

Danaos Corp
Form 20-F
April 04, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 20-F

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

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

OR

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

OR

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

Date of event requiring this shell company report

**For the transition period from _____ to _____
Commission file number 001-33060**

DANAOS CORPORATION

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

**14 Akti Kondyli
185 45 Piraeus
Greece**

(Address of principal executive offices)

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Dimitri J. Andritsoyiannis
14 Akti Kondyli
185 45 Piraeus
Greece
Telephone: +30 210 419 6480
Facsimile: +30 210 419 6489

(Name, Address, Telephone Number and Facsimile Number of Company Contact Person)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.01 par value per share	New York Stock Exchange
Preferred stock purchase rights	New York Stock Exchange

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

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

As of December 31, 2007, there were 54,557,500 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

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 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 Smaller reporting company
(Do not check if a smaller reporting company)

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 Other

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

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FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements based on beliefs of our management. Any statements contained in this annual report that are not historical facts are forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events, including:

future operating or financial results;

pending acquisitions and dispositions, business strategies and expected capital spending;

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

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

our financial condition and liquidity, including our ability to obtain financing in the future to fund capital expenditures, acquisitions and other general corporate activities;

our expectations about the availability of ships to purchase, the time that it may take to construct new ships, or the useful lives of our ships;

our continued ability to enter into multi-year, fixed-rate period charters with our customers;

our expectations relating to dividend payments and our ability to make such payments;

our ability to leverage to our advantage our manager's relationships and reputation in the containership shipping sector of the international shipping industry;

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

potential liability from future litigation; and

other factors discussed in "Item 3. Key Information Risk Factors" of this annual report.

The words "anticipate," "believe," "estimate," "expect," "forecast," "intend," "potential," "may," "plan," "project," "predict," and "should" and similar expressions as they relate to us are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. We may also from time to time make forward-looking statements in our periodic reports that we file with the U.S. Securities and Exchange Commission ("SEC") other information sent to our security holders, and other written materials. Such statements reflect our current views and assumptions and all forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. The factors that could affect our future financial results are discussed more fully in "Item 3. Key Information Risk Factors" and in our other filings with the SEC. We caution readers of this annual report not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements.

PART I

Danaos Corporation is a corporation domesticated in the Republic of The Marshall Islands that is referred to in this Annual Report on Form 20-F, together with its subsidiaries, as "Danaos Corporation," "the Company," "we," "us," or "our." This report should be read in conjunction with our consolidated financial statements and the accompanying notes thereto, which are included in Item 18 to this annual report.

We use the term "Panamax" to refer to vessels capable of transiting the Panama Canal and "Post-Panamax" to refer to vessels with a beam of more than 32.31 meters that cannot transit the Panama Canal. We use the term "twenty foot equivalent unit," or "TEU," the international standard measure of containers, in describing the capacity of our containerships. Unless otherwise indicated, all references to currency amounts in this annual report are in U.S. dollars.

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

Selected Financial Data

The following table presents selected consolidated financial and other data of Danaos Corporation for each of the five years in the five year period ended December 31, 2007, reflecting the drybulk carriers owned by Danaos Corporation between 2002 and the 2007 as discontinued operations. The table should be read together with "Item 5. Operating and Financial Review and Prospects." The selected consolidated financial data of Danaos Corporation is a summary of, is derived from, and is qualified by reference to, our consolidated financial statements and notes thereto, which have been prepared in accordance with U.S. generally accepted accounting principles, or "U.S. GAAP", and have been audited for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 by PricewaterhouseCoopers S.A., an independent registered public accounting firm.

Our audited consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 2005, 2006 and 2007, and the consolidated balance sheets at December 31, 2006

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and 2007, together with the notes thereto, are included in "Item 18. Financial Statements" and should be read in their entirety.

Year Ended December 31,

	2003	2004	2005	2006	2007
In thousands, except per share amounts					
STATEMENT OF INCOME					
Operating revenues	\$ 111,691	\$ 148,718	\$ 175,886	\$ 205,177	\$ 258,845
Voyage expenses	(2,842)	(3,194)	(3,883)	(5,423)	(7,498)
Vessel operating expenses	(33,466)	(38,395)	(45,741)	(52,991)	(65,676)
Depreciation	(24,590)	(27,520)	(22,940)	(27,304)	(40,622)
Amortization of deferred drydocking and special survey costs	(1,214)	(1,747)	(2,638)	(4,127)	(6,113)
Bad debt expense	(29)	(422)	(36)	(145)	(1)
General and administrative expenses	(2,987)	(3,028)	(3,914)	(6,413)	(9,955)
Gain/(loss) on sale of vessels	4,169	7,667			(286)
Income from operations	50,732	82,079	96,734	108,774	128,694
Interest income	1,207	2,638	6,345	3,605	4,861
Interest expense	(7,395)	(10,423)	(19,190)	(23,905)	(22,421)
Other finance (expenses) income, net	(351)	1,424	(6,961)	2,049	(2,779)
Other income/(expense), net	126	813	(270)	(18,476)	14,560
(Loss)/gain on fair value of derivatives	(4,115)	(2,225)	2,831	(6,628)	183
Total other income/(expenses), net	(10,528)	(7,773)	(17,245)	(43,355)	(5,596)
Net income from continuing operations	\$ 40,204	\$ 74,306	\$ 79,489	\$ 65,419	\$ 123,098
Net income from discontinued operations	\$ 19,650	\$ 42,153	\$ 43,361	\$ 35,663	\$ 92,166
Net income	\$ 59,854	\$ 116,459	\$ 122,850	\$ 101,082	\$ 215,264
PER SHARE DATA*					
Basic and diluted net income per share of common stock from continuing operations	\$ 0.91	\$ 1.68	\$ 1.79	\$ 1.40	\$ 2.26
Basic and diluted net income per share of common stock from discontinued operations	\$ 0.44	\$ 0.95	\$ 0.98	\$ 0.76	\$ 1.69
Basic and diluted net income per share of common stock	\$ 1.35	\$ 2.63	\$ 2.77	\$ 2.16	\$ 3.95
Basic and diluted weighted average number of shares	44,308	44,308	44,308	46,751	54,558
CASH FLOW DATA					
Net cash provided by operating activities	\$ 85,218	\$ 129,056	\$ 162,235	\$ 151,578	\$ 158,270
Net cash used in investing activities	(226,435)	(154,747)	(40,538)	(330,099)	(687,592)
Net cash provided by/(used in) financing activities	187,332	45,133	(180,705)	183,596	549,742
Net (decrease)/increase in cash and cash equivalents	46,115	19,442	(59,008)	5,075	20,420
BALANCE SHEET DATA (at period end)					
Total current assets	\$ 102,543	\$ 129,540	\$ 64,012	\$ 59,700	\$ 132,988
Total assets	837,017	1,005,981	945,758	1,297,190	2,071,791
Total current liabilities	60,983	77,602	70,484	45,714	51,113

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Year Ended December 31,

Total long-term debt, including current portion	532,071	601,400	666,738	662,316	1,356,546
Total stockholders' equity	288,666	384,468	262,725	565,852	624,904
Common stock*	44,308	44,308	44,308	54,558	54,558
Share capital*	443	443	443	546	546

*

As adjusted for 88,615-for-1 stock split effected on September 18, 2006.

As a privately held company, we paid aggregate dividends of \$7.5 million, \$12.4 million and \$244.6 million in 2003, 2004 and 2005, respectively. We paid no dividends in 2006. We paid our first quarterly dividend since becoming a public company in October 2006, of \$0.44 per share, on February 14, 2007, and subsequent dividends of \$0.44 per share, \$0.44 per share, \$0.465 per share and

\$0.465 per share on May 18, 2007, August 17, 2007, November 16, 2007 and February 14, 2008, respectively. Our payment of dividends is subject to the discretion of our Board of Directors. Our loan agreements and the provisions of Marshall Islands law also contain restrictions that could affect our ability to pay dividends. See "Item 3. Risk Factors Risks Inherent in Our Business Our ability to pay dividends may be limited by the amount of cash we generate from operations following the payment of fees and expenses, by the establishment of any reserves and by additional factors unrelated to our profitability" and "Item 8. Financial Information Dividend Policy."

Capitalization and Indebtedness

The table below sets forth our consolidated capitalization as of December 31, 2007 on an actual basis and as adjusted for additional borrowings of \$147.967 million in the period from January 1, 2008 to March 31, 2008. There has been no material change in our capitalization between December 31, 2007 and March 31, 2008. This table should be read in conjunction with our consolidated financial statements and the notes thereto, and "Item 5. Operating and Financial Review and Prospects," included elsewhere in this annual report.

	As of December 31, 2007	
	Actual	As Adjusted
(Dollars in thousands)		
Debt:		
Current portion of secured long term debt	\$ 25,619	\$ 25,619
Long term secured debt, net of current portion	1,330,927	1,478,894
Total debt	1,356,546	1,504,513
Stockholders' equity:		
Common stock, par value \$.01 per share; 200,000,000 shares authorized; 54,557,500 shares issued and outstanding	546	546
Additional paid-in capital	288,530	288,530
Other comprehensive income	(54,886)	(54,886)
Retained earnings	390,714	390,714
Total stockholders' equity	624,904	624,904
Total capitalization	\$ 1,981,450	\$ 2,129,417

Reasons for the Offer and Use of Proceeds

Not Applicable.

Risk Factors

Risks Inherent in Our Business

Our growth depends upon continued growth in demand for containerships. The ocean-going container shipping industry may be at or near the peak of its upward trend and charter hire rates are at or near historical highs. These factors may lead to reductions and volatility in charter hire rates and profitability.

The ocean-going shipping container industry is both cyclical and volatile in terms of charter hire rates and profitability. Variations in containership charter rates result from changes in the supply and demand for ship capacity and changes in the supply and demand for the major products transported by

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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.

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 that 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.

Factors that influence the supply of containership capacity include:

the number of newbuilding deliveries;

the scrapping rate of older containerships;

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 out of service; and

port congestion.

Our ability to recharter our containerships upon the expiration or termination of their current charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, the prevailing state of the charter market for containerships. If the charter market is depressed when the vessels' charters expire, we may be forced to recharter the containerships at reduced rates or even possibly

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a rate whereby we incur a loss, which may reduce our earnings or make our earnings volatile. The same issues will exist if we acquire additional containerships and attempt to obtain multi-year charter arrangements as part of our acquisition and financing plan.

Due to our lack of diversification following the sale of our drybulk carriers, adverse developments in the containership transportation business could reduce our ability to meet our payment obligations and our profitability.

In August 2006, we agreed to sell the six drybulk carriers in our fleet, with an aggregate capacity of 342,158 deadweight tons, or dwt, for an aggregate of \$143.5 million. In the first quarter of 2007, we delivered five of these vessels to the purchaser, which is not affiliated with us, for an aggregate of \$118.0 million and the remaining vessel to the purchaser for \$25.5 million when its charter expired in

the second quarter of 2007. Subject to market conditions, including the availability of suitably configured vessels, we intend to reinvest in the drybulk sector of the shipping industry. Although we continue to evaluate potential investments in the drybulk sector, we do not believe current vessel prices in such sector, which are at high levels, present attractive investment opportunities at this time. Until we acquire replacement drybulk carriers, we will rely exclusively on the cash flows generated from our charters that operate in the containership sector of the shipping industry. Due to our lack of diversification, an adverse development in the container shipping industry would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets or lines of business.

An economic slowdown in the Asia Pacific region could have a material adverse effect on our business, financial position and results of operations.

A number of the port calls made by our vessels are in the Asia Pacific region. As a result, a negative change in economic conditions in any Asia Pacific country, particularly in China or Japan, may have an adverse effect on our business and results of operations, as well as our future prospects. In particular, in recent years, China has been one of the world's fastest growing economies in terms of gross domestic product. We cannot assure you that such growth will be sustained or that the Chinese economy will not experience negative growth in the future. Moreover, any slowdown in the economies of the United States, the European Union or certain Asian countries could adversely affect economic growth in China and elsewhere. Our business, financial position and results of operations, as well as our future prospects, would likely be materially and adversely affected by an economic downturn in any of these countries.

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

The market supply of containerships has been increasing, and the number of containerships on order has recently reached historic highs. These newbuildings began being delivered in significant numbers at the beginning of 2007. An over-supply of containership capacity could result in a reduction of charter hire rates. We do not hedge against such risk. As such, if such a reduction occurs upon the expiration or termination of our containerships' current charters with the next vessels up for rechartering being two containerships in 2009, we may only be able to recharter those containerships at reduced or unprofitable rates or we may not be able to charter our vessels at all.

We may have difficulty properly managing our growth through acquisitions of additional vessels.

We intend to grow our business by ordering newbuildings and through selective acquisitions of additional vessels. Our future growth will primarily depend on:

locating and acquiring suitable vessels;

identifying and consummating vessel acquisitions or joint ventures relating to vessel acquisitions;

enlarging our customer base;

developments in the charter markets in which we operate that make it attractive for us to expand our fleet;

managing our expansion;

the operations of the shipyard building any newbuildings we may order; and

obtaining required financing on acceptable terms.

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During periods in which charter hire rates are high, vessel values generally are high as well, and it may be difficult to acquire vessels at favorable prices. In addition, growing any business by acquisition presents numerous risks, such as managing relationships with customers and integrating newly acquired assets into existing infrastructure. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with our future growth efforts.

Delays in deliveries of our additional 34 newbuilding containerships could harm our operating results.

The additional 34 newbuilding containerships are expected to be delivered to us at various times between July 2008 and September 2011. Delays in the delivery of these vessels, or any other newbuildings we may order or secondhand vessels we may agree to acquire, would delay our receipt of revenues under the arranged time charters and could possibly result in the cancellation of those time charters, and therefore adversely affect our anticipated results of operations.

The delivery of the newbuildings could be delayed because of, among other things:

work stoppages or other labor disturbances or other events that disrupt the operations of the shipyard building the vessels;

quality or engineering problems;

changes in governmental regulations or maritime self-regulatory organization standards;

lack of raw materials;

bankruptcy or other financial crisis of the shipyard building the vessel;

our inability to obtain requisite financing or make timely payments;

a backlog of orders at the shipyard building the vessel;

hostilities, political or economic disturbances in the countries where the containerships are being built;

weather interference or catastrophic event, such as a major earthquake or fire;

our requests for changes to the original vessel specifications;

shortages of or delays in the receipt of necessary construction materials, such as steel;

our inability to obtain requisite permits or approvals; or

a dispute with the shipyard building the vessel.

The delivery of the secondhand containerships we have agreed to acquire could be delayed because of, among other things, hostilities or political disturbances, non-performance of the purchase agreement with respect to the vessels by the seller, our inability to obtain requisite permits, approvals or financing or damage to or destruction of the vessels while being operated by the seller prior to the delivery date.

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Certain of the containerships in our contracted fleet are subject to purchase options held by the charterers of the respective vessels, which, if exercised, could reduce the size of our containership fleet and reduce our future revenues.

Pursuant to the exercises of options, contained in the respective charters, to purchase the *APL England*, the *APL Scotland*, the *APL Holland* and the *APL Belgium*, we delivered such vessels to their charterer, APL-NOL, on March 7, 2007, June 22, 2007, August 3, 2007 and January 15, 2008, respectively, each for \$44.5 million. Although when negotiated the option exercise prices reflected expected prevailing market prices at the time the options became exercisable, which approximated the vessels' book values net of depreciation, these option exercise prices were below the fair market value of the vessels when exercised. The sales of these vessels have reduced the size of our fleet. We have not yet, and may not be able to, replace these vessels at a cost equal to the option prices paid by APL-NOL. As a result, our revenues and results of operations may be adversely affected.

In addition, the chartering arrangements with respect to the *HN S4001*, the *HN S4002*, the *HN S4003*, the *HN S4004* and the *HN S4005* include options for the charterer, CMA-CGM, to purchase the vessels eight years after the commencement of their respective charters, which, based on the respective expected delivery dates for these vessels, is expected to fall in April 2017, June 2017, August 2017, October 2017 and December 2017, respectively, each for \$78.0 million. The option exercise prices with respect to these vessels reflect an estimate of market prices, which are in excess of the vessels' book values net of depreciation, at the time the options become exercisable. If CMA-CGM were to exercise these options with respect to any or all of these vessels, the expected size of our combined containership fleet would be reduced and, due to the scarcity of secondhand containerships available for acquisition and the delay in delivery associated with commissioning newbuildings, we may be unable to replace these vessels with other comparable vessels, or any other vessels, quickly or, if containership values were higher than currently anticipated at the time we were required to sell these vessels, at a cost equal to the purchase price paid by CMA-CGM. As a result, if these purchase options were to be exercised, the expected size of our combined containership fleet would be reduced, and as a result our anticipated level of revenues would be reduced.

Operating older vessels may result in increased operating costs and reduced fleet utilization.

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.

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 such expenditures or will enable us to profitably operate our vessels during the remainder of their estimated useful lives.

Over time, containership values may fluctuate substantially and, if these values are lower at a time when we are attempting to dispose of a vessel, we may incur a loss.

Containership values can fluctuate substantially over time due to a number of different factors, including:

prevailing economic conditions in the markets in which containerships operate;

a substantial or extended decline in world trade;

increases in the supply of containership capacity;

prevailing charter rates; and

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

In the future, if the market values of our vessels deteriorate significantly, we may be required to record an impairment charge in our financial statements, which could adversely affect our results of operations. If a charter terminates, we may be unable to re-charter the vessel at an acceptable rate and, rather than continue to incur costs to maintain and finance the vessel, may seek to dispose of it. Our inability to dispose of the containership at a reasonable price could result in a loss on its sale and adversely affect our results of operations and financial condition.

Our growth depends on our ability to expand relationships with existing charterers and to obtain new time charterers, for which we will face substantial competition.

One of our principal objectives is to acquire additional containerships in conjunction with entering into additional multi-year, fixed-rate time charters for these ships. The process of obtaining new multi-year time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Container shipping 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;

container shipping 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 in general;

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 from a number of experienced companies, including state-sponsored entities and major shipping companies. Some 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. We anticipate that an increasing number of marine transportation companies will enter the containership sector, including many with strong reputations and extensive resources and experience. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our stockholders.

We may have more difficulty entering into multi-year, fixed-rate time charters if a more active short-term or spot container shipping market develops.

One of our principal strategies is to enter into multi-year, fixed-rate containership time charters in both strong and weak charter rate environments, although in weaker charter rate environments we would generally expect to target somewhat shorter charter terms of three to six years. As more vessels become available for the spot or short-term market, we may have difficulty entering into additional multi-year, fixed-rate time charters for our containerships due to the increased supply of containerships and the possibility of lower rates in the spot market and, as a result, our cash flows may be subject to instability in the long-term. A more active short-term or spot market may require us to enter into charters based on changing market rates, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flows and net income in periods when the market for container shipping is depressed or insufficient funds are available to cover our financing costs for related containerships.

In the highly competitive international container shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources.

We employ our containerships in highly competitive markets that are capital intensive and highly fragmented. Generally, we compete for charters based upon price, customer relationships, operating expertise, professional reputation and size, age and condition of our vessels. Competition for providing containership services comes from a number of experienced companies, including state-sponsored entities and major shipping companies, some of which have significantly greater resources than we do and therefore can operate larger fleets and may be able to offer lower charter rates. We also anticipate that an increasing number of marine transportation companies will enter the containership sector, including many with strong reputations and extensive resources and experience. This increased competition may cause greater price competition for time charters and for secondhand vessels and newbuildings. In addition, a number of our competitors in the containership sector have been established in the form of a German KG (Kommanditgesellschaft), which provides tax benefits to private investors. Although the German tax law was amended to significantly restrict the tax benefits to taxpayers who invest after November 10, 2005, the tax benefits afforded to all investors in the KG-model shipping entities continue to be significant, and such entities will continue to be attractive investments. Their focus on these tax benefits allows the KG-model shipping entities more flexibility in offering lower charter rates to liner companies. Several of these KG-model competitors are among the largest charterer owners of containerships in the world. Further, since the charter rate is generally considered to be one of the principal factors in a charterer's decision to charter a vessel, the rates offered by these sizeable competitors can reduce the effect throughout the charter market. As a result of these factors, we may be unable to compete successfully for charters with established companies with greater resources or new entrants, which would have a material adverse effect on our business, results of operations and financial condition.

We depend upon a limited number of customers for a large part of our revenues. The loss of these customers could adversely affect our financial performance.

Our customers in the containership sector consist of a limited number of liner operators. The percentage of our revenues derived from these customers has varied in past years. In the past several years APL-NOL, Hanjin Shipping and HMM Korea have represented substantial amounts of our revenue. During 2006, four customers, APL-NOL, Hyundai, CMA-CGM and China Shipping, generated approximately 53% of our revenues from continuing operations and in 2007, approximately 55% of our revenues from continuing operations were generated by four customers, China Shipping, Hyundai, CMA-CGM and Yang Ming. We expect that a limited number of liner companies may continue to generate a substantial portion of our revenues. If these liner operators cease doing business or do not fulfill their obligations under the charters for our vessels, our results of operations and cash flows could be adversely affected. Further, if we encounter any difficulties in our relationships with these charterers, our results of operations, cash flows and financial condition could be adversely affected.

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We will derive substantially all of our revenues from time charters and the loss of any time charter could result in a significant loss of revenue and cash flows.

Most of our vessels are chartered to charterers under long-term time charters, and these charterers' payments will be our primary source of operating cash flow.

We could lose a charterer or the benefits of a time charter if:

the charterer fails to make charter payments to us because of its financial inability, disagreements with us, defaults on a payment or otherwise;

the charterer exercises certain specific limited rights to terminate the charter; or

the charterer terminates the charter because the ship fails to meet certain guaranteed speed and fuel consumption requirements and we are unable to rectify the situation or otherwise reach a mutually acceptable settlement.

If we lose a time charter, we may be unable to re-deploy the related vessel on terms as favorable to us. In the worst case, we may not receive any revenues from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition.

The loss of any of our charterers, time charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our stockholders.

Our ability to pay dividends may be limited by the amount of cash we generate from operations following the payment of fees and expenses, by the establishment of any reserves and by additional factors unrelated to our profitability.

We intend to pay regular quarterly dividends. The amount of dividends we will be able to pay will depend upon the amount of cash we generate from our operations. We may not, however, have sufficient cash available each quarter to pay dividends, as a result of insufficient levels of profit, restrictions on the payment of dividends and the decisions of our management and directors. The amount of cash we will have available for dividends may fluctuate based upon, among other things:

the rates we obtain from our charters as well as the rates obtained upon the expiration of our existing charters;

the level of our operating costs;

the number of unscheduled off-hire days and the timing of, and number of days required for, scheduled drydocking of our containerhips;

vessel acquisitions and related financings, such as restrictions in our credit facilities and in any future debt programs;

prevailing global and regional economic and political conditions;

the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business; and

changes in the basis of taxation of our activities in various jurisdictions.

The actual amount of cash we will have available for dividends will also depend on many factors, including:

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changes in our operating cash flows, capital expenditure requirements, working capital requirements and other cash needs;

our fleet expansion strategy and associated uses of our cash and our financing requirements;

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modification or revocation of our dividend policy by our board of directors;

the amount of any cash reserves established by our board of directors; and

restrictions under Marshall Islands law.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which will be affected by non-cash items. We may incur other expenses or liabilities that could reduce or eliminate the cash available for distribution as dividends. Our credit facilities also restrict our ability to declare and pay dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default. In addition, 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 stock above the par value of the stock), or while a company is insolvent or if it would be rendered insolvent by the payment of such a dividend, and any such dividend may be discontinued at the discretion of our board of directors. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

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.

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to make dividend payments depends on our subsidiaries and their ability to distribute funds to us. The ability of a subsidiary to make these distributions could be affected by a claim or other action by a third party, including a creditor, or by the law of their respective jurisdictions of incorporation which regulates the payment of dividends by companies. If we are unable to obtain funds from our subsidiaries, our board of directors may exercise its discretion not to declare or pay dividends. We do not intend to seek to obtain funds from other sources to pay dividends.

Our credit facilities or other financing arrangements contain restrictive covenants that may limit our liquidity and our ability to expand our fleet.

Our credit facilities impose, and our future financing arrangements may impose, operating and financial restrictions on us. These restrictions may limit our ability to:

incur additional indebtedness;

create liens on our assets;

sell capital stock of our subsidiaries;

make investments;

engage in mergers or acquisitions;

pay dividends; or

make capital expenditures.

Certain of our credit facilities require us to maintain specified financial ratios and satisfy financial covenants. These financial ratios and covenants include requirements that we:

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maintain a market value adjusted net worth of at least \$400.0 million and stockholders' equity of at least \$250.0 million;

ensure that the aggregate market value of the vessels in our fleet exceeds 145.0% of our net consolidated debt at all times;

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maintain adjusted stockholders' equity in excess of 30.0% of our total market value adjusted assets;

ensure that our outstanding bank debt does not exceed 75.0% of the aggregate value of our vessels mortgaged under the relevant credit facility;

ensure that our total liabilities (after deducting cash and cash equivalents), at all times, will be no more than 70.0% of the market value of our adjusted total assets;

maintain aggregate cash and cash equivalents of no less than the higher of (a) \$30 million and (b) 3% of our total indebtedness until November 14, 2011 and 4% of our total indebtedness at all times thereafter; and

maintain a ratio of EBITDA to net interest expense of no less than 2.5 to 1.0.

A failure to meet our payment and other obligations could lead to defaults under our secured credit facilities. Our lenders could then accelerate our indebtedness and foreclose on the vessels in our fleet securing those credit facilities. The loss of these vessels would have a material adverse effect on our operating results and financial condition.

Because we generate all of our revenues in United States dollars but incur a significant portion of our expenses in other currencies, exchange rate fluctuations could hurt our results of operations.

We generate all of our revenues in United States dollars and for the year ended December 31, 2007, we incurred approximately 52.0% of our vessels' expenses in currencies other than United States dollars. This difference could lead to fluctuations in net income due to changes in the value of the United States dollar relative to the other currencies, in particular the Euro. Expenses incurred in foreign currencies against which the United States dollar falls in value could increase, thereby decreasing our net income. We have not hedged these risks. Our operating results could suffer as a result.

Under the terms of a plea agreement, our manager pled to one count of negligent discharge of oil from the Henry (ex APL Guatemala) and one count of obstruction of justice, based on a charge of attempted concealment of the source of the discharge. Any violation of the terms of the plea agreement, or any penalties or heightened environmental compliance plan requirements imposed as a result of any alleged discharge from any other vessel in our fleet calling at U.S. ports could negatively affect our operations and business.

In the summer of 2001, one of our vessels, the *Henry (ex APL Guatemala)*, experienced engine damage at sea that resulted in an accumulation of oil and oily water in the vessel's engine room. The U.S. Coast Guard found oil in the overboard discharge pipe from the vessel's oily water separator. Subsequently, on July 2, 2001, when the vessel was at anchor in Long Beach, California, representatives of our manager notified authorities of the presence of oil on the water on the starboard side of the vessel. On July 3, 2001, oil was found in an opening through which seawater is taken in to cool the vessel's engines. In connection with these events, our manager entered into a plea agreement with the U.S. Attorney, on behalf of the government, which was filed with the U.S. District Court on June 20, 2006, pursuant to which our manager agreed to plead guilty to one count of negligent discharge of oil and one count of obstruction of justice, based on a charge of attempted concealment of the source of the discharge. Consistent with the government's practice in similar cases, our manager agreed to develop and implement a third-party consultant monitored environmental compliance plan and to designate an internal corporate compliance manager. This compliance plan would require our manager to prepare an environmental compliance plan manual for approval by such third-party environmental consultant and the U.S. government. The program would also require our manager to arrange for, fund and complete a series of audits of its fleet management offices and of waste streams of the vessels it manages, including all of the vessels in our fleet that call at U.S. ports, as well as an independent,

third-party focused environmental compliance plan audit. Our manager also agreed to a probation period of three years under the plea agreement. Our manager further agreed to pay an aggregate of \$500,000 in penalties in connection with the charges of negligent discharge and obstruction of justice under the plea agreement, with half of the penalties to be applied to community service projects that will benefit, restore or preserve the environment and ecosystems in the central California area. On August 14, 2006, the court accepted our manager's guilty plea to the two counts and, on December 4, 2006, sentenced our manager in accordance with the terms of the plea agreement. Any violation of this environmental compliance plan or of the terms of our manager's probation or any penalties, restitution or heightened environmental compliance plan requirements that are imposed relating to alleged discharges in any other action involving our fleet or our manager could negatively affect our operations and business.

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

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

The operation of our vessels is also affected by the requirements set forth in the International Maritime Organization's, or IMO'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, in complying with existing environmental laws and regulations and those that may be adopted, we may incur significant costs in meeting new maintenance and inspection requirements and new restrictions on air emissions from our containerships, in developing contingency arrangements for

potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and could require us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. As a result of accidents such as the November 2002 oil spill relating to the loss of the *m.t. Prestige*, a 26-year old single-hull product tanker unrelated to us, we believe that regulation of the shipping industry will continue to become more stringent and more expensive for us and our competitors. Substantial violations of applicable requirements or a catastrophic release of bunker fuel from one of our vessels could have a material adverse impact on our financial condition, results of operations and our ability to pay dividends to our stockholders.

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

International container shipping is subject to security and customs inspection and related procedures in countries of origin, destination, and certain trans-shipment points. These inspection 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, charterers and charter owners.

Since the events of September 11, 2001, U.S. authorities have more than doubled container inspection rates to over 5% of 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 inspection procedures will ultimately be proposed or implemented, or how any such changes will affect the industry. It is possible that such changes could impose additional financial and legal obligations, including additional responsibility for inspecting and recording the contents of containers. Changes to the inspection procedures and container security could result in additional costs and obligations on carriers and may, in certain cases, render the shipment of certain types of goods by container uneconomical or impractical. Additional costs may arise from current inspection procedures or future proposals may not be fully recoverable from customers through higher rates or security surcharges.

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

A government of a ship's registry could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a ship and becomes the owner. Also, a government could requisition our containerships for hire. Requisition for hire occurs when a government takes control of a ship 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 may negatively impact our revenues and results of operations.

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

Terrorist attacks such as the attacks on the United States on September 11, 2001, and the continuing response of the United States and other countries to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets and may affect our business, results of operations and financial condition. The recent conflict in Iraq may lead to additional acts of terrorism, regional conflict and other armed conflicts 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.

Terrorist attacks targeted at sea vessels, such as the October 2002 attack in Yemen on the *VLCC Limburg*, a ship not related to us, may in the future also negatively affect our operations and financial condition and directly impact our containerships or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession affecting the United States or the entire world. Any of these occurrences could have a material adverse impact on our operating results, revenue and costs.

Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered could affect us. In addition, future hostilities or other political instability in regions where our vessels trade could also affect our trade patterns and adversely affect our operations and performance.

Risks inherent in the operation of ocean-going vessels could affect our business and reputation, which could adversely affect our expenses, net income and stock price.

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

marine disaster;

environmental accidents;

grounding, fire, explosions and collisions;

cargo and property losses or damage;

business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, or adverse weather conditions;

work stoppages or other labor problems with crew members serving on our vessels, substantially all of whom are unionized and covered by collective bargaining agreements; and

piracy.

Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenues from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates, and damage to our reputation and customer relationships generally. Any of these circumstances or events could increase our costs or lower our revenues, which could result in reduction in the market price of our shares of common stock. The involvement of our vessels in an environmental disaster may harm our reputation as a safe and reliable vessel owner and operator.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations due to the inherent operational risks of the shipping industry.

The operation of any vessel includes risks such as mechanical failure, collision, fire, contact with floating objects, 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 a marine disaster, including oil spills and other environmental mishaps. There are also liabilities arising from owning and operating vessels in international trade. We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance includes (i) hull and machinery insurance covering damage to our vessels' hull and machinery from, among other things, contact with free and floating objects, (ii) war risks insurance covering losses associated with the outbreak or escalation of hostilities and (iii) protection and indemnity insurance (which includes environmental damage and pollution insurance) covering third-party and crew liabilities

such as expenses resulting from the injury or death of crew members, passengers and other third parties, the loss or damage to cargo, third-party claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs and loss of hire insurance for the *CSCL Europe*, the *MSC Baltic* (ex *CSCL America*), the *CSCL Pusan* (ex *HN 1559*) and the *CSCL Le Havre* (ex *HN 1561*).

We can give no assurance that we are adequately insured against all risks or that our insurers will pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to obtain a timely replacement vessel in the event of a loss. Under the terms of our credit facilities, we will be subject to restrictions on the use of any proceeds we may receive from claims under our insurance policies. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

In addition, we do not carry loss of hire insurance (other than for the *CSCL Europe*, the *MSC Baltic* (ex *CSCL America*), the *CSCL Pusan* (ex *HN 1559*) and the *CSCL Le Havre* (ex *HN 1561*) to satisfy our loan agreement requirements). Loss of hire insurance covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents. Accordingly, any loss of a vessel or any extended period of vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our stockholders.

Maritime claimants could arrest our vessels, which could interrupt our cash flows.

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 lienholder 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 cash flows and require us to pay large sums of money to have the arrest lifted.

In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our ships.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. As our fleet ages, we may incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels. Cargo insurance rates also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of a vessel may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. Although our current fleet of 38 containerships had an average age (weighted by TEU capacity) of approximately 11.5 years as of March 31, 2008, we cannot assure you that, as our vessels age, market conditions will justify such expenditures or will enable us to profitably operate our vessels during the remainder of their expected useful lives.

Compliance with safety and other 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, and all vessels must be awarded ISM certification.

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. Each of the vessels in our fleet is on a special survey cycle for hull inspection and a continuous survey cycle for machinery inspection.

If any vessel does not maintain its class or fails any annual, intermediate or special survey, and/or loses its certification, the vessel will be unable to trade between ports and will be unemployable, and we could be in violation of certain covenants in our loan agreements. This would negatively impact our operating results and financial condition.

Our business depends upon certain employees who may not necessarily continue to work for us.

Our future success depends to a significant extent upon our chief executive officer, Dr. John Coustas, and certain members of our senior management and that of our manager. Dr. Coustas has substantial experience in the container shipping industry and has worked with us and our manager for many years. He and others employed by us and our manager are crucial to the execution of our business strategies and to the growth and development of our business. If the individuals were no longer to be affiliated with us or our manager, or if we were to otherwise cease to receive advisory services from them, we may be unable to recruit other employees with equivalent talent and experience, and our business and financial condition may suffer as a result.

The provisions in our employment arrangements with our chief executive officer restricting his ability to compete with us, like restrictive covenants generally, may not be enforceable.

In connection with his employment agreement with us, Dr. Coustas, our chief executive officer, has entered into a restrictive covenant agreement with us under which he is precluded during the term of his employment and for one year thereafter from owning and operating drybulk ships or containerships larger than 2,500 TEUs and from acquiring or investing in a business that owns or operates such vessels. Courts generally do not favor the enforcement of such restrictions, particularly when they involve individuals and could be construed as infringing on their ability to be employed or to earn a livelihood. Our ability to enforce these restrictions, should it ever become necessary, will depend upon the circumstances that exist at the time enforcement is sought. We cannot be assured that a court would enforce the restrictions as written by way of an injunction or that we could necessarily establish a case for damages as a result of a violation of the restrictive covenants.

We depend on our manager to operate our business.

Pursuant to the management agreement and the individual ship management agreements, our manager and its affiliates may provide us with certain of our officers and will provide us with technical, administrative and certain commercial services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance and financial services). Our operational success will depend significantly upon our manager's satisfactory performance of these services. Our business would be harmed if our manager failed to perform these services satisfactorily. In addition, if the management agreement were to be terminated or if its terms were to be altered, our business could be adversely affected, as we may not be able to immediately replace such services, and

even if replacement services were immediately available, the terms offered could be less favorable than the ones currently offered by our manager.

Our ability to compete for and enter into new time charters and to expand our relationships with our existing charterers will depend largely on our relationship with our manager and its reputation and relationships in the shipping industry. If our manager suffers material damage to its reputation or relationships, it may harm our ability to:

renew existing charters upon their expiration;

obtain new charters;

successfully interact with shipyards during periods of shipyard construction constraints;

obtain financing on commercially acceptable terms;

maintain satisfactory relationships with our charterers and suppliers; or

successfully execute our business strategies.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business and affect our profitability.

Our manager is a privately held company and there is little or no publicly available information about it.

The ability of our manager to continue providing services for our benefit will depend in part on its own financial strength. Circumstances beyond our control could impair our manager's financial strength, and because it is a privately held company, information about its financial strength is not available. As a result, our stockholders might have little advance warning of problems affecting our manager, even though these problems could have a material adverse effect on us. As part of our reporting obligations as a public company, we will disclose information regarding our manager that has a material impact on us to the extent that we become aware of such information.

We are a Marshall Islands corporation, and the Marshall Islands does not have a well developed body of corporate law.

Our corporate affairs are governed by our articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA are similar to provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of The Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law of the Republic of The Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain U.S. jurisdictions. Stockholder 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 stockholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling stockholders than would stockholders of a corporation incorporated in a U.S. jurisdiction.

It may be difficult to enforce service of process and enforcement of judgments against us and our officers and directors.

We are a Marshall Islands corporation, and our executive offices are located outside of the United States in Piraeus, Greece. A majority of our directors and officers reside outside of the United States, and a substantial portion of our assets and the assets of our officers and directors are located outside of the United States. As a result, you may have difficulty serving legal process within the United States upon us or any of these persons. You may also have difficulty enforcing, both in and outside of the

United States, judgments you may obtain in the U.S. courts against us or these persons in any action, including actions based upon the civil liability provisions of U.S. federal or state securities laws.

There is also substantial doubt that the courts of the Marshall Islands or Greece would enter judgments in original actions brought in those courts predicated on U.S. federal or state securities laws.

Risks Relating to Our Common Stock

We are a "controlled company" under the New York Stock Exchange rules, and as such we are entitled to exemptions from certain New York Stock Exchange corporate governance standards, and you may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

We are a "controlled company" within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by another company or group is a "controlled company" and may elect not to comply with certain New York Stock Exchange corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that the nominating committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities, (3) the requirement that the compensation committee be composed entirely of independent directors and have a written charter addressing the committee's purpose and responsibilities and (4) the requirement of an annual performance evaluation of the nominating and corporate governance and compensation committees. We may utilize these exemptions. As a result, non-independent directors, including members of our management who also serve on our board of directors, may serve on the compensation or the nominating and corporate governance committees of our board of directors which, among other things, fix the compensation of our management, make stock and option awards and resolve governance issues regarding us. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

The requirements of being a public company may strain our resources and distract management.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These requirements may place a burden on our systems and resources. The Securities Exchange Act of 1934, as amended, requires that we file annual and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act, among other things, requires that we maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, if we fail to maintain effective controls and procedures, we may be unable to provide the financial information that publicly traded companies are required to provide in a timely and reliable fashion. Any such delays or deficiencies could limit our ability to obtain financing, either in the public capital markets or from private sources, and could thereby impede our ability to implement our growth strategies. In addition, any such delays or deficiencies could result in failure to meet the requirements for continued listing of our common stock on the New York Stock Exchange, which would adversely affect the liquidity of our common stock.

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

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, may depress the market price for our common stock. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.

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We may issue additional shares of our common stock in the future and our stockholders may elect to sell large numbers of shares held by them from time to time. The number of shares of common stock available for sale in the public market will be limited by restrictions applicable under securities laws and agreements that our chief executive officer, John Coustas, and the Coustas Family Trust entered into with the underwriters of our initial public offering. Subject to certain exceptions, these agreements generally restrict our chief executive officer and the Coustas Family Trust from directly or indirectly offering, selling, pledging, hedging or otherwise disposing of our equity securities or any security that is convertible into or exercisable or exchangeable for our equity securities and from engaging in certain other transactions relating to such securities until October 5, 2008, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc., the lead underwriters in our initial public offering.

The Coustas Family Trust, our principal existing stockholder, controls the outcome of matters on which our stockholders are entitled to vote and its interests may be different from yours.

The Coustas Family Trust, under which our chief executive officer is both a beneficiary, together with other members of the Coustas Family, and the protector (which is analogous to a trustee), through Danaos Investments Limited, a corporation wholly-owned by Dr. Coustas, owns, directly or indirectly, approximately 80.0% of our outstanding common stock. This stockholder is able to control the outcome of matters on which our stockholders are entitled to vote, including the election of our entire board of directors and other significant corporate actions. The interests of this stockholder may be different from yours.

Anti-takeover provisions in our organizational documents could make it difficult for our stockholders to replace or remove our current board of directors or could have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of the shares of our common stock.

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

These provisions:

authorize our board of directors to issue "blank check" preferred stock without stockholder approval;

provide for a classified board of directors with staggered, three-year terms;

prohibit cumulative voting in the election of directors;

authorize the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66²/₃% of the outstanding stock entitled to vote for those directors;

prohibit stockholder action by written consent unless the written consent is signed by all stockholders entitled to vote on the action;

establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings; and

restrict business combinations with interested stockholders.

We have adopted a stockholder rights plan pursuant to which our board of directors may cause the substantial dilution of the holdings of any person that attempts to acquire us without the approval of our board of directors.

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These anti-takeover provisions, including the provisions of our stockholder rights plan, could substantially impede the ability of public stockholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

Tax Risks

In addition to the following risk factors, you should read "Item 10. Additional Information Tax Considerations Marshall Islands Tax Considerations," "Item 10. Additional Information Tax Considerations Liberian Tax Considerations," and "Item 10. Additional Information Tax Considerations United States Federal Income Tax Considerations" for a more complete discussion of expected material Marshall Islands, Liberian and U.S. federal income tax consequences of owning and disposing of our common stock.

We may have to pay tax on U.S.-source income, which would reduce our earnings.

Under the United States Internal Revenue Code of 1986, as amended, 50% of the gross shipping income of a ship owning or chartering corporation, such as ourselves, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S.-source shipping income and as such is subject to a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder.

We expect that we do and will continue to qualify for this statutory tax exemption and we currently intend to take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby become subject to U.S. federal income tax on our U.S.-source income. For example, 5% stockholders owned the majority of our outstanding stock. This would preclude us from being eligible for the Section 883 exemption based on the trading of our stock unless we can establish that 5% stockholders that are qualified stockholders for purposes of Section 883 (and who comply with specified certification requirements) own, directly or under applicable attribution rules, a sufficient portion of the shares held by our 5% stockholders so as to preclude the shares held by the 5% stockholders that are not so owned from representing 50% or more of our stock for more than half of the number of days during the taxable year. There can be no assurance that a sufficient number of our stockholders will be qualified stockholders for purposes of Section 883 to enable us to continue to be eligible for the Section 883 exemption.

If we or our subsidiaries are not entitled to this exemption under Section 883 for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our gross U.S. source shipping income. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our stockholders. A number of our charters contain provisions that obligate the charterers to reimburse us for the 4% gross basis tax on our U.S. source shipping income.

If we were treated as a "passive foreign investment company," certain adverse U.S. federal income tax consequences could result to U.S. stockholders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if at least 75% of its gross income for any taxable year consists of certain types of "passive income," or 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, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are 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." In general, U.S. stockholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC. If we are treated as a PFIC for any taxable year, we will provide information to U.S. stockholders to enable them to make certain elections to alleviate certain of the adverse U.S. federal income tax consequences that would arise as a result of holding an interest in a PFIC.

While there are legal uncertainties involved in this determination, we believe we should not be treated as a PFIC for the taxable year ending December 31, 2007. There is no assurance that the nature of our assets, income and operations will not change or that we can avoid being treated as a PFIC for subsequent years.

The enactment of proposed legislation could affect whether dividends paid by us constitute qualified dividend income eligible for the preferential rate.

Legislation has been introduced that would deny the preferential rate of federal income tax currently imposed on qualified dividend income with respect to dividends received from a non-U.S. corporation, unless the non-U.S. corporation either is eligible for benefits of a comprehensive income tax treaty with the United States or is created or organized under the laws of a foreign country which has a comprehensive income tax system. Because the Marshall Islands has not entered into a comprehensive income tax treaty with the United States and imposes only limited taxes on corporations organized under its laws, it is unlikely that we could satisfy either of these requirements. Consequently, if this legislation were enacted in its current form the preferential rate of federal income tax discussed at "Item 10. Additional Information Tax Considerations United States Federal Income Tax Considerations United States Federal Income Taxation of United States Holders Distributions" may no longer be applicable to dividends received from us. As of the date of this annual report, it is not possible to predict with certainty whether or in what form the proposed legislation will be enacted.

If the regulations regarding the exemption from Liberian taxation for non-resident corporations issued by the Liberian Ministry of Finance were found to be invalid, the net income and cash flows of our Liberian subsidiaries and therefore our net income and cash flows, would be materially reduced.

A number of our subsidiaries are incorporated under the laws of the Republic of Liberia. The Republic of Liberia enacted a new income tax act effective as of January 1, 2001 (the "New Act") which does not distinguish between the taxation of "non-resident" Liberian corporations, such as our Liberian subsidiaries, which conduct no business in Liberia and were wholly exempt from taxation under the income tax law previously in effect since 1977, and "resident" Liberian corporations which conduct business in Liberia and are, and were under the prior law, subject to taxation.

In 2004, the Liberian Ministry of Finance issued regulations exempting non-resident corporations engaged in international shipping, such as our Liberian subsidiaries, from Liberian taxation under the New Act retroactive to January 1, 2001. It is unclear whether these regulations, which ostensibly conflict with the express terms of the New Act adopted by the Liberian legislature, are valid. However, the Liberian Ministry of Justice issued an opinion that the new regulations are a valid exercise of the regulatory authority of the Ministry of Finance. The Liberian Ministry of Finance has not at any time since January 1, 2001 sought to collect taxes from any of our Liberian subsidiaries.

If our Liberian subsidiaries were subject to Liberian income tax under the New Act, they would be subject to tax at a rate of 35% on their worldwide income. As a result, their, and subsequently our, net income and cash flows would be materially reduced. In addition, as the ultimate stockholder of the Liberian subsidiaries, we would be subject to Liberian withholding tax on dividends paid by our

Liberian subsidiaries at rates ranging from 15% to 20%, which would limit our access to funds generated by the operations of our subsidiaries and further reduce our income and cash flows.

Item 4. Information on the Company

History and Development of the Company

Danaos Corporation is an international owner of containerships, chartering its vessels to many of the world's largest liner companies. We are a corporation domesticated in the Republic of The Marshall Islands on October 7, 2005, under the Marshall Islands Business Corporations Act, after having been incorporated as a Liberian company in 1998 in connection with the consolidation of our assets under Danaos Holdings Limited. In connection with our domestication in the Marshall Islands we changed our name from Danaos Holdings Limited to Danaos Corporation. Our manager, Danaos Shipping Company Limited, or Danaos Shipping, was founded by Dimitris Coustas in 1972 and since that time it has continuously provided seaborne transportation services under the management of the Coustas family. Dr. John Coustas, our chief executive officer, assumed responsibility for our management in 1987. Dr. Coustas has focused our business on chartering containerships to liner companies and has overseen the expansion of our fleet from three multi-purpose vessels in 1987 to the 38 containerships comprising our containership fleet as of March 31, 2008. In October 2006, we completed an initial public offering of our common stock in the United States and our common stock began trading on the New York Stock Exchange. We maintain our principal executive offices at 14 Akti Kondyli, 185 45 Piraeus, Greece. Our telephone number at that address is +30 210 419 6480.

Our company operates through a number of subsidiaries incorporated in Liberia, Cyprus and Singapore, all of which are wholly-owned by us and either directly or indirectly own the vessels in our fleet. A list of our active subsidiaries as of March 31, 2008, and their jurisdictions of incorporation, is set forth in Exhibit 8 to this annual report on Form 20-F.

Business Overview

We are an international owner of containerships, chartering our vessels to many of the world's largest liner companies. As of March 31, 2008, we had a fleet of 38 containerships aggregating 149,718 TEUs, making us among the ten largest containership charter owners in the world, based on total TEU capacity. Our strategy is to charter our containerships under multi-year, fixed-rate period charters to a diverse group of liner companies, including many of the largest such companies globally, as measured by TEU capacity. As of March 31, 2008, these customers included Maersk, CMA-CGM, Hyundai, Yang Ming, China Shipping, MSC, United Arab Shipping Corporation ("UASC") and Senator Lines. We believe our containerships provide us with contracted stable cash flows as they are deployed under multi-year, fixed-rate charters that range from one to 12 years for vessels in our current fleet and up to 18 years for our contracted vessels.

Our Fleet

General

We deploy our containership fleet principally under multi-year charters with major liner companies that operate regularly scheduled routes between large commercial ports. As of March 31, 2008, our containership fleet was comprised of 37 containerships deployed on time charters and one containership deployed on a bareboat charter. The average age (weighted by TEU) of the 38 vessels in our containership fleet was approximately 11.5 years as of March 31, 2008 and, upon delivery of all of our contracted vessels as of the end of the third quarter of 2011, the average age (weighted by TEU) of the 68 vessels in our containership fleet (assuming no other acquisitions or dispositions other than the scrapping of vessels that are over 30 years of age at the end of their current charters) will be approximately 5.7 years. As of March 31, 2008, the average remaining duration of the charters for our

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containership fleet, including our 34 contracted vessels for each of which we have arranged charters, was 11.5 years (weighted by aggregate contracted charter hire).

Characteristics

The table below provides additional information about our fleet of 38 cellular containerships as of March 31, 2008.

Vessel Name	Year Built	Vessel Size (TEU)	Time Charter Term(1)	Expiration of Charter(1)	Daily Charter Rate (in thousands)	Charterer
Post-Panamax						
<i>CSCL Le Havre</i> (2)	2006	9,580	12 years	September 2018	\$ 34.0	China Shipping
<i>CSCL Pusan</i> (2)	2006	9,580	12 years	July 2018	34.0	China Shipping
<i>MSC Baltic (ex CSCL America)</i> (3)						
	2004	8,468	12 years	September 2016	29.5(4)	China Shipping
<i>CSCL Europe</i> (4)						
	2004	8,468	12 years	June 2016	29.5	China Shipping
<i>Hyundai Commodore</i>						
	1992	4,651	8 years	March 2011	20.0	Hyundai
<i>Hyundai Duke</i>						
	1992	4,651	8 years	February 2011	20.0	Hyundai
<i>MOL Confidence</i>						
	1994	4,651	6.5 years	September 2012	20.8	Hyundai
Panamax						
<i>Maersk Marathon</i>						
	1991	4,814	5 years	September 2011	23.5	Maersk
<i>Maersk Messologi</i>						
	1991	4,814	5 years	September 2011	23.5	Maersk
<i>Maersk Mytilini</i>						
	1991	4,814	5 years	September 2011	23.5	Maersk
<i>YM Colombo (ex Norasia Integra)</i> (5)						
	2004	4,300	12 years	March 2019	27.8(6)	Yang Ming
<i>YM Singapore (ex Norasia Atria)</i> (8)						
	2004	4,300	12 years	October 2019	27.8(7)	Yang Ming
<i>YM Seattle</i>						
	2007	4,253	12 years	July 2019	26.1	Yang Ming
<i>YM Vancouver</i>						
	2007	4,253	12 years	September 2019	26.1	Yang Ming
<i>Maersk Derby</i>						
	2004	4,253	5 years	February 2009	20.6	Maersk
<i>Maersk Deva (ex Vancouver Express)</i> (9)						
	2004	4,253	5 years	January 2009	20.6	Maersk
<i>Al Rayyan (ex Norasia Hamburg)</i> (10)(11)						
	1989	3,908	3 years	January 2011	n/a(18)	United Arab Shipping Corp.
<i>YM Yantian</i>						
	1989	3,908	5 years	July 2011	30.5	Yang Ming
<i>YM Milano</i> (12)						
	1988	3,129	4.5 years	May 2011	21.3	Yang Ming
<i>S.A. Helderberg</i>						
	1977	3,101	1 year	November 2008	n/a(18)	Maersk
<i>Sederberg (ex S.A. Sederberg)</i> (13)						
	1978	3,101	1 year	January 2009	n/a(18)	CMA-CGM
<i>CMA CGM Lotus (ex Victory I)</i> (14)						
	1988	3,098	3 years	July 2010	23.0	CMA-CGM
<i>CMA CGM Vanille (ex Independence)</i> (15)						
	1986	3,045	3 years	July 2010	23.0	CMA-CGM
<i>CMA CGM Passiflore (ex Henry)</i> (16)						
	1986	3,039	3 years	May 2010	23.0	CMA-CGM
<i>CMA CGM Elbe</i>						
	1991	2,917	5 years	June 2010	20.4	CMA-CGM
<i>CMA CGM Kalamata</i>						
	1991	2,917	5 years	June 2010	20.4	CMA-CGM
<i>CMA CGM Komodo</i>						
	1991	2,917	5 years	June 2010	20.4	CMA-CGM
<i>Hyundai Advance</i>						
	1997	2,200	10 years	June 2017	n/a(18)	Hyundai
<i>Hyundai Future</i>						
	1997	2,200	10 years	August 2017	n/a(18)	Hyundai
<i>Hyundai Sprinter</i>						
	1997	2,200	10 years	August 2017	n/a(18)	Hyundai
<i>Hyundai Stride</i>						
	1997	2,200	10 years	July 2017	n/a(18)	Hyundai
<i>Hyundai Progress</i>						
	1998	2,200	10 years	December 2017	n/a(18)	Hyundai
<i>Hyundai Bridge</i>						
	1998	2,200	10 years	January 2018	n/a(18)	Hyundai
<i>Hyundai Highway</i>						
	1998	2,200	10 years	January 2018	n/a(18)	Hyundai
<i>Hyundai Vladivostok</i>						
	1997	2,200	10 years	May 2017	n/a(18)	Hyundai

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<i>Pacific Bridge</i>	1984	2,130	2 years	March 2010	n/a(18)	Senator Lines
<i>MSC Eagle (ex Eagle Express)(17)</i>	1978	1,704	2 years	January 2010	n/a(18)	MSC
Bareboat Charter Term(1)						
Panamax						
<i>Maersk Constantia</i>	1979	3,101	2 years	September 2008	10.0	Maersk

- (1) Earliest date charters could expire. Most charters include options to extend their terms.
- (2) Daily charter rate for the first six years of the charter. The daily charter rate for the seventh through twelfth years of the charter is \$34,500.
- (3) On September 15, 2007, the *CSCL America* was renamed the *MSC Baltic* at the request of the charterer of this vessel.
- (4) Daily charter rate for the first six years of the charter. The daily charter rate for seventh through twelfth years of the charter is \$29,800.
- (5) On May 8, 2007, the *Norasia Integra* was renamed the *YM Colombo* at the request of the charterer of this vessel.
- (6) The daily charter rate set forth in the table is for the first four years of the charter. The daily charter rate is \$26,300 for the fifth through twelfth years of the charter.
- (7) The daily charter rate set forth in the table is for the first four years of the charter. The daily charter rate is \$26,300 for the fifth through twelfth years of the charter.
- (8) On December 28, 2007, the *Norasia Atria* was renamed the *YM Singapore* at the request of the charterer of this vessel.
- (9) On November 15, 2007, the *Vancouver Express* was renamed the *Maersk Deva* at the request of the charterer of this vessel.
- (10) During the first year of this charter, United Arab Shipping Corporation has the option to convert the three-year time charter to a five-year time charter.
- (11) On February 2, 2008, the *Norasia Hamburg* was renamed the *Al Rayyan* at the request of the charterer of this vessel.
- (12) At the expiration of the current charter in July 2008, the *YM Milano* will begin a three-year time charter with Yang Ming.
- (13) On February 7, 2008, the *S.A. Sederberg* has been redelivered and renamed the *Sederberg* at the request of the charterer of this vessel.
- (14) On August 8, 2007, the *Victory I* was renamed the *CMA CGM Lotus* at the request of the charterer of this vessel.
- (15)

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On August 6, 2007, the *Independence* was renamed the *CMA CGM Vanille* at the request of the charterer of this vessel.

(16)

On June 8, 2007, the *Henry* was renamed the *CMA CGM Passiflore* at the request of the charterer of this vessel.

(17)

On February 19, 2008, the *Eagle Express* was renamed the *MSC Eagle* at the request of the charterer of this vessel.

(18)

Vessel under charter, however, release of information currently restricted by confidentiality agreement with charterer.

Our contracted vessels have been or are being built based upon designs from Samsung Heavy Industries Co. Ltd. ("Samsung"), Hyundai Samho Heavy Industries Co. Limited ("Hyundai Samho"), Hanjin Heavy Industries & Construction Co., Ltd. ("Hanjin"), Shanghai Jiangnan Changxing Heavy Industry Company Limited ("Shanghai Jiangnan") and Sungdong Shipbuilding & Marine Engineering Co., Ltd. ("Sungdong"). In some cases designs are enhanced by us and our manager,

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Danaos Shipping, in consultation with the charterers of the vessels and two classification societies, Det Norske Veritas and the Lloyds Register of Shipping. These designs, which include certain technological advances and customized modifications, make the containerships efficient with respect to both voyage speed and loading capability when compared to many vessels operating in the containership sector.

The specifications of our 34 contracted vessels under construction as of March 31, 2008 are as follows:

Name	Year Built	Vessel Size (TEU)	Shipyard	Expected Delivery Date	Time Charter Term(1)	Daily Charter Rate (in thousands)	Charterer
HN 1670	2008	4,253	Samsung	July 2008	12 years	\$ 22.8	ZIM
HN 1671	2008	4,253	Samsung	September 2008	12 years	22.8	ZIM
HN 1672	2008	4,253	Samsung	November 2008	12 years	22.8	ZIM
HN 1673	2008	4,253	Samsung	December 2008	12 years	22.8	ZIM
HN 1698	2009	4,253	Samsung	March 2009	12 years	22.8	ZIM
HN S4001(2)	2009	6,500	Sungdong	April 2009	12 years	34.4	CMA-CGM
HN 1699	2009	4,253	Samsung	June 2009	12 years	22.8	ZIM
HN S4002(2)	2009	6,500	Sungdong	June 2009	12 years	34.4	CMA-CGM
HN S4003(2)	2009	6,500	Sungdong	August 2009	12 years	34.4	CMA-CGM
HN S4004(2)	2009	6,500	Sungdong	October 2009	12 years	34.4	CMA-CGM
HN S4005(2)	2009	6,500	Sundong	December 2009	12 years	34.4	CMA-CGM
HN N-219	2009	3,400	Hanjin	November 2009	10 years	n/a(3)	n/a(3)
HN N-216	2010	6,500	Hanjin	March 2010	15 years	34.3	Yang Ming
HN N-217	2010	6,500	Hanjin	May 2010	15 years	34.3	Yang Ming
HN N-218	2010	6,500	Hanjin	July 2010	15 years	34.3	Yang Ming
HN N-220	2010	3,400	Hanjin	January 2010	10 years	n/a(3)	n/a(3)
HN N-221	2010	3,400	Hanjin	February 2010	10 years	n/a(3)	n/a(3)
HN N-222	2010	3,400	Hanjin	April 2010	10 years	n/a(3)	n/a(3)
HN N-223	2010	3,400	Hanjin	May 2010	10 years	n/a(3)	n/a(3)
HN Z00001	2010	8,530	Shanghai Jiangnan	May 2010	12 years	n/a(3)	n/a(3)
HN Z00002	2010	8,530	Shanghai Jiangnan	May 2010	12 years	n/a(3)	n/a(3)
HN Z00003	2010	8,530	Shanghai Jiangnan	July 2010	12 years	n/a(3)	n/a(3)
HN Z00004	2010	8,530	Shanghai Jiangnan	July 2010	12 years	n/a(3)	n/a(3)
Hull No. S-461	2011	10,100	Hyundai Samho	January 2011	12 years	n/a(3)	n/a(3)
HULL 1022A	2010	8,530	Shanghai Jiangnan	September 2010	12 years	n/a(3)	n/a(3)
Hull No. S-462	2011	10,100	Hyundai Samho	February 2011	12 years	n/a(3)	n/a(3)
Hull No. S-456	2011	12,600	Hyundai Samho	February 2011	12 years	n/a(3)	n/a(3)
Hull No. S-463	2011	10,100	Hyundai Samho	March 2011	12 years	n/a(3)	n/a(3)
Hull No. S-457	2011	12,600	Hyundai Samho	April 2011	12 years	n/a(3)	n/a(3)
Hull No. S-458	2011	12,600	Hyundai Samho	June 2011	12 years	n/a(3)	n/a(3)
Hull No. S-459	2011	12,600	Hyundai Samho	August 2011	12 years	n/a(3)	n/a(3)
Hull No. S-460	2011	12,600	Hyundai Samho	September 2011	12 years	n/a(3)	n/a(3)
					Bareboat Charter Term(1)		
HN N-214	2009	6,500	Hanjin	November 2009	18 years	n/a(3)	n/a(3)
HN N-215	2010	6,500	Hanjin	January 2010	18 years	n/a(3)	n/a(3)

(1) Most charters include options to extend their terms.

(2) Vessel subject to charterer's option to purchase vessel after first eight years of time charter term for \$78.0 million.

(3)

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Vessel under charter, however, release of information currently restricted by confidentiality agreement with charterer.

Charterers

As the container shipping industry has grown, the major liner companies have increasingly contracted for containership capacity. As of March 31, 2008, our diverse group of customers in the containership sector included Maersk, CMA-CGM, Hyundai, Yang Ming, China Shipping, UASC, MSC and Senator Lines. In addition, we have arranged time charters ranging from 10 to 15 years with Zim Integrated Shipping Services, CMA-CGM, Yang Ming and two other accredited charterers for 32 of our contracted vessels and 18-year bareboat charters with an accredited charterer for our other two contracted vessels.

The containerships in our combined containership fleet are or, upon their delivery to us, will be deployed under multi-year, fixed-rate time charters having initial terms that range from one to 18 years. These charters expire at staggered dates ranging from the third quarter of 2008 to the first quarter of 2028, with no more than nine expiring in any 12-month period. The staggered expiration of the multi-year, fixed-rate charters for our vessels is both a strategy pursued by our management and a result of the growth in our fleet over the past several years. We believe the staggered expiration dates provide us with stable cash flows and high utilization rates and should mitigate the impact a downturn in the containership sector might have on our revenues during any period of re-chartering and our ability to fully employ our containership fleet in the future. Under our time charters, the charterer pays voyage expenses such as port, canal and fuel costs and we pay for vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. We are also responsible for each vessel's intermediate and special survey costs.

Under the time charters, when the vessel is "off-hire" or not available for service, the charterer is generally not required to pay the hire rate, and we are responsible for all costs. A vessel generally will be deemed to be off-hire if there is an occurrence preventing the full working of the vessel due to, among other things, operational deficiencies, drydockings for repairs, maintenance or inspection, equipment breakdown, delays due to accidents, crewing strikes, labor boycotts, noncompliance with government water pollution regulations or alleged oil spills, arrests or seizures by creditors or our failure to maintain the vessel in compliance with required specifications and standards. In addition, under our time charters, if any vessel is off-hire for more than a certain amount of time (generally between 10-20 days), the charterer has a right to terminate the charter agreement for that vessel. Charterers also have the right to terminate the time charters in various other circumstances, including but not limited to, outbreaks of war or a change in ownership of the vessel's owner or manager without the charterer's approval.

Leasing Arrangements CSCL Europe, MSC Baltic (ex CSCL America), Maersk Derby (ex P&O Nedlloyd Caracas), Maersk Deva (ex Vancouver Express), CSCL Pusan (ex HN 1559) and CSCL Le Havre (ex HN 1561)

On March 7, 2008, we exercised our right to have our wholly-owned subsidiaries replace a subsidiary of Lloyds Bank as direct owners of the *CSCL Europe*, the *MSC Baltic (ex CSCL America)*, the *Maersk Derby (ex P&O Nedlloyd Caracas)*, the *Maersk Deva (ex Vancouver Express)*, the *CSCL Pusan (ex HN 1559)* and the *CSCL Le Havre (ex HN 1561)* pursuant to the terms of the leasing arrangements, as restructured on October 5, 2007, we had in place with such subsidiaries of Lloyds Bank, Allco Finance Limited, a U.K.-based financing company, and Allco Finance UK Limited, a U.K.-based financing company. We had during the course of these leasing arrangements and continue to have full operational control over these vessels and we consider each of these vessels to be an asset for our financial reporting purposes and each vessel is reflected as such in our consolidated financial statements included elsewhere herein.

On July 19, 2006, legislation was enacted in the United Kingdom that was expected to result in a claw-back or recapture of certain of the benefits that were expected to be available to the

counterparties to the original leasing transactions at their inception. Accordingly, the put option price that was part of the original leasing arrangements was expected to be increased to compensate the counterparties for the loss of these benefits. In 2006 we recognized an expense of \$12.8 million, which is the amount by which we expected the increase in the put price to exceed the cash benefits we had expected to receive, and had expected to retain, from these transactions. The October 5, 2007 restructuring of these leasing arrangements eliminated this put option and the \$12.8 million expense recorded in 2006, was reversed and recognized in earnings in the fourth quarter of 2007.

Purchase Options

The charters with respect to the *HN S4001*, the *HN S4002*, the *HN S4003*, the *HN S4004* and the *HN S4005* include an option for the charterer, CMA-CGM, to purchase the vessels eight years after the commencement of the respective charters, which, based on the respective expected delivery dates for these vessels, are expected to fall in April 2017, June 2017, August 2017, October 2017 and December 2017, respectively, each for \$78.0 million. In each case, the option to purchase the vessel must be exercised 15 months prior to the acquisition dates described in the preceding sentence. The \$78.0 million option prices reflect an estimate of the fair market value of the vessels at the time we would be required to sell the vessels upon exercise of the options. If CMA-CGM were to exercise these options with respect to any or all of these vessels, the expected size of our combined containership fleet would be reduced, and as a result our anticipated level of revenues after such sale would be reduced.

Pursuant to the exercises of similar options, contained in the respective charters, to purchase the *APL England*, the *APL Scotland*, the *APL Holland* and the *APL Belgium*, we delivered such vessels to their charterer, APL-NOL, on March 7, 2007, June 22, 2007, August 3, 2007 and January 15, 2008, respectively, each for \$44.5 million.

Discontinued Drybulk Operations

In August 2006, we agreed to sell the six drybulk carriers in our fleet, with an aggregate capacity of 342,158 dwt, for an aggregate of \$143.5 million. In the first quarter of 2007, we delivered five of these vessels to the purchaser, which is not affiliated with us, for an aggregate of \$118.0 million and the remaining vessel to the purchaser for \$25.5 million when its charter expired in the second quarter of 2007.

We decided to sell these vessels due to the opportunity to sell all six 1994-built drybulk carriers in one transaction at the high vessel valuations prevailing in the drybulk sector, which is inherently volatile in terms of both charter rates and vessel valuations, combined with the advancing age and less than optimum configuration of our drybulk fleet. Subject on market conditions and availability of suitable vessels to purchase we intend to reinvest in the drybulk sector with the acquisition of more recently built drybulk carriers with configurations better suited to employment in the current drybulk charter market. Although we continue to evaluate potential investments in the drybulk sector, we do not believe current vessel prices in such sector, which are at high levels, present attractive investment opportunities at this time.

Management of Our Fleet

Our chief executive officer, chief operating officer and chief financial officer provide strategic management for our company while these officers also supervise, in conjunction with our board of directors, the management of these operations by Danaos Shipping, our manager. We have a management agreement pursuant to which our manager and its affiliates provide us and our subsidiaries with technical, administrative and certain commercial services for an initial term expiring on December 31, 2008, with automatic one year renewals for an additional 12 years at our option. Our manager reports to us and our board of directors through our chief executive officer, chief operating officer and chief financial officer.

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Our manager is regarded as an innovator in operational and technological aspects in the international shipping community. Danaos Shipping's strong technological capabilities derive from employing highly educated professionals, its participation and assumption of a leading role in European Community research projects related to shipping, and its close affiliation to Danaos Management Consultants, a leading ship-management software and services company. Danaos Management Consultants provides software services to two of our charterers, CMA-CGM and P&O Nedlloyd.

Danaos Shipping achieved early ISM certification of its container fleet in 1995, well ahead of the deadline, and was the first Greek company to receive such certification from Det Norske Veritas, a leading classification society. In 2004, Danaos Shipping received the Lloyd's List Technical Innovation Award for advances in internet-based telecommunication methods for vessels. Danaos Shipping maintains the quality of its service by controlling directly the selection and employment of seafarers through its crewing offices in Piraeus, Greece as well as in Odessa and Mariupol in the Ukraine. Investments in new facilities in Greece by Danaos Shipping enable enhanced training of seafarers and highly reliable infrastructure and services to the vessels.

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Historically, Danaos Shipping only infrequently managed vessels other than those in our fleet and currently it does not actively manage any other company's vessels other than providing certain management services to Castella Shipping Inc., in which our chief executive officer has an investment. Danaos Shipping also does not arrange the employment of other vessels and has agreed that, during the term of our management agreement, it will not provide any management services to any other entity without our prior written approval, other than with respect to Castella Shipping Inc. and other entities controlled by Dr. Coustas, our chief executive officer, which do not operate within the containership (larger than 2,500 TEUs) or drybulk sectors of the shipping industry or in the circumstances described below. Other than Castella Shipping Inc., Dr. Coustas does not currently control any such vessel-owning entity. We believe we will derive significant benefits from our exclusive relationship with Danaos Shipping.

Dr. Coustas has also personally agreed to the same restrictions on the provision, directly or indirectly, of management services during the term of our management agreement. In addition, our chief executive officer (other than in his capacities with us) and our manager have separately agreed not, during the term of our management agreement and for one year thereafter, to engage, directly or indirectly, in (i) the ownership or operation of containerships of larger than 2,500 TEUs or (ii) the ownership or operation of any drybulk carriers or (iii) the acquisition of or investment in any business involved in the ownership or operation of containerships of larger than 2,500 TEUs or any drybulk carriers. Notwithstanding these restrictions, if our independent directors decline the opportunity to acquire any such containerships or to acquire or invest in any such business, our chief executive officer will have the right to make, directly or indirectly, any such acquisition or investment during the four-month period following such decision by our independent directors, so long as such acquisition or investment is made on terms no more favorable than those offered to us. In this case, our chief executive officer and our manager will be permitted to provide management services to such vessels.

Under our management agreement, Danaos Shipping will manage our fleet for an initial term that expires at the end of 2008. The management agreement automatically renews for a one-year period and will be extended in additional one-year increments if we do not provide 12 months' notice of termination. For providing its commercial, chartering and administrative services our manager receives a fee of \$500 per day. For its technical management of our ships, our manager receives a management fee of \$250 per vessel per day for vessels on bareboat charter and \$500 per vessel per day for the remaining vessels in our fleet under the first three years of our agreement, each pro rated for the number of calendar days we own each vessel. Thereafter these fees will be adjusted annually by agreement between us and our manager. For its chartering services rendered to us by its Hamburg-based office, our manager also receives a commission of 0.75% on all freight, charter hire, ballast bonus and demurrage for each vessel. Further, our manager receives a commission of 0.5% based on the contract price of any vessel bought or sold by it on our behalf, excluding newbuilding contracts. We will also pay our manager a flat fee of \$400,000 per newbuilding vessel, which we will capitalize, for the on premises supervision of our newbuilding contracts by selected engineers and others of its staff.

Competition

We operate in markets that are highly competitive and based primarily on supply and demand. Generally, we compete for charters based upon price, customer relationships, operating expertise, professional reputation and size, age and condition of the vessel. Competition for providing containership services comes from a number of experienced shipping companies. In the containership sector, these companies include Zodiac Maritime, Seaspan Corporation and Costamare. A number of our competitors in the containership sector have been financed by the German KG (Kommanditgesellschaft) system, which was based on tax benefits provided to private investors. While the German tax law has been amended to significantly restrict the tax benefits available to taxpayers who invest after November 10, 2005, the tax benefits afforded to all investors in the KG-financed

entities will continue to be significant and such entities will continue to be attractive investments. These tax benefits allow these KG-financed entities to be more flexible in offering lower charter rates to liner companies.

The containership sector of the international shipping industry is characterized by the significant time necessary to develop the operating expertise and professional reputation necessary to obtain and retain customers and the relative scarcity of secondhand containerships, necessitating reliance on newbuildings which can take a number of years to complete. We focus on larger TEU capacity containerships, which we believe have fared better than smaller vessels during global downturns in the containership sector. We believe larger containerships, even older containerships if well maintained, provide us with increased flexibility and more stable cash flows than smaller TEU capacity containerships.

In the past, we have been able to address the scarcity of secondhand containerships available for acquisition in the open market through the acquisition of containerships from our liner company customers in privately negotiated sales. In connection with these acquisitions we then typically charter back the vessels to these customers. We believe the opportunity to make these privately negotiated acquisitions was available to us due to our strong customer relations, which we do not believe new entrants have.

Crewing and Employees

We have three shore-based employees, our chief executive officer, our chief financial officer and our chief operating officer. As of December 31, 2007, 833 people served on board the vessels in our fleet and Danaos Shipping, our manager, employed approximately 111 people, all of whom were shore-based. In addition, our manager is responsible for recruiting, either directly or through a crewing agent, the senior officers and all other crew members for our vessels. We believe the streamlining of crewing arrangements through our manager ensures that all of our vessels will be crewed with experienced crews that have the qualifications and licenses required by international regulations and shipping conventions.

Permits and Authorizations

We are required by various governmental and other agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required by governmental and other agencies depend upon several factors, including the commodity being transported, the waters in which the vessel operates, the nationality of the vessel's crew and the age of a vessel. All permits, licenses and certificates currently required to permit our vessels to operate have been obtained. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of doing business.

Inspection by Classification Societies

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

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.

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For maintenance of the class, regular and extraordinary surveys of hull and 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, on special equipment classed at intervals of 12 months from 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 may be carried out on the occasion of the second or third annual survey.

Class Renewal Surveys. Class renewal surveys, also known as special surveys, are carried out on the ship's hull and machinery, including the electrical plant, and on any special equipment classed at the intervals indicated by the character of classification for the hull. During 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 funds 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 is 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. At an owner's application, 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.

The following table lists the next drydockings and special surveys scheduled for the vessels in our current containership fleet:

Vessel Name	Next Survey	Next Drydocking
<i>YM Milano</i>	August 2008	June 2008
<i>CMA CGM Lotus</i>	January 2009	October 2008
<i>YM Colombo</i>	March 2009	February 2009
<i>Hyundai Duke</i>	October 2010	February 2009
<i>Maersk Deva</i>	March 2009	March 2009
<i>Sederberg</i>	May 2008	March 2009
<i>YM Yantian</i>	July 2009	March 2009
<i>Maersk Derby</i>	April 2009	April 2009
<i>CMA CGM Komodo</i>	August 2009	August 2009
<i>CSCL Europe</i>	August 2009	August 2009
<i>CMA CGM Passiflore</i>	October 2009	September 2009
<i>YM Singapore</i>	September 2009	September 2009
<i>MSC Baltic</i>	November 2009	November 2009
<i>Hyundai Advance</i>	April 2010	January 2010
<i>Maersk Marathon</i>	June 2009	April 2010
<i>CMA CGM Elbe</i>	August 2009	August 2010
<i>MOL Confidence</i>	July 2010	December 2010
<i>Maersk Mytilini</i>	March 2009	January 2011
<i>Maersk Messologi</i>	March 2009	March 2011
<i>CMA CGM Kalamata</i>	March 2010	March 2011
<i>CMA CGM Vanille</i>	March 2009	March 2011
<i>Pacific Bridge</i>	June 2010	March 2011
<i>Al Rayyan</i>	August 2009	June 2011

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<i>Hyundai Commodore</i>	June 2010	July 2011
<i>CSCL Pusan</i>	September 2008	September 2011
<i>CSCL Le Havre</i>	November 2008	November 2011
<i>Hyundai Vladivostock</i>	January 2010	July 2012
<i>Hyundai Stride</i>	March 2010	September 2012
<i>YM Seattle</i>	March 2010	September 2012
<i>Hyundai Bridge</i>	March 2010	September 2012
<i>Hyundai Future</i>	March 2010	September 2012
<i>Hyundai Sprinter</i>	June 2010	October 2012
<i>YM Vancouver</i>	May 2010	November 2012
<i>Hyundai Highway</i>	August 2010	February 2013
<i>Hyundai Progress</i>	August 2010	February 2013

All areas subject to surveys as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are otherwise prescribed. 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 their underwater parts and for repairs related to such inspections. If any defects are found, the classification surveyor will issue a "recommendation" which must be rectified by the shipowner 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 International Association of Classification Societies. All of our vessels are certified as being "in class" by Lloyds Register of Shipping, Bureau Veritas, NKK, Det Norske Veritas, the American Bureau of Shipping and RINA SpA.

Risk of Loss and Liability Insurance

General

The operation of any 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. The U.S. Oil Pollution Act of 1990, or 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 shipowners and operators trading in the United States market.

While we maintain hull and machinery insurance, war risks insurance, protection and indemnity coverage for our containership fleet in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe that our insurance coverage will be adequate, 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.

Dr. John Coustas, our chief executive officer, is a member of the Board of Directors of The Swedish Club, our primary provider of insurance, including a substantial portion of our hull & machinery, war risk and protection and indemnity insurance.

Hull & Machinery, Loss of Hire and War Risks Insurance

We maintain marine hull and machinery and war risks insurance, which covers the risk of particular average, general average, 4/4ths collision liability, contact with fixed and floating objects

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(FFO) and actual or constructive total loss in accordance with Swedish conditions for all of our vessels. Our vessels will each be covered up to at least their fair market value after meeting certain deductibles per incident per vessel.

We carry a minimum loss of hire coverage only with respect to the MSC Baltic (ex *CSCL America*), the *CSCL Europe*, the *CSCL Pusan* (ex *HN 1559*) and the *CSCL Le Havre* (ex *HN 1561*) to cover standard requirements of KEXIM, the bank providing financing for our acquisition of these vessels. We do not and will not obtain loss of hire insurance covering the loss of revenue during extended off-hire periods for the other vessels in our fleet because we believe that this type of coverage is not economical and is of limited value to us, in part because historically our fleet has had a very limited number of off-hire days.

Protection and Indemnity Insurance

Protection and indemnity insurance covers our third-party and crew liabilities in connection with our shipping activities. This includes third-party liability, crew liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, third-party claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Our protection and indemnity insurance, other than our 4/4ths collision and FFO insurance (which is covered under our hull insurance policy), is provided by mutual protection and indemnity associations, or P&I associations. Insurance provided by P&I associations is a form of mutual indemnity insurance. Unless otherwise provided by the international conventions that limit the liability of shipowners and subject to the "capping" discussed below, our coverage under insurance provided by the P&I associations, except for pollution, will be unlimited.

Our protection and indemnity insurance coverage in accordance with the International Group of P&I Club Agreement for pollution will be \$1.0 billion per vessel per incident. Our P&I war risk coverage will be \$500.0 million per vessel per incident. The fourteen P&I associations that comprise the International Group insure approximately 90% of the world's commercial blue-water tonnage and have entered into a pooling agreement to reinsure each association's liabilities. As a member of a P&I association that is a member of the International Group, we will be subject to calls payable to the associations based on the International Group's claim records as well as the claim records of all other members of the individual associations.

Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of our vessels. They are subject to international conventions, national, state and local laws, regulations, convention and standards in force in international waters and the countries in which our vessels may operate or are registered, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, water discharges and ballast water management. These laws and regulations include the U.S. Oil Pollution Act of 1990, the U.S. Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the U.S. Clean Water Act, the International Convention for Prevention of Pollution from Ships, regulations adopted by the IMO and the European Union, various volatile organic compound air emission requirements and various Safety of Life at Sea (SOLAS) amendments, as well as other regulations described below. Compliance with these 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 (U.S. Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry), charterers

and particularly terminal operators. Certain of these entities require us to obtain permits, licenses, certificates and financial assurances for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that will emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with U.S. and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations. However, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, such future requirements may limit our ability to do business, increase our operating costs, force the early retirement of our vessels, and/or affect their resale value, all of which could have a material adverse effect on our financial condition and results of operations.

Environmental Regulation International Maritime Organization ("IMO")

Our vessels are subject to standards imposed by the International Maritime Organization, or IMO (the United Nations agency for maritime safety and the prevention of pollution by ships). The IMO has adopted regulations that are designed to reduce pollution in international waters, both from accidents and from routine operations. These regulations address oil discharges, ballasting and unloading operations, sewage, garbage, and air emissions. For example, Annex III of the International Convention for the Prevention of Pollution from Ships, or MARPOL, regulates the transportation of marine pollutants, and imposes standards on packing, marking, labeling, documentation, stowage, quantity limitations and pollution prevention. These requirements have been expanded by the International Maritime Dangerous Goods Code, which imposes additional standards for all aspects of the transportation of dangerous goods and marine pollutants by sea.

In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from vessels. Annex VI, which came into effect on May 19, 2005, sets limits on sulfur oxide and nitrogen oxide emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Annex VI has been ratified by some, but not all IMO member states, including the Marshall Islands. Pursuant to a Marine Notice issued by the Marshall Islands Maritime Administrator as revised in March 2005, vessels flagged by the Marshall Islands that are subject to Annex VI must, if built before the effective date, obtain an International Air Pollution Prevention Certificate evidencing compliance with Annex VI not later than either the first dry docking after May 19, 2005, but no later than May 19, 2008. All vessels subject to Annex VI and built after May 19, 2005 must also have this Certificate. We have obtained International Oil Pollution Prevention certificates for all of our vessels, and believe that maintaining compliance with Annex VI will not have an adverse financial impact on the operation of our vessels. The United States proposed a series of amendments to Annex VI in February 2007 that would establish a new tier of performance-based standards for marine diesel engines on all vessels and set stringent emission requirements for vessels operating in coastal areas with acute air quality limitations. Negotiations concerning the United States proposal are on-going. If the amendments are adopted and apply to both existing and new vessels, we may incur costs to install control equipment on our engines in order to comply with the new requirements. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our vessels.

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The operation of our vessels is also affected by the requirements set forth in the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code, which were adopted in July 1998. 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. The ISM Code requires that vessel operators 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 unless its operator has been awarded a document of compliance, issued by each flag state, under the ISM Code. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, decrease available insurance coverage for the affected vessels and result in a denial of access to, or detention in, certain ports. Currently, each of the vessels in our fleet is ISM code-certified. However, there can be no assurance that such certification will be maintained indefinitely.

In 2001, the IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, which imposes strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker oil. The Bunker Convention also requires registered owners of ships over a certain size to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). As of November 2007, the Bunker Convention had been ratified by a sufficient number of nations for entry into force, and it will become effective on November 21, 2008. Until the Bunker Convention comes into force, liability for spills or releases of oil from ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

Environmental Regulation The U.S. Oil Pollution Act of 1990 ("OPA")

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 applies to discharges of any oil from a vessel, including discharges of fuel and lubricants. 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 United States' territorial sea and its two hundred nautical mile exclusive economic zone. While we do not carry oil as cargo, we do carry fuel oil (or bunkers) in our vessels, making our vessels subject to the OPA requirements.

Under OPA, vessel owners, operators and bareboat charterers are "responsible parties" and are jointly, severally and strictly liable (unless the discharge of pollutants 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 pollutants from their vessels. OPA defines these other damages broadly to include:

natural resources damage and the costs of assessment thereof;

real and personal property damage;

net loss of taxes, royalties, rents, fees and other lost revenues;

lost profits or impairment of earning capacity due to property or natural resources damage; and

net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA preserves the right to recover damages under existing law, including maritime tort law.

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As a result of 2006 amendments to OPA the limits of the liability of responsible parties were increased to the greater of \$950 per gross ton or \$800,000 per non-tank vessel (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident was directly caused by violation of applicable U.S. federal safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities.

OPA requires owners and operators of vessels to establish and maintain with the United States Coast Guard evidence of financial responsibility sufficient to meet their potential liabilities under the OPA. Since December 1994, the U.S. Coast Guard's regulations have required evidence of financial responsibility for non-tank vessels in the amount of \$900 per gross ton, which includes the then-applicable OPA limitation on liability of \$600 per gross ton and the U.S. CERCLA liability limit of \$300 per gross ton, as described below. Under the regulations, vessel owners and operators may evidence their financial responsibility by showing proof of insurance, surety bond, self-insurance, or guaranty, and an owner or operator of a fleet of vessels is required only to demonstrate evidence of financial responsibility in an amount sufficient to cover the vessels in the fleet having the greatest maximum liability under OPA. On February 6, 2006 the U.S. Coast Guard proposed regulations to increase the amount of required evidence of financial responsibility to \$1,250 per gross ton to reflect the 2006 increase in liability limits under OPA. The increased amounts will become effective 90 days after the proposed regulations are finalized.

The U.S. Coast Guard's regulations concerning certificates of financial responsibility provide, in accordance with OPA, that claimants may bring suit directly against an insurer or guarantor that furnishes certificates of financial responsibility. In the event that such insurer or guarantor is sued directly, it is prohibited from asserting any contractual defense that it may have had against the responsible party and is limited to asserting those defenses available to the responsible party and the defense that the incident was caused by the willful misconduct of the responsible party. Certain organizations, which had typically provided certificates of financial responsibility under pre-OPA 90 laws, including the major protection and indemnity organizations, have declined to furnish evidence of insurance for vessel owners and operators if they are subject to direct actions or required to waive insurance policy defenses. This requirement may have the effect of limiting the availability of the type of coverage required by the Coast Guard and could increase the costs of obtaining this insurance for us and our competitors.

The U.S. Coast Guard's financial responsibility regulations may also be satisfied by evidence of surety bond, guaranty or by self-insurance. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the U.S. Coast Guard regulations by providing a financial guaranty evidencing sufficient self-insurance.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states, which have enacted such legislation, have not yet issued implementing regulations defining vessels owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call.

We currently maintain, for each of our vessels, oil pollution liability coverage insurance in the amount of \$1 billion per incident. In addition, we carry hull and machinery and protection and indemnity insurance to cover the risks of fire and explosion. Given the relatively small amount of bunkers our vessels carry, we believe that a spill of oil from the vessels would not be catastrophic. However, under certain circumstances, fire and explosion could result in a catastrophic loss. While we believe that our present insurance coverage is adequate, 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. If the damages from a catastrophic spill exceeded our insurance coverage, it would have a severe effect on us and could possibly result in our insolvency.

Title VII of the Coast Guard and Maritime Transportation Act of 2004, or the CGMTA, amended OPA to require the owner or operator of any non-tank vessel of 400 gross tons or more, that carries oil of any kind as a fuel for main propulsion, including bunkers, to prepare and submit a response plan for each vessel on or before August 8, 2005. Previous law was limited to vessels that carry oil in bulk as cargo. The vessel response plans include detailed information on actions to be taken by vessel personnel to prevent or mitigate any discharge or substantial threat of such a discharge of oil from the vessel due to operational activities or casualties. We have approved response plans for each of our vessels.

Environmental Regulation CERCLA

The U.S. Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, governs spills or releases of hazardous substances other than petroleum or petroleum products. CERCLA imposes joint and several liability, without regard to fault, on the owner or operator of a ship, vehicle or facility from which there has been a release, along with other specified parties. Costs recoverable under CERCLA include cleanup and removal costs, natural resource damages and governmental oversight costs. Liability under CERCLA is generally limited to the greater of \$300 per gross ton or \$0.5 million per vessel carrying non-hazardous substances (\$5.0 million for vessels carrying hazardous substances), unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations, in which case liability is unlimited. As noted above, U.S. Coast Guard's financial responsibility regulations require evidence of financial responsibility for CERCLA liability in the amount of \$300 per gross ton.

Environmental Regulation The Clean Water Act

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in navigable waters 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 the more recent OPA and CERCLA, discussed above. Currently, under U.S. Environmental Protection Agency, or EPA, regulations that have been in place since 1978, vessels are exempt from the requirement to obtain CWA permits for the discharge in U.S. ports of ballast water and other substances incidental to the normal operation of vessels. However, on March 30, 2005, the United States District Court for the Northern District of California ruled in *Northwest Environmental Advocate v. EPA*, 2005 U.S. Dist. LEXIS 5373, that EPA exceeded its authority in creating an exemption for ballast water. On September 18, 2006, the court issued an order granting permanent injunctive relief to the plaintiffs, invalidating the blanket exemption in EPA's regulations for all discharges incidental to the normal operation of a vessel as of September 30, 2008, and directing EPA to develop a system for regulating all discharges from vessels by that date. Under the court's ruling, owners and operators of vessels visiting U.S. ports would be required to comply with the CWA permitting program to be developed by EPA or face penalties. EPA has appealed this decision to the Ninth Circuit Court of Appeals, but is proceeding with the development of the regulations. We cannot predict the outcome of the litigation, but if the district court's order is ultimately upheld, our vessels will be subject to CWA permitting requirements that could include ballast water treatment. While we do not believe that the costs associated with complying with such requirements would be material, it is difficult to predict the overall impact of any CWA permitting requirements on the business.

Environmental Regulation The Clean Air Act

The Federal Clean Air Act (CAA) requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to CAA vapor control and recovery standards for cleaning fuel tanks and conducting other operations in regulated port areas and emissions standards for so-called "Category 3" marine diesel engines operating in U.S. waters. The marine diesel engine emission standards are currently limited to new engines beginning with the 2004 model year. In November 2007, EPA announced its intention to proceed with development of more stringent standards for emissions of particulate matter, sulfur oxides, and nitrogen oxides and other related provisions for new Category 3 marine diesel engines, consistent with the United States' proposal to amend Annex VI of MARPOL described above. If these proposals are adopted and apply not only to engines manufactured after the effective date but also to existing marine diesel engines, we may incur costs to install control equipment on our vessels to comply with the new standards. Several states regulate emissions from vessel vapor control and recovery operations under federally-approved State Implementation Plans. California has adopted limits on particulate matter, sulfur oxides, and nitrogen oxides emissions from the auxiliary diesel engines of ocean-going vessels in waters within approximately 24 miles of the California coast. Compliance is to be achieved through the use of marine diesel oil with a sulfur content not exceeding .1% by weight, or marine gas oil, or through alternative means of emission control, such as the use of shore-side electrical power or exhaust emission controls. Challenges to California's authority to adopt the emissions standards are currently pending in the Ninth Circuit Court of Appeals, and the rule remains in effect pending a decision by the court. If new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by EPA or the states, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

Environmental Regulation Other Environmental Initiatives

The EU has also adopted legislation that: (1) requires member states to refuse access to their ports to certain sub-standard vessels, according to vessel type, flag and number of previous detentions; (2) creates an obligation on member states to inspect at least 25% of vessels using their ports annually and provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; (3) provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies, and (4) requires member states to impose criminal sanctions for certain pollution events, such as the unauthorized discharge of tank washings. The European Union is considering legislation that will affect the operation of vessels and the liability of owners for oil pollution. It is difficult to predict what legislation, if any, may be promulgated by the European Union or any other country or authority.

The U.S. National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. Under NISA, the U.S. Coast Guard adopted regulations in July 2004 imposing mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters. These requirements can be met by performing mid-ocean ballast exchange, by retaining ballast water on board the ship, or by using environmentally sound alternative ballast water management methods approved by the U.S. Coast Guard. (However, mid-ocean ballast exchange is mandatory for ships heading to the Great Lakes or Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil.) Mid-ocean ballast exchange is the primary method for compliance with the Coast Guard regulations, since holding ballast water can prevent ships from performing cargo operations upon arrival in the United States, and alternative methods are still under development. Vessels that are unable to conduct mid-ocean ballast exchange due to voyage or safety concerns may discharge minimum amounts of ballast water (in areas other than the Great Lakes and

the Hudson River), provided that they comply with record keeping requirements and document the reasons they could not follow the required ballast water management requirements. The Coast Guard has been developing a proposal to establish ballast water discharge standards, which could set maximum acceptable discharge limits for various invasive species, and/or lead to requirements for active treatment of ballast water.

A number of bills relating to ballast water management have been introduced in the U.S. Congress, but we cannot predict which bill, if any, will be enacted into law. In the absence of federal standards, states have enacted legislation or regulations to address invasive species through ballast water and hull cleaning management and permitting requirements. California has recently enacted legislation extending its ballast water management program to regulate the management of "hull fouling" organisms attached to vessels and adopted regulations limiting the number of organisms in ballast water discharges. A U.S. District Court dismissed challenges to Michigan's ballast water management legislation mandating the use of various techniques for ballast water treatment, and an appeal is now pending in the Sixth Circuit Court of Appeals. Other states may proceed with the enactment of similar requirements that could increase the costs of operating in state waters.

At the international level, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements (beginning in 2009), to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. As of February 29, 2008, the BWM Convention has been adopted by 12 states, representing 3.46% of world tonnage.

If the mid-ocean ballast exchange is made mandatory throughout the United States or at the international level, or if water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on the business.

Although the Kyoto Protocol to the United Nations Framework Convention on Climate Change requires adopting countries to implement national programs to reduce emissions of greenhouse gases, emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol. The EU intends to expand its emissions trading scheme to vessels. The United States EPA is considering a petition from the California Attorney General and environmental groups to regulate greenhouse gas emissions from ocean-going vessels under the Clean Air Act. The IMO, the EU or individual countries in which we operate could pass climate control legislation or implement other regulatory initiatives to control greenhouse gas emissions from vessels that could require us to make significant financial expenditures or otherwise limit our operations.

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 (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. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security (ISPS) Code.

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The ISPS Code is designed to protect ports and international shipping against terrorism. To trade internationally a vessel must obtain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. To obtain an ISSC a vessel must meet certain requirements, including:

on-board installation of automatic identification systems to enhance vessel-to-vessel and vessel-to-shore communications;

on-board installation of ship security alert systems that do not sound on the vessel but alert the authorities on shore;

the development of vessel security plans;

identification numbers to be permanently marked on a vessel's hull;

a continuous synopsis record to be maintained on board showing the vessel's history, including the vessel ownership, flag state registration, and port registrations; and

compliance with flag state security certification requirements.

The U.S. Coast Guard regulations are intended to align with international maritime security standards and exempt non-U.S. vessels that have a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code from the requirement to have a U.S. Coast Guard approved vessel security plan. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code and have ensured that our vessels are compliant with all applicable security requirements.

Seasonality

Our containerships operate under multi-year charters and therefore are not subject to the effect of seasonal variations in demand.

Properties

We have no freehold or leasehold interest in any real property. We occupy office space at 14 Akti Kondyli, 185 45 Piraeus, Greece that is owned by our manager, Danaos Shipping, and which is provided to us as part of the services we receive under our management agreement.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this annual report. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Item 3. Key Information Risk Factors" and elsewhere in this annual report, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

Our business is to provide international seaborne transportation services by operating vessels in the containership sector of the shipping industry. Our fleet as of March 31, 2008 consisted of 38 containerships and, as described below, as of that date we had newbuilding contracts for an additional 34 containerships, all of which we expect will be delivered to us by the end of September 2011.

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We deploy our containerships on multi-year, fixed-rate charters to take advantage of the stable cash flows and high utilization rates typically associated with multi-year charters. As of March 31, 2008, our containership fleet was comprised of 37 containerships employed on time charters and one containership employed on bareboat charter. Our containerships are generally employed on multi-year charters to large liner companies that charter-in vessels on a multi-year basis as part of their business expansion strategies.

The average number of containerships in our fleet for the years ended December 31, 2005, 2006 and 2007 were 25.0, 26.3 and 32.3, respectively.

As of March 31, 2008, we had newbuilding contracts with Samsung, Hyundai Samho, Hanjin, Shanghai Jiangnan and Sungdong for an additional 34 containerships with an aggregate capacity of 243,468 TEUs, with scheduled deliveries to us from July 2008 through the end of September 2011.

After delivery of these 34 containerships contracted for by the end of September 2011, our containership fleet of 68 vessels will have a total capacity of 382,179 TEUs, assuming we do not acquire any additional vessels or dispose of any of our vessels, other than vessels that reach 30 years of age, which are assumed to be scrapped.

As of March 31, 2008, our containership fleet was under period charters with eight charterers including Maersk, CMA-CGM, Hyundai, Yang Ming, China Shipping, UASC, MSC and Senator Lines. In addition, we have arranged time charters ranging from 10 to 15 years with Zim Integrated Shipping Services, CMA-CGM, Yang Ming and two other accredited charterers for 32 of our contracted vessels and 18-year bareboat charters with an accredited charterer for our other two contracted vessels.

Purchase Options

We sold the *APL England*, the *APL Scotland*, the *APL Holland* and the *APL Belgium* for \$44.5 million each to their charterer, APL-NOL, upon its exercise of the purchase options in the charters. We delivered these vessels to APL-NOL on March 7, 2007, on June 22, 2007, on August 3, 2007 and on January 15, 2008, respectively. The option exercise prices were below the fair market value of each of these vessels at the time the options were exercised.

The charters with respect to the *HN S4001*, the *HN S4002*, the *HN S4003*, the *HN S4004* and the *HN S4005* include an option for the charterer, CMA-CGM, to purchase the vessels eight years after the commencement of the respective charters, which, based on the respective expected delivery dates for these vessels, are expected to fall in April 2017, June 2017, August 2017, October 2017 and December 2017, respectively, each for \$78.0 million. In each case, the option to purchase the vessel must be exercised 15 months prior to the acquisition dates described in the preceding sentence. The \$78.0 million option prices reflect an estimate of the fair market value of the vessels at the time we would be required to sell the vessels upon exercise of the options. If CMA-CGM were to exercise these options with respect to any or all of these vessels, the expected size of our combined containership fleet would be reduced, and as a result our anticipated level of revenues would be reduced.

Our Manager

Our operations are managed by Danaos Shipping, our manager, under the supervision of our officers and our board of directors. We believe our manager has built a strong reputation in the shipping community by providing customized, high-quality operational services in an efficient manner for both new and older vessels. We have a management agreement pursuant to which our manager and its affiliates provide us and our subsidiaries with technical, administrative and certain commercial services for an initial term expiring on December 31, 2008, with automatic one-year renewals for an additional 12 years at our option. Our manager is ultimately owned by Danaos Investments Limited as Trustee of the 883 Trust, which we refer to as the Coustas Family Trust. Danaos Investments Limited, a corporation wholly-owned by our chief executive officer, is the protector (which is analogous to a

trustee) of the Coustas Family Trust, of which Dr. Coustas and other members of the Coustas family are beneficiaries. The Coustas Family Trust is also our largest stockholder.

Factors Affecting Our Results of Operations

Our financial results are largely driven by the following factors:

Number of Vessels in Our Fleet. The number of vessels in our fleet is the primary factor in determining the level of our revenues. Aggregate expenses also increase as the size of our fleet increases. Vessel acquisitions and dispositions will have a direct impact on the number of vessels in our fleet. We sold the *APL England*, the *APL Scotland*, the *APL Holland* and the *APL Belgium*, each a 5,506 TEU containership, to APL-NOL pursuant to the terms of purchase options contained in the charters for these vessels in March 2007, June 2007, August 2007 and January 2008, respectively. Five of our newbuildings, which have an aggregate capacity of 32,500 TEUs, are also subject to arrangements pursuant to which the charterer has options to purchase the vessels at stipulated prices on specified dates expected, based on the respective expected delivery dates for these vessels, to fall in 2017. If these purchase options were to be exercised, the expected size of our combined containership fleet would be reduced, and as a result our anticipated level of revenues would be reduced.

Charter Rates. Aside from the number of vessels in our fleet, the charter rates we obtain for these vessels are the principal drivers of our revenues. Charter rates are based primarily on demand for capacity as well as the available supply of containership capacity at the time we enter into the charters for our vessels. As a result of macroeconomic conditions affecting trade flow between ports served by liner companies and economic conditions in the industries which use liner shipping services, charter rates can fluctuate significantly. Although the multi-year charters on which we deploy our containerships make us less susceptible to cyclical containership charter rates than vessels operated on shorter-term charters, we are exposed to varying charter rate environments when our chartering arrangements expire and we seek to deploy our containerships under new charters. The staggered maturities of our containership charters also reduce our exposure to any one stage in the shipping cycle.

Utilization of Our Fleet. Due to the multi-year charters under which they are operated, our containerships have consistently been deployed at or near full utilization. Nevertheless the amount of time our vessels spend in drydock undergoing repairs or undergoing maintenance and upgrade work affects our results of operations. Historically, our fleet has had a limited number of off-hire days. For example, there were less than seven total off-hire days for our entire fleet during 2006 other than for scheduled drydockings and special surveys and 45 total off-hire days for our entire fleet during 2007, other than for scheduled drydockings and special surveys. However, an increase in annual off-hire days could reduce our utilization. The efficiency with which suitable employment is secured, the ability to minimize off-hire days and the amount of time spent positioning vessels also affects our results of operations. If the utilization patterns of our containership fleet changes our financial results would be affected.

Expenses. Our ability to control our fixed and variable expenses, including those for commission expenses, crew wages and related costs, the cost of insurance, expenses for repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses also affects our financial results. In addition, factors beyond our control, such as developments relating to market premiums for insurance and the value of the U.S. dollar compared to currencies in which certain of our expenses, primarily crew wages, are denominated can cause our vessel operating expenses to increase.

Operating Revenues

Our operating revenues are driven primarily by the number of vessels in our fleet, the number of operating days during which our vessels generate revenues and the amount of daily charter hire that

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our vessels earn under time charters which, in turn, are affected by a number of factors, including our decisions relating to vessel acquisitions and dispositions, 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 and the levels of supply and demand in the containership charter market. Vessels operating in the spot market generate revenues that are less predictable but can allow increased profit margins to be captured during periods of improving charter rates.

Revenues from multi-year period charters comprised substantially all of our revenues from continuing operations for the years ended December 31, 2005, 2006 and 2007. The revenues relating to our multi-year charters will be affected by the delivery dates of our contracted containerships and any additional vessels subject to multi-year charters we may acquire in the future, as well as by the disposition of any such vessel in our fleet. Our revenues will also be affected if any of our charterers cancel a multi-year charter. Each of our current vessel construction agreements has a contracted delivery date. A change in the date of delivery of a vessel will impact our revenues and results of operations. Our multi-year charter agreements have been contracted in varying rate environments and expire at different times. Generally, we do not employ our vessels under voyage charters under which a shipowner, in return for a fixed sum, agrees to transport cargo from one or more loading ports to one or more destinations and assumes all vessel operating costs and voyage expenses.

Our expected revenues as of December 31, 2007, based on contracted charter rates, from our charter arrangements for our containerships having initial terms of more than 12 months is shown in the table below. Although these expected revenues are based on contracted charter rates, any contract is subject to performance by the counterparties. If the charterers are unable to make charter payments to us, our results of operations and financial condition will be materially adversely affected.

Contracted Revenue from Multi-Year Charters as of December 31, 2007(1)
(amounts in millions of U.S. dollars)

Number of Vessels(2)	2008	2009-2010	2011-2012	2013-2017	2018-2027	Total
72.0(3)(4)(5)	\$ 298.1	\$ 779.7	\$ 1,150.5	\$ 2,858.6(6)	\$ 2,172.3(6)	\$ 7,259.2

(1) Annual revenue calculations are based on an assumed 364 revenue days per annum representing contracted fees, based on contracted charter rates from our current charter agreement. Although these fees are based on contractual charter rates, any contract is subject to performance by the counter parties and us. Additionally, the fees above reflect an estimate of off-hire days to perform periodic maintenance. If actual off-hire days are greater than estimated, these would decrease the level of revenues above.

(2) Includes three 2,200 TEU newbuildings delivered to us in the first quarter of 2008; four 4,253 TEU newbuildings expected to be delivered to us during the second half of 2008; two 4,253 TEU newbuildings expected to be delivered to us in the first half of 2009; and 23 newbuilding containerships, the *HN N-214*, the *HN N-219*, the *HN N-215*, the *HN N-216*, the *HN N-217*, the *HN N-218*, the *HN N-220*, the *HN N-221*, the *HN N-222*, the *HN N-223*, the *HN Z00001*, the *HN Z00002*, the *HN Z00003*, the *HN Z00004*, the *Hull 1022A*, the *Hull No. S-456*, the *Hull No. S-457*, the *Hull No. S-458*, the *Hull No. S-459*, the *Hull No. S-460*, the *Hull No. S-461*, the *Hull No. S-462* and the *Hull No. S-463*, expected to be delivered to us in 2009, 2010 and 2011.

(3) Excludes one 5,506 TEU containership, the *APL Belgium*, which we delivered to APL on January 15, 2008 for \$44.5 million pursuant to an option, which the charterer exercised in June 2007. Accordingly, revenue with respect to the *APL Belgium* is included in the table only through January 15, 2008.

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- (4) Excludes one 3,101 TEU containership, the *S.A Winterberg*, which we sold on January 25, 2008 resulting in a net gain of \$5.0 million. Accordingly, revenue with respect to the *S.A Winterberg* is included in the table only through January 25, 2008.
- (5) Includes five 6,500 TEU containerships expected to be delivered to us in 2009, the *HN S4001*, the *HN S4002*, the *HN S4003*, the *HN S4004* and the *HN S4005*, which are subject to options for the charterer to purchase the vessels eight years after the commencement of the respective charters, which, based on the respective expected delivery dates for these vessels, are expected to fall in April 2017, June 2017, August 2017, October 2017 and December 2017, respectively, each for \$78.0 million. The \$78.0 million option prices reflect an estimate of the fair market value of the vessels at the time we would be required to sell the vessels upon exercise of the options.
- (6) An aggregate of \$241.6 million (\$48.32 million with respect to each vessel) of revenue with respect to the *HN S4001*, the *HN S4002*, the *HN S4003*, the *HN S4004* and the *HN S4005*, following April 2017, June 2017, August 2017, October 2017 and December 2017, respectively, is included in the table because we cannot now predict the likelihood of these options being exercised.

We generally do not charter our containerships in the spot market. Vessels operating in the spot market generate revenues that are less predictable than vessels on period charters, although this chartering strategy can enable vessel-owners to capture increased profit margins during periods of improvements in charter rates. Deployment of vessels in the spot market creates exposure, however, to the risk of declining charter rates, which may be higher or lower than those rates at which a vessel could have been time chartered for a longer period.

Voyage Expenses

Voyage expenses include port and canal charges, bunker (fuel) expenses, address commissions and brokerage commissions. Under multi-year time charters and bareboat charters, such as those on which we charter our containerships and under short-term time charters, the charterers bear the voyage expenses other than brokerage and address commissions. As such, voyage expenses represent a relatively small portion of our vessels' overall expenses.

From time to time, in accordance with industry practice and in respect of the charters for our containerships we pay brokerage commissions of approximately 0.5% to 2.5% of the total daily charter hire rate under the charters to unaffiliated ship brokers associated with the charterers, depending on the number of brokers involved with arranging the charter. We also pay address commissions of up to 3.75% to some of our charterers. Our manager will also receive a commission of 0.5% based on the contract price of any vessel bought or sold by it on our behalf, excluding newbuilding contracts.

Further, until March 2004, we paid a commission of 0.45% on all freight, charter hire, ballast bonus and demurrage for each vessel in our fleet to Nedlloyd Schiffsmakler, which was until that time performing chartering services for our fleet. We did not pay a commission with respect to freight, charter hire, ballast bonus and demurrage during the period from March 2004 to June 30, 2005. Since July 1, 2005, we have paid and will pay commissions to our manager of 0.75% on all freight, charter hire, ballast bonus and demurrage for each vessel.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses for repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Aggregate expenses increase as the size of our fleet increases. Factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market premiums for insurance, may also cause these expenses to increase. In addition, a substantial portion of our vessel operating expenses, primarily crew wages, are in currencies other than the U.S. dollar and any gain or loss we incur as a result of the U.S. dollar fluctuating in

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value against these currencies is included in vessel operating expenses. We fund our manager monthly in advance with amounts it will need to pay our fleet's vessel operating expenses.

Under multi-year time charters, such as those on which we charter 37 of the containerships in our current fleet, and under short-term time charters, we pay for vessel operating expenses. Under bareboat charters, such as the one on which we charter one containership in our current fleet, our charterers bear most vessel operating expenses, including the costs of crewing, insurance, surveys, drydockings, maintenance and repairs.

Amortization of Deferred Drydocking and Special Survey Costs

We follow the deferral method of accounting for special survey and drydocking costs, whereby actual costs incurred are deferred and are amortized on a straight-line basis over the period until the next scheduled survey, which is two and a half years. If special survey or drydocking is performed prior to the scheduled date, the remaining unamortized balances are immediately written off. We capitalize the total costs associated with drydockings, special surveys and intermediate surveys and amortize these costs on a straight-line basis over 30 months.

Depreciation

We depreciate our containerships on a straight-line basis over their estimated remaining useful economic lives. Historically, we estimated this to be 25 years. As of January 1, 2005, we determined the estimated useful lives of our containerships to be 30 years. Depreciation is based on cost, less the estimated scrap value of the vessels.

General and administrative expenses

Historically, while we were a privately-owned company, we paid Danaos Shipping, our manager, a monthly management fee of \$2,750 for the management of our affairs. We also paid our manager a fixed management fee of \$150 to \$500 per day for each vessel in our fleet depending on its size and the charter arrangements. In order to bring the fees we pay to our manager to a level similar to those that would be paid to an unaffiliated manager we adjusted the fees we pay to our manager as of July 1, 2005.

From July 1, 2005 to December 31, 2008, we have paid and will pay our manager a fee of \$500 per day for providing its commercial, chartering and administrative services, a daily management fee of \$250 per vessel per day for its technical management of vessels on bareboat charter and \$500 per vessel per day for the remaining vessels in our fleet, pro rated for the calendar days we own each vessel. We will also pay our manager a flat fee of \$400,000 per newbuilding vessel for the on-premises supervision of our newbuilding contracts by selected engineers and others of its staff.

Our consolidated financial statements for periods prior to our initial public offering in October 2006 show our results of operations as a private company when we did not pay any compensation to our directors and officers other than amounts corresponding to dividends, and compensation paid to our officers, but not directors, during the period from January 1, 2006 to our initial public offering in October 2006. As a public company since October 2006, we have incurred additional general and administrative expenses. We expect that the primary components of general and administrative expenses, other than the management fees described above, will continue to consist of the expenses associated with being a public company, which include the preparation of disclosure documents, legal and accounting costs, incremental director and officer liability insurance costs, director and executive compensation, costs related to compliance with the Sarbanes-Oxley Act of 2002 and the listing of our common stock on the New York Stock Exchange.

Interest Expense, Interest Income and Other Finance Costs

We incur interest expense on outstanding indebtedness under our credit facilities which we include in interest expenses. We also incurred financing costs in connection with establishing those facilities,

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which is included in our finance costs. Further, we earn interest on cash deposits in interest bearing accounts and on interest bearing securities, which we include in interest income. We will incur additional interest expense in the future on our outstanding borrowings and under future borrowings.

Discontinued Drybulk Operations

While our focus is on the containership sector, in 2002 we made an investment in the drybulk sector, and from 2002 to 2007, we owned a number of drybulk carriers, chartering them to our customers (the "Drybulk Business") in the spot market, including through pooling arrangements. In the first quarter of 2007, we sold five of the six drybulk vessels in our fleet to an unaffiliated purchaser, for an aggregate of \$118.0 million and sold the last drybulk carrier, the *MV Achilles*, in our fleet to the same purchaser for \$25.5 million, when its charter subsequently expired in 2007. As detailed in note 22 in the notes to our consolidated financial statements included elsewhere herein, we have determined that our Drybulk Business should be reflected as discontinued operations. We have included the financial results of the Drybulk Business in discontinued operations for all periods presented and discussed under " Results of Operations." In the future, we may reinvest in the drybulk sector with the acquisition of more recently built drybulk carriers with configurations better suited to employment in the current drybulk charter market, subject to market conditions, including the availability of suitable vessels to purchase.

Results of Operations

The following discussion solely reflects results from continuing operations (containerships), unless otherwise noted. As described in note 22 in the notes to our consolidated financial statements certain reclassifications have been made to reflect the discontinued operations treatment of our Drybulk Business.

Year ended December 31, 2007 compared to the year ended December 31, 2006

During the year ended December 31, 2007, we had an average of 32.3 containerships in our fleet. During the year ended December 31, 2006, we had an average of 26.3 containerships in our fleet. We took delivery of one 4,300 TEU containership on March 12, 2007, one 2,200 TEU containership on July 23, 2007, one 2,200 TEU containership on August 20, 2007, one 2,200 TEU containership on September 5, 2007, one 4,253 TEU containership on September 10, 2007, one 2,200 TEU containership on October 2, 2007, one 4,300 TEU containership on October 9, 2007, one 2,200 TEU containership on October 15, 2007, and one 4,253 TEU containership on November 27, 2007. We also sold three 5,506 TEU containerships in our fleet to APL-NOL on March 7, 2007, June 22, 2007 and August 3, 2007, respectively.

Operating Revenue

Operating revenue increased 26.1%, or \$53.6 million, to \$258.8 million in the year ended December 31, 2007, from \$205.2 million in the year ended December 31, 2006. The increase was partly attributable to the addition to our fleet of nine vessels, which collectively contributed revenues of \$23.4 million in 2007. In addition, a 4,651 TEU containership, the *MOL Confidence*, which was added to our fleet on March 23, 2006, three 4,814 TEU containerships, the *Maersk Marathon*, the *Maersk Messologi* and the *Maersk Mytilini*, which were added to our fleet on December 13, December 18, and December 22, 2006 respectively, and two 9,580 TEU containerships, the *CSCL Pusan* and the *CSCL Le Havre*, which were added to our fleet on September 8, 2006 and November 20, 2006 respectively, contributed incremental revenues of \$45.8 million in the year ended December 31, 2007 compared to the year ended December 31, 2006. These additional contributions to revenue were offset in part by our sale of three vessels in 2007, which vessels, as a result, contributed \$16.0 million less revenue in the year ended December 31, 2007 than in the year ended December 31, 2006.

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Voyage Expenses

Voyage expenses were \$7.5 million in the year ended December 31, 2007, representing an increase of \$2.1 million, or 38.9%, from \$5.4 million in the year ended December 31, 2006. The increase in voyage expenses was mainly due to commissions paid to our manager of \$2.1 million for the 10 vessels acquired and sold in accordance with our management agreement in the year ended December 31, 2007 as opposed to \$0.8 million of such commissions in the year ended December 31, 2006. The remaining increase of \$0.8 million is attributed to higher commissions on gross revenue, address and brokerage commissions and other voyage expenses, due to the increase in the average number of containerships in our fleet in the year ended December 31, 2007, compared with the year ended December 31, 2006.

Vessel Operating Expenses

Vessel operating expenses increased 24.0%, or \$12.7 million, to \$65.7 million in the year ended December 31, 2007, from \$53.0 million in the year ended December 31, 2006. This increase was due to the increase in the average number of containerships in our fleet by 6.0 vessels, or 22.8%, to 32.3 containerships in the year ended December 31, 2007 from 26.3 containerships in the year ended December 31, 2006.

Amortization of Deferred Drydocking and Special Survey Costs

Amortization of deferred drydocking and special survey costs expense increased 48.8%, or \$2.0 million, to \$6.1 million in the year ended December 31, 2007, from \$4.1 million in the year ended December 31, 2006. The increase resulted from more drydockings in 2007 than 2006.

Depreciation

Depreciation expense increased 48.7%, or \$13.3 million, to \$40.6 million in the year ended December 31, 2007, from \$27.3 million for the year ended December 31, 2006. The increase in depreciation expense was due to the increase in the average number of vessels in our fleet as well as the higher acquisition cost of such additional vessels compared to those sold during the year ended December 31, 2007.

General and administrative expenses

General and administrative expenses increased 56.3%, or \$3.6 million, to \$10.0 million in the year ended December 31, 2007, from \$6.4 million in the year ended December 31, 2006. The increase was mainly a result of expenses related to being a public company which applied to the three months ended December 31, 2006 as compared to all of 2007. Such expenses related to being a public company increased \$2.0 million in the year ended December 31, 2007 as they were in effect for the entire year compared with the year ended December 31, 2006 which such costs applied only to the fourth quarter. Moreover, fees paid to our manager increased \$1.1 million as a result of an increase in the average number of vessels in our fleet in the year ended December 31, 2007 as opposed to those in the same period of 2006. The remaining \$0.5 million of the increase represents various other administrative expenses which were not applicable in the year ended December 31, 2006.

Interest expense, interest income, and other finance (expenses) income, net

Interest expense decreased 6.3%, or \$1.5 million, to \$22.4 million in the year ended December 31, 2007, from \$23.9 million in the year ended December 31, 2006. This decrease resulted primarily from interest capitalization of \$22.9 million for the year ended December 31, 2007 as opposed to \$8.6 million capitalized interest for the year ended December 31, 2006. This was offset in part by a \$12.8 million increase in interest relating to a 39.4% increase in our average indebtedness, with no change in the weighted average effective interest rate to which our indebtedness was subject. Interest income

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increased \$1.3 million, or 36.1%, to \$4.9 million in the year ended December 31, 2007, from \$3.6 million in the year ended December 31, 2006, due to increased average bank deposits.

Other finance income (expenses), net, decreased \$4.8 million, to a cost of \$2.8 million in the year ended December 31, 2007, from an income of \$2.0 million in the year ended December 31, 2006. The change in other finance income (expenses), net, was mainly due to foreign exchange rate fluctuations between the pound sterling and the U.S. dollar in connection with the leasing arrangements for the *CSCL Europe*, the *MSC Baltic* (ex *CSCL America*), the *Maersk Derby*, the *Maersk Deva* (ex *Vancouver Express*), the *CSCL Pusan* and the *CSCL Le Havre*, as well as the agreements which we entered into with HSH Nordbank on November 14, 2006 and with The Royal Bank of Scotland on February 20, 2007, for revolving credit facilities of up to \$700 million each, which resulted in higher finance fees in the year ended December 31, 2007 compared to the year ended December 31, 2006.

Gain/(loss) on sale of vessels

Loss on sale of vessels of \$0.3 million represents a loss on sale of three containerships during the year ended December 31, 2007.

Other income/(expenses)

Other income (expenses), increased \$33.1 million to \$14.6 million for the year ended December 31, 2007 from \$(18.5) million in the year ended December 31, 2006. The change was primarily due to a non-recurring gain of \$15.9 million for 2007 compared to a non-recurring loss of \$18.7 million in 2006, both attributable to the leasing arrangements for the *CSCL Europe*, the *MSC Baltic*, the *Maersk Derby*, the *Maersk Deva*, the *CSCL Pusan* and the *CSCL Le Havre* and the subsequent restructuring of such arrangements in October 2007, as detailed in note 12a in the notes to the consolidated financial statements included elsewhere in this annual report.

Gain/(loss) on derivatives

Gain/(loss) on derivatives increased \$6.8 million to \$0.2 million in the year ended December 31, 2007, from a \$6.6 million loss in the year ended December 31, 2006. This increase is a result of the initiation of hedge accounting from the third quarter of 2006.

Discontinued Operations

Net income from discontinued operations increased \$56.5 million, or 158.3%, to \$92.2 million in the year ended December 31, 2007 from \$35.7 million in the year ended December 31, 2006, primarily reflecting the gain of \$88.6 million on the sale of six drybulk carriers during 2007 compared to the sale of one drybulk carrier during 2006 with a gain of \$15.0 million. As discussed in note 22 to our consolidated financial statements included elsewhere in this annual report, we have determined that our Drybulk Business should be reflected as discontinued operations.

Year ended December 31, 2006 compared to the year ended December 31, 2005

During the year ended December 31, 2006, we had an average of 26.3 containerships in our fleet. During the year ended December 31, 2005, we had an average of 25.0 containerships in our fleet. We took delivery of one 4,651 TEU containership on March 23, 2006, one 9,580 TEU containership on September 8, 2006, one 9,580 TEU containership on November 20, 2006, one 4,814 TEU containership on December 13, 2006, one 4,814 TEU containership on December 18, 2006 and one 4,814 TEU containership on December 22, 2006.

Operating Revenue

Operating revenue increased 16.7%, or \$29.3 million, to \$205.2 million in the year ended December 31, 2006, from \$175.9 million in the year ended December 31, 2005. The increase was mainly a result of the addition to our fleet of six vessels, a 4,651 TEU containership on March 23,

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2006, chartered at \$20,750 per day, a 9,580 TEU vessel on September 8, 2006, chartered at \$34,000 per day, a 9,580 TEU vessel on November 20, 2006, chartered at \$34,000 per day, and three 4,814 TEU vessels, on December 13, 18 and 22 of 2006, respectively, each chartered at \$23,450 per day, which collectively contributed revenues of \$13.4 million in 2006. Further, certain of our vessels, were rechartered at improved charter rates which contributed additional revenues of approximately \$15.8 million.

Voyage Expenses

Voyage expenses were \$5.4 million in the year ended December 31, 2006, representing an increase of \$1.5 million, or 38.5%, from \$3.9 million in the year ended December 31, 2005. Commissions charged by related and third parties, which form part of the voyage expenses, amounted to \$5.1 million in the year ended December 31, 2006, an increase of \$2.0 million, or 64.5%, compared to \$3.1 million in the year ended December 31, 2005. Such increase was mainly attributable to our new management agreement which came into effect on July 1, 2005, according to which we pay commissions to our manager of 0.75% on all freight, charter hire, ballast bonus and demurrage for each vessel, a commission of 0.5% based on the contract price on any vessel bought and sold on our behalf, as well as increased revenues on which we paid commissions for the year ended December 31, 2006, offset in part by a \$0.5 million decrease in other voyage expenses such as port and canal charges, bunker expenses and address commissions.

Vessel Operating Expenses

Vessel operating expenses increased 16.0%, or \$7.3 million, to \$53.0 million in the year ended December 31, 2006 from \$45.7 million in the year ended December 31, 2005. This increase was due to the increase in the average number of vessels in our fleet which contributed approximately \$3.8 million in vessel operating expenses in the year ended December 31, 2006 compared to the year ended December 31, 2005 and a general increase in running costs experienced by the industry, more specifically with respect to lubricant oil costs, maintenance costs and seafarers wages, which added approximately a further \$3.5 million.

Amortization of Deferred Drydocking and Special Survey Costs

Amortization of deferred drydocking and special survey costs expense increased 57.7%, or \$1.5 million, to \$4.1 million in the year ended December 31, 2006, from \$2.6 million in the year ended December 31, 2005. This was due to the costs of drydocking and special surveys conducted for nine of our vessels in 2006, for which amortization commenced during 2006.

Depreciation

Depreciation expense increased 19.2%, or \$4.4 million, to \$27.3 million in the year ended December 31, 2006, from \$22.9 million for the year ended December 31, 2005. This increase was due to the increase in the average number of vessels in our fleet during the year ended December 31, 2006.

General and administrative expenses

General and administrative expenses increased 64.1%, or \$2.5 million, to \$6.4 million in the year ended December 31, 2006 from \$3.9 million in the year ended December 31, 2005, reflecting \$1.4 million of additional directors' and officers' remuneration expenses which was not applicable in the year ended December 31, 2005 and \$1.1 million of technical management fees we paid in respect of the additional vessels that joined our fleet during the year ended December 31, 2006.

Interest Expense, Interest Income, and Other Finance (Expenses) Income, Net

Interest expense increased \$4.7 million, or 24.5%, to \$23.9 million in the year ended December 31, 2006, from \$19.2 million in the year ended December 31, 2005. Interest income was \$3.6 million for the year ended December 31, 2006, a decrease of \$2.7 million, from \$6.3 million for the year ended

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December 31, 2005, and other finance income (expenses), net, increased \$9.0 million, to income of \$2.0 million in the year ended December 31, 2006, from a cost of \$7.0 million in the year ended December 31, 2005. The change in interest expense was primarily due to the increase in interest rates by 1.3% to which our indebtedness, on which we paid interest, was subject to, while there was no significant change in the average indebtedness for the year ended December 31, 2006 as compared to the year ended December 31, 2005. This resulted in an increase in interest of approximately \$8.0 million, partially offset by the financing of our extensive newbuilding program which resulted in capitalizing \$8.6 million of interest for year ended December 31, 2006 as opposed to \$5.3 million capitalized interest for the year ended December 31, 2005. The decrease in interest income was due to the decreased monthly average bank deposits on which we earned interest, offset in part by higher interest rates.

The increase in other finance costs, net, was mainly due to foreign exchange differences in respect of the leasing arrangements for the *CSCL Europe*, the *MSC Baltic* (ex *CSCL America*), the *Maersk Derby*, the *Maersk Deva* (ex *Vancouver Express*), the *CSCL Pusan* and the *CSCL Le Havre*, which resulted to a gain of \$2.8 million during the year ended December 31, 2006 as opposed to a loss of \$6.5 million during the year ended December 31, 2005.

Other Income (Expenses), Net

Other income (expense), net decreased \$18.2 million to \$(18.5) million for the year ended December 31, 2006 from \$(0.3) million in the year ended December 31, 2005. The decrease was primarily attributable to a non recurring expense of \$(12.8) million related to the expected increase in the put option price we had then expected to pay under the leasing arrangements for the *CSCL Europe*, the *MSC Baltic* (ex *CSCL America*), the *Maersk Derby*, the *Maersk Deva* (ex *Vancouver Express*), the *CSCL Pusan* and the *CSCL Le Havre*, if the put option was exercised 6¹/₂ years into the lease terms, as a result of a change in the United Kingdom tax legislation enacted in 2006.

Discontinued Operations

Net income from discontinued operations decreased \$7.7 million, or 17.7%, to \$35.7 million in 2006 from \$43.4 million in 2005, reflecting the decrease in prevailing charter rates earned by the drybulk carriers in our fleet in 2006 and the fewer drybulk carriers in our fleet on average, 6.4 vessels, in 2006 compared to 7.0 vessels in 2005. Refer to note 22 in the notes to our audited consolidated financial statements included elsewhere in this annual report for further information regarding our discontinued operations.

Liquidity and Capital Resources

Historically, our principal source of funds has been equity provided by our stockholders, operating cash flows, long-term bank borrowings and, more recently, proceeds from our initial public offering in October 2006. Our principal uses of funds have been capital expenditures to establish, grow and maintain our fleet, comply with international shipping standards, environmental laws and regulations and to fund working capital requirements.

Our primary short-term liquidity needs are to fund our vessel operating expenses and dividend payments to our shareholders. Our medium-term liquidity needs primarily relate to the purchase of the 34 additional containerships for which we have contracted and for which we had scheduled future payments through the delivery of the final contracted vessel during 2011 aggregating \$2.7 billion as of December 31, 2007. Our long-term liquidity needs primarily relate to additional vessel acquisitions in the containership sector and debt repayment. We anticipate that our primary sources of funds will be cash from our credit facilities, cash from operations and debt and, possibly, equity financings. We believe that currently secured sources of funds will be sufficient to meet our liquidity needs through the third quarter of 2009, since our contracted revenue together with our senior revolving credit facilities with RBS and Aegean Baltic Bank and HSH Nordbank, along with our new credit facility with

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Emporiki Bank and the new credit facilities with Credit Suisse, Fortis Bank and Deutsche Bank for which we have entered commitment letters, will be sufficient to meet our currently projected liquidity needs for that period.

In August 2006, we agreed to sell the six drybulk carriers in our fleet, with an aggregate capacity of 342,158 dwt, for an aggregate of \$143.5 million. We used the proceeds from this sale to fund contracted vessel acquisitions. We received payment of 10% of the aggregate sale price of the six drybulk vessels upon entering into the sales agreements, the remaining 90% of the sale price was paid to us upon delivery of each vessel to the purchaser upon expiration of the vessel's then-existing charter. We delivered all six of these vessels to the purchaser upon expiration of their charters during 2007, after which we account for the drybulk carriers we have owned since 2002 as discontinued operations.

The following table summarizes the cash flows from our continuing operations and our discontinued operations for each of the years ended December 31, 2005, 2006 and 2007:

	Combined Containership and Drybulk Carrier Fleet Year Ended December 31,			Discontinued Operations Year Ended December 31,			Continuing Operations Year Ended December 31,		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
(In thousands)									
Net Cash from Operating Activities	\$ 162,235	\$ 151,578	\$ 158,270	\$ 47,382	\$ 24,628	\$ 4,537	\$ 114,853	\$ 126,950	\$ 153,733
Net Cash provided by/(used in) Investing Activities	(40,538)	(330,099)	(687,592)		26,798	142,301	(40,538)	(356,897)	(829,893)
Net Cash provided by/(used in) Financing Activities*	(180,705)	183,596	549,742	(47,382)	(51,426)	(146,838)	(133,323)	235,022	696,580

* Financing items in this line include deemed transactions or movements between vessel-owning subsidiaries and the parent company resulting from centralized treasury operations.

We believe that the sale of the drybulk carrier fleet and the subsequent loss of the net cash from operating activities attributed to it will be partially offset by cash flows from the eight containerships we have added to our fleet since the disposal of the drybulk carrier fleet. Furthermore, the drybulk carrier fleet's proportional contribution to our cash flows from operating activities had been decreasing during the years from 2005 to 2007 mainly as a result of the growth of our containership fleet.

Net cash from investing activities attributed to the discontinued operations was \$142.3 million in 2007, representing the sale proceeds from the sale of the drybulk carrier fleet, the *Fivos*, the *Alexandra I*, the *Dimitris C*, the *Roberto C*, the *Maria C* and the *MV Achilleas*. Net cash from investing activities attributed to the discontinued operations was \$26.8 million in 2006, representing the sale proceeds from the sale of one of our drybulk carriers, the *Sofia III*. Net cash used in financing activities attributed to the drybulk carrier fleet reflects the payments of long-term debt, offset in part by funds provided by borrowings under our credit facilities that were attributable to the drybulk carriers as well as cash distributions from our drybulk carrier-owning subsidiaries attributable to activities other than operating activities, during each of the years ended December 31, 2005, 2006 and 2007.

We sold the *APL England*, the *APL Scotland*, the *APL Holland* and the *APL Belgium*, each a 5,506 TEU containership, to APL-NOL pursuant to the terms of purchase options contained in the charters for these vessels in March 2007, June 2007, August 2007 and January 2008, respectively, each for \$44.5 million.

Under our multi-year charters as of December 31, 2007, we had contracted revenues of \$298.1 million for 2008, \$333.6 million for 2009 and, thereafter, approximately \$6.6 billion.

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We currently intend to pay a quarterly dividend of \$0.465 per share, or \$1.86 per share per year. Our dividend policy will impact our future liquidity needs, however, we currently intend to pay dividends in amounts that will allow us to retain a portion of our cash flows to fund vessel, fleet or company acquisitions that we expect to be accretive to earnings and cash flows, and for debt repayment and drydocking costs, as determined by management and our board of directors.

We paid our first quarterly dividend as a public company of \$0.44 per share on February 14, 2007, and subsequent dividends of \$0.44 per share, \$0.44 per share, \$0.465 per share and \$0.465 per share on May 18, 2007, August 17, 2007, November 16, 2007 and February 14, 2008, respectively. We paid no dividends in 2006. In 2005, prior to our initial public offering, we paid dividends of \$244.6 million to our stockholders from our retained earnings.

We had approximately \$440.0 million and \$690.0 million of undrawn availability under our credit facilities, including credit facilities for which we had commitment letters, as of December 31, 2007 and March 31, 2008, respectively.

Cash Flows

The discussion of our cash flows below includes cash flows attributable to both our containership fleet and the discontinued operations of the drybulk carriers for all periods discussed, which is consistent with the presentation of our consolidated statement of cash flows included elsewhere in this annual report.

Net Cash Provided by Operating Activities

Net cash flows provided by operating activities increased 4.4%, or \$6.7 million, to \$158.3 million in the year ended December 31, 2007 compared to \$151.6 million in the year ended December 31, 2006. Net cash flows provided by operating activities decreased 6.5%, or \$10.6 million, to \$151.6 million in the year ended December 31, 2006 from \$162.2 million for the year ended December 31, 2005. The increase in 2007 was primarily the result of a change in working capital requirements by \$6.3 million and decreased payments of \$0.4 million attributed to drydockings in 2007 as opposed to 2006. For the year ended December 31, 2006, the decrease was primarily a result of a change in working capital requirements by \$7.1 million and increased payments of \$3.5 million, attributed to drydockings in relation to six of our vessels for 2006 as opposed to four of our vessels for 2005.

Net Cash Used in Investing Activities

Net cash flows used in investing activities increased 108.3%, or \$357.5 million, to \$687.6 million in the year ended December 31, 2007 compared to \$330.1 million in the year ended December 31, 2006. Net cash flows used in investing activities increased \$289.6 million, to \$330.1 million in the year ended December 31, 2006 compared to \$40.5 million in the year ended December 31, 2005. The difference between the years ended December 31, 2007 and 2006 primarily reflects the funds used to acquire secondhand vessels of \$266.6 million in 2007 as opposed to \$171.7 million in 2006, installment payments for newbuildings of \$696.8 million in 2007 as opposed to \$185.1 million during the year ended December 31, 2006, and proceeds from sale of vessels of \$275.8 million in 2007 as opposed to \$26.8 million in 2006. The difference between the years ended December 31, 2006 and 2005 primarily reflects the funds used to acquire secondhand vessels of \$171.7 million in 2006 as opposed to \$12.4 million in 2005, and installment payments for newbuildings of \$185.1 million in 2006 as opposed to \$28.2 million during the year ended December 31, 2005.

Net Cash Provided by/(Used in) Financing Activities

Net cash flows provided by financing activities increased 199.4%, or \$366.1 million, to \$549.7 million in the year ended December 31, 2007 compared to \$183.6 million in the year ended December 31, 2006. Net cash flows provided by financing activities increased \$364.3 million, to \$183.6 million in the year ended December 31, 2006 compared to \$(180.7) million in the year ended

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December 31, 2005. The increase in 2007 is primarily due to the net proceeds from long-term debt of \$691.7 million during the year ended December 31, 2007 as opposed to \$(12.8) million in the year ended December 31, 2006, dividend payments of \$97.4 million during the year ended December 31, 2007 as opposed to no dividend payments for 2006, no public offering proceeds in 2007 as opposed to \$201.3 million in 2006 and \$43.7 million of restricted cash in 2007 as opposed to \$1.8 million in 2006. The results for the years ended December 31, 2006 and 2005 primarily reflect the net proceeds of \$201.3 million to us after completing our initial public offering in the United States on October 11, 2006 and the payment of no dividends during the year ended December 31, 2006 as opposed to the year ended December 31, 2005, in which we paid dividends of \$244.6 million prior to the initial public offering to our then-existing stockholders from our retained earnings.

Credit Facilities

We, as guarantor, and certain of our subsidiaries, as borrowers, have entered into a number of credit facilities in connection with financing the acquisition of certain vessels in our fleet. The following summarizes certain terms of our credit facilities:

Lender(1)	Remaining Available Principal Amount	Outstanding Principal Amount(1)	Interest Rate	Maturity	Remaining Repayment Installments
					