Seaspan CORP
Form 6-K
May 03, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

Commission File Number 1-32591

SEASPAN CORPORATION

(Exact name of Registrant as specified in its Charter)

Unit 2, 2nd Floor

Bupa Centre

141 Connaught Road West

Hong Kong

China

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(1). Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b)(7). Yes No

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

Attached as Exhibit I is Seaspan Corporation's report on Form 6-K, or this Report, for the quarter ended March 31, 2019. This Report is hereby incorporated by reference into: the Registration Statement of Seaspan Corporation filed with the Securities and Exchange Commission, (the "SEC"), on May 30, 2008 on Form F-3D (Registration No. 333-151329), the Registration Statement of Seaspan Corporation filed with the SEC on March 31, 2011 on Form S-8 (Registration No. 333-173207), the Registration Statement of Seaspan Corporation filed with the SEC on June 20, 2013 on Form S-8 (Registration No. 333-189493), the Registration Statement of Seaspan Corporation filed with the SEC on April 24, 2012 on Form F-3 (Registration No. 333-180895), as amended on March 22, 2013, the Registration Statement of Seaspan Corporation filed with the SEC on April 29, 2014 on Form F-3 (Registration No. 333-195571), as amended on March 3, 2017 and April 19, 2017, the Registration Statement of Seaspan Corporation filed with the SEC on November 28, 2014 on Form F-3 (Registration No. 333-200639), as amended on March 3, 2017 and April 19, 2017, the Registration Statement of Seaspan Corporation filed with the SEC on November 28, 2014 on Form S-8 (Registration No. 333-200640), the Registration Statement of Seaspan Corporation filed with the SEC on March 12, 2015 on Form F-3D (Registration No. 333-202698), the Registration Statement of Seaspan Corporation filed with the SEC on May 23, 2016 on Form F-3 (Registration No. 333-211545), as amended on March 3, 2017, March 7, 2017 and April 19, 2017, the Registration Statement of Seaspan Corporation filed with the SEC on June 24, 2016 on Form S-8 (Registration No. 333-212230) and the Registration Statement of Seaspan Corporation filed with the SEC on April 13, 2018 on Form F-3D (Registration No. 333-224291), the Registration Statement of Seaspan Corporation filed with the SEC on May 3, 2018 on Form F-3/A (Registration No. 333-224288), as amended on May 7, 2018, the Registration Statement of Seaspan Corporation filed with the SEC on June 15, 2018 on Form F-4 (Registration No. 333-225681), the Registration Statement of Seaspan Corporation filed with the SEC on September 28, 2018 on Form F-3 (Registration No. 333-227597), the Registration Statement of Seaspan Corporation filed with the SEC on January 18, 2019 on Form F-3 (Registration No. 333-229312) and the Registration Statement of Seaspan Corporation filed with the SEC on March 27, 2019 on Form F-3 (Registration No. 333-230524).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEASPAN CORPORATION

Date: May 3, 2019 By: /s/ Ryan Courson
Ryan Courson
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT I

SEASPAN CORPORATION
REPORT ON FORM 6-K FOR THE QUARTER ENDED MARCH 31, 2019

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

References to customers are as follows:

Customer	Reference
Arkas Line	Arkas
CMA CGM S.A.	CMA CGM
China COSCO Holdings Company Limited	COSCO
Hapag-Lloyd AG	Hapag-Lloyd
Hyundai Merchant Marine Co., Ltd., Seoul	HMM
Korea Marine Transport Co., Ltd.	KMTC
Maersk Line A/S[2]	Maersk
MSC Mediterranean Shipping Company S.A.	MSC
Mitsui O.S.K. Lines, Ltd.[1]	MOL
Ocean Network Express Pte. Ltd.[1]	ONE
Yang Ming Marine Transport Corp.	Yang Ming Marine

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

(2) A subsidiary of A.P. Moller-Maersk A/S.

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

The information and the unaudited interim consolidated financial statements in this Report should be read in conjunction with the consolidated financial statements and related notes and the Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 20-F for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission, or the SEC, on March 26, 2019, or our 2018 Annual Report. Unless otherwise indicated, all amounts in this Report are presented in U.S. dollars, or USD. We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, or U.S. GAAP.

SEASPAN CORPORATION

PART I — FINANCIAL INFORMATION

ITEM 1 — INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEASPAN CORPORATION

Interim Consolidated Balance Sheets

(Unaudited)

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

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$626,187	$ 357,327
Short-term investments	105	2,532
Accounts receivable (note 17)	239,140	13,001
Prepaid expenses and other	37,662	36,519
Gross investment in lease (note 4)	44,469	44,348
Fair value of financial instruments (note 20(c))	—	113
	947,563	453,840
Vessels (note 5)	5,869,520	5,926,274
Right-of-use assets (note 6)	1,040,755	—
Gross investment in lease (note 4)	806,574	817,631
Goodwill	75,321	75,321
Other assets (note 7)	183,683	204,931
	$8,923,416	$ 7,477,997
Liabilities, puttable preferred shares and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$71,124	$ 70,211
Current portion of deferred revenue (note 8)	51,407	55,915
Current portion of long-term debt (note 9)	559,800	722,641
Current portion of operating lease liabilities (note 10)	160,010	—
Current portion of long-term obligations under other financing arrangements (note 11)	149,011	48,384
Current portion of other long-term liabilities (note 12)	8,234	32,243
	999,586	929,394
Deferred revenue (note 8)	368,502	376,884
Long-term debt (note 9)	2,801,129	2,764,900
Operating lease liabilities (note 10)	865,809	—
Long-term obligations under other financing arrangements (note 11)	478,657	591,372
Other long-term liabilities (note 12)	18,363	180,157
Fair value of financial instruments (note 20(c))	133,838	127,172
Total liabilities	5,665,884	4,969,879
Puttable preferred shares; $0.01 par value; 1,983,585 issued and outstanding	48,517	48,139

(2018 - 1,986,449) (notes 2 and 13(b))		
Shareholders' equity:		
Share capital (note 13):		
Preferred shares; $0.01 par value; 150,000,000 shares authorized (2018 - 150,000,000); 33,275,570 shares issued and outstanding (2018 – 33,272,706)		
Class A common shares; $0.01 par value; 400,000,000 shares authorized (2018 - 400,000,000); 215,507,220 shares issued and outstanding (2018 – 176,835,837)	2,489	2,102
Treasury shares	(374)	(371)
Additional paid in capital	3,448,904	3,126,457
Deficit	(219,693)	(645,638)
Accumulated other comprehensive loss	(22,311)	(22,571)
	3,209,015	2,459,979
	$ 8,923,416	$ 7,477,997

Basis of presentation (note 1(a))

Commitments and contingencies (note 18)

Subsequent events (note 22)

See accompanying notes to interim consolidated financial statements.

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SEASPAN CORPORATION

Interim Consolidated Statements of Operations

(Unaudited)

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

	Three months ended March 31,	
	2019	2018
Revenue	$285,323	$224,776
Operating expenses (income):		
Ship operating	57,709	49,549
Depreciation and amortization	62,497	53,925
General and administrative	8,799	7,273
Operating leases (note 10)	39,233	31,194
Income related to modification of time charters (note 17)	(227,000)	—
	(58,762)	141,941
Operating earnings	344,085	82,835
Other expenses (income):		
Interest expense and amortization of deferred financing fees	56,051	37,949
Amortization of debt discount (note 9)	4,034	1,032
Interest income	(3,150)	(1,270)
Acquisition related gain on contract settlement	—	(2,430)
Change in fair value of financial instruments (note 20(c))	1,144	(19,322)
Equity income on investment	—	(1,216)
Other expenses	691	376
	58,770	15,119
Net earnings	$285,315	$67,716
Earnings per share (note 14):		
Class A common share, basic	$1.27	$0.37
Class A common share, diluted	$1.26	$0.37

See accompanying notes to interim consolidated financial statements.

SEASPAN CORPORATION

Interim Consolidated Statements of Comprehensive Income

(Unaudited)

(Expressed in thousands of United States dollars)

	Three months ended March 31,	
	2019	2018
Net earnings	$285,315	$67,716
Other comprehensive income:		
Amounts reclassified to net earnings during the period relating to cash flow hedging instruments (note 20(c))	260	300
Comprehensive income	$285,575	$68,016

See accompanying notes to interim consolidated financial statements.

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SEASPAN CORPORATION

Interim Consolidated Statements of Puttable Preferred Shares and Shareholders’ Equity

(Unaudited)

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

Three months ended March 31, 2019 and 2018

	Series D puttable preferred shares Shares	Amount	Number of common shares	Number of non-puttable preferred shares	Common shares	Non-puttable preferred shares	Treasury Shares	Additional paid-in capital	Deficit	Accumulated other comprehensive loss	Total shareho equity
ance, ember 31, 7, carried rward	—	$—	131,664,101	32,872,706	$1,317	$329	$(377)	$2,752,988	$(781,137)	$(23,688)	$1,949,4
earnings	—	—	—	—	—	—	—	—	67,716	—	67,716
er nprehensive ome	—	—	—	—	—	—	—	—	—	300	300
ss A nmon shares ed	—	—	2,514,996	—	25	—	—	13,883	—	—	13,908
ferred res issued	1,986,449	46,677	—	—	—	—	—	—	—	—	—
rrants ed	—	—	—	—	—	—	—	77,562	—	—	77,562
s and enses in nection n suance of nmon and eferred res	—	—	—	—	—	—	—	(30)	—	—	(30
idends on ss A nmon	—	—	—	—	—	—	—	—	(16,490)	—	(16,490

ares ($0.13 share)											
idends on ferred res (Series - $0.50 per re; Series E 0.52 per re; Series F .51 er share; es G - 51 per are; Series $0.49 per re)	—	—	—	—	—	—	—	—	(16,566)	—	(16,566
retion of ferred res with older put on	—	143	—	—	—	—	—	—	(143)	—	(143
res issued ugh dend investment gram	—	—	1,002,772	—	10	—	—	7,154	—	—	7,164
re-based pensation ense:											
estricted ss A mon ares, ntom share s, ock reciation ts issued d restricted k units	—	—	137,522	—	1	—	—	572	—	—	573

er re-based npensation	—	—	680,458	—	7	—	—	620	(139)	—	488
asury shares	—	—	(506)	—	—	—	6	—	—	—	6
ance, March 2018	1,986,449	$46,820	135,999,343	32,872,706	$1,360	$329	$(371)	$2,852,749	$(746,759)	$(23,388)	$2,083,9

See accompanying notes to interim consolidated financial statements.

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SEASPAN CORPORATION

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

(Unaudited)

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

Three months ended March 31, 2019 and 2018

	Series D puttable preferred shares Shares	Amount	Number of common shares	Number of non-puttable preferred shares	Common shares	Non-puttable preferred shares	Treasury shares	Additional paid-in capital	Deficit	Accumulated other comprehensive loss	Total shareholo equity
ance, ecember 31, 8, arried ward	1,986,449	$48,139	176,835,837	33,272,706	$1,769	$333	$(371)	$3,126,457	$(645,638)	$(22,571)	$2,459,9
act of ounting cy change ote 1(b))	—	—	—	—	—	—	—	—	181,053	—	181,053
usted ance, ecember 31, 018	1,986,449	$48,139	176,835,837	33,272,706	$1,769	$333	$(371)	$3,126,457	$(464,585)	$(22,571)	$2,641,0
earnings	—	—	—	—	—	—	—	—	285,315	—	285,315
er nprehensive ome	—	—	—	—	—	—	—	—	—	260	260
rrants ed (note c))	—	—	—	—	—	—	—	71,560	—	—	71,560
rcise of rants (note c))	—	—	38,461,539	—	385	—	—	249,615	—	—	250,000
s and enses in onnection n issuance 019 Varrants	—	—	—	—	—	—	—	(245)	—	—	(245
	—	—	—	—	—	—	—	—	(22,122)	—	(22,122

idends on ss A nmon hares ($0.13 share)											
idends on ferred res (Series - $0.50 per re; Series E).52 per re; Series G).51; eries H - 49 per re; Series - $0.50 per re)	—	—	—	—	—	—	—	—	(17,719)	—	(17,719
retion of able ferred hares with der put on	—	449	—	—	—	—	—	—	(449)	—	(449
ncellation of option on uttable ferred res ote 13(b))	(2,864)	(72)	—	2,864	—	—	—	72	—	—	72
celerated retion due cellation of option n puttable ferred res ote 13(b))	—	1	—	—	—	—	—	—	(1)	—	(1

res issued ough dend investment gram	—	—	33,799	—	—	—	—	303	—	—	303
re-based npensation ense ote 15): Restricted ss A nmon shares, ntom share units, ricted stock s and stock ons	—	—	176,828	—	2	—	—	1,142	(132)	—	1,012
asury shares	—	—	(783)	—	—	—	(3)	—	—	—	(3
ance, rch 31, 2019	1,983,585	$48,517	215,507,220	33,275,570	$2,156	$333	$(374)	$3,448,904	$(219,693)	$(22,311)	$3,209,0

See accompanying notes to interim consolidated financial statements.

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SEASPAN CORPORATION

Interim Consolidated Statements of Cash Flows

(Unaudited)

(Expressed in thousands of United States dollars)

	Three months ended March 31,	
	2019	2018
Cash from (used in):		
Operating activities:		
Net earnings	$285,315	$67,716
Items not involving cash:		
Depreciation and amortization	62,497	53,925
Amortization of right-of-use asset (note 6)	27,517	—
Share-based compensation (note 15)	1,144	627
Amortization of deferred financing fees, debt discount and fair value of long term debt	7,116	4,079
Amounts reclassified from other comprehensive loss to interest expense (note 20(c))	75	88
Unrealized change in fair value of financial instruments	(6,511)	(30,599)
Acquisition related gain on contract settlement	—	(2,430)
Equity income on investment	—	(1,216)
Deferred gain on sale-leasebacks (note 12)	—	(6,111)
Amortization of acquired revenue contracts	2,047	1,109
Other	(348)	(333)
Changes in assets and liabilities:		
Accounts receivable	(226,139)	4,005
Lease receivable	10,936	10,862
Prepaid expenses and other	(1,358)	973
Deferred dry-dock	(32)	(7,708)
Accounts payable and accrued liabilities	856	(2,299)
Deferred revenue	(12,890)	(23,128)
Operating lease liabilities	(27,628)	—
Cash from operating activities	122,597	69,560
Financing activities:		
Repayment of credit facilities	(288,352)	(63,579)
Draws on credit facilities	—	100,000
Fairfax notes and warrants issued	250,000	250,000

Draw on long-term obligations under other financing arrangements	—	42,700
Repayment of long-term obligations under other financing arrangements	(12,551)	(6,779)
Senior unsecured notes repurchased, including related expenses	(8,998)	—
Proceeds from exercise of warrants	250,000	—
Financing fees	(1,065)	(5,132)
Dividends on common shares	(21,819)	(9,326)
Dividends on preferred shares	(17,719)	(16,566)
Cash from financing activities	149,496	291,318
Investing activities:		
Expenditures for vessels	(1,541)	(19,906)
Short-term investments	2,426	104
Other assets	(4,115)	2,791
Loans to affiliate	—	(427)
Acquisition of GCI (note 2)	—	(333,581)
Cash acquired from GCI acquisition (note 2)	—	70,121
Cash used in investing activities	(3,230)	(280,898)
Increase in cash and cash equivalents	268,863	79,980
Cash and cash equivalents and restricted cash, beginning of period	371,396	267,236
Cash and cash equivalents and restricted cash, end of period	$640,259	$347,216

Supplemental cash flow information (note 1(b) and 16)

See accompanying notes to interim consolidated financial statements.

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SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

(Unaudited)

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

1. Significant accounting policies:

(a) Basis of presentation:

Except for the changes described in note 1(b), the accompanying interim financial information of Seaspan Corporation (the "Company") has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), on a basis consistent with those followed in the December 31, 2018 audited annual consolidated financial statements. The accompanying interim financial information is unaudited and reflects all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of results for the interim periods presented. The unaudited interim consolidated financial statements do not include all the disclosures required under U.S. GAAP for annual financial statements and should be read in conjunction with the December 31, 2018 annual consolidated financial statements filed with the U.S. Securities and Exchange Commission in the Company's 2018 Annual Report on Form 20-F.

(b) Recently adopted accounting pronouncements:

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, "Leases", using the modified retrospective method, whereby a cumulative effect adjustment was made as of the date of initial application. The Company elected the practical expedient to use the effective date of adoption as the date of initial application. Accordingly, financial information and disclosures in the comparative period were not restated. The Company also elected to apply the package of practical expedients such that for any expired or existing leases, it did not reassess lease classification, initial direct costs or whether the relevant contracts are or contain leases. The Company did not use hindsight to reassess lease term or for the determination of impairment of right-of-use assets.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

(Unaudited)

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

1. Significant accounting policies (continued):

(b) Recently adopted accounting pronouncements (continued):

The impacts of the adoption of ASU 2016-02 are as follows:

	As reported at December 31, 2018	Adjustments	Adjusted at January 1, 2019
Right-of-use assets [1] [2]	$—	$ 1,068,272	$ 1,068,272
Other assets [2]	204,931	(17,286)	187,645
Accounts payable and accrued liabilities [1]	70,211	(2,460)	67,751
Current portion of operating lease liabilities [1]	—	160,174	160,174
Current portion of other long-term liabilities [3]	32,243	(22,183)	10,060
Operating lease liabilities [1]	—	893,272	893,272
Other long-term liabilities [3]	180,157	(158,870)	21,287
Deficit [3]	(645,638)	181,053	(464,585)

(1) Upon adoption of ASU 2016-02, the Company recorded non-cash right-of-use assets and operating lease liabilities on the balance sheet for its vessel sale-leaseback transactions and office leases under operating lease arrangements. Prior to January 1, 2019, operating leases were not included on the balance sheet and were recorded as operating lease expenses when incurred. The amount recognized as operating lease liabilities was based on the present value of future minimum lease payments, discounted using the lessor’s rate implicit in the lease or the Company’s incremental borrowing rate if the lessor’s implicit rate is not readily determinable and includes any existing accrued payments related to lease liabilities. Minimum lease payments referenced to an indexed rate were determined based on the respective rates at the adoption date.

(2) Initial direct costs related to the Company’s vessel sale-leaseback transactions under operating lease arrangements were reclassified from other assets to right-of-use assets.

(3) Deferred gain related to the Company’s vessel sale-leaseback transactions was recognized through deficit on the initial date of application.

The accounting for lessors is largely unchanged under ASU 2016-12. The Company evaluated its lessor arrangements and determined that the amounts recognized and the pattern of recognition remain substantially the same as existing guidance which was previously used by the Company.

(c) Recent accounting pronouncements:

Measurement of credit loss

In June 2016, FASB issued ASU 2016-13, "Measurement of Credit Loss on financial Instruments". ASU 2016-13 replaces the current incurred loss impairment methodology with the expected credit loss impairment model ("CECL"), which requires consideration of a broader range of reasonable and supportable information to estimate expected credit losses over the life of the instrument instead of only when losses are incurred. This standard applies to financial assets measured at amortized cost basis and investments in leases recognized by the lessor. The revised guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim period within those years, beginning after December 15, 2018. The Company is evaluating this accounting update to determine the impact it will have on its consolidated financial statements.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

(Unaudited)

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

1. Significant accounting policies (continued):

(c) Recent accounting pronouncements (continued):

Fair value measurement

In August 2015, FASB issued ASU 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement". ASU 2018-13 revises fair value disclosures, including requiring additional information on changes in unrealized gains and losses and significant unobservable inputs as it relates to Level 3 fair value measurements. The revised guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this update. The Company is evaluating this accounting update to determine the impact it will have on its consolidated financial statements.

(d) Leases:

Leases are classified as operating leases or financing leases based on the lease term and fair value associated with the lease. The assessment is done at lease commencement and reassessed only when a modification occurs that is not considered a separate contract.

Lessor arrangements

The Company derives its revenue primarily from the charter of its vessels. Each charter agreement is evaluated and classified as an operating or financing lease. Time charters classified as operating leases include a lease component associated with the use of the vessel and a non-lease component related to vessel management. Total consideration in the lease agreement is allocated between the lease and non-lease components based on their relative standalone selling prices. For arrangements where the timing and pattern of transfer to the lessee is consistent between the lease and non-lease components and the lease component, if accounted for separately, would be classified as an operating lease, the Company has elected to treat the lease and non-lease components as a single lease component. Revenue is recognized each day the vessels are on-hire, managed and performance obligations are satisfied.

For financing leases that are classified as direct financing leases, the difference between the gross investment in the lease and the present value of the minimum lease payments and any unguaranteed residual value, if applicable, is recorded as unearned lease interest income. The discount rate used in determining the present values is the interest rate implicit in the lease. The lower of the fair value of the vessel based on information available at lease commencement date and the present value of the minimum lease payments computed using the interest rate implicit in the lease, represents the price, from which the carrying value of the vessel is deducted in order to determine the selling profit or loss. The unearned lease interest income including any selling profit and initial direct costs are deferred and amortized to income over the period of the lease so as to produce a constant periodic rate of return on the net investment in lease. Any selling loss related to direct financing leases are recognized at lease commencement date.

For financing leases that are classified as sales-type leases, any selling profit or loss are recognized at lease commencement date. Initial direct costs are expensed at lease commencement date if the fair value of the vessel is different from its carrying amount.

Lessee arrangements

Where the Company is the lessee, leases classified as operating leases are recorded as lease liabilities based on the present value of minimum lease payments over the lease term, discounted using the lessor's rate implicit in the lease or the Company's incremental borrowing rate, if the lessor's implicit rate is not readily determinable. The lease term includes all periods covered by renewal and termination options where the Company is reasonably certain to exercise the renewal options or not to exercise the termination options. Corresponding right-of-use assets are recognized consisting of the lease liabilities, initial direct costs and any lease incentive payments.

SEASPAN CORPORATION

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

(Unaudited)

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

1. Significant accounting policies (continued):

(d) Leases (continued):

Lease liabilities are drawn down as lease payments are made and right-of-use assets are depreciated over the term of the lease. Operating lease expenses are recognized on a straight-line basis over the term of the lease, consisting of interest accrued on the lease liability and depreciation of the right-of-use asset, adjusted for changes in index-based variable lease payments in the period of change.

Lease payments on short-term operating leases with lease terms twelve months or less are expensed as incurred. Transactions are determined to be sale-leaseback transactions when control of the vessel is transferred. For sale-leaseback transactions, where the Company is the seller-lessee, any gains or losses on sale is recognized upon transfer.

(e) Comparative information:

Certain prior period’s information have been reclassified to conform with current financial statement preparation.

2. Acquisition of Greater China Intermodal Investments LLC:

On March 13, 2018, the Company acquired the remaining 89.2% that it did not own of Greater China Intermodal Investments LLC (“GCI”) from affiliates of The Carlyle Group and the minority owners of GCI (“Carlyle Group”). GCI’s fleet of 18 containerships, including two newbuilds, was comprised of 10000 TEU and 14000 TEU eco-class vessels.

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

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

Under the Agreement and Plan of Merger (the “Merger Agreement”), $10,000,000 was deposited in escrow for settlement of potential indemnifiable damages. In March 2019, the deposit was released from escrow.

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

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

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

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

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

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

As a part of the acquisition, the Company purchased certain identifiable contracts (time charters) which had an estimated useful life of 5.3 years as at the date of acquisition and is recorded in Other Assets and Other Long-Term Liabilities.

3. Related party transactions:

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

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

	Three months ended March 31,	
	2019	2018
Expenses incurred:		
Interest expense (1)	$ 6,302	$ 1,757
Income earned:		

Interest income	—	427
Management fees	—	914

[(1)] Excludes amortization of debt discount (note 9).

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

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3. Related party transactions (continued):

Pursuant to the earlier agreements, on January 15, 2019, Fairfax issued a second tranche of $250,000,000 in debentures ("2026 Notes") and warrants to purchase 38,461,539 of the Company's Class A common shares at an exercise price of $6.50 per share ("2019 Warrants"). The 2019 Warrants were immediately exercised at an exercise price of $6.50 per share for aggregate proceeds of $250,000,000.

As at March 31, 2019, Fairfax Financial Holdings Ltd. and its affiliates ("Fairfax") is a related party, as it holds approximately 36% of our outstanding common shares and has designated two members to our board of directors. Interest expense relates to notes issued to Fairfax ("Fairfax Notes").

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

4. Gross investment in lease:

	March 31, 2019	December 31, 2018
Gross investment in lease	$ 851,043	$ 861,979
Current portion	(44,469)	(44,348)
Gross investment in lease	$ 806,574	$ 817,631

At March 31, 2019, the minimum lease receivable from direct financing leases are approximated as follows:

Remainder of 2019	$ 33,413
2020	44,469
2021	44,348
2022	44,348

2023	44,348
Thereafter	640,117
	$851,043

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5. Vessels:

March 31, 2019	Cost	Accumulated depreciation	Net book value
Vessels	$8,005,430	$ 2,135,910	$5,869,520

December 31, 2018	Cost	Accumulated depreciation	Net book value
Vessels	$8,004,011	$ 2,077,737	$5,926,274

During the three months ended March 31, 2019, the Company capitalized interest costs of nil (March 31, 2018 - $512,000) to vessels under construction.

6. Right-of-use assets:

March 31, 2019	Cost	Accumulated amortization	Net book value
Vessel operating leases	$1,060,792	$ (27,159)	$1,033,633
Office operating leases	7,480	(358)	7,122
Right-of-use assets	1,068,272	(27,517)	1,040,755

During the three months ended March 31, 2019, the Company amortized $27,517,000 related to right-of-use assets.

7. Other assets:

	March 31, 2019	December 31, 2018
Intangible assets [a]	$107,382	$111,968
Deferred dry-dock [b]	33,584	36,660
Deferred financing fees [c]	—	17,286
Restricted cash	14,072	14,069
Capital assets	684	600
Other	27,961	24,348
Other assets	$183,683	$204,931

(a) Intangible assets:

Intangible assets are primarily comprised of the acquisition date fair value of time charter contracts acquired. During the three months ended March 31, 2019, the Company recorded $4,234,000 (March 31, 2018 – $633,371) of amortization related to acquired time charter contracts.

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7. Other assets (continued):

(a) Intangible assets (continued):

Future amortization related to acquired time charter contracts is approximated as follows:

Remainder of 2019	$14,872
2020	19,223
2021	17,658
2022	16,090
2023	12,390
Thereafter	25,233
	$105,466

(b) Deferred dry-dock:

During the three months ended March 31, 2019, changes in deferred dry-dock were as follows:

	Dry-docking
December 31, 2018	$ 36,660
Cost incurred	1,012
Amortization expensed	(4,088)
March 31, 2019	$ 33,584

(c) Deferred financing fees:

Initial direct costs related to the Company’s vessel sale-leaseback transactions under operating lease arrangements were reclassified from other assets to right-of-use assets, upon adoption of ASU 2016-02 (note 1(b)).

8. Deferred revenue:

	March 31, 2019	December 31, 2018
Deferred revenue on time charters	$ 18,142	$ 22,318
Deferred interest on lease receivable	401,767	410,481
Deferred revenue	419,909	432,799
Current portion of deferred revenue	(51,407)	(55,915)
Deferred revenue	$ 368,502	$ 376,884

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9. Long-term debt:

	March 31, 2019	December 31, 2018
Long-term debt:		
Revolving credit facilities [(a)] [(c)]	$582,243	$ 788,198
Term loan credit facilities [(b)] [(c)]	2,076,346	2,158,743
Senior unsecured notes [(d)]	391,398	400,396
Fairfax Notes [(e)]	500,000	250,000
	3,549,987	3,597,337
Fair value adjustment on term loan credit facilities [(b)]	(2,201)	(2,339)
Debt discount on Fairfax Notes [(e)]	(164,207)	(83,392)
Deferred financing fees	(22,650)	(24,065)
Long-term debt	3,360,929	3,487,541
Current portion of long-term debt	(559,800)	(722,641)
Long-term debt	$2,801,129	$ 2,764,900

(a) Revolving credit facilities

In January 2019, the Company made a prepayment of $147,000,000 on the remaining outstanding balance of a secured reducing revolving credit facility. At March 31, 2019, as a result of the repayment, eight vessels were unencumbered.

In March 2019, the Company made a prepayment of $58,954,000 on the outstanding balance of one of its other secured reducing revolving credit facilities, releasing two vessels from security.

At March 31, 2019, the one month average LIBOR was 2.5% (December 31, 2018 – 2.4%) and the margins ranged between 0.5% and 1.4% (December 31, 2018 – 0.5% and 1.4%) for revolving credit facilities. The weighted average rate of interest, including the margin, for the Company’s revolving credit facilities was 3.0% at March 31, 2019 (December 31, 2018 – 3.0%). Interest payments are made monthly.

The following is a schedule of future minimum repayments of revolving facilities as of March 31, 2019:

Remainder of 2019	$45,231
2020	47,892

2021	50,711
2022	380,169
2023	58,240
	$582,243

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9. Long-term debt (continued):

(b) Term loan credit facilities

During the three months ended March 31, 2019, the Company made prepayments of $28,100,000 on the principal balance of two secured term loan credit facilities. At March 31, 2019, as a result of these repayments, three vessels were unencumbered.

At March 31, 2019, the one month, three month and six month average LIBOR was 2.5%, 2.6% and 2.8%, respectively (December 31, 2018 – 2.4%, 2.6% and 2.5%, respectively) and the margins ranged between 0.4% and 4.8% (December 31, 2018 – 0.4% and 4.8%) for term loan credit facilities.

The following is a schedule of future minimum repayments of term loan credit facilities as of March 31, 2019:

Remainder of 2019	$149,696
2020	261,004
2021	393,958
2022	277,719
2023	517,640
Thereafter	476,329
	$2,076,346

For certain of our term loan credit facilities with a total principal outstanding of $62,322,000 (December 31, 2018 - $65,515,000), interest is calculated based on the Export-Import Bank of Korea (KEXIM) rate plus 0.7% per annum.

The weighted average rate of interest, including the applicable margin, was 4.9% at March 31, 2019 (December 31, 2018 – 4.8%) for term loan credit facilities. Interest payments are made in monthly, quarterly or semi-annual payments.

(c) Credit facilities – other

As of March 31, 2019, the Company’s credit facilities, were secured by first-priority mortgages granted on 51 of its vessels together with other related security. The security for each of the Company’s current secured credit facilities includes:

- A first priority mortgage on the collateral vessels funded by the related credit facility;
- An assignment of the Company's time charters and earnings related to the related collateral vessels;
- An assignment of the insurance on each of the vessels that are subject to a related mortgage;
- An assignment of the Company's related shipbuilding contracts and the corresponding refund guarantees;
- A pledge over shares of various subsidiaries; and
- A pledge over the related retention accounts.

The Company may prepay certain amounts outstanding without penalty, other than breakage costs in certain circumstances. In certain circumstances a prepayment may be required as a result of certain events, including the sale or loss of a vessel, a termination or expiration of a charter (and the

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9. Long-term debt (continued):

(c) Credit facilities – other (continued)

inability to enter into a charter suitable to lenders within a period of time). The amount that must be prepaid may be calculated based on the loan to market value. In these circumstances, valuations of our vessels are conducted on a "without charter" basis as required under the credit facility agreement.

Each credit facility, other than credit facilities of GCI's subsidiaries, contains financial covenants requiring the Company to maintain minimum liquidity, tangible net worth, interest coverage ratios, interest and principal coverage ratios, and debt-to-assets ratios, as defined. For GCI, each borrower under each facility is a special purpose entity and subsidiary of GCI. Each facility is guaranteed by GCI and as the guarantor, GCI must meet certain consolidated financial covenants under these term loan facilities including maintaining certain minimum tangible net worth, cash requirements and debt to asset ratios. Some of the facilities also have an interest and principal coverage ratio requirement for the subsidiary borrower. The Company was in compliance with these covenants at March 31, 2019.

(d) Senior unsecured notes

In December 2018, the Company entered into a repurchase plan for its senior unsecured notes which mature in April 2019. During the three months ended March 31, 2019, the Company repurchased $8,998,000 senior unsecured notes. In March 2019, the repurchase plan was terminated.

(e) Fairfax Notes

On January 15, 2019, pursuant to a previous subscription agreement, the Company issued to Fairfax the 2026 Notes bearing interest at 5.5% for an aggregate principal of $250,000,000 and the 2019 Warrants. The proceeds from the transaction were allocated to each security on a relative fair value basis. The 2019 Warrants were immediately exercised for additional proceeds of $250,000,000.

The 2026 Notes and similar notes issued in 2018 (the "2025 Notes") allow Fairfax to call for early redemption of some or all of the Fairfax Notes on each respective anniversary date of issuance (the "Annual Put Right") by providing written notice between 150 days and 120 days prior to each applicable anniversary date. In February 2019, Fairfax waived its right to call for early redemption of the 2025 Notes and 2026 Notes on their respective 2020 anniversary dates. Therefore, the Fairfax Notes are not puttable until their respective anniversary dates in 2021.

The Fairfax Notes are secured by ownership interest in GCI. The indenture relating to the 2025 Notes provides that, subject to certain limitations, the Fairfax investors have the right to designate a maximum of two members to our board of directors.

10. Operating lease liabilities:

	March 31, 2019
Operating lease commitments	$1,242,254
Impact of discounting	(222,626)
Impact of changes in variable rates	6,191
Operating lease liabilities	$1,025,819
Current portion of operating lease liabilities	(160,010)
Operating lease liabilities	$865,809

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10. Operating lease liabilities (continued):

Operating lease liabilities relate to vessel sale-leaseback transactions and office operating leases. Vessel sale-leaseback transactions under operating lease arrangements are in part, indexed to 3-months LIBOR, reset on a quarterly basis. For one of the Company's vessel operating leases, an option to repurchase the vessel exists at the end of its lease term. For all other arrangements, the lease may be terminated prior to the end of the lease term, at the option of the Company, by repurchasing the respective vessels on a specified repurchase date at a pre-determined fair value amount. For one of these arrangements, if the Company elects not to repurchase the vessel, the lessor may choose not to continue the lease until the end of its term.

Upon implementation of ASU 2016-02 on January 1, 2019, the lease terms were not reassessed. The Company continues to include the full term of the lease, including periods covered by the purchase options, in the measurement of lease liability as determined under ASC 840 Leases, for all vessel sale-leaseback transactions under operating lease arrangements existing at date of implementation.

Each sale-leaseback transaction contains financial covenants requiring the Company to maintain tangible net worth, interest coverage ratios and debt-to-assets ratios, as defined.

As at March 31, 2019, for the Company's operating leases, the weighted average remaining lease term is 8 years and the weighted average discount rate is 4.8%.

11. Long-term obligations under other financing arrangements:

	March 31, 2019	December 31, 2018
Long-term obligations under other financing arrangements	$635,113	$647,664
Deferred financing fees	(7,445)	(7,908)
Long-term obligations under other financing arrangements	627,668	639,756
Current portion of long-term obligations under other financing arrangements	(149,011)	(48,384)
Long-term obligations under other financing arrangements	$478,657	$591,372

Based on amounts funded, payments due to lessors for all ten vessels would be as follows:

Remainder of 2019	$35,982
2020	144,439
2021	42,459
2022	43,801
2023	87,143
Thereafter	281,289
	$635,113

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12. Other long-term liabilities:

	March 31, 2019	December 31, 2018
Deferred gain on sale-leasebacks [1]	$ —	$ 181,053
Other	26,597	31,347
Other long-term liabilities	26,597	212,400
Current portion of other long-term liabilities	(8,234)	(32,243)
Other long-term liabilities	$ 18,363	$ 180,157

(1) The Company recorded an adjustment to recognize deferred gain related to sale-leaseback transactions under operating lease arrangements through deficit upon adoption of ASU 2016-02 (note 1(b)).

13. Puttable preferred shares and share capital:

(a) Non-puttable preferred shares:

At March 31, 2019, the Company had the following preferred shares outstanding:

	Shares		Dividend rate per annum	Redemption by Company	Liquidation preference	
Series	Authorized	Issued		permitted on or after	March 31, 2019	December 31, 2018
A	315,000				$	$
B	260,000		-			
C	40,000,000					
D	20,000,000	7,017,313[1]	7.95 %	January 30, 2018[2]	175,433	175,433
E	15,000,000	5,415,937	8.25 %	February 13, 2019[2]	135,398	135,398
F	20,000,000					—
G	15,000,000	7,800,800	8.20 %	June 16, 2021[2]	195,020	195,020
H	15,000,000	9,025,105	7.875 %	August 11, 2021[2]	225,628	225,628
I	6,000,000	6,000,000	8.00 %	October 30, 2023[2]	150,000	150,000

R	1,000,000

(1) Includes puttable preferred shares issued as a part of the acquisition of GCI on March 13, 2018 (note 2) with a liquidation preference of $49,590,000 (December 31, 2018 - $49,661,000). These preferred shares are redeemable at the option of the holder for a period, beginning 18 months and ending 19 months after issuance.

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

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13. Puttable preferred shares and share capital (continued):

(b) Puttable preferred shares:

During the three months ended March 31, 2019, $72,000 of the put option from 2,864 puttable preferred shares was cancelled. As at March 31, 2019, the accreted value of the puttable Series D preferred shares was $48,517,000 (December 31, 2018 - $48,139,000).

(c) Warrants:

On January 15, 2019, the Company issued the 2019 Warrants to purchase 38,461,539 Class A common shares at $6.50 per share. Pursuant to an earlier agreement, these warrants were immediately exercised for aggregate proceeds of $250,000,000.

14. Earnings per share ("EPS"):

	Three months ended March 31, 2019			Three months ended March 31, 2018		
	Earnings	Shares	Per share	Earnings	Shares	Per share
	(numerator)	(denominator)	amount	(numerator)	(denominator)	amount
Net earnings	$285,315			$67,716		
Less preferred share dividends:						
Series D	(3,934)					