctuations in net income due to changes in the value of the dollar relative to the other currencies, in particular the Euro. Expenses incurred in foreign currencies against which the dollar falls in value can increase, decreasing our revenues. Further declines in the value of the dollar could lead to higher expenses payable by us.

We may have to pay tax on United States source income, which would reduce our earnings.

Under the United States Internal Revenue Code of 1986, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as us and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States may be subject to a 4% United States federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code, or Section 883, and the applicable Treasury Regulations promulgated thereunder.

We intend to take the position that we qualified for this statutory tax exemption for U.S. federal income tax return reporting purposes for our 2013 taxable year and we intend to so qualify for future taxable years. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption for any future taxable year and thereby become subject to U.S. federal income tax on our U.S.-source shipping income. For example, in certain circumstances we may no longer qualify for exemption under Code Section 883 for a particular taxable year if shareholders, other than "qualified shareholders", with a five percent or greater interest in our common shares owned, in the aggregate, 50% or more of our outstanding common shares for more than half the days during the taxable year. Due to the factual nature of the issues involved, there can be no assurances on our tax-exempt status.

If we are not entitled to exemption under Section 883 for any taxable year, we would be subject for those years to an effective 2% United States federal income tax on the shipping income we derive during the year which is attributable to the transport of cargoes to or from the United States. The imposition of this taxation would have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders.

We may be treated as a "passive foreign investment company," which could have certain adverse U.S. Federal income tax consequences to U.S. holders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% 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, cash will be treated as an asset held for the production of passive income. For purposes of these tests, "passive income" generally includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than those received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. holders of stock in a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their stock in the PFIC.

Whether we will be treated as a PFIC will depend upon our method of operation. In this regard, we intend to treat the gross income we derive or are deemed to derive from time or voyage chartering activities as services income, rather than rental income. Accordingly, we believe that any income from time or voyage chartering activities will not constitute "passive income," and any assets that we may own and operate in connection with the production of that income will not constitute passive assets. However, any gross income that we may be deemed to have derived from bareboat chartering activities will be treated as rental income and thus will constitute "passive income," and any assets that we may own and operate in connection with the production of that income will constitute passive assets. There is substantial legal authority supporting this position consisting of case law and Internal Revenue Service, or IRS, pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept our position with regard to our status from time to time as a PFIC, and there is a risk that the IRS or a court of law could determine that we are or have been a PFIC for a particular taxable year.

If we are or have been a PFIC for any taxable year, U.S. holders of our common stock will face certain adverse U.S. federal income tax consequences and information reporting obligations. Under the PFIC rules, unless such U.S. holders make certain elections available under the Code (which elections could themselves have certain adverse consequences for such U.S. holders), such U.S. holders would be liable to pay U.S. federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over such U.S.

holder's holding period for such common stock. See Item 10.E "Taxation — United States Federal Income Tax Considerations — United States Federal Income Taxation of U.S. Holders — PFIC Status and Significant Tax Consequences" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. holders of our common stock if we are or were to be treated as a PFIC.

We may be subject to increased premium payments, or calls, because we obtain some of our insurance through protection and indemnity associations.

We may be subject to increased premium payments, or calls, in amounts based on our claim records as well as the claim records of other members of the protection and indemnity associations in the International Group, which is comprised of 13 mutual protection and indemnity associations and insures approximately 90% of the world's commercial tonnage and through which we receive insurance coverage for tort liability, including pollution-related liability, as well as actual claims. Amounts we may be required to pay as a result of such calls will be unavailable for other purposes.

Risks Relating to our Common Shares

We may be unable to maintain our listing on the Nasdaq Global Select Market, which would adversely affect the value of our common shares and make it more difficult for you to monetize your investment.

Nasdaq Global Select Market and each national securities exchange have certain corporate governance requirements that must be met in order for us to maintain our listing. If we fail to maintain the relevant corporate governance requirements, our common shares could be delisted, which would make it harder for you to monetize your investment in our common shares and would cause the value of your investment to decline.

If the share price of our common shares fluctuates, you could lose a significant part of your investment.

The market price of our common shares may be influenced by many factors, many of which are beyond our control, including the other risks described under "— Risk Factors Relating to Our Common Shares" and the following:

- the failure of securities analysts to publish research about us, or analysts making changes in their financial estimates;
- announcements by us or our competitors of significant contracts, acquisitions or capital commitments;
- variations in quarterly operating results;
- general economic conditions;
- terrorist or piracy acts;
- future sales of our common shares or other securities; and
- investors' perception of us and the international containership sector.

These broad market and industry factors may materially reduce the market price of our common shares, regardless of our operating performance.

Future offerings of debt securities and amounts outstanding under current and future credit facilities or other borrowings, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders, may adversely affect the market value of common stock.

On December 16, 2011, we entered into an agreement for a revolving credit facility of up to \$100 million with RBS, and on May 20, 2013 we entered into an unsecured loan agreement of \$50 million with Diana Shipping. In the future,

we may attempt to increase our capital resources with further borrowing under credit facilities, making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock. Upon liquidation, holders of our debt securities and preferred stock and lenders with respect to our credit facilities and other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market value of our common stock, or both. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on dividend payments that would limit amounts available for distribution to holders of our common stock. Because our decision to borrow additional amounts under credit facilities or issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future indebtedness or offering of securities. Therefore, holders of our common stock bear the risk of our future offerings reducing the market value of our common stock and diluting their shareholdings in us or that in the event of bankruptcy, liquidation, dissolution or winding-up of the Company, all or substantially all of our assets will be distributed to holders of our debt securities or preferred stocks or lenders with respect to our credit facilities and other borrowings.

We are a holding company, and we will depend on the ability of our current and future subsidiaries to distribute funds to us in order to satisfy our financial obligations or to make dividend payments.

We are a holding company, and our current and future subsidiaries, which will all be wholly-owned by us, either directly or indirectly, will conduct all of our operations and own all of our operating assets. We will have no significant assets other than the equity interests in our wholly-owned subsidiaries. As a result, our ability to satisfy our financial obligations and to pay dividends, if any, to our shareholders will depend on the ability of our subsidiaries to distribute funds to us. In turn, the ability of our subsidiaries to make dividend payments to us will depend on them having profits available for distribution and, to the extent that we are unable to obtain dividends from our subsidiaries, this will limit the discretion of our board of directors to pay or recommend the payment of dividends. Also, our subsidiaries are limited by Marshall Islands law which generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for 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 a dividend.

Because we are a foreign corporation, you may not have the same rights or protections that a shareholder in a United States corporation may have.

We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law and may make it more difficult for our shareholders to protect their interests. Our corporate affairs are governed by our amended and restated articles of incorporation and bylaws and the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. The rights and fiduciary responsibilities of directors under the law 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 U.S. jurisdictions and there have been few judicial cases in the Marshall Islands interpreting the BCA. 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 public 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 U.S. jurisdiction. Therefore, you may have more difficulty in protecting your interests as a shareholder in the face of actions by the management, directors or controlling stockholders than would shareholders of a corporation incorporated in a United States jurisdiction.

Future sales of our common stock could cause the market price of our common stock to decline.

As of December 31, 2013 we had 35,051,567 shares of common stock outstanding. The market price of our common stock could decline from their current levels due to sales of a large number of shares in the market, including sales of shares by our large shareholders, our issuance of additional shares, including shares issued pursuant to our ongoing at-the-market offering of up to \$40.0 million in gross proceeds, under which a total of 2,859,603 shares were sold as of December 31, 2013, or securities convertible into our common stock or the perception that these sales could occur. These sales could also make it more difficult or impossible for us to sell equity securities in the future at a time and price that we deem appropriate to raise funds through future offerings of shares of our common stock. The issuance of such additional shares of common stock would also result in the dilution of the ownership interests of our existing shareholders. We have entered into a registration rights agreement with Diana Shipping that will entitle it to have all the shares of our common stock that it owns registered for re-sale in the public market under the Securities Act.

As a key component of our business strategy, we intend to issue additional shares of common stock or other securities to finance our growth. These issuances, which would generally not be subject to shareholder approval, may lower your ownership interests and may depress the market price of our common stock.

As a key component of our business strategy, we plan to finance potential future expansions of our fleet in large part with equity financing. Pursuant to our amended and restated articles of incorporation, we are authorized to issue up to 500 million common shares and 25 million preferred shares, each with a par value of \$0.01 per share. Therefore, subject to the rules of the Nasdaq Global Select Market that are applicable to us, we plan to issue additional shares of common stock, and other equity securities of equal or senior rank, without shareholder approval, in a number of circumstances from time to time.

The issuance by us of additional shares of common stock or other equity securities of equal or senior rank will have the following effects:

- our existing shareholders' proportionate ownership interest in us may decrease;
- the relative voting strength of each previously outstanding share may be diminished;
- the market price of our common stock may decline; and
- the amount of cash available for dividends payable on our common stock, if any, may decrease.

It may not be possible for our investors to enforce U.S. judgments against us.

We are incorporated in the Republic of the Marshall Islands. Substantially all of our assets are located outside the United States. As a result, it may be difficult or impossible for United States shareholders to serve process within the United States upon us or to enforce judgment upon us for civil liabilities in United States courts. In addition, you should not assume that courts in the countries in which we are incorporated or where our assets are located (1) would enforce judgments of United States courts obtained in actions against us based upon the civil liability provisions of applicable United States federal and state securities laws or (2) would enforce, in original actions, liabilities against us based upon these laws.

Anti-takeover provisions in our organizational documents could make it difficult for our shareholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the value of our securities.

Several provisions of our amended and restated articles of incorporation and bylaws could make it difficult for our shareholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue "blank check" preferred stock without shareholder approval;
- providing for a classified board of directors with staggered, three-year terms;
- prohibiting cumulative voting in the election of directors;

- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of two-thirds of the outstanding common shares entitled to vote generally in the election of directors;
 - limiting the persons who may call special meetings of shareholders; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

In addition, we have entered into a stockholders rights agreement pursuant to which our board of directors may cause the substantial dilution of any person that attempts to acquire us without the approval of our board of directors.

These anti-takeover provisions, including provisions of our stockholders rights agreement, could substantially impede the ability of shareholders to benefit from a change in control and, as a result, may adversely affect the value of our securities, if any, and the ability of shareholders to realize any potential change of control premium.

Item 4. Information on the Company

A. History and development of the Company

Diana Containerships Inc. is a corporation incorporated under the laws of the Republic of the Marshall Islands on January 7, 2010. Each of the Company's vessels is owned by separate wholly-owned subsidiaries. Diana Containerships Inc. is the owner of all the issued and outstanding shares of the subsidiaries listed in Exhibit 8.1 to this annual report. We maintain our principal executive offices at Pendelis 18, 175 64 Palaio Faliro, Athens, Greece. Our telephone number at that address is +30 216 600 2400. Unitized Ocean Transport Limited, our Manager, rents our office space from an unrelated third party.

Business Development and Capital Expenditures and Divestitures

During 2011, we acquired from Maersk Line UK Ltd. and A.P. Moller Singapore Pte. Ltd) three Panamax container vessels, the m/v Maersk Madrid for \$22.5 million and m/v Maersk Malacca, and m/v Maersk Merlion for \$24 million each. All three vessels were chartered back to A.P. Møller-Maersk A/S.

In June 2011, we sold 16,916,667 shares at the price of \$7.50 per share, including 1,625,000 shares purchased by management and certain members of their family and 2,666,667 shares purchased by Diana Shipping, each at \$7.50 per share. The net proceeds from the offering amounted to approximately \$121.5 million including \$20.0 million invested by Diana Shipping.

In December 2011, we entered into an agreement for a revolving credit facility of up to \$100 million with the Royal Bank of Scotland plc. The credit facility has a term of five years and bore, up to June 1, 2013, interest at the rate of 2.75% per annum over LIBOR. We also paid a commitment fee of 0.99% per annum on the undrawn amount of the facility until October 31, 2013. In 2012 and 2013, we drew down an aggregate amount of \$92.7 million and \$6.0 million respectively, leaving currently outstanding an amount of \$98.7 million.

During 2012 we acquired five Panamax container vessels: two from APL (Bermuda) Ltd., the m/v APL Sardonyx and m/v APL Spinel, for \$30 million each; two from Reederei Santa Containerschiffe GmbH & Co. KG, the m/v Cap San Marco renamed subsequently to Cap Domingo and m/v Cap San Raphael renamed subsequently to Cap Doukato, for \$33 million each; and one from Neptune Orient Lines Ltd., the m/v APL Garnet, for \$30 million. All vessels were chartered back to their respective sellers.

In July 2012, we completed a public offering in the United States under the United States Securities Act at 1933, as amended, for 8,100,000 common shares at the price of \$6.25 per share. On August 10, 2012, the underwriters exercised an overallotment option and purchased an additional amount of 1,015,803 shares. The net proceeds from the public offering, including the overallotment option, amounted to \$53.9 million (net of underwriting discounts and commissions and offering expenses payable by the Company).

In February 2013, we entered into a Memorandum of Agreement with Hanjin Shipping Co., Ltd., Seoul, for the purchase of a 1993-built Panamax container vessel of approximately 4,024 TEU capacity, the m/v Hanjin Malta, for a

purchase price of \$22 million. The vessel was delivered to us from the sellers in March 2013. The vessel was chartered back to her sellers .

Effective March 1, 2013, Unitized Ocean Transport Limited, the "Manager" or "UOT", our wholly-owned subsidiary, provides us and the vessels we own with management and administrative services. Pursuant to the new management agreements, UOT receives a fixed commission of 2% on the gross charter hire and freight earned by each vessel plus a technical management fee of \$15,000 per vessel per month for employed vessels and \$7,500 per vessel per month for laid-up vessels, if any. In addition, pursuant to the administrative agreement, UOT receives a fixed monthly fee of \$10,000. Since March 1, 2013 the management and administrative fees payable to UOT are eliminated in consolidation as intercompany transactions. Similar fees for the years ended 2011 and 2012 and the period January 1, 2013 to February 28, 2013 were payable to Diana Shipping Services S.A, or DSS, a wholly-owned subsidiary of Diana Shipping Inc. On March 1, 2013, and in relation with the appointment of UOT to act as our new Manager, the Administrative Services Agreement, the Broker Services Agreement that DSS had entered into with Diana Enterprises Inc. on our behalf, and the Vessel Management Agreements with DSS were terminated.

Following the termination agreement for brokerage services that were provided to us through DSS on March 1, 2013, Diana Enterprises has entered on the same date into an agreement with UOT to provide brokerage services for a fixed monthly fee of \$120,833. The agreement had a term of thirteen months and the fees were payable quarterly in advance, effective April 1, 2013.

In April and May 2013, we sold the vessels m/v Maersk Madrid, m/v Maersk Merlion and m/v Maersk Malacca to unrelated parties for demolition, for the aggregate sale price of \$28.1 million, net of address commissions. In May and June 2013, the vessels were delivered to their new owners.

In May 2013, we entered into an unsecured loan agreement of up to \$50.0 million with Diana Shipping Inc., one of our major shareholders, to be used to fund vessel acquisitions and for general corporate purposes. The loan has a term of four years and bears interest at the rate of 5.0% per annum over LIBOR and a fee of 1.25% per annum on any amounts repaid upon any repayment or voluntary prepayment dates. In August 2013, the full amount of \$50.0 million was drawn down, which currently remains outstanding.

In May 2013, we filed a prospectus supplement pursuant to Rule 424(b) relating to the offer and sale of an aggregate of up to \$40.0 million in gross proceeds of our common stock under an at-the-market offering. As of December 31, 2013, a total of 2,859,603 shares of our common stock were sold under the at-the-market offering and the net proceeds, after deducting underwriting commissions and offering expenses payable by us, amounted to \$12.4 million. We currently intend to continue sales of the remaining amounts of our shares available under the at-the-market offering, subject to market conditions.

In August 2013, we entered into two Memoranda of Agreement for the purchase of two 2006-built Post-Panamax container vessels of approximately 6,541 TEU capacity each, the m/v Puelo, and the m/v Pucon, for a purchase price of \$47 million each. The vessels were delivered to us from the sellers in August and September 2013, respectively. The vessels were chartered to CSAV.

During 2013, we entered into various supplemental agreements with the Royal Bank of Scotland plc. The supplemental agreements, dated July 22, 2013, September 11, 2013 and December 6, 2013, provide for an increased margin of 3.10% per annum, effective June 1, 2013, and certain other consequential amendments of the terms of the initial facility agreement.

In December 2013 and February 2014, we sold the m/v Apl Spinel and the m/v Apl Sardonyx, respectively, to unrelated parties for demolition, for the aggregate sale price of \$19.1 million, net of address commissions. The vessels were delivered to their new owners in December 2013 and February 2014, respectively.

Subsequent to December 31, 2013 and up to March 25, 2014, we sold 948,160 shares of common stock pursuant to our at-the-market program, in connection with which we received total net proceeds of \$3.8 million.

In March 2014, the Broker Services Agreement with Diana Enterprises Inc. was terminated and replaced with a new agreement, according to which, with retroactive effect from January 1, 2014, the duration of the engagement shall be for a term of fifteen months, ending on March 31, 2015. All other terms of the agreement remained unchanged.

B. Business Overview

We are a corporation formed under the laws of the Republic of the Marshall Islands on January 7, 2010. We were founded to own containerships and pursue containership acquisition opportunities.

As of the date of this report, our fleet consists of six panamax and two post-panamax containerships with a combined carrying capacity of 36,165 TEU and a weighted average age of 10.8 years. As at December 31, 2013, our fleet consisted of seven panamax and two post-panamax containerships with a combined carrying capacity of 40,894 TEU and a weighted average age of 11.5 years. As at December 31, 2012, our fleet consisted of ten panamax containerships with a combined carrying capacity of 42,151 TEU and a weighted average age of 15.6 years. Finally, as at December 31, 2011, our fleet consisted of five panamax containerships with a combined carrying capacity of 20,486 TEU and a weighted average age of 15.0 years.

During 2013, 2012, and 2011, we had fleet utilization of 97.9%, 99.8%, and 99.3%, respectively, our vessels achieved a daily time charter equivalent rate of \$15,162, \$17,499, and \$19,895, respectively, and we generated revenues, net of prepaid charter revenue amortization, of \$54.0 million, \$56.6 million and \$27.0 million, respectively.

Set forth below is summary information concerning our fleet as at March 25, 2014.

Vessel	Sister	Gross Rate			Delivery Date	Redelivery Date		
BUILT	TEU	Ships*	(USD Per Day)	Com**	Charterer	to Charterer	to Owners***	Notes
Panamax Container Vessels								
SAGITTA		A	\$7,250 \$7,400	1.25%	A.P. Moller - Maersk A/S	15-Mar-13 29-Jan-14	29-Jan-14 15-Sep-14 - 30-Nov-14	
2010 3,426								
CENTAURUS		A	\$7,500	3.50%	CMA CGM S.A.	13-Aug-12	1-Apr-14 - 13-Jun-14	1,2
2010 3,426								
CAP DOMINGO (ex Cap San Marco)		B	\$22,850	0%	Reederei Santa Containerschiffe GmbH & Co. KG	6-Feb-13	6-Feb-14	3,4,5
2001 3,739			\$23,250			6-Feb-14	23-Dec-14 - 23-Mar-15	
CAP DOUKATO (ex Cap San Raphael)		B	\$22,850	0%	Reederei Santa Containerschiffe GmbH & Co. KG	6-Feb-13	6-Feb-14	3,4,5
2002 3,739			\$23,250			6-Feb-14	23-Dec-14 - 23-Mar-15	
SARDONYX		C	\$24,750	1.00%		17-Feb-12	12-Feb-14	4,6,7

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(ex APL Sardonyx) 1995 4,729				APL (Bermuda) Ltd.				
APL GARNET 1995 4,729	C	\$27,000	0%	NOL Liner (Pte) Ltd.	19-Nov-12	20-Aug-15 - 19-Oct-15		4
HANJIN MALTA 1993 4,024		\$25,550	US\$150 per day	Hanjin Shipping Co. Ltd.	15-Mar-13	30-Mar-16 - 15-May-16		4

Post - Panamax Container Vessels

PUELO 2006 6,541	D	\$27,900	US\$150 per day	CSAV Valparaiso	23-Aug-13	23-Feb-15 - 23-Feb-16		8
PUCON 2006 6,541	D	\$27,900	US\$150 per day	CSAV Valparaiso	20-Sep-13	20-Mar-15 - 20-Mar-16		8

* Each container vessel is a "sister ship", or closely similar, to other container vessels that have the same letter.

** Total commission paid to third parties.

*** Charterers' optional period to redeliver the vessel to owners. Charterers have the right to add the off hire days, if any, and therefore the optional period may be extended.

1 On June 7, 2013, the Company agreed to extend as from August 13, 2013 the initially signed charter party with CMA CGM S.A., dated August 2, 2012 for a period of minimum 6 months to maximum 10 months.

2 Based on latest information.

3 For financial reporting purposes, we recognize revenue from time charters that have varying rates on a straight-line basis equal to the average revenue during the term of that time charter. We calculate quarterly dividends based on the available cash from operations during the relevant quarter.

4 For financial reporting purposes, revenues derived from the time charter agreement will be netted off during the term of the time charter with an amortization charge of the asset that was recognized at the delivery of the vessel, being the difference of the present value of the contractual cash flows to the fair value. However, we calculate quarterly dividends based on the available cash from operations during the relevant quarter.

5 Vessel chartered for a period of thirty-six (36) months plus or minus forty-five (45) days. The net daily charter hire rate will be US\$22,750 during the first twelve (12) months, US\$22,850 during the second twelve (12) months and US\$23,250 during the third twelve (12) months of the charter.

6 Since December 28, 2012 charterers changed to NOL Liner (Pte) Ltd.

7 Vessel sold and delivered to its new owners on February 21, 2014.

8 In case the vessel is redelivered to the Company in any period between the earliest and the maximum redelivery period after delivery, then the charterers will pay a lump sum equivalent to US\$6,000 per day to the owners for the outstanding period between the redelivery date and up to the 30 months.

Our Management Team

Our management team is responsible for the strategic management of our company, including the development of our business plan and overall vision for our operations. Strategic management also involves, among other things, locating, purchasing, financing and selling vessels. Our management team is led by our Chairman and Chief Executive Officer Mr. Symeon Palios, who founded the predecessors of Diana Shipping and DSS in 1972. Mr. Palios has served as the Chairman and Chief Executive Officer of Diana Shipping since 2005 and as a director since 1999. Mr. Anastasios Margaronis, our President and a director, also serves as President and as a director of Diana Shipping and has been employed by the Diana Shipping group of companies since 1979. Mr. Ioannis Zafirakis, our Chief Operating Officer, Secretary and a director, serves as Executive Vice President and Secretary of Diana Shipping and has been employed by the Diana Shipping group of companies since 1997. Mr. Andreas Michalopoulos, our Chief Financial Officer and Treasurer, has held these same offices with Diana Shipping since 2006.

Our management team has experience in multiple sectors of the international shipping industry, including the containership sector, and a proven track record of strategic growth beginning with the formation of the Diana Shipping group of companies in 1972. Our management team is responsible for identifying assets for acquisition and for the operation of our business in order to build our fleet and effectively manage our growth.

Potential Conflicts of Interest

Our management team is comprised of four executive officers who are also executive officers of Diana Shipping. Three of our executive officers serve on the board of directors of us and of Diana Shipping. Our officers and directors have fiduciary duties to manage our business in a manner beneficial to us and our shareholders. As a result, these individuals have fiduciary duties to manage the business of Diana Shipping and its affiliates in a manner beneficial to such entities and their shareholders. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Diana Shipping and us are in conflict. Although Diana Shipping is contractually

restricted from competing with us in the containership industry, there may be other business opportunities for which Diana Shipping may compete with us such as hiring employees, acquiring other businesses, or entering into joint ventures, which could have a material adverse effect on our business. In addition, we are contractually restricted from competing with Diana Shipping in the dry bulk carrier sector, which limits our ability to expand our operations.

Management of Our Fleet

The business of Diana Containerships Inc. is the ownership of containerships. The parent holding company wholly owns, directly or indirectly, the subsidiaries which own the vessels that comprise our fleet. The holding company sets general overall direction for the company and interfaces with various financial markets. The commercial and technical management of our fleet, as well as providing administrative services relating to the fleet's operations, are carried out, since March 1, 2013, by our wholly-owned subsidiary, Unitized Ocean Transport Limited, which we refer to as UOT, or our fleet manager. In exchange for providing us with commercial and technical services, we pay our Manager a commission that is equal to 2% of our gross revenues, a fixed management fee of \$15,000 per month for each vessel in operation and a fixed monthly fee of \$7,500 for laid-up vessels, if any. In addition, pursuant to an Administrative Services Agreement, we pay to UOT a fixed monthly administrative fee of \$10,000, in exchange for providing us with accounting, administrative, financial reporting and other services necessary for the operation of our business. These amounts are considered inter-company transactions and are, therefore, eliminated from our consolidated financial statements.

Until March 1, 2013, Diana Shipping Services S.A., or DSS, a wholly-owned subsidiary of Diana Shipping Inc., provided us with commercial, technical, accounting, administrative, financial reporting and other services, pursuant to an Administrative Services Agreement and Vessel Management Agreements. In addition, pursuant to a Broker Services Agreement, DSS had appointed Diana Enterprises Inc., a related party controlled by our Chief Executive Officer and Chairman, Mr. Symeon Palios, as broker to assist it in providing services to us. Please see "Item 7. Major Shareholders and Related Party Transactions" for a detailed description of these agreements. On March 1, 2013, and in relation with the appointment of UOT to act as our new Manager, the Administrative Services Agreement, the Broker Services Agreement that DSS had entered into with Diana Enterprises Inc. on our behalf, and the Vessel Management Agreements with DSS, were terminated.

On August 8, 2013, DSS was found guilty on felony counts and on December 5, 2013 was sentenced by the United States District Court in Norfolk, Virginia to a fine of \$1.1 million and a period of probation of three years and six months as a result of a conviction in which DSS was held vicariously liable for the actions of the chief engineer and second assistant engineer of one of Diana Shipping Inc's vessels. This conviction and fine payable by DSS did not result in the payment of any additional fees or expenses to us prior to the time that UOT replaced DSS as our Manager, and we do not believe that the conviction in any way affected the level of services provided to us by DSS.

Business Strategy

To acquire high quality containerships throughout the shipping cycle

We will seek to provide attractive returns to our investors by continuing to make accretive acquisitions of high quality containerships in the secondhand market, including from shipyards and lending institutions. We believe that the containership sector currently provides attractive acquisition opportunities as asset values remain at low levels and will continue to present attractive opportunities through the cycle. Over time, we expect that asset prices and charter rates will increase and we will continue to seek to make acquisitions that meet our investment criteria. Because members of our senior management team have successfully navigated previous market cycles, we believe that we have the experience and discipline to capitalize on market movements. In addition, we are not affected by issues currently impacting certain other containership companies, such as high leverage and the purchase of vessels at prices significantly above historical averages. We will continue to initially focus on vessels ranging from 3,500 TEU to 8,500 TEU because we believe that the current orderbook composition, coupled with global GDP growth, creates a favorable multi-year dynamic of supply and demand for these mid-sized containerships. As industry dynamics change, we might opportunistically acquire containerships outside of this range as well as enter into newbuilding contracts with shipyards on terms that meet our acquisition criteria.

Strategically deploy our vessels in order to optimize the opportunities in the time charter market

We intend to actively monitor market conditions, charter rates and vessel operating expenses in order to selectively employ vessels as market conditions warrant. In the near term we intend to enter into short-term time charters to allow our shareholders to benefit from what we believe to be an improving charter rate environment. Depending on market conditions, in the future we might enter into long-term time charters at rates that compare favorably to historical averages, shielding us from charter rates decreases and cyclical fluctuations. We believe that maintaining staggered charter maturities will provide us with the flexibility to capitalize on favorable market conditions, while providing us with a base of strong, visible cash flows.

Maintain a strong balance sheet

We have a strong balance sheet and we intend to maintain relatively low debt levels. We believe that maintaining a strong balance sheet will continue to provide us with the flexibility to capitalize on vessel purchase opportunities. Notwithstanding the foregoing, based on prevailing conditions and our outlook for the containership market, we might consider incurring further indebtedness in the future to enhance returns to our shareholders.

Provide an attractive yield to shareholders through quarterly dividends

We currently intend to continue to declare a variable quarterly dividend each February, May, August and November equal to a substantial portion of available cash from operations during the previous quarter after the payment of cash expenses and reserves for scheduled drydockings, intermediate and special surveys and other purposes as our board of directors may from time to time determine are required, after taking into account contingent liabilities, the terms of any credit facility, our growth strategy and other cash needs and the requirements of Marshall Islands law. Our board of directors may review and amend our dividend policy from time to time, in light of our plans for future growth and other factors.

Our Customers

Our customers include national, regional, and international companies, including A.P. Møller-Maersk A/S, CMA CGM S.A., CSAV Valparaiso, Reederei Santa Containerschiffe, GmbH & Co. KG, Hanjin Shipping Co. Ltd and NOL Liner (Pte) Ltd. During 2013, four of our charterers accounted for 87% of our revenues; A.P. Møller-Maersk A/S (16%), Reederei Santa Containerschiffe, GmbH & Co. (23%), NOL Liner (Pte) Ltd (38%) and Hanjin Shipping Co. Ltd (10%). During 2012, three of our charterers accounted for 90% of our revenues; A.P. Møller-Maersk A/S (46%), Reederei Santa Containerschiffe, GmbH & Co. KG (22%) and APL (Bermuda) Ltd (22%). During 2011, two of our charterers accounted for 100% of our revenues; A.P. Møller-Maersk A/S (73%) and CSAV Valparaiso (27%). We believe that developing strong relationships with the end users of our services allows us to better satisfy their needs with appropriate and capable vessels. A prospective charterer's financial condition, creditworthiness, reliability and track record are important factors in negotiating our vessels' employment.

The International Containership Industry

The information and data in this section relating to the international containership industry has been provided by Drewry Maritime Research (Drewry) and is taken from Drewry databases and other sources available in the public domain. Drewry has advised us that it accurately describes the international containership industry, subject to the availability and reliability of the data supporting the statistical and graphical information presented. Drewry's methodologies for collecting information and data, and therefore the information discussed in this section, may differ from those of other sources, and do not reflect all or even necessarily a comprehensive set of the actual transactions occurring in the containership industry.

Introduction

Container shipping is the fastest growing sector of international shipping, benefiting from a shift in cargo transport towards unitization as well as from changes in world trade. Global container trade has increased every year in terms of volumes since the introduction of long-haul containerized shipping lanes in the late 1960s, with the exception of 2009. Container shipping is performed by shipping lines, or liners, which operate frequent scheduled services, with pre-determined port calls, using a number of owned or chartered vessels of a particular size in each service to achieve an appropriate frequency and utilisation level. Between 2000 and 2012, world container trade grew at a compound annual growth rate ("CAGR") of 8.1% in terms of volumes. In 2012, approximately 177 million TEU of

containerized cargo was transported by sea and provisional figures suggest this rose to 183 million TEU in 2013. Overall, there has been a shift away from the traditional methods of transporting general cargo and refrigerated perishables towards containerization, as more ports around the world introduced container handling technology and as the benefits of container shipping became more widely recognized.

Ships range in size from vessels able to carry less than 500 TEU, to those with capacity in excess of 18,000 TEU. The containership fleet has grown rapidly to meet the increases in trade, with total capacity rising from under 2 million TEU at the end of 1991 to 17.1 million TEU in January 2014. Matching capacity with demand has however been a challenge for the industry and the market is currently oversupplied as a result of the high levels of new ordering which occurred between 2006 and 2008 and again since mid-2010, with the exception of a lull in late 2011 and early 2012. Annual changes in global container throughput and fleet capacity in the period ranging from 1980 to 2012 are shown in the chart below.

As of early 2014 the container shipping market continues to grow, albeit not at the high rates which have been seen historically. According to currently available data, global container throughput is expected to have grown by 3.4% in 2013. Global fleet growth may continue to challenge the industry in the next three years, as carriers struggle to deploy very large containerships across their portfolio of services without damaging the supply to demand balance. The proportion of the current fleet that can be classed as inactive is low - probably no more than 3 to 4% of total supply - although excess capacity is hidden in operating initiatives such as slow steaming. Provided demand growth remains and there is no longer a continued resurgence in new ordering, the conditions are slowly being laid for a possible market recovery.

Drivers of Container Shipping Demand

Approximately 90% of world trade in volume terms is carried by sea. Oceangoing vessels represent an efficient and often the only means of transporting large volumes of basic commodities and finished products over long distances.

In general, trends in seaborne trade are influenced by the underlying demand for bulk commodities, raw materials and semi-finished and finished goods which, in turn, are influenced by the level of worldwide economic activity. The growth in world container trade is thus primarily driven by the growth in economic output and consumption, increases in global sourcing and changes in patterns of world trade. Container trade growth is in part dependent on levels of economic growth and, generally, growth in GDP and industrial production correlate with changes in the demand for international container shipping. GDP serves as one of the best indicators of prospective container volumes and historically container trade volumes have grown at a multiple of 2.5 times GDP growth. While this has not been the case since 2008 and 2009, the relationship between GDP and container trade volume growth has staged a modest recovery since 2012 and, in 2013, container trade volume is expected to grow at a multiple of 1.1 to 1.2 times GDP growth. Overall, the relationship between economic growth and container trade growth seems to have changed. Part of the reason for such change is the outsourcing trend to China reaching maturity.

Inexpensive and reliable container transport has facilitated manufacturing and distribution processes that have accompanied globalization, allowing manufacturing to move away from traditionally high-cost production areas, such as Japan, Western Europe and North America, to lower-cost production areas, such as China, Vietnam and other parts of South East Asia. There has been little impact on the quality of the distribution process to the primary consumer markets. As an illustration of the relative low cost of container transportation, many technologically advanced countries are exporting component parts for assembly in other countries and re-importing the finished products. Manufacturers have also focused more on "just-in-time" delivery methods, which are facilitated by the fast transit times and frequent, reliable services offered by container liners and the container industry.

In addition to the levels of economic growth, there are several structural factors that also impact global container trade, including continuing penetration by containerization of traditional shipping sectors, such as general cargo and refrigerated cargo markets and, to a limited extent, even some dry and wet bulk commodities, which traditionally have been the preserve of the dry bulk carrier and oil tanker markets.

Container Shipping - Introduction

The containers used in maritime transportation are steel boxes of standard dimensions. The standard unit of measure of volume or capacity in container shipping is the 20-foot equivalent unit, or TEU, representing a container which is 20 feet long and typically 8.5 feet high and 8 feet wide. In recent years, 40-foot long containers (9.5 feet high), equivalent to two TEU, have increasingly been used by large retailers to move lightweight, fast moving consumer goods across the globe. There are specialized containers of both sizes to carry refrigerated perishables or frozen products, as well as tank containers that carry liquids such as liquefied gases, spirits or chemicals.

A container shipment begins at the shipper's premises with the delivery of an empty container. Once the container has been filled with cargo, it is transported by truck, rail or barge to a container port, where it is loaded onto a containership. The container is shipped either directly to the destination port or through an intermediate port where it is transferred to another vessel, an activity referred to as transshipment. When the container arrives at its destination port, it is off-loaded and delivered to the receiver's premises by truck, rail or barge.

Container shipping has a number of advantages compared with other shipping methods, including:

Less Cargo Handling:

Containers provide a secure environment for cargo. The contents of a container, once loaded into the container, are not directly handled until they reach their final destination. Using other shipping methods, cargo may be loaded and discharged several times, resulting in a greater risk of breakage and loss.

Efficient Port Turnaround:

With specialized cranes and other terminal equipment, containerships can be loaded and unloaded in significantly less time and at lower cost than other cargo vessels.

Highly Developed Intermodal Network:

Onshore movement of containerized cargo, from points of origin, around container ports, staging or storage areas, and to final destinations, benefits from the physical integration of the container with other transportation equipment such as road chassis, railcars and other means of hauling the standard-sized containers. Sophisticated port and intermodal industries have developed to support container transportation.

Reduced Shipping Time:

Containerships can travel at a speed of up to 25 knots per hour, even in rough seas, thereby transporting cargo over long distances in shorter periods of time. Such speed reduces transit time and facilitates the timeliness of regular scheduled port calls, compared to general cargo shipping. However, since 2008, due to higher fuel prices and the negative effects of the global recession, most operators have reduced speeds and deployed more ships on some voyage strings. This has also had a positive environmental effect in helping reduce ship emissions.

Types of Container Ship

Containerships are typically "cellular," which means they are equipped with metal guide rails to allow for rapid loading and unloading, and provide for more secure carriage. Partly cellular containerships include roll-on/roll-off vessels, or "ro-ro" ships, designed to carry chassis and trailers, and multipurpose ships which can carry a variety of cargo including containers.

The main categories of containerships are broadly as follows:

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Very Large:

"Very large" ships (with capacity in excess of 10,000 TEU) are currently exclusively deployed on the Asia-North Europe and Mediterranean and Transpacific trades. Middle East trades may at some stage see the regular deployment of ships with capacity exceeding 10,000 TEU.

•

Large:

Large ships have a capacity of 8,000 to 9,999 TEU and are currently deployed on the Transpacific, Asia-Middle East and Asia to Latin America trades.

•

Post Panamax:

Ships with a capacity of 5,000 to 7,999 TEU, so-called because of their inability to transit through the existing Panama Canal due to dimension restrictions. However, there are plans to widen the existing Panama Canal, with completion expected in mid to late 2015, which would allow ships with capacity of up to 13,500 TEU to transit the waterway. Ships of this size can be considered the workhorses of many smaller or emerging trade routes outside of the main east-west arteries.

•

Panamax:

Ships with a capacity between 3,000 to 4,999 TEU, which is the maximum size that the Panama Canal can currently handle. There is a fear that many of these ships may become redundant once the widened Panama Canal is fully open and carriers continue to deploy the largest vessels they can across their service portfolios in order to minimize slot costs.

•

Intermediate:

In this category, the ships range in capacity between 2,000 and 2,999 TEU and are generally able to operate on all trades.

-

Handysize:

Smaller ships with capacities ranging from 1,000 to 1,999 TEU, for use in regional trades – a primary example being the intra-Asian trades.

-

Feeder:

Ships with a capacity of less than 1,000 TEU, which are usually employed as feeder vessels on trades to and from hub ports or on small niche trades or domestic routes.

Containership Demand

In 2009, the volume of container trade contracted for the first time in history, due to the severity of the worldwide recession. However, in 2010, global container trade recovered in the wake of renewed growth in the world economy and inventory re-building. In 2011, approximately 169 million TEU of containerized cargo was transported by sea, representing an increase of 9.6% over 2010. In 2012, total container trade grew to 177 million TEU and currently available data for 2013 points to further growth to 183 million TEU.

The long-term trend in world container cargo volumes between 1991 and 2013 is shown in the chart below. During these years, world container trade grew at a CAGR of 8.6% in terms of volumes.

Another measure of containership demand is world container port throughput. World container port throughput is made up of three different traffic streams: loaded containers, empty containers and transshipment containers (full and empty). The following chart shows world container port throughput from 1991 through 2012 in terms of both loaded and empty container movements on a global basis. During this period, port movement of containers increased by approximately six times, from just over 96 million TEU in 1991 to 622 million TEU in 2012, equivalent to a CAGR of 9.3%.

In 2013, provisional data indicates that global containerized cargo volumes continued to grow in absolute terms by 3.4%.

Growth in the container market has at times outpaced investment in port and canal infrastructure, which has occasionally resulted in congestion in some parts of the transportation chain. Congestion increases ships' time in transit and reduces overall efficiency. As the largest containerships are deployed in the major trades, incremental tonnage is required to feed cargo to these mother ships from ports that do not have either the volume or the infrastructure to serve very large vessels of over 10,000 TEU of capacity directly. In this context, both congestion and increased transshipment absorb shipping capacity, but do not represent incremental growth to the overall container market.

Main Container Trades

There are three core trades in the container shipping industry: the Transpacific, Transatlantic and Asia-Europe trades. These trades are often referred to as the east-west trades.

Trade along these lanes is primarily driven by United States and European consumer demand for products made in Asia. The volume of trade between Asia and the Middle East is now larger than that on the Transatlantic and should be considered as a major east-west trade on which carriers can deploy very large vessels.

Supporting these core trades are the north-south trades and a network of regional trades, of which the largest is the intra-Asia market. Other regional trades include the Europe-Mediterranean, Caribbean-United States, Asia-Australia and North America-South America trades.

The maps below indicates the main north-south and intra-regional trades, while an indicative breakdown of global container seaborne trade by route for 2012 is shown in the following table.

Main Container Shipping Routes: 2012

Source: Drewry

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Different trades are usually served by vessels of different sizes as determined by the volume of the trade, required service frequency and physical constraints of the ports visited. However, the average capacity of vessels deployed in some trades is increasing at a more rapid pace because of the effects of cascading and the fact that carriers believe that by deploying larger ships on some trades, they may reduce their average slot costs and be more competitive.

The east-west trades are generally served by the larger containerships, such as the Panamax, post-Panamax and large or very large vessels. The north-south trades are generally served by the smaller Handysize, intermediate and Panamax containerships. Regional trades are generally served by feeder and Handysize containerships. However, in recent years when capacity has out-stripped demand, carriers have started deploying larger vessels in some of these smaller or regional trades. The following table shows the trades on which different sizes of containerships may adequately be deployed. Individual liners or alliances may also take the decision to deploy considerably larger ships in a given trade for their own internal reasons.

Containership Supply

As of January 31, 2014, the world fleet of fully cellular containerships consisted of 5,115 vessels, totalling 17.130 million TEU in capacity. These figures exclude multi-purpose and ro-ro vessels with container carrying capability.

Historical Fleet Growth

The fleet has grown rapidly to meet the increases in trade, with capacity rising from under 2 million TEU at the end of 1991 to 17.1 million TEU in January 2014.

In tandem with the growth in capacity of the overall fleet, average ship capacity has also steadily increased. The average capacity of containerships in service was 3,321 TEU as of January 31, 2014, as compared to 1,590 TEU in 1997. Average capacity is expected to continue to increase due to the number of large-sized containerships on order. The average capacity of containerships on order as of January 31, 2014 was 7,867 TEU, with the largest ships on order having a capacity of 18,400 TEU.

Containership Orderbook

As of January 31, 2014, the global containership new-built orderbook in terms of TEU was 3.69 million TEU, equivalent to 21.3% of the existing cellular containership fleet. This is low when compared to 2007-2008, when the orderbook reached the equivalent of 60% of the existing fleet, and it is below the average for the sector over the last decade. However, the orderbook is heavily influenced towards ships with capacity exceeding 8,000 TEU, which comprise 81% of the overall orderbook in TEU terms. At the other end of the spectrum, there are fewer new orders for ships with capacity below 3,000 TEU, which have traditionally been found in feeder or niche trade employment. This is because the capacity of feeder ships is increasing and vessels of 3,000 to 5,000 TEU are now considered to be the workhorses of the industry, providing feeder and transshipment services to the largest vessels working the main east-west routes.

The current orderbook and its heavily skewed position to the largest ships have two potential major impacts. Firstly, the liners may find it increasingly difficult to manage an effective cascade of their operated tonnage across all trades as the largest vessels are deployed, and secondly, the larger ships are still relatively inflexible in terms of their deployment. As these ships are placed into service, they may put more pressure on the supply to demand balance within the relevant trades and ultimately on freight rates on such trades.

The size of the orderbook built up rapidly in the period from 2006 to 2008, when strong freight rates and robust demand on the key core east-west trades encouraged high levels of new ordering. The combination of deliveries, orderbook cancellations and conversions and an absence of new orders in 2009, led to the size of the orderbook contracting, but this position was reversed in 2011 due to renewed ordering of very large containerships, with new orders in the year totalling 1.5 million TEU. However, new ordering in the container sector in 2012 declined and amounted to just 0.42 million TEU. Since January 2013, there has been another surge in ordering with approximately 1.4 million TEU ordered. 56 ships of at least 10,000 TEU have been ordered since the beginning of 2013. Carriers are of the view that by deploying the largest possible ships across their core network of east-west trade routes, they may remain competitive and enjoy lower unit slot costs.

The ordering of ships with capacity exceeding 10,000 TEU is now no longer related to forecasts of future demand growth. All top 20 global operators, with the exception of CSAV, have stepped up to the large ship league, either through ordering for their own account or through the long-term lease of orders placed directly by independent owners or financial institutions.

Large and some very large containerships are expected to be able to transit the enlarged Panama Canal, including ships with capacity of up to 13,500 TEU. The largest containerships currently on order (18,400 TEU) are not expected to be able to transit the enlarged waterway and have been designed towards deployment in the Asia-Europe trade.

Demolition

Demolition activity has surged since the beginning of 2012. This has been driven by operators' desire to utilize the most fuel efficient tonnage, as many older container vessels are unable to provide owners and operators the cost savings they require. In addition, the charter market has not fully recovered since 2009 and most tonnage under 4,000 TEU has been unable to consistently earn revenue above operating costs. With costly special certificates required once a vessel reaches fifteen years of age, some owners have decided to realize residual values, by scrapping the older sections of their fleet. This is likely to be a continuing trend for the industry, especially as older Panamax vessels will increasingly become redundant once the widened Panama Canal is opened in late 2015.

In 2012, some 330,000 TEU was scrapped and based on preliminary figures some 400,000 TEU was removed from the fleet in 2013, a record for the container industry. The two most obvious trends are that the average age of ships being scrapped is declining and the average size of vessels is increasing. In 2012, the average age of vessels scrapped was 23.4 years, down from around 29-30 years, which has been the average over the last decade. In the same period the average size of ship being sent for demolition increased from 1,500 to 1,870 TEU. These trends have continued throughout 2013.

Increased scrapping should act as a welcome modifier to the growing global fleet which continues to affect the overall health of the industry. Should 400,000 TEU be removed in 2013, this will take out 2.4% out of the global fleet. However, it should be remembered that the majority of vessels being scrapped are not operating in the core east-west trade lanes and hence increased scrapping does not necessarily improve their individual trade route dynamics.

Void Sailings and Idle Tonnage

In some cases ocean carriers will cancel sailings instead of service withdrawals. This happened in 2012 and is likely to occur in the winter of 2013/2014. It is one way of trying to match capacity with demand and it helps to improve utilization rates, thereby putting ocean carriers in a better position when negotiating freight rates.

The timing of cancelled sailings is often planned around attempts to introduce general rates increases (GRI). When sailings are reduced in large numbers, freight rates usually improve, although there are exceptions because freight rate levels are sometimes dependent on factors other than vessel utilisation. It is worth noting however, that freight rate improvements associated with cancellations are usually very temporary.

At the beginning of September 2013 approximately 290,000 TEU or 1.7% of the global fleet was idle or inactive. This figure has declined since the opening months of 2014 and suggests that carriers would rather deploy larger tonnage and enjoy reduced slot costs, than maintain the supply-demand balance and by implication, freight rates.

Consolidation, Partnerships and Global Alliances

Liners also engage in various cooperation or capacity sharing agreements which allow them to enhance their service offering while maintaining flexibility and reducing costs. Such agreements may take several forms, depending on the level of responsibility and commitment of the liners involved. They include vessel sharing agreements, including alliances, slot swap or exchange agreements and slot charter agreements.

There are four main alliances among the major carriers, which involve vessel sharing agreements on certain trade routes. Alliances are the most developed form of cooperation or capacity sharing agreements. In any given trade, the members of an alliance may usually operate as an aggregate more vessels and weekly services than one carrier could operate on its own.

There are four main alliances.

- Grand Alliance – Orient Overseas Container Line (OOCL), Nippon Yusen Kaisha (NYK) and Hapag-Lloyd. At present, these lines have agreements on the Transatlantic and Asia to U.S. west coast Transpacific trades.
- New World Alliance – Hyundai Merchant Marine (HMM), Mitsui Overseas Lines (MOL) and American President Lines (APL), the liner arm of Neptune Orient Lines (NOL). At present, these lines have agreements on the Transatlantic and Asia to U.S. west coast Transpacific trades.
- G6 – This is an extension of the Grand Alliance and the New World Alliance incorporating OOCL, NYK, Hapag-Lloyd, HMM, MOL and APL. The vessel sharing agreements operate in the Asia-North Europe and Mediterranean and Asia to U.S. east coast Transpacific trades.

- CKYH or Green Alliance – Cosco, K Line, Yang Ming, Hanjin. At present, these lines have agreements on the Asia-North Europe and Mediterranean and transpacific trades.

Pursuant to vessel sharing agreements, the liner companies will contribute a number of vessels to a particular service, based on the number of ports of call within the service .. Vessel sharing agreements generally specify the size of vessels deployed and may or may not involve the sharing of certain operational costs and commercial arrangements in ports. Alliances may vary in terms of both scope and individual commitments of liners, and some liners may provide a larger number of ships or ships of a greater capacity. Marketing and service commitments to shippers are all handled individually by the relevant liners.

There are other less-binding operational cooperation frameworks between individual liners which are not commonly known by an industry title or name. These are simple vessel sharing agreements. Many carriers work with other liners in the intra-Asian market for example and agree to operate a service together, each liner providing a certain number of vessels. For instance, United Arab Shipping Company and China Shipping Container Lines have no formal or binding alliance agreement, but they do cooperate in terms of vessel sharing on the Asia-North Europe, Transpacific and Asia to Middle East trades.

Of the top 20 major ocean carriers, only Zim and Evergreen are outside of any formal alliance grouping in the core east-west trades, although Zim does contribute vessels to G6 services in the Transpacific trade. Similarly, Evergreen has a number of vessel sharing agreements with different liners in several trades.

Under a slot swap or exchange agreement between liners, the relevant parties agree to utilize an agreed number of slots on a given trade for an agreed time. Many of these agreements would involve a partner taking an agreed number of slots from another partner on a trade where it may not physically contribute any vessels of its own (either owned or chartered).

Slot charter agreements operate in a similar manner, except that they involve the purchase of slots from a carrier, rather than a mere swap. Even if the slot is not used commercially, the carrier still pays for it. Agreements may not necessarily be reciprocal. The vast majority of liners enter into these agreements to a certain extent. Such agreements enable carriers to have a presence in a trade without committing to buying or chartering their own vessels, and to broaden their service offering to their customer base.

The exact market share of alliances is difficult to determine, both on an individual trade and on the global scale. For example, Zim has a vessel sharing agreement with the G6 alliance in the Asia-U.S. east coast transpacific trade and with the Grand Alliance in the Asia to U.S. west coast transpacific trade. Many other lines also have slot/swap agreements with alliance members on a number of trades, which are undisclosed. Any analysis of total capacity provided by members of a specific alliance at a given point in time cannot necessarily give a truly accurate idea of market share.

The market shares of the main formal alliances in the core east-west trades as of October 1, 2013 was as follows:

Slow Steaming

Excess shipping capacity and rising fuel prices have prompted liners to reduce vessel operating speeds and thus reduce fuel costs, while at the same time requiring more ships to provide the same level of shipping capacity on a particular trade, and in doing so absorbing excess capacity within the market.

The impact of reducing sailing speeds on the number of days required to complete a round voyage on the three main trades is shown below.

A typical Asia-North Europe string previously comprised eight 9,000 to 10,000 TEU vessels operating at design speeds of 24 knots. By reducing the sailing speed of the vessels to 20 knots, a further ship would be required to provide the same level of service. Given prevailing fuel costs and freight market conditions, the cost savings associated with slow steaming have become as important as the need to absorb additional shipping capacity. The exact savings depend on the technical specifications of the ship, the level of speed reduction and the prevailing fuel price, but a typical 5,500 TEU vessel sailing at 25 knots consumes approximately 168 tons of fuel a day. If the speed is reduced to 19 knots, consumption falls to approximately 74 tons a day.

Other measures taken by the lines to reduce consumption include the use of silicone paint to reduce drag, the installation of waste heat recovery systems, the removal of bulbous bows and the de-rating of engines. In the last 12 to 18 months, some lines have also started to make bunkering calls at Vostochny or Vladivostok in Russia to take advantage of the considerably cheaper fuel, which is as much as \$100 per tonne less expensive than in Rotterdam or Singapore.

Containership Charter Rates

The growth in demand for container shipping has generally increased demand pressure and over time has caused an increase in the charter rates paid to secure containerships. The following chart indicates annual average charter rates for representative containerships from 2002 to January 2014.

With some exceptions, charter rates for all vessel sizes increased steadily from 2002 into 2005, in some cases rising by as much as 50%, as charter markets experienced significant growth. In 2006, charter rates weakened due to supply rising faster than demand and market conditions. This trend continued in 2007 and 2008, and in 2009, rates fell even further due to rising supply and weak demand. In 2010 and 2011, charter rates recovered partly, but decreased again in the first half of 2012 as increases in supply once again outpaced the changes in demand. In January 2013, charter rates were close to the all-time low witnessed in 2009, and as such, below long term averages. Throughout most of 2013 the charter market made no noticeable recovery across any individual vessel sizes due to oversupply, but in the final quarter of the year rates were a little stronger. However, they still remain below long term averages. Owners are not in a position to decide rate increases, because operators have the ability to switch to another similar size vessel and specification if they wish.

The main factors affecting vessel charter rates are primarily the supply and demand for container shipping. The shorter the charter period, the greater the vessel charter rate is affected by the current supply to demand balance and by the current phase of the market cycle (high point or low point). For longer charter periods, from three years to ten years, vessel charter rates tend to be more stable and less cyclical because the period may cover not only a particular phase of a market cycle, but a full market cycle or several market cycles. Other factors affecting charter rates include the age and characteristics of the ships (including fuel consumption, speed, wide beam, shallow draft, whether geared or gearless), the price of new-built and secondhand ships (buying as an alternative to chartering ships) and market conditions.

Container Freight Rates

Factors that drive vessel charter rates also affect container freight rates. Container freight rates are primarily driven by the supply and demand for container shipping, the cost of operating ships, fuel prices, and carrier behaviour, including inter-carrier competition. To some extent, container freight rates are also affected by market conditions.

Average container freight rates fell sharply in 2009, as a result of the downturn in the market, but then increased again sharply in 2010 as throughput volumes rose. In 2011, freight rates were lower due to overcapacity and the continued uncertainty surrounding the outlook for the world economy. Rates slightly recovered in 2012, although they were under constant pressure throughout 2013. The east-west trades have suffered because of severe market share competition, and rates have declined on the Asia-North Europe trade to below carrier break-even rates. This has led carriers to proceed to a general rate increase. Rates in the north-south trades have also suffered through the cascade of larger ships which has coincided with weaker demand across several emerging trade routes.

Freight rates for specialized cargo, including refrigerated products, usually carry a premium due to increased costs of transportation and more expensive equipment such as temperature-controlled containers. Many surcharges, including fuel, congestion, currency adjustment, peak-season and heavy weight, are standard practice in the industry and these are usually paid in addition to the basic port-to-port ocean freight rates.

There are significant variances between freight rates granted to shippers in the spot market (usually for relatively short periods of less than 30 days) and to beneficial cargo owners (freight payers) under longer-term contract conditions. Generally, beneficial cargo owners enjoy more competitive rates because of their high volumes across multiple trades.

Containership Newbuilding Prices

New-built prices rose steadily from 2002, due to a shortage in new-built capacity during a period of high ordering and increased shipbuilders' costs as a result of rising raw material prices, and particularly steel. However, since the second half of 2008, weak market conditions significantly slowed new ordering to the point that virtually no new orders were placed for containerships in 2009. In 2011, prices weakened across all size bands and this weakness continued into 2013, as shipyards were forced to cut prices.

The factors which influence new-built prices include ship type, shipyard capacity, demand for ships, "berth cover", i.e., the forward book of business of shipyards, buyer relationships with the yard, individual design specifications, including fuel efficiency or environmental features and the price of ship materials, engine and machinery equipment and particularly the price of steel.

Containership Secondhand Prices

Secondhand values for containerships increased between 2005 and 2008, supported by a strong charter market, but prices collapsed in 2009 due to the economic crisis and the resulting oversupply in the industry. Prices recovered partially during 2010 and 2011, as charter rates returned closer to average historical levels, but weakened again in 2012 in the face of reduced freight rates. In July 2013, prices for 2,500 and 3,500 TEU vessels were approximately 50% below prices at the end of 2007, but towards the end of 2013 there was some evidence of a slight upturn in secondhand values. In current oversupply conditions, the valuation of some older secondhand tonnage which may also be seen as fuel inefficient is only marginally above scrap value.

Vessel values are primarily driven by supply and demand for vessels. During extended periods of high demand, as evidenced by high charter rates, secondhand vessel values tend to appreciate and during periods of low demand, evidenced by low charter rates, vessel values tend to decline. Vessel values are also influenced by age and specification and by the replacement cost (new-built price) in the case of vessels up to five years old.

Values for younger vessels tend to fluctuate on a percentage, if not on a nominal, basis less than values for older vessels. This is due to the fact that younger vessels with a longer remaining economic life are less susceptible to the level of charter rates than older vessels with limited remaining economic life.

Vessels are usually sold through specialized brokers who report transactions to the maritime transportation industry on a regular basis. The sale and purchase market for vessels is usually quite transparent and liquid, with a number of vessels changing hands on an annual basis.

The relationship between container box freight rates, vessel charter rates and secondhand prices is shown in the chart below.

Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of our vessels. We are subject to international conventions and treaties, and, in the countries in which our vessels may operate or are registered, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered relating to safety and health and environmental protection, including the storage, handling, emission, transportation and discharge of hazardous and non-hazardous materials, and the remediation of contamination and liability for damage to natural resources. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of governmental and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (applicable national authorities such as the U.S. Coast Guard and harbor masters), classification societies, flag state administrations (countries of registry) and charterers. Some of these entities require us to obtain permits, licenses, certificates or approvals for the operation of our vessels. Our failure to maintain necessary permits, licenses, certificates, approvals or financial assurances could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet, or lead to the invalidation or reduction of our insurance coverage.

In recent periods, heightened levels of environmental and operational safety concerns among insurance underwriters, regulators and charterers have led 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 believe that the operation of our vessels will be in substantial compliance with applicable environmental laws and regulations and that our vessels will have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations. However, because such laws and regulations are frequently changed and may impose increasingly strict requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the re-sale value or useful lives of our vessels. In addition, a future serious marine incident, such as one comparable to the 2010 BP plc Deepwater Horizon oil spill, that results in significant oil pollution, release of hazardous substances, loss of life, or otherwise causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

International Maritime Organization (IMO)

The IMO has adopted the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto (collectively referred to as MARPOL 73/78 and herein as "MARPOL"). MARPOL entered into force on October 2, 1983. It has been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate. MARPOL is broken into six Annexes, each of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI was separately adopted by the IMO in September of 1997.

Air Emissions

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits "deliberate emissions" of "ozone depleting substances," defined to include certain halons and chlorofluorocarbons. "Deliberate emissions" are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship's repair and maintenance. Emissions of "volatile organic compounds" from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. 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, known as ECAs (see below).

The IMO's Maritime Environment Protection Committee, or MEPC, adopted amendments to Annex VI on October 10, 2008, which entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulphur contained in any fuel oil used on board ships. As of January 1, 2012, the amended Annex VI requires that fuel oil contain no more than 3.50% sulfur (from the current cap of 4.50%). By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Sulfur content standards are even stricter within certain "Emission Control Areas" ("ECAs"). As of July 1, 2010, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 1.0% (from 1.50%), which will be further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea and the North Sea have been so designated. Effective August 1, 2012, certain coastal areas of North America were designated ECAs, and effective January 1, 2014, the applicable areas of the United States Caribbean Sea were designated ECAs. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures, operational changes, or otherwise increase the costs of our operations.

As of January 1, 2013, MARPOL made mandatory certain measures relating to energy efficiency for ships in part to address greenhouse gas emissions. It made the Energy Efficiency Design Index (EEDI) for new ships mandatory and the Ship Energy Efficiency Management Plan (SEEMP) apply to all ships.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The U.S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009.

Safety Management System Requirements

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. May 2012 SOLAS amendments entered into force as of January 1, 2014. The Convention on Limitation of Liability for Maritime Claims (LLMC) was recently amended and the amendments are expected to go into effect on June 8, 2015. The amendments alter the limits of liability for loss of life or personal injury claim and property claims against ship-owners.

Our operations are also subject to environmental standards and requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO under SOLAS. The ISM Code requires the owner of a vessel, or any person who has taken responsibility for operation of a vessel, to develop an extensive "Safety Management System" that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We rely upon the safety management system that we and our Manager, UOT, implements for compliance with the ISM Code. 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.

The ISM Code requires that vessel operators also obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate under the ISM Code unless its manager has been awarded a document of compliance, issued in most instances by the vessel's flag state or by Classification Societies on behalf of the flag state. We believe that we have all material requisite documents of compliance for our offices and safety management certificates for all of our vessels for which such certificates are required by the ISM Code. We will renew these documents of compliance and safety management certificates as required.

Noncompliance with the ISM Code and other IMO regulations may subject the shipowner or bareboat charterer to increased liability, may lead to decreases in, or invalidation of, available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports.

Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose pollution control and liability in international waters and the territorial waters of the signatory nations to such conventions. For example, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, or the CLC, although the United States is not a party. Under this convention and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel's registered owner is strictly liable, subject to certain defenses, for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil. The limits on liability outlined in the 1992 Protocol use the International Monetary Fund currency unit of Special Drawing Rights, or SDR. Amendments adopted in 2000, which entered into force in 2003, raised the compensation limits set forth in the 1992 Protocol by 50 percent. The right to limit liability is forfeited under the CLC where the spill is caused by the shipowner's personal fault and under the 1992 Protocol where the spill is caused by the shipowner's personal act or omission by intentional or reckless conduct. A state that is a party to the CLC may not allow a ship under its flag to trade unless that ship has a certificate of insurance or something equivalent. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that of the CLC. We believe that our protection and indemnity insurance will cover the liability under the plan adopted by the IMO.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons 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). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In addition, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. To date, there has not been sufficient adoption of this standard for it to take force, but it is close. Many of the implementation dates originally written in the BWM Convention have already passed, so that once the BWM Convention enters into force, the period for installation of mandatory ballast water exchange requirements would be extremely short, with several thousand ships a year needing to install ballast water management systems (BWMS). For this reason, on December 4, 2013, the IMO Assembly passed a resolution revising the application dates of BWM Convention so that they are triggered by the entry into force date and not the dates originally in the BWM Convention. This in effect makes all vessels constructed before the entry into force date 'existing' vessels, and allows for the installation of a BWMS on such vessels at the first renewal survey following entry into force. Once mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers. It is difficult to predict the overall impact of such a requirement on our operations.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

U.S. Regulations

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade in the United States, its territories and possessions or whose vessels operate in U.S. waters, which includes the U.S. territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define "owner and operator" "in the case of a vessel as any person owning, operating or chartering by demise, the vessel." Although OPA is primarily directed at oil tankers (which are not operated by us), it also applies to non-tanker ships, including containerships, with respect to the fuel oil, or bunkers, used to power such ships. CERCLA also applies to our operations.

Under OPA, vessel owners and operators 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:

- Injury to, destruction or loss of, or loss of use of, natural resources and related assessment costs;
- Injury to, or economic losses resulting from, the destruction of real and personal property;
- net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;
 - loss of subsistence use of natural resources that are injured, destroyed or lost;
- lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and
- net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for non-tank vessels to the greater of \$1,000 per gross ton or \$854,400 (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident

was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA each preserve the right to recover damages under existing law, including maritime or tort law.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of their potential liability under OPA and CERCLA.. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. For example, on August 15, 2012, the U.S. Bureau of Safety and Environment Enforcement (BSEE) issued a final drilling safety rule for offshore oil and gas operations that strengthens the requirements for safety equipment, well control systems, and blowout prevention practices. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business. We maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage, it could have a material adverse effect on our business, financial condition, results of operations and cash flows. The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA.

The EPA regulates the discharge of ballast and bilge water and other substances in U.S. waters under the CWA. EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit, or VGP, authorizing ballast and bilge water discharges and other discharges incidental to the operation of vessels. The VGP imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. On March 28, 2013, the EPA re-issued the VGP for another five years; this VGP took effect on December 19, 2013. The new VGP focuses on authorizing discharges incidental to operations of commercial vessels. The VGP also contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants. U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. As of June 21, 2012, the U.S. Coast Guard implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships in U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004. Compliance with the EPA and the U.S. Coast Guard regulations could require the

installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act

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The U.S. Clean Air Act of 1970 (including its 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 CAA also requires states to draft State Implementation Plans ("SIPs") designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment.

Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of certain engineering equipment and water treatment systems to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

European Union Regulations

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. The directive applies to all types of vessels, irrespective of their flag, but certain exceptions apply to warships or where human safety or that of the ship is in danger.

Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from ships in international transport are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions.

As of January 1, 2013, all ships must comply with mandatory requirements adopted by the MEPC in July 2011 relating to greenhouse gas emissions. All ships are required to follow the Ship Energy Efficiency Management Plans. Now the minimum energy efficiency levels per capacity mile, outlined in the Energy Efficiency Design Index, applies to all new ships. These requirements could cause us to incur additional compliance costs. The IMO is planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session.

The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels. In April 2013, the European Parliament rejected proposed changes to the European Union Emissions Law regarding carbon trading. In June 2013 the European Commission developed a strategy to integrate maritime emissions into the overall European Union Strategy to reduced greenhouse gas emissions. If the strategy is adopted by the European Parliament and Council large vessels using European Union ports would be required to monitor, report, and verify their carbon dioxide emissions beginning in January 2018. In December 2013 the European Union environmental ministers discussed draft rules to implement monitoring and reporting of carbon dioxide emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, the EPA is considering a petition from the California Attorney General and environmental groups to regulate greenhouse gas emissions from ocean-going vessels. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries

where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures, including capital expenditures to upgrade our vessels, which we cannot predict with certainty at this time.

International Labour Organization

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 entered into force on August 20, 2013. The MLC 2006 requires us to maintain developed procedures to ensure full compliance.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

Ships operating without a valid certificate, the ship may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have already implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

Inspection by Classification Societies

Every oceangoing 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.

The classification society also undertakes on request 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.

For maintenance of the class certification, 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, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.
- Intermediate Surveys: Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.
- Class Renewal Surveys: Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. 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. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a shipowner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. Upon a shipowner's request, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most vessels are also drydocked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a recommendation which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society which is a member of the IACS. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard agreements.

100% Container Screening

On August 3, 2007, the United States signed into law the Implementing Recommendations of the 9/11 Commission Act of 2007 (the "9/11 Commission Act"). The 9/11 Commission Act amends the SAFE Port Act of 2006 to require that all containers being loaded at foreign ports onto vessels destined for the United States be scanned by nonintrusive imaging equipment and radiation detection equipment before loading. This new requirement for 100% scanning was set to take effect on July 1, 2012, but the United States Department of Homeland Security extended the deadline two years to July 1, 2014.

As a result of the 100% scanning requirements added to the SAFE Port Act of 2006, ports that ship to the United States may need to install new x-ray machines and make infrastructure changes in order to accommodate the screening requirements. Such implementation requirements may change which ports are able to ship to the United States and shipping companies may incur significant increased costs. It is impossible to predict how this requirement will affect the industry as a whole, but changes and additional costs can be reasonably expected.

Risk of Loss and Insurance Coverage

General

The operation of any containership vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market.

While we maintain hull and machinery insurance, war risks insurance, protection and indemnity cover and freight, demurrage and defense cover for our vessels in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe we procure adequate insurance coverage, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Hull and Machinery and War Risks Insurance

We maintain for our vessels marine hull and machinery and war risks insurance, which covers, among other risks, the risk of actual or constructive total loss. Our vessels are each covered up to at least fair market value with deductibles which vary according to the size and value of the vessel.

Protection and Indemnity Insurance

Protection and indemnity insurance is generally provided by mutual protection and indemnity associations, or P&I Associations, which insure our third party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "clubs."

We procure protection and indemnity insurance coverage for pollution in the amount of \$1 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. As a member of two P&I Associations which are members of the International Group, we are subject to calls payable to the associations based on the group's claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I Associations comprising the International Group. Supplemental calls are made by the P&I Associations based on estimates of premium income and anticipated and paid claims and such estimates are adjusted each year by the Board of Directors of the P&I Associations until the closing of the relevant

policy year, which generally occurs within three years from the end of the policy year. The P&I Associations in which the Company's vessels are entered, have not charged any supplemental calls until now and we do not know whether any supplemental calls will be charged in respect of any policy year. To the extent we experience supplemental calls; our policy is to expense such amounts.

C. Organizational structure

We are a corporation incorporated under the laws of the Republic of the Marshall Islands on January 7, 2010. Each of our vessels is owned by separate wholly-owned subsidiaries. We are the owner of all the issued and outstanding shares of the following subsidiaries:

1. Likiep Shipping Company Inc.,
2. Orangina Inc.,
3. Lemongina Inc.,
4. Ebon Shipping Company Inc.,
5. Mili Shipping Company Inc.
6. Ralik Shipping Company Inc.,
7. Mejit Shipping Company Inc.,
8. Micronesia Shipping Company Inc.,
9. Rongerik Shipping Company Inc.,
10. Utirik Shipping Company Inc.,
11. Nauru Shipping Company Inc.,
12. Eluk Shipping Company Inc.,
13. Oruk Shipping Company Inc., and
14. Unitized Ocean Transport Limited

each of which is incorporated under the laws of the Republic of the Marshall Islands.

D. Property, plants and equipment

We do not own any real property. Unitized Ocean Transport Limited, our Manager, rents our office space from an unrelated third party and only owns office furniture and equipment. Our interests in the vessels in our fleet are our only material properties.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following management's discussion and analysis should be read in conjunction with our consolidated financial statements and their notes included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" and elsewhere in this report.

A. Operating results

We charter our vessels to customers primarily pursuant to short-term and long-term time charters. Currently, we have secured time charters for the vessels of our fleet with minimum remaining durations between 1 and 24 months. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of

spares and consumable stores, tonnage taxes and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter.

Factors Affecting Our Results of Operations

We believe that the important measures for analyzing trends in our results of operations consist of the following:

- **Ownership days.** We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.
- **Available days.** We define available days as the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys including the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.
- **Operating days.** We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.
- **Fleet utilization.** We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades and special surveys including vessel positioning for such events.
- **Time Charter Equivalent (TCE) rates.** We define TCE rates as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. TCE rate, a non-GAAP measure, is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters generally are expressed in such amounts.
- **Daily Operating Expenses.** We define daily operating expenses as total vessel operating expenses, which include crew wages and related costs, the cost of insurance and vessel registry, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes, regulatory fees and other miscellaneous expenses divided by total ownership days for the relevant period.

The following table reflects our ownerships days, available days, operating days, fleet utilization, TCE rate and daily operating expenses for the periods indicated.

	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Ownerships days	3,516	3,156	1,320
Available days	3,516	3,156	1,320
Operating days	3,442	3,150	1,311
Fleet utilization	97.9%	99.8%	99.3%
Time charter equivalent rate (TCE) (1)	\$15,162	\$17,499	\$19,895

Daily operating expenses	\$8,780	\$9,179	\$8,435
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(1) Please see Item 3 A. for a reconciliation of TCE to GAAP measures.

Time Charter Revenues

Our revenues are driven primarily by the number of vessels in our fleet, the number of voyage days and the amount of daily charter hire that our vessels earn under charters which, in turn, are affected by a number of factors, including:

- the duration of our charters;
- our decisions relating to vessel acquisitions and disposals;
- the amount of time that we spend positioning our vessels;
- the amount of time that our vessels spend in drydock undergoing repairs;
- maintenance and upgrade work;
- the age, condition and specifications of our vessels;
- levels of supply and demand in the container shipping industry; and
- other factors affecting spot market charter rates for container vessels.

Period charters refer to both time and bareboat charters. Vessels operating on time charters for a certain period of time provide more predictable cash flows over that period of time, but can yield lower profit margins than vessels operating in the spot charter market during periods characterized by favorable market conditions. Vessels operating in the spot charter market generate revenues that are less predictable but may enable their owners to capture increased profit margins during periods of improvements in charter rates although their owners would be exposed to the risk of declining charter rates, which may have a materially adverse impact on financial performance. As we employ vessels on period charters, future spot charter rates may be higher or lower than the rates at which we have employed our vessels on period charters.

Currently, all vessels in our fleet are employed on time charters. Our time charter agreements subject us to counterparty risk. In depressed market conditions, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under agreements with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Voyage Expenses

We incur voyage expenses that include port and canal charges, bunker (fuel oil) expenses and commissions. Port and canal charges and bunker expenses primarily increase in periods during which vessels are employed on voyage charters because these expenses are for the account of the owner of the vessels. Currently, we do not incur port and canal charges and bunker expenses represent a relatively small portion of our vessels' overall expenses because our vessels are employed under time charters that require the charterer to bear all of those expenses.

We have paid commissions ranging from 0% to 4.25% of the total daily charter hire rate of each charter to unaffiliated ship brokers and in-house brokers associated with the charterers, depending on the number of brokers involved with arranging the charter. In addition to commissions paid to third parties, we have historically paid to our former fleet manager, DSS, a commission that was equal to 1% of our revenues in exchange for providing us with technical and commercial management services in connection with the employment of our fleet. Effective March 1, 2013, our new

fleet manager, UOT, our wholly-owned subsidiary, receives commission that is equal to 2% of our gross revenues in exchange for providing us with technical and commercial management services in connection with the employment of our fleet. However, this commission is eliminated from our consolidated financial statements as an intercompany transaction.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance and vessel registry, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes, regulatory fees and other miscellaneous expenses. Other factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for crew wages and insurance, may also cause these expenses to increase. In conjunction with our senior executive officers, our Manager has established an operating expense budget for each vessel and performs the day-to-day management of our vessels under separate management agreements with our vessel-owning subsidiaries. We monitor the performance of our Manager by comparing actual vessel operating expenses with the operating expense budget for each vessel. We are responsible for the costs of any deviations from the budgeted amounts.

Vessel Depreciation

We depreciate our vessels on a straight-line basis over their estimated useful lives which we estimate to be 30 years from the date of their initial delivery from the shipyard. Depreciation is based on the cost less the estimated salvage values. Each vessel's salvage value is the product of her light-weight tonnage and estimated scrap rate, which until June 30, 2013, was estimated at \$200 and \$350 per light-weight ton, depending on the vessels' age and market conditions. In order to align the scrap rate estimates with the current historical average scrap rate, effective July 1, 2013, we adjusted prospectively the estimated scrap rate used to \$350 per light-weight ton for all vessels in the fleet. We believe that these assumptions are common in the containership industry.

Management Fees

We paid to DSS, our former fleet manager, up to February 28, 2013, a fixed management fee of \$15,000 per month for employed vessels and \$20,000 per vessel per month for laid-up vessels, in exchange for providing us with commercial and technical services pursuant to Vessel Management Agreements. Since March 1, 2013, our new fleet manager, UOT, receives a fixed monthly management fee of \$15,000 per vessel in operation, and will receive a fixed monthly fee of \$7,500 for laid-up vessels, if any. However, these management fees are eliminated from our consolidated financial statements as intercompany transactions.

General and Administrative Expenses

We incur general and administrative expenses, including our onshore related expenses such as legal and professional expenses. Certain of our general and administrative expenses are provided for under our Broker Services Agreement with Diana Enterprises. We also incur payroll expenses of employees and general and administrative expenses reflecting the costs associated with running a public company, including board of director costs, director and officer insurance, investor relations, registrar and transfer agent fees and legal and accounting costs related to our compliance with public reporting obligations and the Sarbanes-Oxley Act of 2002.

Interest and Finance Costs

We incur interest and finance costs in connection with our vessel-specific debt. As at December 31, 2013, we had \$148.7 million of outstanding indebtedness.

Lack of Historical Operating Data for Vessels before their Acquisition

Consistent with shipping industry practice, other than inspection of the physical condition of the vessels and examinations of classification society records, there is no historical financial due diligence process when we acquire vessels. Accordingly, we will not obtain the historical operating data for the vessels from the sellers because that information is not material to our decision to make acquisitions, nor do we believe it would be helpful to potential investors in our common shares in assessing our business or profitability. Most vessels are sold under a standardized agreement, which, among other things, provides the buyer with the right to inspect the vessel and the vessel's classification society records. The standard agreement does not give the buyer the right to inspect, or receive copies of, the historical operating data of the vessel. Prior to the delivery of a purchased vessel, the seller typically removes from the vessel all records, including past financial records and accounts related to the vessel. In addition, the technical management agreement between the seller's technical manager and the seller is automatically terminated and the vessel's trading certificates are revoked by its flag state following a change in ownership.

Consistent with shipping industry practice, we treat the acquisition of a vessel (whether acquired with or without charter) as the acquisition of an asset rather than a business. Although vessels are generally acquired free of charter, we have in the past and we may, in the future, acquire vessels with existing time charters. Where a vessel has been under a voyage charter, the vessel is delivered to the buyer free of charter, and it is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer's entering into a separate direct agreement with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter, because it is a separate service agreement between the vessel owner and the charterer.

When we purchase a vessel and assume or renegotiate a related time charter, we must take, among other things, the following steps before the vessel will be ready to commence operations:

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- obtain the charterer's consent to a new flag for the vessel;
- arrange for a new crew for the vessel;
- replace all hired equipment on board, such as gas cylinders and communication equipment;
- negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;
- register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state;
- implement a new planned maintenance program for the vessel; and
- ensure that the new technical manager obtains new certificates for compliance with the safety and vessel security regulations of the flag state.

The following discussion is intended to help you understand how acquisitions of vessels affect our business and results of operations.

Our business is mainly comprised of the following elements:

- acquisition and disposition of vessels;
- employment and operation of our vessels; and
- management of the financial, general and administrative elements involved in the conduct of our business and ownership of our vessels.

The employment and operation of our vessels mainly require the following components:

- vessel maintenance and repair;

- crew selection and training;
- vessel spares and stores supply;

- contingency response planning;
- on board safety procedures auditing;
 - accounting;
- vessel insurance arrangement;
- vessel chartering;
- vessel hire management;
- vessel surveying; and
- vessel performance monitoring.

The management of financial, general and administrative elements involved in the conduct of our business and ownership of vessels, mainly requires the following components:

- management of our financial resources, including banking relationships, i.e., administration of bank loans and bank accounts;
 - management of our accounting system and records and financial reporting;
- administration of the legal and regulatory requirements affecting our business and assets; and
- management of the relationships with our service providers and customers.

The principal factors that may affect our profitability, cash flows and shareholders' return on investment include:

- rates and periods of charterhire;
- levels of vessel operating expenses;
 - depreciation expenses;
 - financing costs; and
- fluctuations in foreign exchange rates.

See "Risk Factors" for additional factors that may affect our business.

Our Fleet – Comparison of Possible Excess of Carrying Value Over Estimated Charter-Free Market Value of our Vessels

In "Critical Accounting Policies – Impairment of long-lived assets," we discuss our policy for impairing the carrying values of our vessels. Historically, the market values of vessels have experienced volatility, which from time to time may be substantial. As a result, the charter-free market value of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting

impairment policy. During 2013, impairment losses were recorded for certain of our vessels, as our impairment test exercise indicated that the carrying values of these vessels were not recoverable.

Based on: (i) the carrying value of each of our vessels as of December 31, 2013 and 2012, and (ii) what we believe the charter-free market value of each of our vessels was as of December 31, 2013 and 2012, the aggregate carrying value of the vessels in our fleet as of December 31, 2013 and 2012, exceeded their aggregate charter-free market value by approximately \$66.9 million and \$65.4 million, respectively, as noted in the table below. This aggregate difference represents the approximate analysis of the amount by which we believe we would have to reduce our net income if we sold all of such vessels at December 31, 2013 and 2012, on industry standard terms, in cash transactions, and to a willing buyer where we were not under any compulsion to sell, and where the buyer was not under any compulsion to buy. For purposes of this calculation, we have assumed that our vessels would be sold at a price that reflects our estimate of their charter-free market values as of December 31, 2013 and 2012. However, as of the same date, most of those container vessels were employed for their remaining charter duration, under time charters which we believe were above market levels. We believe that if these vessels were sold with those charters attached, we would have received a premium over their charter-free market value. However, as of December 31, 2013 and 2012, and currently, we have not entered into any agreement to sell any of our vessels. In February 2014, the vessel APL Sardonyx was sold for demolition. The vessel's carrying value had been impaired as of December 31, 2013.

Our estimates of charter-free market value assume that our vessels were all in good and seaworthy condition without need for repair and if inspected would be certified in class without notations of any kind. Our estimates are based on information available from various industry sources, including:

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;
- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of charter-free market value are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future charter-free market value of our vessels or prices that we could achieve if we were to sell them. We also refer you to the risk factor entitled "Vessel values may fluctuate which may adversely affect our financial condition, result in the incurrence of a loss upon disposal of a vessel or increase the cost of acquiring additional vessels".

		Carrying Value (in millions of US dollars)			
		Year		At	At
Vessel	TEU	Built	December	December	
1	Sagitta	3,426	2010	41.0*	42.4*
2	Centaurus	3,426	2010	42.4*	43.9*
	Maersk				
3	Madrid	4,206	1989	-	19.9*
	Maersk				
4	Malacca	4,714	1990	-	22.1*
	Maersk				
5	Merlion	4,714	1990	-	22.0*
	Cap				
6	Domingo	3,739	2001	24.5*	25.6*
	Cap				
7	Doukato	3,739	2002	25.1*	26.1*
	Apl				
8	Sardonyx	4,729	1995	9.5	20.2*
	Apl				
9	Spinel	4,729	1996	-	21.2*

	Apl				
10	Garnet	4,729	1995	16.7*	17.5*
	Hanjin				
11	Malta	4,024	1993	13.0*	-
12	Puelo	6,541	2006	46.5*	-
13	Pucon	6,541	2006	46.7*	-
	Vessels Net				
	Book Value			265.4	260.9

*Indicates vessels for which we believe, as of December 31, 2013 and December 31, 2012, the charter-free market value was lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeded their aggregate charter-free market value by approximately \$66.9 million and \$65.4 million, respectively.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are those that reflect significant judgments of uncertainties and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies when we acquire and operate vessels, because they generally involve a comparatively higher degree of judgment in their application. For a description of all our significant accounting policies, see Note 2 to our consolidated financial statements included in this annual report.

Accounts Receivable, Trade

Accounts receivable, trade, at each balance sheet date, include receivables from charterers for hire net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts.

Accounting for Revenues and Expenses

Revenues are generated from time charter agreements that we have entered into for our vessels and may enter into in the future. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time charter revenues are recorded over the term of the charter as service is provided. Revenues are recorded when they become fixed and determinable. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Income representing ballast bonus payments in connection with the repositioning of a vessel by the charterer to the vessel owner is recognized in the period earned. Deferred revenue includes cash received prior to the balance sheet date for which all criteria for recognition as revenue would not be met, including any deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis. Deferred revenue also may include the unamortized balance of liabilities associated with the acquisition of secondhand vessels with time charters attached, acquired at values below fair market value at the date the acquisition agreement is consummated.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue is deferred since commissions are earned as revenues are earned.

Prepaid/Deferred Charter Revenue

The Company records identified assets or liabilities associated with the acquisition of a vessel at their relative fair value, determined by reference to market data. The Company values any asset or liability arising from the market

value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. In determining the relative fair value, when the present value of the contractual cash flows of the time charter assumed is different than its current fair value, the difference, capped to the excess between the acquisition cost and the vessel's fair value on a charter free basis, is recorded as prepaid charter revenue or as deferred revenue, respectively. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.

Vessel Cost

Vessels are stated at cost which consists of the contract price and costs incurred upon acquisition or delivery of a vessel from a shipyard. Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earnings capacity or improve the efficiency or safety of the vessels; otherwise these amounts are charged to expense as incurred.

Vessel Depreciation

We have recorded the value of our vessels at their cost, which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for her initial voyage, less accumulated depreciation. We depreciate our containership vessels on a straight-line basis over their estimated useful lives, estimated to be 30 years from the date of initial delivery from the shipyard which we believe is also consistent with that of other shipping companies. Secondhand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. Depreciation is based on costs less the estimated salvage value. Furthermore, we have historically estimated the salvage values of our vessels to be \$200 to \$350 per light-weight ton depending on the vessels age and market conditions, while effective July 1, 2013 we adjusted prospectively the scrap rate used to \$350 per light-weight ton for all vessels in the fleet. For 2014, the annual depreciation charge is expected slightly smaller, due to this change in accounting estimate. A decrease in the useful life of a containership or in her salvage value would have the effect of increasing the annual depreciation charge. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

Deferred Drydock Cost

Our vessels are required to be drydocked approximately every 30 to 36 months for major repairs and maintenance that cannot be performed while the vessels are operating. We capitalize the costs associated with drydockings consisting of the actual costs incurred at the yard and parts used in the drydockings as they occur and amortize these costs on a straight-line basis over the period between drydockings. Unamortized drydocking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale. Costs capitalized as part of the drydocking include actual costs incurred at the yard and parts used in the drydocking. We believe that these criteria are consistent with industry practice and that our policy of capitalization reflects the economics and market values of the vessels.

Impairment of Long-lived Assets

We evaluate the carrying amounts, primarily for vessels and related drydock costs, and periods over which our long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. When the estimate of future undiscounted net operating cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, we should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. We determine the fair value of our assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. The current economic and market conditions are having broad effects on participants in a wide variety of industries. The current conditions in the containerships market with decreased charter rates and decreased vessel market values are conditions that we consider indicators of a potential impairment.

We determine future undiscounted net operating cash flows for each vessel and compare them to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilization, the charter revenues from existing charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days, based, to the extent applicable, on the most recent ten-year blended, for modern and older vessels, average historical 6-12 months time charter rates available for each type of vessel, over the remaining estimated life of each vessel net of brokerage commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3%. Effective fleet utilization is assumed at 98%, taking into account the period(s) each vessel is expected to undergo its scheduled maintenance (drydocking and special surveys), as well as an estimate of 1% off hire days each year, which assumptions are in line with our historical performance and our expectations for future fleet utilization under our current fleet deployment strategy. The review of the vessel's carrying amounts in connection with the estimated recoverable amounts for the year ended December 31, 2013 indicated impairment charges for certain of our vessels.

Set forth below is an analysis of the average estimated daily time charter equivalent rate used in our impairment analysis.

	Average estimated daily Time charter equivalent rate used
Up to 4,000 TEU	\$20,561
Between 4,000 TEU and 6,000 TEU	\$24,801
Above 6,000 TEU	\$28,700

For the purposes of presenting our investors with additional information to determine how the Company's future results of operations may be impacted in the event that daily time charter rates do not improve from their current levels in future periods, we set forth below an analysis that shows the 1-year, 3-year and 5-year average blended rates and the effect the use of each of these rates would have on the Company's impairment analysis.

	5-year period (in USD)	Impairment charge (in USD million)	3-year period (in USD)	Impairment charge (in USD million)	1-year period (in USD)	Impairment charge (in USD million)
Up to 4,000 TEU	9,779	50.0	9,690	50.0	7,021	50.0
Between 4,000 - 6,000 TEU	13,026	3.7	12,831	3.7	8,696	3.7
Above 6,000 TEU	n/a	* n/a	n/a	* n/a	* 27,542	0.0

*For the vessels with capacity of more than 6,000 TEU, average daily rates were only available for the years 2012 and 2013.

Share Based Payment

According to Code 718 "Compensation – Stock Compensation" of the Accounting Standards Codification, we are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions. That cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period, which is usually the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain

conditions are met. We initially measure the cost of employee services received in exchange for an award or liability instrument based on its current fair value; the fair value of that award or liability instrument is re-measured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period are recognized as compensation cost over that period with the exception of awards granted in the form of restricted shares which are measured at their grant date fair value and are not subsequently re measured. The grant-date fair value of employee share options and similar instruments are estimated using option-pricing models adjusted for the unique characteristics of those instruments unless observable market prices for the same or similar instruments are available. If an equity award is modified after the grant date, incremental compensation cost is recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Results of Operations

Year ended December 31, 2013 compared to the year ended December 31, 2012

Net Income / (Loss). Net loss for 2013 amounted to \$57.3 million, compared to net income of \$6.0 million during 2012. The loss for 2013 was mainly the result of impairment charges and direct sale and other charges totalling \$58.8 million.

Time Charter Revenues, net of prepaid charter revenue amortization. Time charter revenues, net of prepaid charter revenue amortization of \$20.3 million and \$12.2 million for 2013 and 2012 respectively, amounted to \$54.0 million for 2013, compared to \$56.6 million in 2012. The decrease is due to decreased average time charter rates in 2013 compared to 2012 and was partly offset by the increase in the ownership days in 2013 compared to 2012.

Voyage Expenses. Voyage expenses for 2013 amounted to \$0.7 million, compared to \$1.4 million in 2012. Voyage expenses mainly consist of commissions paid to third party brokers, and up to February 28, 2013 also included commissions paid to DSS on our gross charterhire pursuant to our vessel management agreements. The figure also includes bunkers expense incurred during off-hire days. The decrease in voyage expenses in 2013 compared to 2012 was due to the decrease in commissions, as effective March 1, 2013, UOT provides us with management services similar to those previously provided by DSS, and these fees are eliminated in consolidation as intercompany transactions.

Vessel Operating Expenses. Vessel operating expenses amounted to \$30.9 million in 2013, compared to \$29.0 million in the prior year and mainly consist of expenses for running and maintaining the vessels, such as crew wages and related costs, consumables and stores, insurances, and repairs and maintenance. The increase in 2013 was due primarily to the increase of our ownership days and also due to increased crew costs, insurances and tax expenses, partly off-set by decreased stores, spares and maintenance costs.

Depreciation. Depreciation for 2013 amounted to \$11.1 million, compared to \$12.5 million in 2012 and represents the depreciation expense of our containerships during the respective periods. The decrease in 2013 was mainly due to decreased carrying values of certain vessels which were impaired during the year.

Management Fees. Management fees amounted to \$0.3 million in 2013 compared to \$1.6 million in 2012 and consist of fees payable to DSS pursuant to the vessel management agreements that we, through our vessel-owning subsidiaries, had entered into for the provision of commercial and technical management services for the vessels in our fleet. The decrease of these fees in 2013 compared to 2012 is, as described above, due to the appointment of UOT, our wholly-owned subsidiary, to provide similar services since March 1, 2013.

General and Administrative Expenses. General and administrative expenses for 2013 amounted to \$5.1 million, compared to \$3.5 million in 2012 and mainly consist of payroll expenses of office employees, consultancy fees, brokerage services fees, compensation cost on restricted stock awards, legal fees and audit fees. The increase in 2013 compared to 2012 was mainly due to the establishment of UOT to act as our Manager, and was partly off-set by decreased company promotion expenses and compensation cost on restricted stock awards.

Impairment losses. Impairment losses amounted to \$42.3 million in 2013, and represent non-cash impairment charges recorded during the year for the vessels Maersk Madrid, Maersk Malacca, Maersk Merlion and Apl Sardonyx.

Loss on vessels' sale. Loss on vessels' sale amounted to \$16.5 million in 2013, and relates to the sale of the vessels Maersk Madrid, Maersk Malacca, Maersk Merlion and Apl Spinel.

Foreign Currency Losses / (Gains). Foreign currency losses for 2013 amounted to \$0.1 million, which mainly consists of unrealized exchange differences derived from the year-end valuation of accounts other than the US Dollar. In 2012, there were foreign currency gains of \$0.2 million.

Interest and Finance Costs. Interest and finance costs for 2013 amounted to \$4.6 million, compared to \$3.1 million for 2012 and consist of the interest expenses relating to our average debt outstanding during the respective periods, commitment fees and other loan fees and expenses. The increase in 2013 was due to increased average debt compared to the prior period, after the drawdown of \$50.0 million from our loan agreement with Diana Shipping Inc. and \$6.0 million from our credit facility with RBS, and increased average interest rates, which increased to 3.5% in 2013 from 3.1% in 2012.

Interest Income. Interest income for 2013 amounted to \$0.1 million, the same with 2012 and consists of interest income received on deposits of cash and cash equivalents.

Year ended December 31, 2012 compared to the year ended December 31, 2011

Net Income. Net income for 2012 amounted to \$6.0 million, compared to \$3.6 million during 2011. This increase in net income is due to the enlargement of the fleet as in 2012 we had ten vessels in our fleet compared to five in 2011.

Time Charter Revenues, net of prepaid charter revenue amortization. Time charter revenues, net of prepaid charter revenue amortization of \$12.2 million and \$0.0 for 2012 and 2011 respectively, amounted to \$56.6 million for 2012, compared to \$27.0 million in 2011. The increase is due to the increase in operating days in 2012 compared to 2011 due to the enlargement of the fleet. This increase was partly offset by decreased average charter rates that we achieved for our vessels in 2012 compared to 2011.

Voyage Expenses. Voyage expenses for 2012 amounted to \$1.4 million, compared to \$0.7 million in 2011. Voyage expenses mainly consist of commissions paid to third party brokers and to DSS on our gross charterhire pursuant to our vessel management agreements and expenses for bunkers. The increase in voyage expenses in 2012 compared to 2011 was due to the increase in commissions paid on our increased revenues.

Vessel Operating Expenses. Vessel operating expenses amounted to \$29.0 million in 2012, compared to \$11.1 million in the prior year and mainly consist of expenses for running and maintaining the vessels, such as crew wages and related costs, consumables and stores, insurances, and repairs and maintenance. The increase in 2012 was due primarily to the enlargement of the fleet and due to the increase in crew costs and repairs. In 2012, the average number of crew on our vessels was increased, as a result of increased needs for repairs and maintenance due to the vessels' age.

Depreciation. Depreciation for 2012 amounted to \$12.5 million, compared to \$5.9 million in 2011 and represents the depreciation expense of our containerships during the respective periods. The increase in 2012 is due to the increase in the vessels in our fleet.

Management Fees. Management fees amounted to \$1.6 million in 2012 compared to \$0.7 million in 2011 and consist of fees payable to DSS pursuant to the vessel management agreements that we, through our vessel-owning subsidiaries, entered into for the provision of commercial and technical management services for the vessels in our fleet. The increase of such fees in 2012 compared to 2011 is due to the enlargement of the fleet.

General and Administrative Expenses. General and administrative expenses for 2012 amounted to \$3.5 million, compared to \$3.4 million in 2011 and mainly consist of consultancy fees, brokerage services fees, compensation cost on restricted stock awards, legal fees and audit fees.

Foreign Currency Losses / (Gains). Foreign currency gains for 2012 amounted to \$0.2 million, which mainly consists of unrealized exchange differences derived from the year-end valuation of accounts other than the US Dollar. In 2011, there were foreign currency losses of \$17,646.

Interest and Finance Costs. Interest and finance costs for 2012 amounted to \$3.1 million, compared to \$1.6 million for 2011 and consist of the interest expenses relating to our average debt outstanding during the respective periods, commitment fees and other loan fees and expenses. The increase in 2012 was due to increased average debt compared to the prior period and increased average interest rates, which increased to 3.1% in 2012 from 2.8% in 2011 and was partly offset by decreased financing costs.

Interest Income. Interest income for 2012 amounted to \$0.1 million compared to \$0.2 million for 2011 and consists of interest income received on deposits of cash and cash equivalents.

Inflation

Inflation has only a moderate effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing costs.

B. Liquidity and Capital Resources

We have financed our capital requirements with cash flow from operations, equity contributions from shareholders and long-term bank debt. Our main uses of funds have been capital expenditures for the acquisition of new vessels, expenditures incurred in connection with ensuring that our vessels comply with international and regulatory standards, repayments of bank loans and payments of dividends. We will require capital to fund ongoing operations, additional vessel acquisitions and debt service.

During 2012 and 2013, we drew down an aggregate amount of \$148.7 million under our credit facility with RBS and our loan agreement with DSI, which we utilized to acquire our vessels. Our operating cash flow is generated from charters on our vessels, through our subsidiaries. Working capital, which is current assets minus current liabilities, including the current portion of long-term debt, amounted to \$19.2 million at December 31, 2013 and \$30.8 million at December 31, 2012. We anticipate that internally generated cash flow will be sufficient to fund the operations of our fleet, including our working capital requirements.

Cash Flow

As at December 31, 2013, cash and cash equivalents amounted to \$19.7 million compared to \$31.5 million for the prior year. We consider highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in U.S. dollars.

Net Cash Provided by Operating Activities

Net cash provided by operating activities in 2013, 2012 and 2011 amounted to \$31.7 million, \$31.3 million and \$12.5 million, respectively. The increase in cash from operating activities is due to the enlargement of our average fleet during 2013 and 2012 after the delivery of three vessels in 2013, partly off-set by the disposal of four vessels during the year and the delivery of five vessels in 2012.

Net Cash Used in Investing Activities

Net cash used in investing activities in 2013 was \$81.7 million and consists of \$107.9 million paid for the three vessels that we acquired during the year, \$8.5 million paid for a time charter agreement attached to the memorandum of agreement of a vessel acquired during the year, \$0.4 million paid for property and equipment additions, \$33.7 million received from the sale of four vessels during the year, and finally \$1.4 million received representing insurance settlements.

Net cash used in investing activities in 2012 was \$150.0 million and consists of \$108.0 million paid for the five vessels that we acquired during the year and \$42.0 million paid for their respective time charter agreements attached to the memoranda of agreement.

Net cash used in investing activities in 2011 was \$79.3 million and represents payments in advance for the acquisition of the m/v Cap Domingo (ex Cap San Marco) and m/v Cap Doukato (ex Cap San Raphael) and payments for the acquisition cost and additional costs capitalized for the three Maersk vessels during the year.

Net Cash Provided by Financing Activities

Net cash provided by financing activities in 2013 was \$38.1 million and consists of \$12.4 million of net proceeds received from the offering of 2,859,603 shares of common stock under our ATM program, \$6.0 million of loan proceeds received under our loan agreement with the Royal Bank of Scotland, and \$50.0 million of loan proceeds received under our loan agreement with DSI. It also includes \$29.7 million of cash dividends paid to investors, and \$0.6 million of additional restricted cash required under our credit facility.

Net cash provided by financing activities in 2012 was \$108.8 million and consists of \$53.9 million of net proceeds received from the offering of 9,115,803 shares of common stock at the price of \$6.25 per share in July and August 2012, \$92.7 million of loan proceeds received under our loan agreement with the Royal Bank of Scotland. It also includes \$28.5 million of cash dividends paid to investors, and \$9.3 million of compensating cash required under our credit facility.

Net cash provided by financing activities in 2011 was \$97.1 million and consists of \$121.5 million of net proceeds received from the offering of 16,916,667 shares of common stock at the price of \$7.50 per share in June 2011, of which \$20.0 million was invested by Diana Shipping, \$85.0 million of loan proceeds received under our loan agreements with DnB NOR Bank ASA. It also includes \$104.7 million we repaid under our loan agreements, \$4.2 million of cash dividends paid to investors, \$1.4 million of finance costs relating to the refinancing of our loan facility with DnB NOR Bank ASA that was terminated in June 2011 and our revolving credit facility with RBS, and \$0.8 million of restricted cash that was released after the termination of the loan facility with DnB NOR Bank ASA.

Credit Facilities

The Royal Bank of Scotland plc.: On December 16, 2011, we entered into a revolving credit facility with the Royal Bank of Scotland plc, where the lenders have agreed to make available to the Borrower a revolving credit facility of up to \$100.0 million, in order to refinance part of the acquisition cost of vessels m/v Sagitta and the m/v Centaurus, and finance part of the acquisition cost of additional containerships ("Additional Ships").

The maximum amount available for drawing (the "Available Facility Limit") is subject to limits relating to the market value of the vessels m/v Sagitta and m/v Centaurus and the market value or contract price and the age of the Additional Ships ("Vessel Limits") combined with limits relating with the average age of all the vessels under mortgage. The facility will be available for five years after the first availability date, being January 17, 2012 with the Available Facility Limit assessed at each draw down date and on a yearly basis, as well as, at the date in which the age of any Additional Ship exceeds the 20 years. In the event that the amounts outstanding at that time exceed the revised Available Facility Limit, the Company shall repay such part of the Loan that exceeds the Available Facility Limit.

Up to June 1, 2013, the credit facility bore interest at Libor plus a margin of 2.75% per annum and is secured by first priority mortgages over the financed fleet, general assignments of earnings, insurances and requisition compensation, specific assignments of any charters exceeding durations of twelve months, pledge of shares of the guarantors which will be the ship-owning companies of the mortgaged vessels, manager's undertakings and minimum security hull

value varying from 125% to 140% of the outstanding loan depending on the average age of the mortgaged vessels. The credit facility also includes restrictions as to changes in management and employment of vessels, a consolidated net debt of not more than 60% of market adjusted assets, EBITDA to Interest of not less than 3:1, minimum cash of 10% of the drawings under the revolving facility but not less than \$5.0 million and a forward looking operating cash flow to forward looking interest costs of not less than 1.2:1.

During 2013, we entered into various supplemental agreements with the Royal Bank of Scotland plc. The supplemental agreements, dated July 22, 2013, September 11, 2013 and December 6, 2013, provide for an increased margin of 3.10% per annum, effective June 1, 2013, changes in the definition of tangible assets in the calculation of financial covenants, as well as for security interest on the minimum cash held by us in favor of the lenders. The supplemental agreements also restrict any security interest over our assets in favor of DSI. Furthermore, we were required to provide additional vessels as collateral to secure the revolving credit facility, to release the security held over certain of our vessels, to amend the terms of the mandatory prepayment clause and to agree to certain other consequential amendments of the terms of the facility agreement.

We paid an arrangement fee of 1%, or \$1 million, on signing of the agreement. We also paid commitment commissions of 0.99% per annum on the available commitment up to October 31, 2013, date at which the available amount to be drawn from the credit facility became zero. As of the date of this annual report and as of December 31, 2013, we had \$98.7 million of debt outstanding under our credit facility with RBS.

Diana Shipping Inc. ("DSI"): On May 20, 2013, we, through our subsidiary Eluk Shipping Company Inc., entered into an unsecured loan agreement of up to \$50.0 million with Diana Shipping Inc., to be used to fund vessel acquisitions and for general corporate purposes. The loan bears interest at a rate of Libor plus a margin of 5.0% per annum. In addition, the loan bears a fee of 1.25% per annum ("back-end fee") on any amounts repaid upon any repayment or voluntary prepayments dates. In August 2013, the full amount of \$50.0 million was drawn down under the loan agreement, which remained outstanding as of December 31, 2013 and as of the date of this annual report. The loan matures on the fourth anniversary of the drawdown date, or on August 20, 2017. We, or our subsidiaries, may not incur additional indebtedness during the term of the loan without the prior consent of the lender.

As at December 31, 2013 and the date of this annual report, we have not used any derivative instruments for hedging purposes or other purposes.

Capital Expenditures

Our future capital expenditures relate to the purchase of containerships and vessel upgrades.

We also expect to incur additional capital expenditures when our vessels undergo surveys. This process of recertification may require us to reposition these vessels from a discharge port to shipyard facilities, which will reduce our operating days during the period. The loss of earnings associated with the decrease in operating days, together with the capital needs for repairs and upgrades results in increased cash flow needs which we fund with cash on hand.

C. Research and Development, Patents and Licenses

From time to time, we incur expenditures relating to inspections for acquiring new vessels that meet our standards. Such expenditures are capitalized to vessel's cost upon such vessel's acquisition or expensed, if the vessel is not acquired, however, historically, such expenses were not material.

D. Trend Information

Our results of operations depend primarily on the charter hire rates that we are able to realize. Charter hire rates paid for containerships are primarily a function of the underlying balance between vessel supply and demand.

With some exceptions, time charter rates for all containership sizes increased steadily from 2002 into 2005, in some cases rising by as much as 50.0%, as charter markets experienced significant growth. Demand for vessels was largely spurred on by growth in the volume of exports from China. In 2006, time charter rates weakened due to supply rising

faster than demand and also market perception. This trend continued in 2007 and 2008, and in 2009 rates fell even farther due to rising supply and very weak demand. With the recovery in demand since 2009 year-to-date charter rates across most sizes have improved from the lows of 2009, although in a historical context they still remain low. As such, we cannot assure investors that we will be able to fix our vessels, upon expiration of their current charters, at average rates higher than or similar to those achieved in previous years.

E. Off-balance Sheet Arrangements

As of the date of this annual report, we do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table presents our contractual obligations as of December 31, 2013, as adjusted to reflect the extension of the term of the Broker Services Agreement with Diana Enterprises up to March 31, 2015:

Contractual Obligations	Total Amount	Payments due by period			More than 5 years
		Less than 1 year	2-3 years	4-5 years	
		(in thousands of US dollars)			
Broker Services Agreement (1)	\$1,812	\$1,450	\$362	\$-	\$-
Long term debt (2)	148,700	-	-	148,700	-
Total	\$150,512	\$1,450	\$362	\$148,700	\$-

(1) Following the termination agreement for brokerage services that were provided to us through DSS on March 1, 2013, Diana Enterprises has entered on the same date into an agreement with UOT to provide brokerage services for a fixed monthly fee of \$120,833. The agreement had an initial term of thirteen months. In March 2014, the Broker Services Agreement with Diana Enterprises Inc. was terminated and replaced with a new agreement, according to which, with retroactive effect from January 1, 2014, the duration of the engagement shall be for a term of fifteen months, ending on March 31, 2015.

(2) The table above does not include the "back-end" fee payable to Diana Shipping in August 2017, amounting to \$2.5 million, as well as projected interest payments which are based on Libor plus a margin, which are estimated at about \$5.9 million per annum, as long as the Libor rate and the outstanding balance of the credit facility with RBS and the loan facility with DSI remain at the levels of the year ended December 31, 2013.

G. Safe Harbor

See the section entitled "Forward-looking Statements" at the beginning of this annual report.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors and executive officers. Our board of directors is elected annually on a staggered basis, and each director elected holds office for a three year term. Officers are appointed from time to time by our board of directors and hold office until a successor is elected.

All of our executive officers are also executive officers of Diana Shipping.

Name	Age	Position
Symeon Palios	72	Class III Director, Chief Executive Officer and Chairman
Anastasios Margaronis	58	Class II Director and President
Ioannis Zafirakis	42	Class I Director, Chief Operating Officer and Secretary
Andreas Michalopoulos	42	Chief Financial Officer and Treasurer
Giannakis (John) Evangelou	69	Class III Director
Antonios Karavias	72	Class I Director
Nikolaos Petmezas	65	Class III Director
Reidar Brekke	53	Class II Director

The term of the Class I directors expires in 2014, the term of the Class II directors expires in 2015 and the term of the Class III directors expires in 2016.

The business address of each officer and director is the address of our principal executive offices, which are located at Pendelis 18, 175 64 Palaio Faliro, Athens, Greece.

Biographical information concerning the directors and executive officers listed above is set forth below.

Symeon Palios has served as our Chief Executive Officer and Chairman since January 13, 2010 and has served as Chief Executive Officer and Chairman of Diana Shipping Inc. since February 21, 2005 and as a Director of that company since March 9, 1999. Mr. Palios also serves as an employee of Diana Shipping Services S.A. Prior to November 12, 2004, Mr. Palios was the Managing Director of Diana Shipping Agencies S.A. and performed the services he now performs as Chief Executive Officer. Since 1972, when he formed Diana Shipping Agencies S.A., Mr. Palios has had the overall responsibility of their activities. Mr. Palios has experience in the shipping industry since 1969 and expertise in technical and operational issues. He has served as an ensign in the Greek Navy for the inspection of passenger boats on behalf of Ministry of Merchant Marine and is qualified as a naval architect and engineer. Mr. Palios is a member of various leading classification societies worldwide and he is a member of the board of directors of the United Kingdom Freight Demurrage and Defense Association Limited. He holds a bachelor's degree in Marine Engineering from Durham University.

Anastasios Margaronis has served as our Director and President since January 13, 2010 and has served in these positions with Diana Shipping Inc. since February 21, 2005. Mr. Margaronis also serves as an employee of Diana Shipping Services S.A. Prior to February 21, 2005, Mr. Margaronis was employed by Diana Shipping Agencies S.A. and performed the services he now performs as President. He joined Diana Shipping Agencies in 1979 and has been responsible for overseeing our insurance matters, including hull and machinery, protection and indemnity, loss of hire and war risks insurances. Mr. Margaronis has experience in the shipping industry, including in ship finance and insurance, since 1980. He is a member of the Greek National Committee of the American Bureau of Shipping and a member of the board of directors of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited and of the United Kingdom Mutual Steam Ship Assurance Association (Europe) Limited. He holds a bachelor's degree in Economics from the University of Warwick and a master's of science degree in Maritime Law from the Wales Institute of Science and Technology.

Ioannis Zafirakis has served as our Director, Chief Operating Officer and Secretary since January 13, 2010 and has served as Director and Executive Vice President and Secretary of Diana Shipping Inc. since February 14, 2008, as the Director, Vice President and Secretary of that company since February 21, 2005 and as a director of the same company since March 9, 1999. Mr. Zafirakis also serves as an employee of Diana Shipping Services S.A. Since 1997

and prior to February 21, 2005 Mr. Zafirakis was employed by Diana Shipping Agencies S.A. where he held a number of positions in its operations and finance department. Mr. Zafirakis is also a member of the Business Advisory Committee of the MSc in International Shipping and Finance at ICMA Centre, Henley Business School, University of Reading. He holds a bachelor's degree in Business Studies from City University Business School in London and a master's degree in International Transport from the University of Wales in Cardiff.

Andreas Michalopoulos has served as our Chief Financial Officer and Treasurer since January 13, 2010 and has served in these positions with Diana Shipping Inc. since March 8, 2006. Mr. Michalopoulos started his career in 1993 when he joined Merrill Lynch Private Banking in Paris. In 1995, he became an International Corporate Auditor with Nestle SA based in Vevey, Switzerland and moved in 1998 to the position of Trade Marketing and Merchandising Manager. From 2000 to 2002, he worked for McKinsey and Company in Paris, France as an Associate Generalist Consultant before joining a major Greek Pharmaceutical Group with U.S. R&D activity as a Vice President of International Business Development and Member of the Executive Committee in 2002 where he remained until 2005. From 2005 to 2006, he joined Diana Shipping Agencies S.A as a Project Manager. Mr. Michalopoulos graduated from Paris IX Dauphine University with Honors in 1993 obtaining an MSc in Economics and a master's degree in Management Sciences specialized in Finance. In 1995, he also obtained a master's degree in Business Administration from Imperial College, University of London. Mr. Andreas Michalopoulos is married to the youngest daughter of Mr. Symeon Palios.

Giannakis (John) Evangelou has served as an independent Director and as the Chairman of our Audit Committee since February 8, 2011. Mr. Evangelou is a member of the Board of Directors of Elgeka-Ferfelis Romania S.A. and Diakinisis Logistics Services (CY) Limited both members of Elgeka S.A. Group of Companies which is listed on the A.S.E. Mr. Evangelou retired from Ernst & Young (Hellas), which he joined as a partner in 1998, on June 30, 2010. During his 12 years at Ernst & Young, he acted as Transaction Support leader for Greece and a number of countries in Southeast Europe including Turkey, Bulgaria, Romania and Serbia. In addition to his normal duties as a partner, Mr. Evangelou held the position of Quality and Risk Management leader for Transaction Advisory Services responsible for a sub-area comprising 18 countries spanning from Poland and the Baltic in the North to Cyprus and Malta in the South. From 1986 through 1997, Mr. Evangelou held the position of Group Finance director at Manley Hopkins Group, a Marine Services Group of Companies. From 1991 through 1997, Mr. Evangelou served as Chief Accounting Officer for Global Ocean Carriers, a shipping company that was listed on a U.S. stock exchange during that time. From 1996 to 1998, Mr. Evangelou was an independent consultant and a member of the team that prepared Royal Olympic Cruises for its listing on Nasdaq. From 1974 through 1986, Mr. Evangelou was a partner of Moore Stephens in Greece. Additionally, Mr. Evangelou is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Certified Accountants — Auditors of Greece.

Antonios Karavias has served as an independent Director and as the Chairman of our Compensation Committee and member of our Audit Committee since the completion of the private offering. Since 2007 Mr. Karavias has served as an Independent Advisor to the Management of Société Générale Bank and Trust and Marfin Egnatia Bank. Previously, Mr. Karavias was with Alpha Bank from 1999 to 2006 as a Deputy Manager of Private Banking and with Merrill Lynch as a Vice President from 1980 to 1999. He holds a bachelor's degree in Economics from Mississippi State University and a master's degree in Economics from Pace University. As of 2012, Mr. Karavias has been President of UNION F.Z., a financial services company registered in the U.A.E.

Nikolaos Petmezas has served as an independent Director and as a member of our Compensation Committee since the completion of the private offering. Mr. Petmezas has served since 2001 as the Chief Executive Officer of Maersk-Svitzer-Wijsmuller B.V. Hellenic Office and, prior to its acquisition by Maersk, as a Partner and as Chief Executive Officer of Wijsmuller Shipping Company B.V. He has also served since 1989 as the Chief Executive Officer of N.G. Petmezas Shipping and Trading, S.A., and since 1984 as the Chief Executive Officer of Shipcare Technical Services Shipping Co. LTD. Since 1995 Mr. Petmezas has served as well as the Managing Director of Kongsberg Gruppen A.S. (Hellenic Office) and, from 1984 to 1995, as the Managing Director of Kongsberg Vaapenfabrik A.S. (Hellenic Branch Office). Mr. Petmezas served on the Board of Directors of Neorion Shipyards, in Syros, Greece from 1989 to 1992. Mr. Petmezas began his career in shipping in 1977, holding sales positions at Austin & Pickersgill Ltd. and British Shipbuilders Corporation until 1983. Mr. Petmezas has been an Advisor at Westinghouse Electric and Northrop Grumman since 1983 and a Honorary Consul under the General Consulate of Sri Lanka in Greece since 1995. Mr. Petmezas holds degrees in Law and in Political Sciences and Economics from the

Aristotle University of Thessaloniki and an LL.M. in Shipping Law from London University.

Reidar Brekke has served as an independent Director since June 1, 2010. Mr. Brekke has been a principal, advisor and deal-maker in the international energy, container logistics and transportation sector for the last 15+ years. Mr. Brekke is currently President of Intermodal Holdings LP, a company investing in intermodal assets. From 2008 – 2012, he was President of Energy Capital Solutions Inc., (New York and Florida) providing strategic and financial advisory services to international shipping, logistics and energy related companies. From 2003 - 2008 he served as Manager of Poten Capital Services LLC, a registered broker-dealer specializing in the maritime sector. Prior to 2003, Mr. Brekke was C.F.O., then President and C.O.O., of SynchroNet Marine, a logistics service provider to the global container transportation industry. From 1994 to 2000, he held several senior positions with American Marine Advisors, including Fund Manager of American Shipping Fund I LLC, and C.F.O. of its broker dealer subsidiary. Prior to this, Mr. Brekke was an Advisor for the Norwegian Trade Commission in New York & Oslo, Norway, and a financial advisor in Norway. Mr. Brekke graduated from the New Mexico Military Institute in 1986 and in 1990 he obtained a MBA from the University of Nevada, Reno. He has been an adjunct professor at Columbia University's School of International and Public Affairs – Center for Energy, Marine Transportation and Public Policy, and is currently on the board of directors of four privately-held companies involved in container logistics, container leasing and drybulk shipping.

B. Compensation

Since June 1, 2010, the members of our senior management were compensated through their affiliation with Diana Enterprises and its respective Broker Services Agreement with DSS. The fee payable by DSS to Diana Enterprises (for which we reimbursed DSS) was \$1.04 million per annum and increased to \$1.3 million following the completion the public offering in June 2011. Following the termination agreement for brokerage services that were provided to us through DSS on March 1, 2013, Diana Enterprises has entered on the same date into an agreement with UOT to provide brokerage services for a fixed monthly fee of \$120,833. The agreement had a term of thirteen months and the fees were payable quarterly in advance. In March 2014, the agreement with Diana Enterprises Inc. was terminated and replaced with a new agreement, according to which, effective January 1, 2014, the duration of the engagement shall be for a term of fifteen months, ending on March 31, 2015. The fees and all other terms of the agreement remained unchanged. Diana Enterprises is a related party controlled by our Chief Executive Officer and Chairman Mr. Symeon Palios. In 2013, 2012, and 2011, fees payable to Diana Enterprises for brokerage services amounted to \$1.4 million, \$1.3 million and \$1.2 million, respectively.

In 2010, our executive officers also received 213,331 shares of restricted stock awards with a grant date fair value of \$3.2 million, 25% of which vested in 2010; 53,335 vested in May 2011 and the remaining vest ratably over the remaining two years. In June 2011, on the completion of our public offering, our executive officers also received 53,333 shares of restricted stock awards, 25% of which vested on the grant date and the remainder of which will vest ratably over three years from the grant date. In 2013, 2012, and 2011, compensation cost relating to the aggregate amount of restricted stock awards amounted to \$0.4 million, \$0.9 million and \$1.0 million, respectively.

Our non-executive directors receive annual compensation in the aggregate amount of \$40,000 plus reimbursement of their out-of-pocket expenses incurred while attending any meeting of the board of directors or any board committee. In addition, a committee chairman receives an additional \$20,000 annually, and other committee members receive an additional \$10,000. We do not have a retirement plan for our officers or directors. For 2013, 2012, and 2011, fees and expenses to non-executive directors amounted to \$0.3 million, \$0.3 million and \$0.3 million, respectively.

2010 Equity Incentive Plan

We have adopted an equity incentive plan, which we refer to as the plan, under which directors, officers, employees, consultants and service providers of us and our subsidiaries and affiliates will be eligible to receive options to acquire common stock, stock appreciation rights, restricted stock, restricted stock units and unrestricted common stock. We

have reserved for issuance a total of 392,198 common shares under the plan, subject to adjustment for changes in capitalization as provided in the plan. The plan is administered by our compensation committee, or such other committee of our board of directors as may be designated by the board to administer the plan.

As of the date of this annual report, we have issued a total of 266,664 restricted shares under the plan to our executive officers, of which 253,330 shares have vested.

Under the terms of the plan, stock options and stock appreciation rights granted under the plan will have an exercise price per common share equal to the fair market value of a common share on the date of grant, unless otherwise specifically provided in an award agreement, but in no event will the exercise price be less than the greater of (i) the fair market value of a common share on the date of grant and (ii) the par value of one share of common stock. Options and stock appreciation rights will be exercisable at times and under conditions as determined by the plan administrator, but in no event will they be exercisable later than ten years from the date of grant.

The plan administrator may grant shares of restricted stock and awards of restricted stock units subject to vesting and forfeiture provisions and other terms and conditions as determined by the plan administrator in accordance with the terms of the plan. Following the vesting of a restricted stock unit, the award recipient will be paid an amount equal to the number of restricted stock units that then vest multiplied by the fair market value of a common share on the date of vesting, which payment may be paid in the form of cash or common shares or a combination of both, as determined by the plan administrator. The plan administrator may grant dividend equivalents with respect to grants of restricted stock units.

Adjustments may be made to outstanding awards in the event of a corporate transaction or change in capitalization or other extraordinary event. In the event of a "change in control" (as defined in the plan), unless otherwise provided by the plan administrator in an award agreement, awards then outstanding will become fully vested and exercisable in full.

Our board of directors may amend the plan and may amend outstanding awards, provided that no such amendment may be made that would materially impair any rights, or materially increase any obligations, of a grantee under an outstanding award without the consent of such grantee. Shareholder approval of plan amendments will be required under certain circumstances. Unless terminated earlier by our board of directors, the plan will expire ten years from the date the plan is adopted. The plan administrator may cancel any award and amend any outstanding award agreement except no such amendment shall be made without shareholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to the outstanding award.

2012 Amended and Restated Equity Incentive Plan

On February 21, 2012 we amended the 2010 Equity Incentive Plan and it was renamed as the 2012 Amended and Restated Equity Incentive Plan. The sole material change from the 2010 Equity Incentive Plan to the 2012 Amended and Restated Equity Incentive Plan is the reservation for issuance of an additional 2 million common shares. As of the date of this annual report no shares have been issued under the 2012 Amended and Restated Equity Incentive Plan.

C. Board Practices

Actions by the Board of Directors of Diana Containerships

Our amended and restated bylaws provide that vessel acquisitions and disposals from or to a related party and long term time charter employment with any charterer that is a related party will require the unanimous approval of the independent members of our board of directors and that all other material related party transactions shall be subject to the approval of a majority of the independent members of the board of directors.

Committees of the Board of Directors

We have established an Audit Committee, comprised of two members of our board of directors, who are responsible for reviewing our accounting controls, recommending to the board of directors the engagement of our independent auditors, and pre-approving audit and audit-related services and fees. Each member is an independent director. As

directed by its written charter, the Audit Committee is responsible for reviewing all related party transactions for potential conflicts of interest and all related party transactions are subject to the approval of the Audit Committee. Mr. John Evangelou has served as the Chairman of the Audit Committee since February 8, 2011. We believe that Mr. Evangelou qualifies as an Audit Committee financial expert as such term is defined under Securities and Exchange Commission rules. Mr. Antonios Karavias serves as a member of our Audit Committee.

In addition, we have established a Compensation Committee, comprised of two independent directors, which is responsible for recommending to the board of directors our senior executive officers' compensation and benefits. Mr. Antonios Karavias serves as the Chairman of the Compensation Committee and Mr. Nikolaos Petmezas serves as a member of our Compensation Committee.

We have also established an Executive Committee comprised of three directors, Mr. Symeon Palios, Mr. Anastasios Margaronis and Mr. Ioannis Zafirakis. The Executive Committee is responsible for the overall management of our business.

We also maintain directors' and officers' insurance, pursuant to which we provide insurance coverage against certain liabilities to which our directors and officers may be subject, including liability incurred under U.S. securities law.

D. Crewing and Shore Employees

We crew our vessels primarily with Greek officers and Filipino officers and seamen. We are responsible for identifying our Greek officers, which are hired by our fleet manager on behalf of the vessel owning subsidiaries. Our Filipino officers and seamen are referred to us by Crossworld Marine Services Inc., an independent crewing agency. The crewing agency handles each seaman's training, travel and payroll. We ensure that all our seamen have the qualifications and licenses required to comply with international regulations and shipping conventions. Additionally, our seafaring employees perform most commissioning work and supervise work at shipyards and drydock facilities. We typically man our vessels with more crew members than are required by the country of the vessel's flag in order to allow for the performance of routine maintenance duties.

Up to February 28, 2013, we had no shore-based employees. Our former fleet manager, DSS, through the Broker Services Agreement with Diana Enterprises and through the Administrative Services Agreement was responsible for providing services to us and through the Vessel Management Agreements was responsible for recruiting, either directly or through a technical manager or a crew manager, the senior officers and all other crew members for the vessels in our fleet. DSS had the responsibility to ensure that all seamen have the qualifications and licenses required to comply with international regulations and shipping conventions, and that the vessels are manned by experienced, competent and trained personnel. DSS was also responsible for ensuring that seafarers' wages and terms of employment conform to international standards or to general collective bargaining agreements to allow unrestricted worldwide trading of the vessels. Since March 1, 2013, UOT, our new fleet manager, a wholly-owned subsidiary, is responsible for providing similar services to us and the vessels we own.

The following table presents the number of shoreside personnel employed by our manager and the number of seafaring personnel employed by our vessel owning subsidiaries as of December 31, 2013:

	As of December 31, 2013
Shoreside	31
Seafaring	236
Total	267

E. Share Ownership

With respect to the total amount of common stock owned by all of our officers and directors individually and as a group, see Item 7. "Major Stockholders and Related Party Transactions."

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information regarding the beneficial owners of more than five percent of our common shares and of our officers and directors as a group as of the date of this report. All of the shareholders, including the shareholders listed in this table, are entitled to one vote for each common share held.

Beneficial ownership is determined in accordance with the Securities and Exchange Commission's rules. In computing percentage ownership of each person, common shares subject to options held by that person that are currently exercisable or convertible, or exercisable or convertible within 60 days of the date of this report, are deemed to be beneficially owned by that person. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

As of March 25, 2014, we have 35,999,727 common shares issued and outstanding, and the percentage of beneficial ownership below is based on this figure.

Identity of person or group(1)	Shares Beneficially Owned		
	Number	Percentage	
Diana Shipping Inc.	3,333,485	9.3	%(2)
Symeon Palios	2,071,314 (3)(4)	5.8	%(3)(4)
Anastasios Margaronis	243,459 (3)(5)		*
Ioannis Zafirakis	150,612 (3)(6)		*
Andreas Michalopoulos	287,359 (3)(7)		*
All directors and officers, as a group	2,752,744	7.7	%

(1) Unless otherwise indicated, the business address of each beneficial owner identified is c/o Diana Containerships Inc., Pendelis 18, 175 64 Palaio Faliro, Athens, Greece.

(2) As at December 31, 2013, 2012, and 2011, Diana Shipping Inc. owned 9.5%, 10.4% and 14.4% of our common stock, respectively.

(3) Of the total number of these shares, 266,664 were granted pursuant to the Company's 2010 Equity Incentive Plan, of which an aggregate of 253,330 shares have vested and the remaining shares vest over a three year period from the grant date.

(4) Of these shares, Mr. Palios may be deemed to beneficially own 1,591,498 common shares through Taracan Investments S.A., 154,970 common shares through Corozal Compania Naviera S.A., 309,941 common shares through Ironwood Trading Corp., companies for which he is the controlling person. As at December 31, 2013, 2012, and 2011, Mr. Palios beneficially owned 5.9%, 6.4% and 8.4%, respectively.

(5) Mr. Margaronis may be deemed to beneficially own 82,706 of these common shares through Weever S.A., a company of which he is the controlling person.

(6) Mr. Zafirakis may be deemed to beneficially own 43,607 of these common shares through D&G S.A., a company of which he is the controlling person.

(7)

Mr. Michalopoulos may be deemed to beneficially own 45,113 of these common shares through Love Boat S.A., a company of which he is the controlling person.

*Less than 1%.

As of March 25, 2014, we had 130 shareholders of record, 118 of which were located in the United States and held an aggregate of 31,932,584 of our common shares, representing 88.7% of our outstanding common shares. However, one of the U.S. shareholders of record is CEDE & CO., a nominee of The Depository Trust Company, which held 31,918,027 of our common shares as of March 25, 2014. Accordingly, we believe that the shares held by CEDE & CO. include common shares beneficially owned by both holders in the United States and non-U.S. beneficial owners. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

B. Related Party Transactions

Diana Shipping Services S.A.

We had entered into an Administrative Services Agreement with DSS, relating to the provision of administrative services to us. Please see below for a description of this agreement. In 2013, 2012 and 2011, fees for administrative services amounted to \$20,000, \$0.1 million and \$0.1 million respectively.

We, through our wholly-owned subsidiaries, had also entered into Vessel Management Agreements with DSS, relating to the provision of management services for our vessels. Please see below for a description of these agreements. In 2013, 2012, and 2011, fees for management services amounted to \$0.3 million, \$1.6 million and \$0.8 million and commissions on charter hire amounted \$0.1 million, \$0.7 million and \$0.3 million, respectively.

Administrative Services Agreement with DSS

On April 6, 2010, we entered into an Administrative Services Agreement with DSS, whereby DSS provided to us accounting, administrative, financial reporting and other services necessary for the operation of our business. We have agreed to pay to DSS a monthly fee of \$10,000 for these administrative services. The initial term of the agreement was for a period of one year and would be automatically renewed for the successive twelve month periods unless the agreement was terminated as provided therein. The agreement could be terminated by the Company (i) upon thirty days' written notice to the Manager; (ii) if the Manager materially breaches the agreement and such breach is not resolved within ninety days; (iii) if the Manager has been convicted of or entered a plea of guilty or nolo contendere with respect to a crime and such occurrence is materially injurious to the Company; (iv) if the holders of a majority of the Company's outstanding common shares elect to terminate the agreement; (v) if the Manager commits fraud, gross negligence or commits an act of willful misconduct, and the Company is materially injured thereby; (vi) if the Manager becomes insolvent; or (vi) if there is a "change of control" (as defined therein) of the Manager. The Administrative Services Agreement could be terminated by the Manager (i) after the expiration of the initial term, with six months' notice to the Company; (ii) if the Company materially breaches the agreement and such breach is not resolved within ninety days; or (iii) at any time upon the earlier to occur of (a) the occurrence of a change of control of the Company; (b) the Manager's receipt of written notice from the Company that a change of control will occur until sixty (60) days after the later of (1) the occurrence of such a change of control or (2) the Manager's receipt of the written notice in the preceding clause (b). If the Company has knowledge that a change of control of the Company will occur, the Company is required to give prompt written notice thereof to the Manager.

On March 1, 2013, and in relation with the appointment of UOT to act as our new Manager, the Administrative Services Agreement with DSS was terminated.

Vessel Management Agreements with DSS

DSS also provided commercial and technical management services for our vessels under separate vessel management agreements with our vessel owning subsidiaries. The vessel management agreements would continue unless terminated by either party giving three months' written notice; provided that we may terminate the agreement without such notice upon payment to the Manager of a fee equal to the average management fees paid to the Manager during the last three full months immediately preceding such termination. Commercial management includes, among other things, negotiating charters for vessels, monitoring the performance of vessels under charter, and managing our relationships with charterers, obtaining insurance coverage for our vessels, as well as supervision of the technical management of the vessels. Technical management includes managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory and classification society compliance, supervising the maintenance and general efficiency of vessels, arranging the hire of qualified officers and crew, arranging and supervising

drydocking and repairs, arranging for the purchase of supplies, spare parts and new equipment for vessels, appointing supervisors and technical consultants and providing technical support. Pursuant to each vessel management agreement, DSS received a commission of 1% of the gross charterhire and freight earned by the vessel and a technical management fee of \$15,000 per vessel per month for employed vessels and would receive \$20,000 per vessel per month for laid-up vessels, if any.

On March 1, 2013, and in relation with the appointment of UOT to act as our new Manager, the vessel management agreements with DSS were terminated.

Diana Enterprises Inc.

We had entered into a Broker Services Agreement, dated June 1, 2010, with Diana Enterprises through DSS pursuant to the Administrative Services Agreement. Following the termination agreement for brokerage services that were provided to us through DSS on March 1, 2013, Diana Enterprises has entered on the same date into an agreement with UOT to provide brokerage services for a fixed monthly fee of \$120,833. In March 2014, the Broker Services Agreement with Diana Enterprises Inc. was terminated and replaced with a new agreement, according to which, with retroactive effect from January 1, 2014, the duration of the engagement shall be for a term of fifteen months, ending on March 31, 2015. In 2013, 2012, and 2011, fees for broker services amounted to \$1.4 million, \$1.3 million, and \$1.2 million, respectively.

Pursuant to the Broker Services Agreement, DSS was obligated to pay a commission to Diana Enterprises in the amount of \$260,000 per quarter for a term of five years. The commission increased to \$325,000 per quarter following the offering completed in June 2011. DSS could pay additional commissions with respect to a transaction as the same may be agreed in writing. In the event that Diana Enterprises terminated the agreement within six months following a Change of Control, as defined in the agreement, Diana Enterprises would be entitled to a lump sum payment equal to three years' annual commission. On March 1, 2013, and in relation with the appointment of UOT to act as our new Manager, the Broker Services Agreement with DEI through DSS was terminated.

Diana Shipping Inc.

We and Diana Shipping had entered into a non-competition agreement whereby we have agreed that, during the term of the Administrative Services Agreement and any vessel management agreements we enter into with DSS, and for six months thereafter, we will not acquire or charter any vessel, or otherwise operate in, the drybulk sector and Diana Shipping will not acquire or charter any vessel, or otherwise operate in, the containership sector. On March 1, 2013 we amended and restated the initial non-competition agreement with Diana Shipping Inc., where we have agreed that, as long as any of our current or continuing executive officers also serves as an executive for Diana Shipping Inc., and for six months thereafter, we will not acquire or charter any vessel, or otherwise operate in, the drybulk sector and Diana Shipping will not acquire or charter any vessel, or otherwise operate in, the containership sector.

We have entered into a registration rights agreement, dated April 6, 2010, with FBR Capital Markets & Co. and Diana Shipping Inc. The registration rights agreement covers the shares sold in the private offering, including shares purchased by Diana Shipping Inc., plus any additional shares of common stock issued in respect thereof whether by stock dividend, stock distribution, stock split, or otherwise.

On October 19, 2010, we commenced a registered exchange offer for 2,558,997 common shares pursuant to the registration rights agreement, which was completed on November 18, 2010. In addition, in January 2011, Diana Shipping distributed 2,667,015 of our common shares it owned to its shareholders.

On June 9, 2011, we entered into a share purchase agreement with Diana Shipping pursuant to which Diana Shipping purchased 2,666,667 of our common shares at a price of \$7.50 per share.

On June 15, 2011, in connection with Diana Shipping's purchase of 2,666,667 shares in a private placement in June 2011, we entered into a registration rights agreement with Diana Shipping covering the common shares purchased by Diana Shipping in the private placement. Pursuant to the terms of this registration rights agreement, Diana Shipping shall have the same rights, and shall be subject to the same terms and conditions, as Diana Shipping has with respect

to its shares of common stock held prior to the June 2011 private placement under the April 2010 registration rights agreement.

On May 20, 2013, we have entered into a loan agreement of up to \$50.0 million with Diana Shipping, for which please refer to Item 5.B – Liquidity and capital resources – credit facilities.

Altair Travel Agency S.A

Effective March 1, 2013, Altair Travel Agency S.A., or Altair, an affiliated entity that is controlled by our Chairman and Chief Executive Officer, Mr. Symeon Palios, provides us with travel related services. In 2013, the expenses we incurred in exchange for travel services provided by Altair, amounted to \$1.0 million. We believe that the amounts that we pay to Altair Travel Agency S.A. are no greater than fees we would pay to an unrelated third party for comparable services in an arm's length transaction.

C. Interests Of Experts And Counsel

Not applicable.

Item 8. Financial information

A. Consolidated Statements and Other Financial Information

See Item 18.

Legal proceedings

We have not been involved in any legal proceedings which may have, or have had a significant effect on our business, financial position, results of operations or liquidity, nor are we aware of any proceedings that are pending or threatened which may have a significant effect on our business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

Dividend Policy

We currently intend to declare a variable quarterly dividend each February, May, August and November equal to a substantial portion of available cash from operations during the previous quarter after the payment of cash expenses and reserves for scheduled drydockings, intermediate and special surveys and other purposes as our board of directors may from time to time determine are required, after taking into account contingent liabilities, the terms of any credit facility, our growth strategy and other cash needs and the requirements of Marshall Islands law. Our board of directors may review and amend our dividend policy from time to time, in light of our plans for future growth and other factors. In 2013 and 2012, we made dividend payments of \$0.90 and \$1.00 per share, respectively, and in February 2014 we declared a cash dividend of \$0.15 per share with respect to the fourth quarter of 2013.

While we have declared and paid cash dividends on our common shares, there can be no assurance that dividends will be paid in the future. The actual timing and amount of dividend payments, if any, will be determined by our board of directors and could be affected by various factors, including our cash earnings, financial condition and cash requirements, the loss of a vessel, the acquisition of one or more vessels, required capital expenditures, reserves established by our board of directors, increased or unanticipated expenses, a change in our dividend policy, additional borrowings or future issuances of securities, many of which will be beyond our control. We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations

and to make dividend payments. In addition, any credit facilities that we may enter into in the future may include restrictions on our ability to pay dividends.

Marshall Islands law generally prohibits the payment of dividends other than from surplus, or while a company is insolvent or would be rendered insolvent by the payment of such a dividend.

In addition, we may incur expenses or liabilities, including extraordinary expenses, decreases in revenues, including as a result of unanticipated off-hire days or loss of a vessel, or increased cash needs that could reduce or eliminate the amount of cash that we have available for distribution as dividends. The containership sector is cyclical and volatile. We cannot predict with accuracy the amount of cash flows our operations will generate in any given period. Factors beyond our control may affect the charter market for our vessels and our charterers' ability to satisfy their contractual obligations to us, and we cannot assure you that dividends will actually be declared or paid in the future. We cannot assure you that we will be able to pay regular quarterly dividends, and our ability to pay dividends will be subject to the limitations set forth above and in the section of this annual report titled "Risk Factors."

In times when we have debt outstanding, we intend to limit our dividends per share to the amount that we would have been able to pay if we were financed entirely with equity. Our board of directors may review and amend our dividend policy from time to time, in light of our plans for future growth and other factors.

B. Significant Changes

See Item 18 – Financial Statements: Note 15 – Subsequent Events.

Item 9. The Offer and Listing

Our common shares have traded on the Nasdaq Global Market under the symbol "DCIX" since January 19, 2011 and on the Nasdaq Global Select Market since January 2, 2013. The table below sets forth the high and low closing prices for each of the periods indicated for the common shares.

The high and low closing prices for our common shares for the periods set forth below were as follows:

Years	Low	High
For the period from January 19 to December 31, 2011	\$4.58	\$13.15
Year-ended December 31, 2012	5.22	7.76
Year-ended December 31, 2013	3.51	7.03
Periods	Low	High
1st Quarter ended March 31, 2012	\$5.55	\$7.15
2nd Quarter ended June 30, 2012	5.96	7.76
3rd Quarter ended September 30, 2012	5.22	7.62
4th Quarter ended December 31, 2012	5.33	6.50
1st Quarter ended March 31, 2013	\$4.94	\$7.03
2nd Quarter ended June 30, 2013	4.17	5.93
3rd Quarter ended September 30, 2013	3.64	4.64
4th Quarter ended December 31, 2013	3.51	4.51
Months	Low	High
September 2013	\$3.65	\$3.97

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October 2013	3.71	4.25
November 2013	3.85	4.51
December 2013	3.51	4.11
January 2014	3.90	4.19
February 2014	3.85	4.26
March 2014 (through March 25, 2014)	3.81	4.03

Item 10. Additional Information

A. Share Capital

Not Applicable.

B. Memorandum and articles of association

Our current amended and restated articles of incorporation have been filed as exhibit 3.1 to our Form F-4 filed with the Securities and Exchange Commission on October 15, 2010 with file number 333-169974. The information contained in this exhibit is incorporated by reference herein.

A description of the material terms of our amended and restated articles of incorporation and bylaws is included in the section entitled "Description of Capital Stock" in our Registration Statement on Form F-4 filed with the Securities and Exchange Commission on October 15, 2010 with file number 333-169974 and is incorporated by reference herein, provided that since the date of that Registration Statement, and up to December 31, 2013, the number of shares of our common stock issued and outstanding has increased to 35,051,567 and continues to increase, under our the at-the-market equity offering. Please see "Item 4. Business Development and Capital Expenditures and Divestitures" for a description of the at-the-market offering. We have also filed with the Securities and Exchange Commission our stockholders rights agreement as exhibit 4.3 to the Registration Statement on Form F-4. The information contained in this exhibit is incorporated by reference herein.

C. Material Contracts

The contracts included as exhibits to this annual report are the contracts we consider to be both material and not entered into in the ordinary course of business, for the two years immediately preceding the date of this annual report. Each of these contracts is attached as an exhibit to this annual report. Other than these agreements, we have no material contracts, other than contracts entered into in the ordinary course of business, to which the Company or any member of the group is as party. We refer you to Item 5.B for a discussion of our loan facilities, Item 4.B and Item 7.B for a discussion of our agreements with companies controlled by our Chairman and Chief Executive Officer, Mr. Symeon Palios, and Item 6.B for a discussion of our 2010 Equity Incentive Plan and our 2012 Amended and Restated Equity Incentive Plan.

D. Exchange Controls

Under Republic of the Marshall Islands law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to non-resident holders of our common stock.

E. Taxation

The following is a discussion of the material Marshall Islands and U.S. federal income tax considerations of the ownership and disposition by a U.S. Holder and a Non-U.S. Holder, each as defined below, with respect to the common stock. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which, such as dealers in securities or commodities, financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, persons liable for the alternative minimum tax, persons who hold common stock as part of a straddle, hedge, conversion transaction or integrated investment, U.S. Holders whose functional currency is not the United States dollar and investors that own, actually or under applicable constructive ownership rules, 10% or more of the Company's common stock, may be subject to special rules. This discussion deals

only with holders who hold the common stock as a capital asset. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of common stock.

Marshall Islands Tax Considerations

In the opinion of Seward & Kissel LLP, the following are the material Marshall Islands tax consequences of the Company's activities to the Company and of the ownership of the Company's common stock to its shareholders. The Company is incorporated in the Marshall Islands. Under current Marshall Islands law, the Company is not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by the Company to its shareholders.

United States Federal Income Tax Considerations

In the opinion of Seward & Kissel LLP, the Company's U.S. counsel, the following are the material U.S. federal income tax consequences to the Company of its activities and to U.S. Holders and Non-U.S Holders, each as defined below, of the common stock. The following discussion of U.S. federal income tax matters is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury, all of which are subject to change, possibly with retroactive effect.

Taxation of Operating Income: In General

The following discussion addresses the U.S. federal income taxation of our operating income if we are engaged in the international operation of vessels.

Unless exempt from U.S. federal income taxation under the rules discussed below, a foreign corporation is subject to U.S. federal income taxation in respect of any income that is derived from the use of vessels, from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis, from the participation in a pool, partnership, strategic alliance, joint operating agreement, code sharing arrangements or other joint venture it directly or indirectly owns or participates in that generates such income, or from the performance of services directly related to those uses, which we refer to as "shipping income," to the extent that the shipping income is derived from sources within the United States. For these purposes, 50% of shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States constitutes income from sources within the United States, which we refer to as "U.S.-source shipping income."

Shipping income attributable to transportation that both begins and ends in the United States is considered to be 100% from sources within the United States. We are not permitted by law to engage in transportation that produces income which is considered to be 100% from sources within the United States. Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping income derived from sources outside the United States will not be subject to any U.S. federal income tax.

Exemption of Operating Income from U.S. Federal Income Taxation

Under Section 883 of the Code, or Section 883, we will be exempt from U.S. federal income taxation on our U.S.-source shipping income if:

- we are organized in a foreign country that grants an "equivalent exemption" to corporations organized in the United States, or U.S. corporations; and

either:

- more than 50% of the value of our common stock is owned, directly or indirectly, by qualified shareholders, which we refer to as the "50% Ownership Test," or
- our common stock is "primarily and regularly traded on an established securities market" in a country that grants an "equivalent exemption" to U.S. corporations or in the United States, which we refer to as the "Publicly-Traded Test."

The Marshall Islands, the jurisdiction where we are incorporated, grant an "equivalent exemption" to U.S. corporations. We anticipate that any of our shipowning subsidiaries will be incorporated in a jurisdiction that provides an "equivalent exemption" to U.S. corporations. Therefore, we will be exempt from U.S. federal income taxation with respect to our U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met.

We do not currently anticipate a circumstance under which we would be able to satisfy the 50% Ownership Test. Our ability to satisfy the Publicly-Traded Test is discussed below.

Publicly-Traded Test

In order to satisfy the Publicly-Traded Test, our common stock must be primarily and regularly traded on one or more established securities markets. The regulations under Section 883 provide, in pertinent part, that shares of a foreign corporation will be considered to be "primarily traded" on an established securities market in a country if the number of shares of each class of shares that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. Our common shares are "primarily traded" on the Nasdaq Global Select Market.

Under the regulations, stock of a foreign corporation will be considered to be "regularly traded" on an established securities market if one or more classes of stock representing more than 50% of the outstanding stock, by both total combined voting power of all classes of shares entitled to vote and total value, are listed on such market, to which we refer as the "listing threshold." Since our common shares are listed on the Nasdaq Global Select Market, we expect to satisfy the listing threshold.

It is further required that with respect to each class of stock relied upon to meet the listing threshold, (i) such class of shares is traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or one-sixth of the days in a short taxable year, which we refer to as the trading frequency test; and (ii) the aggregate number of stock of such class of shares traded on such market during the taxable year is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year, which we refer to as the trading volume test. Even if these tests are not satisfied, the regulations provide that such trading frequency and trading volume tests will be deemed satisfied if, as is expected to be the case with our common shares, such class of stock is traded on an established securities market in the United States and such shares are regularly quoted by dealers making a market in such shares.

Notwithstanding the foregoing, the regulations provide, in pertinent part, that a class of shares will not be considered to be "regularly traded" on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under specified share attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the vote and value of such class of stock, to which we refer as the "Five Percent Override Rule."

For purposes of being able to determine the persons who actually or constructively own 5% or more of the vote and value of our common stock, or "5% Shareholders," the regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the Securities and Exchange Commission, as owning 5% or

more of our common stock. The regulations further provide that an investment company which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Shareholder for such purposes.

In the event the Five Percent Override Rule is triggered, the regulations provide that the Five Percent Override Rule will nevertheless not apply if we can establish that within the group of 5% Shareholders, there are sufficient qualified shareholders for purposes of Section 883 to preclude non-qualified shareholders in such group from owning 50% or more of our common stock for more than half the number of days during the taxable year.

We believe that we satisfied the Publicly-Traded Test for the 2013 taxable year and were not subject to the Five Percent Override Rule and we intend to take that position on our 2013 U.S. federal income tax returns.

Taxation in Absence of Exemption

To the extent the benefits of Section 883 are unavailable, our U.S.-source shipping income, to the extent not considered to be "effectively connected" with the conduct of a U.S. trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, which we refer to as the 4% gross basis tax regime. Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being derived from U.S. sources, the maximum effective rate of U.S. federal income tax on our shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent the benefits of the Section 883 exemption are unavailable and our U.S.-source shipping income is considered to be "effectively connected" with the conduct of a U.S. trade or business, as described below, any such "effectively connected" U.S.-source shipping income, net of applicable deductions, would be subject to the U.S. federal corporate income tax currently imposed at rates of up to 35%. In addition, we may be subject to an additional 30% "branch profits" tax on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of such U.S. trade or business.

Our U.S.-source shipping income would be considered "effectively connected" with the conduct of a U.S. trade or business only if:

- we have, or are considered to have, a fixed place of business in the United States involved in the earning of shipping income; and
- substantially all of our U.S.-source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States (or, in the case of income from the bareboat chartering of a vessel, is attributable to a fixed place of business in the United States).

We do not anticipate that we will have any vessel operating to or from the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we do not anticipate that any of our U.S.-source shipping income will be "effectively connected" with the conduct of a U.S. trade or business.

United States Federal Income Taxation of Gain on Sale of Vessels

Regardless of whether we qualify for exemption under Section 883 of the Code, we will not be subject to U.S. federal income taxation with respect to gain realized on a sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected that any sale of a vessel by us will be considered to occur outside of

the United States.

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United States Federal Income Taxation of U.S. Holders

As used herein, the term "U.S. Holder" means a beneficial owner of common stock that is an individual U.S. citizen or resident, a U.S. corporation or other U.S. entity taxable as a corporation, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership holds the common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding the common stock, you are encouraged to consult your tax advisor.

Distributions

Subject to the discussion of the passive foreign investment company, or PFIC, rules below, distributions made by us with respect to our common stock, other than certain pro-rata distributions of our common stock, to a U.S. Holder will generally constitute dividends, which may be taxable as ordinary income or "qualified dividend income" as described in more detail below, to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a United States corporation, U.S. Holders that are corporations will not be entitled to claim a dividends-received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common stock will generally be treated as income from sources outside the United States and will generally constitute "passive category income" or, in the case of certain types of U.S. Holders, "general category income" for purposes of computing allowable foreign tax credits for U.S. foreign tax credit purposes.

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate, which we refer to as a U.S. Individual Holder, will generally be treated as "qualified dividend income" that is taxable to such U.S. Individual Holders at preferential tax rates, provided that (1) the common stock is readily tradable on an established securities market in the United States such as the Nasdaq Global Select Market, on which our common stock is traded; (2) we are not a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year, as discussed below; (3) the U.S. Individual Holder has held the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend; and (4) the U.S. Individual Holder is not under an obligation to make related payments with respect to positions in substantially similar or related property.

There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Individual Holder. Any distributions out of earnings and profits we pay which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder.

Special rules may apply to any "extraordinary dividend," generally, a dividend paid by us in an amount which is equal to or in excess of ten percent of a U.S. Holder's adjusted tax basis, or fair market value in certain circumstances, in a share of our common stock. If we pay an "extraordinary dividend" on our common stock that is treated as "qualified dividend income," then any loss derived by a U.S. Individual Holder from the sale or exchange of such common stock will be treated as long-term capital loss to the extent of such dividend.

Sale, Exchange or other Disposition of Common Stock

Subject to the discussion of the PFIC rules below, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of our common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. A U.S. Holder's tax basis in the common stock generally will equal the U.S. Holder's acquisition cost less any prior return of capital. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition and will generally be treated as U.S.-source income or loss, as applicable, for U.S. foreign tax credit purposes. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

3.8% Tax on Net Investment Income

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual, estate, or, in certain cases, a trust, will generally be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's net investment income for the taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000). A U.S. Holder's net investment income will generally include distributions we make on the common stock which are treated as dividends for U.S. federal income tax purposes and capital gains from the sale, exchange or other disposition of the common stock. This tax is in addition to any income taxes due on such investment income.

If you are a U.S. Holder that is an individual, estate or trust, you are encouraged to consult your tax advisors regarding the applicability of the 3.8% tax on net investment income to your common stock.

PFIC Status and Significant Tax Consequences

Special U.S. federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a PFIC for U.S. federal income tax purposes. In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such U.S. Holder held our common stock, either:

- at least 75% of our gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business), which we refer to as the income test; or
- at least 50% of the average value of our assets during such taxable year produce, or are held for the production of, passive income, which we refer to as the asset test.

For purposes of determining whether we are a PFIC, cash will be treated as an asset which is held for the production of passive income. In addition, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiary corporations in which we own at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute "passive income" unless we were treated under specific rules as deriving our rental income in the active conduct of a trade or business.

Our status as a PFIC will depend upon the operations of our vessels. Therefore, we can give no assurances as to whether we will be a PFIC with respect to any taxable year. In making the determination as to whether we are a PFIC, we intend to treat the gross income we derive or are deemed to derive from the time chartering and voyage chartering activities of us or any of our wholly owned subsidiaries as services income, rather than rental income. Correspondingly, in the opinion of Seward & Kissel LLP, such income should not constitute passive income, and the assets that we or our wholly owned subsidiaries own and operate in connection with the production of such income, should not constitute passive assets for purposes of determining whether we are a PFIC. There is substantial legal authority supporting this position consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. In the absence of any legal authority specifically relating to the statutory provisions governing PFICs, the IRS or a court could disagree with the opinion of Seward & Kissel LLP. On the other hand, any income we derive from bareboat chartering activities will likely be treated as passive income for purposes of the income test. Likewise, any assets utilized in bareboat chartering activities will likely be treated as generating passive income for purposes of the asset test.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different taxation rules depending on whether the U.S. Holder makes an election to treat us as a "Qualified Electing Fund," which election we refer to as a "QEF election," or a "mark-to-market" election with respect to the common stock. In addition, if we are a PFIC, a U.S. Holder will be required to file with respect to taxable years ending on or after December 31, 2013 IRS Form 8621 with the IRS containing certain information regarding the Company.

Taxation of U.S. Holders Making a Timely QEF Election.

If a U.S. Holder makes a timely QEF election, which U.S. Holder we refer to as an "Electing Holder," the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of our ordinary earnings and our net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder's adjusted tax basis in the common stock will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common stock and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common stock. A U.S. Holder would make a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with his U.S. federal income tax return. After the end of each taxable year, we will determine whether we were a PFIC for such taxable year. If we determine or otherwise become aware that we are a PFIC for any taxable year, we will provide each U.S. Holder with all necessary information, including a PFIC Annual Information Statement, in order to allow such holder to make a QEF election for such taxable year.

Taxation of U.S. Holders Making a "Mark-to-Market" Election.

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we anticipate will continue to be the case, our shares are treated as "marketable stock," a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our common stock, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury regulations. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such holder's adjusted tax basis in the common stock. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common stock over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in his common stock would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of our common stock would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election.

Finally, if we were to be treated as a PFIC for any taxable year, a U.S. Holder who has not timely made a QEF or mark-to-market election for the first taxable year in which it holds our common stock and during which we are treated as PFIC, whom we refer to as a "Non-Electing Holder," would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common stock), and (2) any gain realized on the sale, exchange or other disposition of our common stock. Under these special rules:

- the excess distribution or gain would be allocated ratably to each day over the Non-Electing Holders' aggregate holding period for the common stock;
- the amount allocated to the current taxable year and any taxable year before we became a PFIC would be taxed as ordinary income; and
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the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed tax deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These adverse tax consequence would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of our common stock. In addition, if a Non-Electing Holder who is an individual dies while owning our common stock, such holder's successor generally would not receive a step-up in tax basis with respect to such common stock.

U.S. Federal Income Taxation of Non-U.S. Holders

A beneficial owner of our common stock, other than a partnership or entity treated as a partnership for U.S. Federal income tax purposes, that is not a U.S. Holder is referred to herein as a Non-U.S. Holder.

Non-U.S. Holders generally will not be subject to U.S. federal income tax or withholding tax on dividends received from us with respect to our common stock, unless that income is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. In general, if the Non-U.S. Holder is entitled to the benefits of certain U.S. income tax treaties with respect to those dividends, that income is taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States.

Non-U.S. Holders generally will not be subject to U.S. federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our common stock, unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. In general, if the Non-U.S. Holder is entitled to the benefits of certain income tax treaties with respect to that gain, that gain is taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; or
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-U.S. Holder is engaged in a U.S. trade or business for U.S. federal income tax purposes, the income from the common stock, including dividends and the gain from the sale, exchange or other disposition of the stock, that is effectively connected with the conduct of that trade or business will generally be subject to regular U.S. federal income tax in the same manner as discussed in the previous section relating to the taxation of U.S. Holders. In addition, if you are a corporate Non-U.S. Holder, your earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable U.S. income tax treaty.

Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements. Such payments will also be subject to backup withholding tax if you are a non-corporate U.S. Holder and you:

- fail to provide an accurate taxpayer identification number;
- are notified by the IRS that you have failed to report all interest or dividends required to be shown on your U.S. federal income tax returns; or
- in certain circumstances, fail to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on an applicable IRS Form W-8.

If you sell your common stock through a U.S. office of a broker, the payment of the proceeds is subject to both U.S. backup withholding and information reporting unless you certify that you are a non-U.S. person, under penalties of perjury, or you otherwise establish an exemption. If you sell your common stock through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the United States then information reporting and backup withholding generally will not apply to that payment. However, U.S. information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to you outside the United States, if you sell your common stock through a non-U.S. office of a broker that is a U.S. person or has certain other contacts with the United States, unless you certify that you are a non-U.S. person, under penalty of perjury, or you otherwise establish an exemption.

Backup withholding is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your U.S. federal income tax liability by timely filing a refund claim with the IRS.

Pursuant to recently enacted legislation, U.S. Holders who are individuals (and to the extent specified in applicable Treasury Regulations, certain U.S. entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury Regulations). Specified foreign financial assets would include, among other assets, our common stock, unless the common stock is held through an account maintained with a U.S. financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event a U.S. Holder who is an individual (and to the extent specified in applicable Treasury regulations, a U.S. entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed.

F. Dividends and paying agents

Not Applicable.

G. Statement by experts

Not Applicable.

H. Documents on display

We file reports and other information with the SEC. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, or from the SEC's website <http://www.sec.gov>. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330 and you may obtain copies at prescribed rates.

I. Subsidiary information

Not Applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

Total interest incurred under our loan facilities and related interest rates during 2013, 2012 and 2011 were as follows:

	2013		2012		2011	
Interest expense (in millions of USD)	\$4.0		\$2.7		\$0.6	
Weighted average interest rate (libor plus margin)	3.49	%	3.07	%	2.77	%
Interest rates range during the year (libor including margin)	2.94% to 5.18%		2.96% to 3.32%		2.67% to 2.87%	

An average increase of 1% in 2013 interest rates would have resulted in interest expenses of \$5.1 million, instead of \$4.0 million, an increase of about 28%.

As of the date of this annual report, we have \$148.7 million of debt outstanding and we expect to incur additional debt in the future. We expect to manage any exposure in interest rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

Currency and Exchange Rates

We generate all of our revenues in U.S. dollars, but currently incur about half of our operating expenses (around 58% in 2013 and 49% in 2012) and a significant portion of our general and administrative expenses (around 51% in 2013 and 7% in 2012) in currencies other than the U.S. dollar, primarily the Euro. For accounting purposes, expenses incurred in Euros are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. The amount and frequency of some of these expenses, such as vessel repairs, supplies and stores, may fluctuate from period to period. Since approximately 2002, the U.S. dollar has depreciated against the Euro. Depreciation in the value of the dollar relative to other currencies increases the dollar cost to us of paying such expenses. The portion of our expenses incurred in other currencies could increase in the future, which could expand our exposure to losses arising from currency fluctuations.

While we have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may determine to employ such instruments from time to time in the future in order to minimize this risk. Our use of financial derivatives would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results. Currently, we do not consider the risk from exchange rate fluctuations to be material for our results of operations and therefore, we are not engaged in derivative instruments to hedge part of those expenses.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

A. Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

B. Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

Management has conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2013 is effective.

C. Attestation Report of Independent Registered Public Accounting Firm

The attestation report on the Company's internal control over financial reporting issued by the registered public accounting firm that audited the consolidated financial statements, Ernst Young (Hellas) Certified Auditors Accountants S.A., appears under Item 18, and such report is incorporated herein by reference.

D. Changes in Internal Control over Financial Reporting

None.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 16A. Audit Committee Financial Expert

Mr. John Evangelou serves as the Chairman of the Company's Audit Committee. Our board of directors has determined that Mr. Evangelou qualifies as an "audit committee financial expert," as defined in Form 20-F and is "independent" according to Rule 10A-3 of the Exchange Act.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to officers and employees. Our code of ethics is posted in our website: <http://www.dcontainerships.com>, under "About Us." Copies of our Code of Ethics are available in print, free of charge, upon request to Diana Containerships Inc., Pendelis 18, 175 64 Palaio Faliro, Athens, Greece. We intend to satisfy any disclosure requirements regarding any amendment to, or waiver from, a provision of this Code of Ethics by posting such information on our website.

Item 16C. Principal Accountant Fees and Services

A. Audit Fees

Our principal accountants, Ernst and Young (Hellas), Certified Auditors Accountants S.A., have billed us for audit services.

Audit fees in 2013 amounted to Euro 284,500 or about \$383,000 and in 2012 amounted to Euro 188,250 or \$254,000, and relate to audit services provided in connection with the audit and SAS 100 interim reviews of our consolidated financial statements, the audit of internal control over financial reporting as well as audit services performed in connection with the Company's public offerings and registration statements.

B. Audit Related Fees

None.

C. Tax Fees

None.

D. All Other Fees

None.

E. Audit Committee's Pre-Approval Policies and Procedures

The Audit Committee is responsible for the appointment, replacement, compensation, evaluation and oversight of the work of the independent auditors. As part of this responsibility, the Audit Committee pre-approves all audit and non-audit services performed by the independent auditors in order to assure that they do not impair the auditor's independence from the Company. The Audit Committee has adopted a policy which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent auditors may be pre-approved.

F. Audit Work Performed by Other Than Principal Accountant if Greater Than 50%

Not applicable.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

We have certified to Nasdaq that our corporate governance practices are in compliance with, and are not prohibited by, the laws of the Republic of the Marshall Islands. Therefore, we are exempt from many of Nasdaq's corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, submission of a listing agreement, notification to Nasdaq of non-compliance with Nasdaq corporate governance practices, prohibition on disparate reduction or restriction of shareholder voting rights, and the establishment of an audit committee satisfying Nasdaq Listing Rule 5605(c)(3) and ensuring that such audit committee's members meet the independence requirement of Listing Rule 5605(c)(2)(A)(ii). The practices we follow in lieu of Nasdaq's corporate governance rules applicable to U.S. domestic issuers are as follows:

- As a foreign private issuer, we are not required to have an audit committee comprised of at least three members. Our audit committee is comprised of two members;
- As a foreign private issuer, we are not required to adopt a formal written charter or board resolution addressing the nominations process. We do not have a nominations committee, nor have we adopted a board resolution addressing the nominations process;
- As a foreign private issuer, we are not required to hold regularly scheduled board meetings at which only independent directors are present;
- In lieu of obtaining shareholder approval prior to the issuance of designated securities, we will comply with provisions of the Marshall Islands Business Corporations Act, which allows the Board of Directors to approve share issuances;
- As a foreign private issuer, we are not required to solicit proxies or provide proxy statements to Nasdaq pursuant to Nasdaq corporate governance rules or Marshall Islands law. Consistent with Marshall Islands law and as provided

in our bylaws, we will notify our shareholders of meetings between 15 and 60 days before the meeting. This notification will contain, among other things, information regarding business to be transacted at the meeting. In addition, our bylaws provide that shareholders must give us between 150 and 180 days advance notice to properly introduce any business at a meeting of shareholders.

Other than as noted above, we are in compliance with all other Nasdaq corporate governance standards applicable to U.S. domestic issuers.

Item 16H. Mine Safety Disclosure

Not applicable.

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PART III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

The financial statements beginning on page F-1 are filed as a part of this annual report.

Item 19. Exhibits

(a) Exhibits

Exhibit Number	Description
1.1	Amended and Restated Articles of Incorporation (1)
1.2	Amended and Restated Bylaws of the Company (2)
2.1	Form of Share Certificate (3)
2.2	Statement of Designations of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Diana Containerships Inc., dated August 2, 2010 (4)
4.1	Registration Rights Agreement dated April 6, 2010 (5)
4.2	Stockholders Rights Agreement dated August 2, 2010 (6)
4.3	2010 Equity Incentive Plan (7)
4.4	2012 Amended and Restated Equity Incentive Plan (8)
4.5	Administrative Services Agreement with DSS(9)
4.6	Broker Services Agreement with Diana Enterprises Inc. (10)
4.7	Form Of Vessel Management Agreement with DSS (11)
4.8	Administrative Services Agreement with UOT
4.9	Broker Services Agreement with Diana Enterprises Inc., dated March 1, 2013
4.10	Broker Services Agreement with Diana Enterprises Inc., dated March 4, 2014
4.11	Form Of Vessel Management Agreement with UOT
4.12	Amended and Restated Non-Competition Agreement With Diana Shipping Inc.
4.13	Loan Agreement dated July 7, 2010, by and between Likiep Shipping Company Inc. and Orangina Inc., as Borrowers, and DnB NOR Bank ASA (13)
4.14	Loan Agreement, dated May 4, 2011, by and between DnB NOR Bank ASA , and Likiep Shipping Company Inc., Orangina Inc., Mili Shipping Company Inc., Ebon Shipping Company Inc., and Ralik Shipping Company Inc. (14)
4.15	Loan Agreement, dated December 16, 2011, by and between the Royal Bank of Scotland plc and Diana Containerships Inc. (15)
4.16	Loan Agreement, dated May 20, 2013, by and between Eluk Shipping Company Inc. and Diana Shipping Inc.
4.17	Supplemental Agreement, dated July 22, 2013, between Diana Containerships Inc. and the Royal Bank of Scotland
4.18	Supplemental Agreement, dated September 11, 2013, between Diana Containerships Inc. and the Royal Bank of Scotland
4.19	Supplemental Agreement, dated December 6, 2013, between Diana Containerships Inc. and the Royal Bank of Scotland
4.20	Memorandum of Agreement for m/v Maersk Madrid (16)

- 4.21 Addendum No. 1 to the Memorandum of Agreement for m/v Maersk Madrid (17)
- 4.22 Memorandum of Agreement for m/v Maersk Malacca (18)
- 4.23 Memorandum of Agreement for m/v Maersk Merlion (19)

- 4.24 Memorandum of Agreement for m/v Cap San Raphael (20)
- 4.25 Memorandum of Agreement for m/v Cap San Marco (23)
- 4.26 Memorandum of Agreement for m/v APL Sardonyx (24)
- 4.27 Memorandum of Agreement for m/v APL Spinel (25)
- 4.28 Memorandum of Agreement for m/v APL Garnet (22)
- 4.29 Memorandum of Agreement for m/v Hanjin Malta (26)
- 4.30 Memorandum of Agreement for m/v Puelo
- 4.31 Memorandum of Agreement for m/v Pucon
- 4.32 Registration Rights Agreement dated June 15, 2011(21)
- 4.33 Share Purchase Agreement dated June 9, 2011(27)
- 8.1 List Of Subsidiaries
- 12.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 13.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 13.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 15.1 Consent of independent registered public accounting firm
- 15.2 Consent of Drewry

- 101 The following financial information from Diana Containerships Inc.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2013, formatted in Extensible Business Reporting Language (XBRL): (1) Consolidated Balance Sheets as at December 31, 2013 and 2012; (2) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011; (3) Consolidated Statements of Comprehensive Income / (Loss) for the years ended December 31, 2013, 2012 and 2011; (4) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011; (5) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; and (6) Notes to Consolidated Financial Statements.

(1) Filed as Exhibit 2 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

(2) Filed as Exhibit 3 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

(3) Filed as Exhibit 4.1 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

(4) Filed as Exhibit 4.4 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

(5) Filed as Exhibit 4.2 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

(6) Filed as Exhibit 4.3 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

(7) Filed as Exhibit 10.1 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

(8) Filed as Exhibit 4.4 to the Company's Annual Report on Form 20-F on February 23, 2012.

(9) Filed as Exhibit 10.2 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.

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- (10) Filed as Exhibit 10.3 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.
- (11) Filed as Exhibit 10.4 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.
- (13) Filed as Exhibit 10.6 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on October 15, 2010.
- (14) Filed as Exhibit 10.7 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on May 9, 2011.

- (15) Filed as Exhibit 4.11 to the Company's Annual Report on Form 20-F on February 23, 2012.
- (16) Filed as Exhibit 10.8 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on May 9, 2011.
- (17) Filed as Exhibit 10.9 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on May 9, 2011.
- (18) Filed as Exhibit 10.10 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on May 9, 2011.
- (19) Filed as Exhibit 10.11 to the Company's Registration Statement on Form F-4 (File No. 333-169974) on May 9, 2011.
- (20) Filed as Exhibits 4.16 to the Company's Annual Report on Form 20-F on February 23, 2012.
- (21) Filed as Exhibits 4.14 to the Company's Annual Report on Form 20-F on June 28, 2011.
- (22) Filed as Exhibits 4.20 to the Company's Annual Report on Form 20-F on February 20, 2013.
- (23) Filed as Exhibit 4.17 to the Company's Annual Report on Form 20-F on February 23, 2012.
- (24) Filed as Exhibit 4.18 to the Company's Annual Report on Form 20-F on February 23, 2012.
- (25) Filed as Exhibit 4.19 to the Company's Annual Report on Form 20-F on February 23, 2012.
- (26) Filed as Exhibit 4.21 to the Company's Annual Report on Form 20-F on February 20, 2013.
- (27) Filed as Exhibit 4.15 to the Company's Annual Report on Form 20-F on June 28, 2011.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

DIANA CONTAINERSHIPS INC.

By: /s/ Andreas Michalopoulos
Andreas Michalopoulos
Chief Financial Officer and Treasurer

Dated: March 26, 2014

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DIANA CONTAINERSHIPS INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Diana Containerships Inc.

We have audited the accompanying consolidated balance sheets of Diana Containerships Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diana Containerships Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Diana Containerships Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young (Hellas) Certified Auditors Accountants S.A.

Athens, Greece
February 18, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Diana Containerships Inc.

We have audited Diana Containerships Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Diana Containerships Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Diana Containerships Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Diana Containerships Inc. as of December 31, 2013 and 2012 and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013 of Diana Containerships Inc. and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young (Hellas) Certified Auditors Accountants S.A.

Athens, Greece
February 18, 2014

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DIANA CONTAINERSHIPS INC.

Consolidated Balance Sheets as at December 31, 2013 and 2012

(Expressed in thousands of U.S. Dollars, except for share and per share data)

ASSETS	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents	\$19,685	\$31,526
Accounts receivable, trade	534	215
Inventories	1,964	3,206
Prepaid expenses and other assets	797	1,965
Total current assets	22,980	36,912
FIXED ASSETS:		
Vessels (Note 4)	284,108	280,812
Accumulated depreciation (Note 4)	(18,736)	(19,867)
Vessels' net book value	265,372	260,945
Property and equipment, net	321	-
Total fixed assets	265,693	260,945
Restricted cash (Note 6)	9,870	9,270
Prepaid charter revenue (Note 5)	18,166	29,918
Total assets	\$316,709	\$337,045
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable, trade and other	\$1,739	\$2,672
Due to related parties, current (Note 3)	170	657
Accrued liabilities	898	1,517
Deferred revenue, current (Note 7)	972	1,264
Total current liabilities	3,779	6,110
Long-term bank debt, net of unamortized deferred financing costs (Note 6)	98,102	91,906
Related party financing, non-current (Note 3)	50,233	-
Deferred revenue, non-current (Note 7)	50	271
Other liabilities, non-current	80	-
Commitments and contingencies (Note 8)	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value; 500,000,000 shares authorized; 35,051,567 and 32,191,964 issued and outstanding as at December 31, 2013 and 2012, respectively (Note 9)	350	322
Additional paid-in capital (Note 9)	276,236	263,537

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Accumulated deficit	(112,121)	(25,101)
Total stockholders' equity	164,465	238,758
Total liabilities and stockholders' equity	\$316,709	\$337,045

The accompanying notes are an integral part of these consolidated financial statements.

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DIANA CONTAINERSHIPS INC.

Consolidated Statements of Operations

For the years ended December 31, 2013, 2012 and 2011

(Expressed in thousands of U.S. Dollars – except for share and per share data)

	2013	2012	2011
REVENUES:			
Time charter revenues (Note 1)	\$74,337	\$68,835	\$26,992
Prepaid charter revenue amortization (Notes 2(i) and 5)	(20,322)	(12,204)	-
Time charter revenues, net	54,015	56,631	26,992
EXPENSES:			
Voyage expenses (Notes 3 and 10)	705	1,404	731
Vessel operating expenses (Note 10)	30,870	28,969	11,134
Depreciation	11,070	12,476	5,937
Management fees (Note 3)	305	1,551	650
General and administrative expenses (Note 3)	5,059	3,468	3,442
Impairment losses (Note 4)	42,323	-	-
Loss on vessels' sale (Note 4)	16,481	-	-
Foreign currency losses / (gains)	66	(194)	18
Operating income / (loss)	\$(52,864)	\$8,957	\$5,080
OTHER INCOME/(EXPENSES)			
Interest and finance costs (Notes 3, 6 and 11)	\$(4,554)	\$(3,066)	\$(1,604)
Interest income	72	78	154
Total other expenses, net	\$(4,482)	\$(2,988)	\$(1,450)
Net income / (loss)	\$(57,346)	\$5,969	\$3,630
Earnings / (loss) per common share, basic and diluted (Note 12)	\$(1.73)	\$0.22	\$0.23
Weighted average number of common shares, basic (Note 12)	33,159,328	26,934,533	15,536,028
Weighted average number of common shares, diluted (Note 12)	33,159,328	26,934,533	15,543,916

DIANA CONTAINERSHIPS INC.

Consolidated Statements of Comprehensive Income / (Loss)

For the years ended December 31, 2013, 2012 and 2011

(Expressed in thousands of U.S. Dollars)

	2013	2012	2011
Net income / (loss)	\$(57,346)	\$5,969	\$3,630
Comprehensive income / (loss)	\$(57,346)	\$5,969	\$3,630

The accompanying notes are an integral part of these consolidated financial statements.

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DIANA CONTAINERSHIPS INC.

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2013, 2012 and 2011

(Expressed in thousands of U.S. Dollars – except for share and per share data)

	Common Stock # of Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, December 31, 2010	6,106,161	\$61	\$86,551	\$ (2,001)	\$84,611
- Net income	-	-	-	3,630	3,630
- Issuance of common stock, net of issuance costs	16,916,667	169	121,323	-	121,492
- Issuance of restricted stock and compensation cost on restricted stock (Note 9)	53,333	1	953	-	954
- Dividends declared and paid (at \$0.03 and \$0.15 per share) (Note 12)	-	-	-	(4,154)	(4,154)
Balance, December 31, 2011	23,076,161	\$231	\$208,827	\$ (2,525)	\$206,533
- Net income	-	-	-	5,969	5,969
- Issuance of common stock, net of issuance costs	9,115,803	91	53,810	-	53,901
- Compensation cost on restricted stock (Note 9)	-	-	900	-	900
- Dividends declared and paid (at \$0.15, \$0.25, \$0.30 and \$0.30 per share) (Note 12)	-	-	-	(28,545)	(28,545)
Balance, December 31, 2012	32,191,964	\$322	\$263,537	\$ (25,101)	\$238,758
- Net loss	-	-	-	(57,346)	(57,346)
- Issuance of common stock, net of issuance costs (Note 9)	2,859,603	28	12,328	-	12,356
- Compensation cost on restricted stock (Note 9)	-	-	371	-	371
- Dividends declared and paid (at \$0.30, \$0.30, \$0.15 and \$0.15 per share) (Note 12)	-	-	-	(29,674)	(29,674)
Balance, December 31, 2013	35,051,567	\$350	\$276,236	\$ (112,121)	\$164,465

The accompanying notes are an integral part of these consolidated financial statements.

DIANA CONTAINERSHIPS INC.
 Consolidated Statements of Cash Flows
 For the years ended December 31, 2013, 2012 and 2011
 (Expressed in thousands of U.S. Dollars)

	2013	2012	2011
Cash Flows provided by Operating Activities:			
Net income / (loss)	\$(57,346)	\$5,969	\$3,630
Adjustments to reconcile net income / (loss) to net cash provided by operating activities:			
Depreciation	11,070	12,476	5,937
Amortization and write-off of deferred financing costs (Note 11)	197	197	681
Amortization of deferred revenue (Note 7)	(107)	(112)	(45)
Amortization of prepaid charter revenue (Note 5)	20,322	12,204	-
Impairment losses (Note 4)	42,323	-	-
Loss on vessels' sale (Note 4)	16,481	-	-
Compensation cost on restricted stock awards (Note 9)	371	900	954
(Increase) / Decrease in:			
Accounts receivable, trade	(319)	(52)	(125)
Due from related party	-	-	398
Inventories	1,242	(1,374)	(1,209)
Prepaid expenses and other assets	(362)	(1,877)	8
Increase / (Decrease) in:			
Accounts payable, trade and other	(933)	755	1,482
Due to related parties	(254)	339	318
Accrued liabilities	(619)	741	190
Deferred revenue	(406)	1,180	285
Other liabilities	80	-	-
Net Cash provided by Operating Activities	\$31,740	\$31,346	\$12,504
Cash Flows used in Investing Activities:			
Vessel acquisitions, improvements and other vessel costs (Note 4)	(107,864)	(107,960)	(79,321)
Proceeds from sale of vessels, net of expenses	33,665	-	-
Acquisition of time charter (Note 5)	(8,500)	(42,000)	-
Property and equipment additions	(421)	-	-
Insurance settlements	1,457	-	-
Net Cash used in Investing Activities	\$(81,663)	\$(149,960)	\$(79,321)
Cash Flows provided by Financing Activities:			
Proceeds from long term debt from a related party (Note 3)	50,000	-	-
Proceeds from long term bank debt (Note 6)	6,000	92,700	85,000
Repayments / prepayments of long term debt	-	-	(104,670)
Issuance of common stock, net of issuance costs (Note 9)	12,356	53,901	121,492
Payments of financing costs	-	-	(1,382)
Cash dividends (Note 12)	(29,674)	(28,545)	(4,154)
Changes in restricted cash	(600)	(9,270)	787
Net Cash provided by Financing Activities	\$38,082	\$108,786	\$97,073

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Net increase / (decrease) in cash and cash equivalents	\$(11,841)	\$(9,828)	\$30,256
Cash and cash equivalents at beginning of period	\$31,526	\$41,354	\$11,098
Cash and cash equivalents at end of period	\$19,685	\$31,526	\$41,354

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

Interest payments, net of amounts capitalized	\$3,783	\$2,546	\$670
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The accompanying notes are an integral part of these consolidated financial statements.

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DIANA CONTAINERSHIPS INC.
Notes to Consolidated Financial Statements
December 31, 2013

(Expressed in thousands of US Dollars – except for share and per share data, unless otherwise stated)

1. General Information

The accompanying consolidated financial statements include the accounts of Diana Containerships Inc. ("DCI") and its wholly-owned subsidiaries (collectively, the "Company"). Diana Containerships Inc. was incorporated on January 7, 2010 under the laws of the Republic of Marshall Islands for the purpose of engaging in any lawful act or activity under the Marshall Islands Business Corporations Act.

The Company is engaged in the seaborne transportation industry through the ownership of containerships and is the sole owner of all outstanding shares of the following subsidiaries, each incorporated in the Marshall Islands:

- (a) Likiep Shipping Company Inc. ("Likiep"), owner of the Marshall Islands flag, 3,426 TEU capacity container vessel, "Sagitta", which was built and delivered on June 29, 2010.
- (b) Orangina Inc. ("Orangina"), owner of the Marshall Islands flag, 3,426 TEU capacity container vessel, "Centaurus", which was built and delivered on July 9, 2010.
- (c) Lemongina Inc. ("Lemongina"), owner of the Marshall Islands flag, 4,729 TEU capacity container vessel, "Apl Garnet" (built in 1995), which was acquired on November 19, 2012.
- (d) Ralik Shipping Company Inc. ("Ralik"), owner of the Marshall Islands flag, 4,206 TEU capacity container vessel, "Maersk Madrid" (built in 1989), which was acquired on June 14, 2011 and sold on April 16, 2013 (Note 4). The vessel was renamed, right before her sale, to "Madrid".
- (e) Mili Shipping Company Inc. ("Mili"), owner of the Marshall Islands flag, 4,714 TEU capacity container vessel, "Maersk Malacca" (built in 1990), which was acquired on June 22, 2011 and sold on May 1, 2013 (Note 4). The vessel was renamed, right before her sale, to "Malacca".
- (f) Ebon Shipping Company Inc. ("Ebon"), owner of the Marshall Islands flag, 4,714 TEU capacity container vessel, "Maersk Merlion" (built in 1990), which was acquired on June 17, 2011 and sold on May 17, 2013 (Note 4). The vessel was renamed, right before her sale, to "Merlion".
- (g) Mejit Shipping Company Inc. ("Mejit"), owner of the Marshall Islands flag, 4,729 TEU capacity container vessel, "Apl Sardonyx" (built in 1995), which was acquired on February 17, 2012. The vessel was sold on February 7, 2014 (Note 15) and was renamed, right before her sale, to "Sardonyx".
- (h) Micronesia Shipping Company Inc. ("Micronesia"), owner of the Marshall Islands flag, 4,729 TEU capacity container vessel, "Apl Spinel" (built in 1996), which was acquired on March 1, 2012 and sold on December 12, 2013 (Note 4). The vessel was renamed, right before her sale, to "Spinel".
- (i) Rongerik Shipping Company Inc. ("Rongerik"), owner of the Marshall Islands flag, 3,739 TEU capacity container vessel, "Cap San Marco" (built in 2001), which was acquired on February 6, 2012. In August 2012, the vessel was renamed to "Cap Domingo".

- (j) Utirik Shipping Company Inc. ("Utirik"), owner of the Marshall Islands flag, 3,739 TEU capacity container vessel, "Cap San Raphael" (built in 2002), which was acquired on February 6, 2012. In September 2012, the vessel was renamed to "Cap Doukato".
- (k) Nauru Shipping Company Inc. ("Nauru"), owner of the Marshall Islands flag, 4,024 TEU capacity container vessel, "Hanjin Malta" (built in 1993), which was acquired on March 15, 2013 (Note 4).

DIANA CONTAINERSHIPS INC.
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(Expressed in thousands of US Dollars – except for share and per share data, unless otherwise stated)

- (l) Eluk Shipping Company Inc. ("Eluk"), owner of the Marshall Islands flag, 6,541 TEU capacity container vessel, "Puelo" (built in 2006), which was acquired on August 22, 2013 (Note 4).
- (m) Oruk Shipping Company Inc. ("Oruk"), owner of the Marshall Islands flag, 6,541 TEU capacity container vessel, "Pucon" (built in 2006), which was acquired on September 20, 2013 (Note 4).
- (n) Unitized Ocean Transport Limited (the "Manager" or "UOT"), was established for the purpose of providing the Company and its vessels with management and administrative services, effective March 1, 2013. Pursuant to the management agreements, UOT receives a fixed commission of 2% on the gross charter hire and freight earned by each vessel plus a technical management fee of \$15 per vessel per month for employed vessels and \$8 per vessel per month for laid-up vessels, if any. In addition, pursuant to the administrative agreement, UOT receives a fixed monthly fee of \$10. Since March 1, 2013 the management and administrative fees payable to UOT are eliminated in consolidation as intercompany transactions. Similar fees for the years ended 2011 and 2012 and the period January 1, 2013 to February 28, 2013 were payable to Diana Shipping Services S.A. (Note 3).

During 2013, 2012 and 2011, charterers that accounted for more than 10% of the Company's hire revenues were as follows:

Charterer	2013	2012	2011
A	16%	46%	73%
B	23%	22%	-
C	-	-	27%
D	-	22%	-
E	38%	-	-
F	10%	-	-

2. Significant Accounting Policies

- (a) Principles of Consolidation: The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of Diana Containerships Inc. and its wholly-owned subsidiaries referred to in Note 1 above. All significant intercompany balances and transactions have been eliminated upon consolidation.
- (b) Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (c) Other Comprehensive Income / (loss): The Company follows the provisions of Accounting Standard Codification (ASC) 220, "Comprehensive Income", which requires separate presentation of certain transactions, which are recorded directly as components of stockholders' equity. The Company presents Other Comprehensive Income / (Loss) in a separate statement according to ASU 2011-05.

(d) Foreign Currency Translation: The functional currency of the Company is the U.S. Dollar because the Company operates its vessels in international shipping markets, and therefore, primarily transacts business in U.S. Dollars. The Company's accounting records are maintained in U.S. Dollars. Transactions involving other currencies during the years presented are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities which are denominated in other currencies are translated into U.S. Dollars at the period-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of operations.

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DIANA CONTAINERSHIPS INC.
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(Expressed in thousands of US Dollars – except for share and per share data, unless otherwise stated)

- (e) Cash and Cash Equivalents: The Company considers highly liquid investments such as time deposits, certificates of deposit and their equivalents with an original maturity of three months or less to be cash equivalents.
- (f) Restricted Cash: Restricted cash includes minimum cash deposits required to be maintained under the Company's borrowing arrangements. As of December 31, 2012, the Company has classified these cash deposits as compensating cash balance. In 2013, certain loan amendments (discussed in Note 6) provided for security interest on the minimum cash in favour of the lenders, and as a result, the Company reclassified the respective amount as of December 31, 2013 to restricted cash.
- (g) Accounts Receivable, Trade: The account includes receivables from charterers for hire, freight and demurrage billings. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No provision for doubtful accounts has been made as of December 31, 2013 and 2012.
- (h) Inventories: Inventories consist of lubricants and victualling which are stated at the lower of cost or market. Cost is determined by the first in, first out method. Inventories may also consist of bunkers when the vessel operates under freight charter or when on the balance sheet date a vessel has been redelivered by her previous charterers and has not yet been delivered to new charterers, or remains idle. Bunkers are also stated at the lower of cost or market and cost is determined by the first in, first out method.
- (i) Prepaid/Deferred Charter Revenue: The Company records identified assets or liabilities associated with the acquisition of a vessel at their relative fair value, determined by reference to market data. The Company values any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. In determining the relative fair value, when the present value of the contractual cash flows of the time charter assumed is different than its current fair value, the difference, capped to the excess between the acquisition cost and the vessel's fair value on a charter free basis, is recorded as prepaid charter revenue or as deferred revenue, respectively. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.
- (j) Vessel Cost: Vessels are stated at cost which consists of the contract price and costs incurred upon acquisition or delivery of a vessel from a shipyard. Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earnings capacity or improve the efficiency or safety of the vessels; otherwise these amounts are charged to expense as incurred.
- (k) Vessel Depreciation: The Company depreciates containership vessels on a straight-line basis over their estimated useful lives, after considering the estimated salvage value. Each vessel's salvage value is the product of her light-weight tonnage and estimated scrap rate, which until June 30, 2013, was estimated at \$0.20 and \$0.35 per light-weight ton, depending on the vessels' age and market conditions. In order to align the scrap rate estimates with the current historical average scrap rate, effective July 1, 2013, the Company adjusted prospectively the estimated scrap rate used to \$0.35 per light-weight ton for all vessels in the fleet. For the year ended December 31, 2013, the effect of this change in accounting estimate was to decrease depreciation and net loss by \$74. There was

no effect from this change on the reported loss per common share, basic and diluted. Management estimates the useful life of the Company's vessels to be 30 years from the date of initial delivery from the shipyard. Second-hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

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(l) Impairment of Long-Lived Assets: The Company follows ASC 360-10-40 "Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company reviews vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of a vessel may not be recoverable. When the estimate of future undiscounted net operating cash flows, excluding interest charges, expected to be generated by the use of the vessel over her remaining useful life and her eventual disposition is less than her carrying amount, the Company evaluates the vessel for impairment loss. Measurement of the impairment loss is based on the fair value of the vessel. The fair value of the vessel is determined based on management estimates and assumptions and by making use of available market data and third party valuations. The Company evaluates the carrying amounts and periods over which vessels are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. The current conditions in the containerships market with decreased charter rates and decreased vessel market values are conditions that the Company considers indicators of a potential impairment. In developing estimates of future undiscounted cash flows, the Company makes assumptions and estimates about the vessels' future performance, with the significant assumptions being related to charter rates, fleet utilization, vessels' operating expenses, vessels' residual value and the estimated remaining useful life of each vessel. The assumptions used to develop estimates of future undiscounted cash flows are based on historical trends as well as future expectations.

The Company determines undiscounted projected net operating cash flows for each vessel and compares it to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilization, the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days (based, to the extent applicable, on the most recent 10 year average historical 6-12 months time charter rates available for each type of vessel, considering also current market rates) over the remaining estimated life of each vessel, net of commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3%. Effective fleet utilization is assumed to 98% in the Company's exercise, taking into account the period(s) each vessel is expected to undergo her scheduled maintenance (dry docking and special surveys), as well as an estimate of 1% off hire days each year, assumptions in line with the Company's historical performance. The review of the vessel's carrying amounts in connection with the estimated recoverable amounts for the year ended December 31, 2013 indicated impairment charges for certain vessels (Note 4), while the review for the years ended December 31, 2012 and 2011 did not result in an indication of impairment.

(m) Assets held for sale: It is the Company's policy to dispose of vessels and other fixed assets when suitable opportunities occur and not necessarily to keep them until the end of their useful life. The Company classifies assets or assets in disposal groups as being held for sale in accordance with ASC 360-10-45-9 "Long-Lived Assets Classified as Held for Sale", when the following criteria are met: (i) management possessing the necessary authority has committed to a plan to sell the asset (disposal group); (ii) the asset (disposal group) is immediately available for sale on an "as is" basis; (iii) an active program to find the buyer and other actions required to execute the plan to sell the asset (disposal group) have been initiated; (iv) the sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale within one

year; and (v) the asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In case a long-lived asset is to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) the Company continues to classify it as held and used until its disposal date. Long-lived assets or disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These assets are not depreciated once they meet the criteria to be held for sale.

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(n) Accounting for Revenues and Expenses: Revenues are generated from time charter agreements. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time-charter revenues are recorded over the term of the charter as service is provided. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Income representing ballast bonus payments, in connection with the repositioning of a vessel by the charterer to the vessel owner, are recognized in the period earned. Deferred revenue, if any, includes cash received prior to the balance sheet date for which all criteria for recognition as revenue would not be met, including any deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis.

Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are due as revenues are earned.

(o) Earnings / (Loss) per Common Share: Basic earnings / (loss) per common share are computed by dividing net income / (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings / (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised.

(p) Segmental Reporting: The Company has determined that it operates under one reportable segment, relating to its operations of the container vessels. The Company reports financial information and evaluates the operations of the segment by charter revenues and not by the length of ship employment for its customers, i.e. spot or time charters. The Company does not use discrete financial information to evaluate the operating results for each such type of charter. Although revenue can be identified for these types of charters, management cannot and does not identify expenses, profitability or other financial information for these charters. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, the disclosure of geographic information is impracticable.

(q) Accounting for Dry-Docking Costs: The Company follows the deferral method of accounting for dry-docking costs whereby actual costs incurred are deferred and amortized on a straight-line basis over the period through the date the next dry-docking will be scheduled to become due. Unamortized dry-docking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale.

(r) Financing Costs: Fees paid to lenders for obtaining new loans or refinancing existing ones are deferred and recorded as a contra to debt. Other fees paid for obtaining loan facilities not used at the balance sheet date are capitalized as deferred financing costs. Fees are amortized to interest and finance costs over the life of the related debt using the effective interest method and, for the fees relating to loan facilities not used at the balance sheet date, according to the loan availability terms. Unamortized fees relating to loans repaid or refinanced as debt extinguishment are expensed as interest and finance costs in the period the repayment or extinguishment is made.

Loan commitment fees are charged to expense in the period incurred.

(s) Repairs and Maintenance: All repair and maintenance expenses including underwater inspection expenses are expensed in the period incurred. Such costs are included in vessel operating expenses in the accompanying consolidated statements of operations.

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- (t) Share Based Payment: ASC 718 "Compensation – Stock Compensation", requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met. The Company initially measures the cost of employee services received in exchange for an award or liability instrument based on its current fair value; the fair value of that award or liability instrument is remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period are recognized as compensation cost over that period with the exception of awards granted in the form of restricted shares which are measured at their grant date fair value and are not subsequently re-measured. The grant-date fair value of employee share options and similar instruments are estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost is recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.
- (u) Variable Interest Entities: ASC 810-10-50 "Consolidation of Variable Interest Entities", addresses the consolidation of business enterprises (variable interest entities) to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. The guidance focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the value of the variable interest entity's assets and liabilities. The Company evaluates financial instruments, service contracts, and other arrangements to determine if any variable interests relating to an entity exist, as the primary beneficiary would be required to include assets, liabilities, and the results of operations of the variable interest entity in its financial statements. The Company's evaluation did not result in an identification of variable interest entities as of December 31, 2013 and 2012.
- (v) Fair Value Measurements: The Company follows the provisions of ASC 820 "Fair Value Measurements and Disclosures", which defines fair value and provides guidance for using fair value to measure assets and liabilities. The guidance creates a fair value hierarchy of measurement and describes fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In accordance with the requirements of accounting guidance relating to Fair Value Measurements, the Company classifies and discloses its assets and liabilities carried at the fair value in one of the following categories:
- Level 1: Quoted market prices in active markets for identical assets or liabilities;
 - Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data;
 - Level 3: Unobservable inputs that are not corroborated by market data.
- (w) Concentration of Credit Risk: Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and trade accounts receivable. The Company places its temporary cash investments, consisting mostly of deposits, with various qualified financial institutions and

performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable and does not have any agreements to mitigate credit risk.

3. Transactions with Related Parties

(a) Diana Shipping Services S.A. ("DSS"): DSS, a wholly owned subsidiary of Diana Shipping Inc., one of the Company's major shareholders, was acting as the Company's Manager up to March 1, 2013 and provided (i) administrative services under an Administrative Services Agreement, for a monthly fee of \$10; (ii) brokerage services pursuant to a Broker Services Agreement that DSS has entered into with Diana Enterprises Inc., a related party controlled by the Company's Chief Executive Officer and Chairman Mr. Symeon Palios, for annual fees of \$1,040 until the completion of the public offering on June 15, 2011 and \$1,300 thereafter; (iii) commercial and technical services pursuant to Vessel Management Agreements, signed between each shipowning company and DSS, under which the Company paid a commission of 1% of the gross charterhire or freight earned by each vessel and a technical management fee of \$15 per vessel per month for employed vessels and \$20 per vessel per month for laid-up vessels. On March 1, 2013, and in relation with the appointment of UOT to act as Manager (Note 1), the agreements with DSS were terminated.

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For 2013, 2012 and 2011, DSS charged the Company the following amounts for (i) management fees and commissions under the Vessel Management Agreements, (ii) administrative fees under the Administrative Services Agreement and (iii) brokerage fees attributable to Diana Enterprises Inc. under the Broker Services Agreement between DSS and Diana Enterprises Inc.:

	2013	2012	2011
Management fees, including capitalized fees	\$305	\$1,641	\$758
Commissions	127	687	270
Administrative fees	20	120	120
Brokerage fees	217	1,300	1,182

Management fees for 2013, are separately presented in Management fees in the accompanying consolidated statements of operations. For 2012 and 2011, part of the management fees, amounting to \$1,551 and \$650 respectively, is presented in Management fees in the accompanying consolidated statements of operations, whereas the amount of \$90 and \$108 respectively, representing the management fees capitalized, is included in Vessels in the accompanying consolidated balance sheets. In addition, commissions are included in Voyage expenses, whereas administrative and brokerage fees are included in General and administrative expenses in the accompanying consolidated statements of operations.

As at December 31, 2013 there was no amount due from or due to DSS. As at December 31, 2012, an amount of \$612 was due to DSS and is included in Due to related parties, current in the accompanying consolidated balance sheets.

(b) Diana Enterprises Inc. ("Diana Enterprises"): Following the termination agreement for brokerage services that were provided to the Company through DSS on March 1, 2013 (see (a) above), Diana Enterprises has entered on the same date into an agreement with UOT to provide brokerage services for a fixed monthly fee of \$121. The agreement has a term of thirteen months and the fees are payable quarterly in advance, effective April 1, 2013.

For 2013, 2012 and 2011, total brokerage fees, including those charged by DSS until February 28, 2013 (see (a) above), amounted to \$1,425, \$1,300 and \$1,182, respectively, and are included in General and administrative expenses in the accompanying consolidated statements of operations. As at December 31, 2013 and December 31, 2012, an amount of \$16 and \$0, respectively, was due to Diana Enterprises and is included in Due to related parties, current in the accompanying consolidated balance sheets.

(c) Altair Travel Agency S.A ("Altair"): Effective March 1, 2013 the Company uses the services of an affiliated travel agent, Altair, which is controlled by the Company's CEO and Chairman. Travel expenses payable to Altair for 2013, 2012 and 2011, were \$971, \$0 and \$0, respectively and are included in Vessels and other vessels' costs, in Operating expenses, in General and administrative expenses and in Loss on vessel's sale in the accompanying consolidated financial statements. As at December 31, 2013 and December 31, 2012, an amount of \$68 and \$0, respectively, was payable to Altair and is included in Due to related parties, current in the accompanying consolidated balance sheets.

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(d) Diana Shipping Inc. ("DSI"): On May 20, 2013, the Company, through its subsidiary Eluk, entered into an unsecured loan agreement of up to \$50,000 with Diana Shipping Inc., one of the Company's major shareholders, to be used to fund vessel acquisitions and for general corporate purposes. The loan is guaranteed by the Company and bears interest at a rate of Libor plus a margin of 5.0% per annum and a fee of 1.25% per annum ("back-end fee") on any amounts repaid upon any repayment or voluntary prepayments dates. In August 2013, the full amount was drawn down under the loan agreement, and is included in Related party financing, non-current, in the accompanying consolidated balance sheets. The loan matures in August 2017. During 2013, 2012 and 2011, interest expense incurred under the loan agreement with DSI amounted to \$962, \$0 and \$0, respectively, and is included in Interest and finance costs (Note 11) in the accompanying consolidated statements of operations. Accrued interest as of December 31, 2013 and December 31, 2012, amounted to \$86 and \$0, respectively, and is included in Due to related parties, current. Accrued back-end fee expense incurred during 2013, 2012 and 2011 amounted to \$233, \$0 and \$0, respectively, and is included in Interest and finance costs (Note 11) in the accompanying consolidated statements of operations and in Related party financing, non-current, in the accompanying consolidated balance sheets. The weighted average interest rate of the loan during 2013 was 5.17%.

4. Vessels

On February 19, 2013, the Company, through its subsidiary Nauru, entered into a memorandum of agreement with a third party company to acquire the container vessel "Hanjin Malta" for the purchase price of \$22,000. The vessel was acquired with time charter attached (Note 5) and was delivered to the Company on March 15, 2013. On August 8, 2013, the Company, through its subsidiaries Eluk and Oruk, contracted to acquire the container vessels "Puelo" and "Pucon" respectively, for the purchase price of \$47,000 each. The vessels were delivered to the Company on August 22, 2013 and September 20, 2013, respectively.

During 2013, at each quarter end, the Company has individually assessed for recoverability the carrying values of each of the fleet's vessels. In performing its assessment, the Company, after taking into account factors as the vessels' age and employment prospects under the current market conditions, determined the future undiscounted cash flows for each of its vessels, considering its various alternatives, including that certain vessels would be sold immediately after the expiration of their existing charter parties. This assessment concluded that the carrying values of certain vessels in the fleet were not recoverable and accordingly, the Company has recognized an aggregate impairment loss of \$42,323, which is separately reflected in the accompanying statements of operations. The fair values of the vessels were determined through Level 3 inputs of the fair value hierarchy as determined by management, making also use of available market data for the market value of vessels with similar characteristics. Between those vessels for which an impairment loss was recorded during 2013, the vessel "APL Sardonyx" was the only vessel that remained within the Company's fleet as at December 31, 2013, and was measured at fair value on a non-recurring basis as a result of the management's impairment test exercise. The fair value and impairment loss of the specific vessel are presented below:

Vessel	Fair Value Measurement	Vessel Impairment Loss
APL Sardonyx	9,500	9,697

In April, May and December 2013, the Company sold the vessels "Maersk Madrid", "Maersk Merlion", "Maersk Malacca" and "APL Spinel" to unrelated parties for demolition, for the aggregate sale price of \$37,494, net of address commissions. In May, June and December 2013, the vessels were delivered to their new owners. The aggregate loss from the sale of the four vessels, including direct to sale expenses, amounted to \$16,481, and is separately reflected in the accompanying statements of operations.

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The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	Vessels' Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2011	\$ 166,218	\$ (7,391)	\$ 158,827
- Acquisitions, improvements and other vessels' costs	114,594	-	114,594
- Depreciation for the period	-	(12,476)	(12,476)
Balance, December 31, 2012	\$ 280,812	\$ (19,867)	\$ 260,945
- Acquisitions and other vessels' costs (Note 5)	\$ 107,864	-	107,864
- Vessels' disposals	(62,245)	12,101	(50,144)
- Depreciation for the period	-	(10,970)	(10,970)
- Impairment charges	(42,323)	-	(42,323)
Balance, December 31, 2013	\$ 284,108	\$ (18,736)	\$ 265,372

As at December 31, 2013 and 2012, acquisitions, improvements and other vessel's costs include capitalized costs of \$364 and \$594, respectively.

As at December 31, 2013, certain of the Company's vessels, having a total carrying value of \$209,343, were provided as collateral to secure the revolving credit facility with the Royal Bank of Scotland plc, discussed in Note 6.

As at December 31, 2013, all vessels were operating under time charter agreements.

5. Prepaid Charter Revenue

The amounts presented as Prepaid charter revenue in the accompanying consolidated balance sheets as of December 31, 2013 and 2012 comprise (a) the unamortized balance of an asset associated with the vessels "Cap Domingo", "Cap Doukato", "APL Sardonyx", "APL Spinel", "APL Garnet" and "Hanjin Malta", which were acquired with time charters attached at values above their charter-free fair market values at the time of acquisition, which is amortized to revenue over the period of the respective time charter agreements, and (b) a deferred asset resulting from the charter agreements of the vessels "Cap Domingo" and "Cap Doukato" providing for varying charter rates over their term, for which revenue is recognized on a straight-line basis at their average rates.

As at December 31, 2013 and 2012 the balance of the account was analyzed as follows:

Description	2013	2012
Prepaid charter revenue	\$ 17,974	\$ 29,796
Deferred asset from varying charter rates	192	122
Total	\$ 18,166	\$ 29,918

In March 2013, the vessel "Hanjin Malta" was delivered to the Company (Note 4) and was chartered back to her sellers, with the earliest redelivery date of the vessel to the owners falling in March 2016. As a result, an asset of

\$8,500 was recognized as prepaid charter revenue, in addition to the asset of \$42,000 recognized in 2012 for the vessels "Cap Domingo", "Cap Doukato", "APL Sardonyx", "APL Spinel" and "APL Garnet". During the year ended December 31,

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2013, the vessel "APL Spinel" was sold (Note 4) and accordingly, its unamortized balance was written off to revenues. As of December 31, 2013 and 2012 the balance of the respective asset, net of accumulated amortization of \$32,526 and \$12,204, was \$17,974 and \$29,796, respectively. The amortization and write-off to revenues for 2013, 2012 and 2011 was \$20,322, \$12,204 and \$0, respectively, and is separately reflected in Prepaid charter revenue amortization in the accompanying consolidated statements of operations.

The expected aggregate amortization of the prepaid charter revenue from vessel acquisitions with time-charter attached for each of the succeeding years is as follows:

Period	Amount
Year 1	\$11,597
Year 2	\$5,669
Year 3	\$708

6. Long-Term Bank Debt

The amounts of long-term bank debt shown in the accompanying consolidated balance sheets are analyzed as follows:

	2013	2012
Royal Bank of Scotland - Revolving credit facility	\$98,700	\$92,700
Less related unamortized deferred financing costs	(598)	(794)
Total	\$98,102	\$91,906

The Royal Bank of Scotland plc.: On December 16, 2011, the Company entered into a revolving credit facility with the Royal Bank of Scotland plc ("RBS"), where the lenders have agreed to make available to it a revolving credit facility of up to \$100,000 in order to refinance part of the acquisition cost of the vessels m/v "Sagitta" and m/v "Centaurus" and finance part of the acquisition costs of additional containerships ("Additional Ships"). An amount of \$92,700 and \$6,000 was drawn down under the credit facility in 2012 and 2013, respectively, representing as at December 31, 2013, a total loan outstanding balance of \$98,700, which is included in Long-term bank debt, net of unamortized deferred financing costs in the accompanying consolidated balance sheets. The Company paid up to October 31, 2013 commitment commissions of 0.99% per annum on the available commitment. As at December 31, 2013, the Company does not have any remaining borrowing capacity under the revolving credit facility.

The facility will be available for five years with the maximum available amount (the "Available Facility Limit") reducing based on the age of the financed vessels and being assessed on a yearly basis, as well as, at the date on which the age of any Additional Ship exceeds the 20 years. In the event that the amounts outstanding at that time exceed the revised Available Facility Limit the Company shall repay such part of the loan that exceeds the Available Facility Limit. Based on the current age of the financed vessels, the loan is repayable at the end of the availability period on January 17, 2017.

The credit facility provided up to June 1, 2013 (see below) for interest at Libor plus a margin of 2.75% per annum and is secured by first priority mortgages over certain vessels of the fleet, general assignments of earnings, insurances and requisition compensation, minimum insurance coverage, specific assignments of any charters exceeding durations of

twelve months, pledge of shares of the guarantors which will be the ship-owning companies of the mortgaged vessels, manager's undertakings and minimum security value depending on the average age of the mortgaged vessels. The credit facility also includes restrictions as to changes in certain shareholdings, management and employment of vessels, and requires minimum cash of 10% of the drawings under the revolving facility, but not less than \$5,000, to be deposited by the borrower with the lenders. Furthermore, the financial covenants require that the Company maintains minimum ratios of consolidated net debt to market adjusted assets, EBITDA to interest costs, minimum contracted employment and forward looking operating net cash flows to forward looking interest costs. Finally, the Company is not permitted to pay any dividends that would result in a breach of the financial covenants of the facility.

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During the year ended December 31, 2013, the Company obtained lenders' consent for the change of the vessels' Manager from DSS to UOT (Note 1), as well as for entering into a new loan agreement with DSI in May 2013 (Note 3).

During 2013, the Company entered into various supplemental agreements with the Royal Bank of Scotland plc. The supplemental agreements, dated July 22, 2013, September 11, 2013 and December 6, 2013, provide for an increased margin of 3.10% per annum, effective June 1, 2013, changes in the definition of tangible assets in the calculation of financial covenants, as well as for security interest on the minimum cash held by the borrower in favour of the lenders. The supplemental agreements also restrict any security interest over the Company's assets in favour of DSI. Furthermore, the Company was required to provide additional vessels as collateral to secure the revolving credit facility, to release the security held over certain of the Company's vessels, to amend the terms of the mandatory prepayment clause and to agree certain other consequential amendments of the terms of the facility agreement.

The weighted average interest rate of the loan during 2013 and 2012 was 3.16% and 3.07%, respectively.

During 2013, 2012 and 2011, total interest incurred on long-term bank debt, amounted to \$3,029, \$2,652 and \$551, respectively, and is included in Interest and finance costs in the accompanying consolidated statements of operations (Note 11). Commitment fees incurred during 2013, 2012 and 2011 amounted to \$53, \$150 and \$282, respectively, and are also included in Interest and finance costs in the accompanying consolidated statements of operations.

7. Deferred revenue, current and non-current

The amounts presented as current and non-current deferred revenue in the accompanying consolidated balance sheets as of December 31, 2013 and 2012 reflect (a) cash received prior to the balance sheet date for which all criteria to recognize as revenue have not been met, (b) deferred revenue resulting from free quantities of lubricants provided to the vessels as a benefit from the suppliers for entering into long term contracts with them. Deferred revenue under (b) above is amortized to Operating expenses according to the terms of the respective contracts. For 2013, 2012 and 2011, amortization of the deferred revenue from free lubricants amounted to \$107, \$112 and \$45 respectively.

	2013	2012
Hires collected in advance	\$751	\$1,157
Deferred revenue from lubricants	271	378
Total	\$1,022	\$1,535
Less current portion	\$(972)	\$(1,264)
Non-current portion	\$50	\$271

8. Commitments and Contingencies

(a) Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company's vessels. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a

provision should be established in the accompanying consolidated financial statements.

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The Company accrues for the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

The Company's vessels are covered for pollution in the amount of \$1 billion per vessel per incident, by the P&I Association in which the Company's vessels are entered. The Company's vessels are subject to calls payable to their P&I Association and may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. The Company is not aware of any supplemental calls outstanding in respect of any policy year.

(b) As at December 31, 2013, the minimum contractual annual charter revenues, net of related commissions to third parties, to be generated from the existing non-cancelable time charter contracts until their expiration, are estimated at \$59,123 until December 31, 2014, \$22,647 until December 31, 2015 and at \$3,033 until December 31, 2016.

9. Changes in Capital Accounts

(a) Compensation cost on restricted common stock: On April 6, 2010, DCI adopted an equity incentive plan which entitles the Company's directors, officers, employees, consultants and service providers to receive options to acquire the Company's common stock, stock appreciation rights, restricted stock, restricted stock units and unrestricted common stock. The Equity Incentive plan was amended on February 21, 2012. A total of 2,392,198 common shares have been reserved under the Incentive plan (as amended) for issuance, of which as at December 31, 2013, 2,125,534 common shares remain available to be issued. The plan is administered by our compensation committee, or such other committee of the Company's Board of Directors as may be designated by the Board to administer the plan. The plan will expire in ten years from the adoption of the plan by the Board of Directors.

During 2013, 2012 and 2011, compensation cost on restricted stock amounted to \$371, \$900 and \$954, respectively, and is included in General and administrative expenses. At December 31, 2013 and 2012, the total unrecognized compensation cost relating to restricted share awards was \$45 and \$416, respectively. At December 31, 2013, the weighted-average period over which the total compensation cost related to non-vested awards not yet recognized is expected to be recognized is 0.45 years.

During 2013, 2012 and 2011, the movement of restricted stock cost was as follows:

	Number of Shares	Weighted Average Grant Date Price
Outstanding at December 31, 2010	159,996	\$15.00
Granted	53,333	7.50
Vested	(66,667)	13.50

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Forfeited or expired	-	-
Outstanding at December 31, 2011	146,662	\$12.95
Granted	-	-
Vested	(66,664)	13.50
Forfeited or expired	-	-
Outstanding at December 31, 2012	79,998	\$12.50
Granted	-	-
Vested	(66,664)	13.50
Forfeited or expired	-	-
Outstanding at December 31, 2013	13,334	\$7.50

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(b) ATM offering: On May 21, 2013, the Company filed a prospectus supplement pursuant to Rule 424(b) relating to the offer and sale of an aggregate of up to \$40.0 million in gross proceeds of its common stock under an at-the market offering. As of December 31, 2013, a total of 2,859,603 shares of the Company's common stock were issued and the net proceeds, after deducting underwriting commissions and offering expenses payable by the Company, amounted to \$12,356.

(c) Stockholders Rights Agreement: On August 2, 2010, the Company entered into a stockholders rights agreement (the "Stockholders Rights Agreement") with Mellon Investor Services LLC as Rights Agent. Pursuant to this Stockholders Rights Agreement, each share of the Company's common stock includes one right (the "Right") that will entitle the holder to purchase from the Company a unit consisting of one one-thousandth of a share of our preferred stock at an exercise price specified in the Stockholders Rights Agreement, subject to specified adjustments. Until a Right is exercised, the holder of a Right will have no rights to vote or receive dividends or any other stockholder rights. As at December 31, 2013 and 2012, no Rights were exercised.

10. Voyage and Vessel Operating Expenses

The amounts in the accompanying consolidated statements of operations are analyzed as follows:

	2013	2012	2011
Voyage Expenses			
Port charges	30	33	-
Bunkers	50	43	59
Commissions	625	1,328	672
Total	705	1,404	731
Vessel Operating Expenses			
Crew wages and related costs	16,944	14,460	5,283
Insurance	1,891	1,392	582
Spares and consumable stores	8,071	8,216	3,647
Repairs and maintenance	3,277	4,403	1,468
Tonnage taxes (Note 13)	356	136	27
Miscellaneous	331	362	127
Total	30,870	28,969	11,134

A part of the commissions was charged by DSS under the Vessel Management Agreements up to February 28, 2013 (Note 3).

11. Interest and Finance Costs

The amounts in the accompanying consolidated statements of operations are analyzed as follows:

	2013	2012	2011
Interest expense on bank debt (Note 6)	3,029	2,652	551

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Interest expense and other fees on related party debt (Note 3)	1,195	-	-
Amortization and write-off of deferred financing costs	197	197	681
Commitment fees and other	133	217	372
Total	4,554	3,066	1,604

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12. Earnings / (loss) per Share

All shares issued (including the restricted shares issued under the equity incentive plan) are DCI's common stock and have equal rights to vote and participate in dividends, subject to forfeiture provisions set forth in the applicable award agreement. Unvested shares granted under the Company's incentive plan of 13,334 as at December 31, 2013, and 79,998 as at December 31, 2012 (Note 9), received dividends which are not refundable, even if such shares are forfeited, and therefore are considered participating securities for basic earnings per share calculation purposes. Dividends declared and paid during 2013, 2012 and 2011 amounted to \$29,674, \$28,545 and \$4,154, respectively. The calculation of basic earnings/ (loss) per share does not consider the non-vested shares as outstanding until the time-based vesting restrictions have lapsed. For the purpose of calculating diluted earnings per share, the weighted average number of diluted shares outstanding includes the incremental shares assumed issued as determined in accordance with the antidilution sequencing provisions of ASC 260. For 2013, and on the basis that the Company incurred losses, the effect of the incremental shares would have been anti-dilutive and therefore basic and diluted losses per share are the same amount. For 2012 and 2011, the effect of the incremental shares assumed issued, determined in accordance with the antidilution sequencing provisions of ASC 260, was antidilutive.

	2013		2012		2011	
	Basic LPS	Diluted LPS	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Net income / (loss)	\$(57,346)	\$(57,346)	\$5,969	\$5,969	\$3,630	\$3,630
Less distributed earnings allocated to restricted shares	-	-	(104)	(104)	(34)	-
Net income / (loss) available to common stockholders	(57,346)	(57,346)	5,865	5,865	3,596	3,630
Weighted average number of common shares, basic	33,159,328	33,159,328	26,934,533	26,934,533	15,536,028	15,536,028
Effect of dilutive restricted shares	-	-	-	-	-	7,888
Weighted average number of common shares, diluted	33,159,328	33,159,328	26,934,533	26,934,533	15,536,028	15,543,916
Earnings / (loss) per common share, basic and diluted	\$(1.73)	\$(1.73)	\$0.22	\$0.22	\$0.23	\$0.23

13. Income Taxes

Under the laws of the countries of the companies' incorporation and / or vessels' registration, the companies are not subject to tax on international shipping income; however, they are subject to registration and tonnage taxes, which are included in vessel operating expenses in the accompanying consolidated statements of operations (Note 10).

Under Section 883 of the Internal Revenue Code of the United States (the "Code"), a corporation would be exempt from U.S. federal income taxation on its U.S.-source shipping income if: (a) it is organized in a foreign country that grants an "equivalent exemption" to corporations organized in the United States ("United States corporations"); and (b) either (i) more than 50% of the value of its common stock is owned, directly or indirectly, by "qualified shareholders," which is referred to as the "50% Ownership Test," or (ii) its common stock is "primarily and regularly traded on an established securities market" in a country that grants an "equivalent exemption" to U.S. corporations or in the United States, which is referred to as the "Publicly-Traded Test."

The Marshall Islands, the jurisdiction where DCI and each of its subsidiaries are incorporated, grant an "equivalent exemption" to U.S. corporations. Therefore, the Company would be exempt from U.S. federal income taxation with respect to its U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met.

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Notwithstanding the foregoing, the regulations provide, in pertinent part, that a class of shares will not be considered to be "regularly traded" on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under specified share attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the vote and value of such class of outstanding shares, to which we refer as the "Five Percent Override Rule."

The Company believes that it satisfies the Publicly-Traded Test and is not subject to the Five Percent Override Rule. However, there are factual circumstances beyond the control of the Company that could cause it to lose the benefit of the Section 883 exemption. For example, there is a risk that the Company could no longer qualify for exemption under Code section 883 for a particular taxable year if shareholders with a five percent or greater interest in its common shares were to own 50% or more of its outstanding common shares on more than half the days of the taxable year.

It is not anticipated that the Company will have any vessel operating to the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of the shipping operations and other activities of Diana Containerships, it is not anticipated that any of the U.S.-source shipping income of the Company will be "effectively connected" with the conduct of a U.S. trade or business.

14. Financial Instruments

The carrying values of temporary cash investments, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these financial instruments. The fair value of long-term loans and restricted cash balances, bearing interest at variable interest rates, approximate their recorded values as at December 31, 2013.

15. Subsequent Events

- (a) ATM transactions: Subsequent to December 31, 2013, the Company sold 283,483 shares of common stock pursuant to the Company's ATM program discussed in Note 9 above, and the net proceeds received amounted to \$1,529.
- (b) Vessel's sale for demolition: On February 7, 2014, Mejit entered into a memorandum of agreement with an unaffiliated third party to sell the vessel "APL Sardonyx" (renamed "Sardonyx") for demolition, for a sale price of \$10,023 before commissions. On February 11, 2014 the Company received the 50% deposit of \$5,012, and expects to collect the remaining balance upon vessel's delivery to her new owners by the end of February 2014.
- (c) Declaration of dividends: On February 17, 2014 the Company declared dividends amounting to \$0.15 per share, payable on or around March 19, 2014 to stockholders of record as of March 4, 2014.

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