

Danaos Corp
Form 424B3
November 16, 2018

Filed Pursuant to Rule 424(b)(3)

Registration Statement No. 333-226096

Prospectus Supplement No. 2

(to Prospectus dated September 13, 2018)

DANAOS CORPORATION

This prospectus supplement amends and supplements the prospectus dated September 13, 2018 (the "Prospectus"), as supplemented, which forms a part of our Registration Statement on Form F-1 (Registration Statement No. 333-226096). This prospectus supplement is being filed to update and supplement the information included or incorporated by reference in the prospectus with the information contained in our Report on Form 6-K, furnished to the Securities and Exchange Commission on November 16, 2018 (the "Form 6-K"). Accordingly, we have attached the Form 6-K to this prospectus supplement.

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "DAC". On November 15, 2018, the last reported sale price of our common stock was \$1.12 per share, as reported by the NYSE.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 7 of the prospectus to read about factors you should consider before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 16, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR
15d-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of November 2018

Commission File Number 001-33060

DANAOS CORPORATION

(Translation of registrant's name into English)

Danaos Corporation

c/o Danaos Shipping Co. Ltd.

14 Akti Kondyli

185 45 Piraeus

Greece

Attention: Secretary

011 030 210 419 6480

(Address of principal executive office)

Edgar Filing: Danaos Corp - Form 424B3

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):

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):

This report on Form 6-K is hereby incorporated by reference into the Company's (i) Registration Statement on Form F-3 (Reg. No. 333-174500) filed with the SEC on May 25, 2011, (ii) Registration Statement on Form F-3 (Reg. No. 333-174494) filed with the SEC on May 25, 2011, (iii) Registration Statement on Form F-3 (Reg. No. 333-147099), the related prospectus supplements filed with the SEC on December 17, 2007, January 16, 2009 and March 27, 2009, (iv) Registration Statement on Form S-8 (Reg. No. 333-138449) filed with the SEC on November 6, 2006 and the reoffer prospectus, dated November 6, 2006, contained therein and (v) Registration Statement on Form F-3 (Reg. No. 333-169101).

EXHIBIT INDEX

- 99.1 Operating and Financial Review and Prospects and Condensed Consolidated Financial Statements (Unaudited) for the Three and Nine Months Ended September 30, 2018.

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.

Date: November 16, 2018

DANAOS CORPORATION

By:	/s/ Evangelos Chatzis
Name:	Evangelos Chatzis
Title:	Chief Financial Officer

DANAOS CORPORATION

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our interim condensed consolidated financial statements (unaudited) and the notes thereto included elsewhere in this report.

Results of Operations

Three months ended September 30, 2018 compared to three months ended September 30, 2017

During the three months ended September 30, 2018 and September 30, 2017, Danaos had an average of 55 containerships. Our fleet utilization for the three months ended September 30, 2018 was 97.4% compared to 97.0% for the three months ended September 30, 2017.

Operating Revenues

Operating revenues increased by 3.7%, or \$4.2 million, to \$117.8 million in the three months ended September 30, 2018 from \$113.6 million in the three months ended September 30, 2017.

Operating revenues for the three months ended September 30, 2018 reflect:

- \$6.3 million increase in revenues in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 due to the re-chartering of certain of our vessels at higher rates.
- \$2.1 million decrease in revenues due to lower fleet utilization of our vessels in the three months ended September 30, 2018 compared to the three months ended September 30, 2017.

Voyage Expenses

Edgar Filing: Danaos Corp - Form 424B3

Voyage expenses increased by \$0.3 million to \$2.9 million in the three months ended September 30, 2018, from \$2.6 million in the three months ended September 30, 2017.

Vessel Operating Expenses

Vessel operating expenses decreased by 2.3%, or \$0.6 million, to \$25.5 million in the three months ended September 30, 2018 from \$26.1 million in the three months ended September 30, 2017. The average daily operating cost per vessel for vessels on time charter was \$5,427 per day for the three months ended September 30, 2018 compared to \$5,569 per day for the three months ended September 30, 2017. Management believes that our daily operating cost ranks as one of the most competitive in the industry.

Depreciation

Depreciation expense decreased by 7.5%, or \$2.2 million, to \$27.0 million in the three months ended September 30, 2018 from \$29.2 million in the three months ended September 30, 2017.

Amortization of Deferred Drydocking and Special Survey Costs

Amortization of deferred dry-docking and special survey costs increased by \$1.0 million, to \$2.6 million in the three months ended September 30, 2018 from \$1.6 million in the three months ended September 30, 2017. The increase was mainly due to the increased number of vessels dry-docked over the last nine months.

General and Administrative Expenses

General and administrative expenses increased by \$2.0 million to \$7.4 million in the three months ended September 30, 2018, from \$5.4 million in the three months ended September 30, 2017. The increase was mainly due to increased remuneration costs and professional fees.

Interest Expense and Interest Income

Interest expense decreased by 6.8%, or \$1.5 million, to \$20.5 million in the three months ended September 30, 2018 from \$22.0 million in the three months ended September 30, 2017. The decrease in interest expense is attributed to:

- a \$6.4 million decrease in interest expense on two of our facilities for which we have recognized an interest expense accrual of approximately \$250 million in the three months ended September 30, 2018. This interest expense accrual has been classified in our income statement under *Gain on debt extinguishment* and on our balance sheet under *Accumulated accrued interest* and represents future interest expense for the relevant facilities that has been accrued in advance as a result of the application of Troubled Debt Restructuring (*TDR*) accounting in connection with our debt refinancing.
- a \$3.2 million increase in interest expense due to an increase in debt service cost (LIBOR + margin) of approximately 1.35%, partially offset by a \$435.7 million decrease in our average debt, to \$1,950.1 million in the three months ended September 30, 2018, compared to \$2,385.8 million in the three months ended September 30, 2017.
- a \$1.7 million increase in the amortization of deferred finance costs related to our debt refinancing.

As of September 30, 2018, the debt outstanding, gross of deferred finance costs, was \$1,694.5 million compared to \$2,381.7 million as of September 30, 2017.

Interest income increased by \$0.1 million to \$1.5 million in the three months ended September 30, 2018 compared to \$1.4 million in the three months ended September 30, 2017.

Other Finance Costs, net

Edgar Filing: Danaos Corp - Form 424B3

Other finance costs, net decreased by \$0.3 million to \$0.7 million in the three months ended September 30, 2018 compared to \$1.0 million in the three months ended September 30, 2017 mainly due to decreased exit fees expenses.

Equity income on investments

Equity income on investments amounted to \$0.7 million in the three months ended September 30, 2018 compared to \$0.3 million in the three months ended September 30, 2017 and relates to the improved operating performance of Gemini Shipholdings Corporation (Gemini), in which the Company has a 49% shareholding interest.

Gain on debt extinguishment

The gain on debt extinguishment of \$116.4 million in the three months ended September 30, 2018 relates to our debt refinancing described below and consists of debt principal reduction net of refinancing related fees.

Loss on derivatives

Amortization of deferred realized losses on interest rate swaps remained stable at \$0.9 million in each of the three months ended September 30, 2018 and 2017.

Other income/(expenses), net

Other income/(expenses), net was \$21.6 million in expenses in the three months ended September 30, 2018 compared to \$3.9 million in expenses in the three months ended September 30, 2017 mainly due to the increase in refinancing-related professional fees.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

During the nine months ended September 30, 2018 and September 30, 2017, Danaos had an average of 55 containerships. Our fleet utilization for the nine months ended September 30, 2018 was 96.4% compared to 95.9% for the nine months ended September 30, 2017. The fleet utilization excluding the off charter days of the vessels that were previously chartered to Hanjin was 98.0% in the nine months ended September 30, 2017.

Operating Revenues

Operating revenues increased by 1.6%, or \$5.5 million, to \$343.1 million in the nine months ended September 30, 2018 from \$337.6 million in the nine months ended September 30, 2017.

Operating revenues for the nine months ended September 30, 2018 reflect:

- \$12.5 million increase in revenues in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 due to the re-chartering of certain of our vessels at higher rates.
- \$7.0 million decrease in revenues due to lower fleet utilization of our vessels in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 (other than three vessels previously chartered to Hanjin which were less utilized in the nine months ended September 30, 2017).

Voyage Expenses

Voyage expenses decreased by \$0.4 million, to \$9.2 million in the nine months ended September 30, 2018 from \$9.6 million in the nine months ended September 30, 2017.

Vessel Operating Expenses

Vessel operating expenses decreased by 2.1%, or \$1.7 million, to \$79.1 million in the nine months ended September 30, 2018 from \$80.8 million in the nine months ended September 30, 2017. The average daily operating cost per vessel for vessels on time charter was \$5,678 per day for the nine months ended September 30, 2018 compared to \$5,687 per day for the nine months ended September 30, 2017. Management believes that our daily operating cost ranks as one of the most competitive in the industry.

Depreciation

Depreciation expense decreased by 7.4%, or \$6.5 million, to \$80.8 million in the nine months ended September 30, 2018 from \$87.3 million in the nine months ended September 30, 2017.

Amortization of Deferred Drydocking and Special Survey Costs

Amortization of deferred dry-docking and special survey costs increased by \$1.9 million, to \$6.9 million in the nine months ended September 30, 2018 from \$5.0 million in the nine months ended September 30, 2017. The increase was mainly due to the increased number of vessels dry-docked over the last nine months.

General and Administrative Expenses

General and administrative expenses increased by \$1.5 million, to \$18.4 million in the nine months ended September 30, 2018, from \$16.9 million in the nine months ended September 30, 2017. The increase was mainly due to increased remuneration costs and professional fees.

Interest Expense and Interest Income

Interest expense increased by 3.3%, or \$2.1 million, to \$66.4 million in the nine months ended September 30, 2018 from \$64.3 million in the nine months ended September 30, 2017. The increase in interest expense is attributed to:

- a \$6.4 million decrease in interest expense on two of our facilities for which we have recognized an interest expense accrual of approximately \$250 million in the three months ended September 30, 2018. This interest expense accrual has been classified in our income statement under *Gain on debt extinguishment* and on our balance sheet under *Accumulated accrued interest* and represents future interest expense for the relevant facilities that has been accrued in advance as a result of the application of TDR accounting in connection with our debt refinancing.
- a \$7.4 million increase in interest expense due to an increase in debt service cost (LIBOR + margin) of approximately 0.94%, partially offset by a \$257.6 million decrease in our average debt, to \$2,174.5 million in the nine months ended September 30, 2018, compared to \$2,432.1 million in the nine months ended September 30, 2017.
- a \$1.1 million increase in the amortization of deferred finance costs related to our debt refinancing.

As of September 30, 2018, the debt outstanding, gross of deferred finance costs, was \$1,694.5 million compared to \$2,381.7 million as of September 30, 2017.

Interest income increased by \$0.1 million to \$4.3 million in the nine months ended September 30, 2018 compared to \$4.2 million in the nine months ended September 30, 2017.

Other Finance Costs, net

Other finance costs, net decreased by \$0.5 million, to \$2.6 million in the nine months ended September 30, 2018 from \$3.1 million in the nine months ended September 30, 2017 mainly due to decreased exit fees expenses.

Equity income on investments

Equity income on investments amounted to \$0.9 million in the nine months ended September 30, 2018 compared to \$0.6 million in the nine months ended September 30, 2017 and relates to the improved operating performance of Gemini, in which the Company has a 49% shareholding interest.

Gain on debt extinguishment

The gain on debt extinguishment of \$116.4 million in the nine months ended September 30, 2018 relates to our debt refinancing described below and consists of debt principal reduction net of refinancing related fees.

Loss on derivatives

Amortization of deferred realized losses on interest rate swaps remained stable at \$2.8 million in each of the nine months ended September 30, 2018 and 2017.

Other income/(expenses), net

Other income/(expenses), net was \$50.6 million in expenses in the nine months ended September 30, 2018 compared to \$11.5 million in expenses in the nine months ended September 30, 2017 mainly due to a \$42.2 million increase in refinancing-related professional fees, which were partially offset by a \$0.7 million increase in other income and a \$2.4 million realized loss on sale of HMM securities in the nine months ended September 30, 2017 that did not recur in the 2018 period.

Liquidity and Capital Resources

Our principal source of funds has been operating cash flows, vessel sales, and long-term bank borrowings, as well as equity provided by our stockholders from our initial public offering in October 2006, common stock sale in August 2010 and the capital contribution of Danaos Investment Limited as Trustee of the 883 Trust (DIL) on August 10, 2018. 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 and repayment of debt.

Our short-term liquidity needs primarily relate to the funding of our vessel operating expenses, debt interest payments and servicing the current portion of our debt obligations. Our long-term liquidity needs primarily relate to any additional vessel acquisitions in the containership sector and debt repayment. We anticipate that our primary sources of funds will be cash from operations and equity or debt financings. As described below, on August 10, 2018, we refinanced over \$2.2 billion of debt scheduled to mature by December 2018, extending maturities to December 31, 2023 (or in some cases June 30, 2024).

Under our existing multi-year charters as of September 30, 2018, we had contracted revenues of \$104.1 million for the remainder of 2018, \$326.0 million for 2019 and, thereafter, approximately \$1.1 billion. Although these contracted revenues are based on contracted charter rates, we are dependent on the ability and willingness of our charterers, some of which are facing substantial financial pressure, to meet their obligations under these charters.

As of September 30, 2018, we had cash and cash equivalents of \$80.1 million. As of September 30, 2018, we had no remaining borrowing availability under our credit facilities. As of September 30, 2018, we had \$1,694.5 million of outstanding indebtedness gross of deferred finance costs.

The Company entered into an agreement with certain of the lenders holding approximately \$2.2 billion of debt maturing on December 31, 2018 for a debt refinancing transaction which was consummated on August 10, 2018. The debt refinancing involved the Company's entry into new credit facilities, including the amendment and restatement of certain previous credit facilities, resulting in a \$551 million reduction in our debt, reset financial and certain other covenants, modified interest rates and amortization profiles and the extension of debt maturities by approximately five years to December 31, 2023 (or, in some cases, June 30, 2024). In the refinancing, the Company issued to certain of its lenders an aggregate of 99,342,271 shares of the Company's common stock on the August 10, 2018 closing date, representing 47.5% of the Company's issued and outstanding common stock immediately after giving effect to such issuance. The issuance ratably diluted existing holders of the Common Stock. See [New Credit Facilities](#) below.

Under the new credit facilities, we are required to apply a substantial portion of our cash from operations to the repayment of principal under such facilities. See [New Credit Facilities](#) below and Note 9 Long-Term Debt, net to our unaudited condensed consolidated financial statements included elsewhere in this report. We currently expect that the remaining portion of our cash from operations will be sufficient to fund all of our other obligations.

We have not paid a dividend since 2008, when our board of directors determined to suspend the payment of cash dividends as a result of market conditions in the international shipping industry. In addition, under the new credit facilities we are not permitted to pay dividends, until (1) we

Edgar Filing: Danaos Corp - Form 424B3

receive in excess of \$50 million in net cash proceeds from offerings of common stock and (2) the payment in full of the first installment of amortization payable following the consummation of the debt refinancing under each new credit facility. After these conditions are satisfied, under the new credit facilities we will be permitted to pay dividends if an event of default has not occurred and is continuing or would occur as a result of the payment of such dividend, and we remain in compliance with the financial and other covenants thereunder. To the extent our new credit facilities permit us to pay dividends, any dividend payments will be subject to us having sufficient available excess cash and distributable reserves, the provisions of Marshall Islands law affecting the payment of distributions to stockholders and the discretion of our board of directors.

We have 15,000,000 outstanding warrants, which will expire on January 31, 2019, with an exercise price of \$7.00 per share. We will not receive any cash upon exercise of the warrants as the warrants are only exercisable on a cashless basis.

In July 2014, ZIM and its creditors entered into definitive documentation effecting ZIM's restructuring with its creditors. The terms of the restructuring included a reduction in the charter rates payable by ZIM under its time charters, expiring in 2020 or 2021, for six of our vessels. The terms also included our receipt of approximately \$49.9 million aggregate principal amount of unsecured, interest bearing ZIM notes maturing in 2023 (consisting of \$8.8 million of 3% Series 1 Notes due 2023 amortizing subject to available cash flow in accordance with a corporate cash sweep mechanism, and \$41.1 million of 5% Series 2 Notes due 2023 non-amortizing (of the 5% interest rate, 3% is payable quarterly in cash and 2% is payable in kind, accrued quarterly with deferred cash payment on maturity)) and ZIM shares representing approximately 7.4% of the outstanding ZIM shares immediately after the restructuring, in exchange for such charter rate reductions and cancellation of ZIM's other obligations to us which relate to the outstanding long term receivable as of December 31, 2013. See Note 7, Other Non-current Assets to our unaudited condensed consolidated financial statements included in this report.

In July 2016, we entered into a charter restructuring agreement with Hyundai Merchant Marine, which provides for a 20% reduction, for the period until December 31, 2019 (or earlier charter expiration in the case of eight vessels), in the charter hire rates payable for thirteen of our vessels currently employed with HMM. In exchange, under the charter restructuring agreement we received (i) \$32.8 million principal amount of senior, unsecured Loan Notes 1, amortizing subject to available cash flows, which accrue interest at 3% per annum payable on maturity in July 2024, (ii) \$6.2 million principal amount of senior, unsecured, non-amortizing Loan Notes 2, which accrue interest at 3% per annum payable on maturity in December 2022 and (iii) 4,637,558 HMM shares, which were sold on September 1, 2016 for cash proceeds of \$38.1 million. On March 28, 2017, the Company sold \$13.0 million principal amount carried at amortized costs of \$8.6 million of HMM Loan Notes 1 for gross cash proceeds on sale of \$6.2 million resulting in a loss on sale of \$2.4 million. The sale of these notes resulted in the transfer of all held to maturity securities into the available for sale securities and recognizing unrealized holding losses of \$23.1 million for all remaining HMM and ZIM notes in accumulated other comprehensive income/(loss) as of September 30, 2018. See Note 7, Other Non-current Assets to our unaudited condensed consolidated financial statements included in this report.

In connection with the debt refinancing, DIL, our largest stockholder, contributed \$10 million to us on the August 10, 2018, closing date of the refinancing, for which DIL did not receive any shares of common stock or other interests in us. In connection with the refinancing, we have also undertaken to seek to sell two of our 13,100 TEU vessels, the *Hyundai Honour* and the *Hyundai Respect*. The net proceeds from sales of such vessels are to be applied pro rata to repay the new credit facilities secured by mortgages on such vessels, which would further reduce our outstanding debt.

Cash Flows

	Nine Months ended September 30, 2018	Nine Months ended September 30, 2017
	(In thousands)	
Net cash provided by operating activities	\$ 110,900	\$ 135,826
Net cash provided by/(used in) investing activities	\$ (2,083)	\$ 2,540
Net cash used in financing activities	\$ (98,391)	\$ (147,930)

Net Cash Provided by Operating Activities

Net cash flows provided by operating activities decreased by \$24.9 million, to \$110.9 million provided by operating activities in the nine months ended September 30, 2018 compared to \$135.8 million provided by operating activities in the nine months ended September 30, 2017. The decrease was the result mainly of a \$41.4 million increase in net other expenses related to our debt refinancing, higher payments for dry-docking and special survey costs by \$5.5 million and a \$0.5 million increase in net finance costs which were partially offset by \$16.2 million change in working capital, a \$5.5 million increase in operating revenues and a \$0.8 million decrease in total operating expenses in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Net Cash Used in Investing Activities

Net cash flows used in investing activities decreased by \$4.6 million, to \$2.1 million used in investing activities in the nine months ended September 30, 2018 compared to \$2.5 million provided by investing activities in the nine months ended September 30, 2017. The decrease mainly reflects \$6.2 million in net proceeds from the sale of securities in the nine months ended September 30, 2017 that did not recur in the nine months ended September 30, 2018, which was partially offset by a \$1.6 million decrease in cash used in connection with vessel additions in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Net Cash Used in Financing Activities

Net cash flows used in financing activities decreased by \$49.5 million, to \$98.4 million used in financing activities in the nine months ended September 30, 2018 compared to \$147.9 million used in financing activities in the nine months ended September 30, 2017 mainly due to debt payments of \$407.1 million partially paid with new loan facilities drawdowns of \$325.9 million, deferred finance costs of \$27.0 million relating to certain of our new loan agreements in connection with our debt refinancing and share issuance costs of \$0.2 million, which were partially offset by paid-in capital of \$10.0 million in the nine months ended September 30, 2018 compared to \$147.9 million of debt payments in the nine months ended September 30, 2017.

Non-GAAP Financial Measures

Edgar Filing: Danaos Corp - Form 424B3

We report our financial results in accordance with U.S. generally accepted accounting principles (GAAP). Management believes, however, that certain non-GAAP financial measures used in managing the business may provide users of this financial information additional meaningful comparisons between current results and results in prior operating periods. Management believes that these non-GAAP financial measures can provide additional meaningful reflection of underlying trends of the business because they provide a comparison of historical information that excludes certain items that impact the overall comparability. Management also uses these non-GAAP financial measures in making financial, operating and planning decisions and in evaluating our performance. See the table below for supplemental financial data and corresponding reconciliation to GAAP financial measures. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, our reported results prepared in accordance with GAAP.

EBITDA and Adjusted EBITDA

EBITDA represents net income before interest income and expense, taxes, depreciation, as well as amortization of deferred drydocking & special survey costs, amortization of deferred realized losses of cash flow interest rate swaps, amortization of finance costs and finance costs accrued. Adjusted EBITDA represents net income before interest income and expense, taxes, depreciation, amortization of deferred drydocking & special survey costs, amortization of deferred realized losses of cash flow interest rate swaps, amortization of finance costs and finance costs accrued, gain on debt extinguishment, refinancing professional fees, stock based compensation and loss on sale of securities. We believe that EBITDA and Adjusted EBITDA assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. EBITDA and Adjusted EBITDA are also used: (i) by prospective and current customers as well as potential lenders to evaluate potential transactions; and (ii) to evaluate and price potential acquisition candidates. Our EBITDA and Adjusted EBITDA may not be comparable to that reported by other companies due to differences in methods of calculation.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are: (i) EBITDA/Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and (ii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and EBITDA/Adjusted EBITDA do not reflect any cash requirements for such capital expenditures. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Because of these limitations, EBITDA/Adjusted EBITDA should not be considered as principal indicators of our performance.

Reconciliation of Net Income to EBITDA and Adjusted EBITDA

	Nine Months ended September 30, 2018	Nine Months ended September 30, 2017
	(In thousands)	
Net income	\$ 148,047	\$ 61,099
Depreciation	80,752	87,267
Amortization of deferred drydocking & special survey costs	6,888	5,037
Amortization of deferred realized losses of cash flow interest rate swaps	2,763	2,763
Amortization of finance costs	9,544	8,483
Finance costs accrued (Exit Fees under our Bank Agreement)	1,888	2,399
Interest income	(4,298)	(4,201)
Interest expense	56,834	55,846
EBITDA	302,418	218,693
Gain on debt extinguishment	(116,365)	
Refinancing professional fees	51,467	9,312
Stock based compensation	157	
Loss on sale of securities		2,357
Adjusted EBITDA	\$ 237,677	\$ 230,362

Edgar Filing: Danaos Corp - Form 424B3

EBITDA increased by \$83.7 million, to \$302.4 million in the nine months ended September 30, 2018 from \$218.7 million in the nine months ended September 30, 2017. This increase was attributed to a \$116.4 million gain on debt extinguishment, a \$5.5 million increase in operating revenues, \$0.6 million decrease in total operating expenses and a \$0.3 million improvement in operating performance on our equity investments, which were partially offset by a \$39.1 million increase in net other expenses in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Adjusted EBITDA increased by \$7.3 million, to \$237.7 million in the nine months ended September 30, 2018 from \$230.4 million in the nine months ended September 30, 2017. This increase was attributed to a \$5.5 million increase in operating revenues, a \$0.7 million increase in other income, a \$0.8 million decrease in total operating expenses and a \$0.3 million improvement in operating performance on our equity investments in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. Adjusted EBITDA for the nine months ended September 30, 2018 is adjusted for a gain on debt extinguishment of \$116.4 million, \$51.5 million of refinancing-related professional fees and stock based compensation of \$0.2 million.

Credit Facilities

We entered into a debt refinancing agreement with our lenders holding debt of \$2.2 billion maturing by December 31, 2018, which was consummated on August 10, 2018, and amended and restated or replaced these credit facilities. See *New Credit Facilities* and Note 9

Long-Term Debt, net to our unaudited condensed consolidated financial statements included elsewhere in this report for a description of this refinancing and the new credit facilities. As of September 30, 2018 and after giving effect to the debt refinancing described above, there was no remaining borrowing availability under the Company's credit facilities.

The following table summarizes all of our credit facilities as of September 30, 2018:

Credit Facility	Outstanding Principal Amount (in millions)	Collateral Vessels
The Royal Bank of Scotland \$475.5 mil. Facility (1)	\$ 476.4	The <i>Progress C</i> (ex <i>Hyundai Progress</i>), the <i>Highway</i> , the <i>Bridge</i> , the <i>Zim Monaco</i> , the <i>Express Argentina</i> , the <i>Express France</i> , the <i>Express Spain</i> , the <i>CMA CGM Racine</i> , the <i>America</i> (ex <i>CSCL America</i>), the <i>CMA CGM Melisande</i> , the <i>Maersk Enping</i> , the <i>Express Berlin</i> , the <i>Le Havre</i> (ex <i>CSCL Le Havre</i>) and the <i>Derby D</i>
HSH Nordbank Aegean Baltic Bank Piraeus Bank \$382.5 mil. Facility (1)	\$ 383.3	The <i>Vladivostok</i> , the <i>Advance</i> , the <i>Stride</i> , the <i>Future</i> , the <i>Sprinter</i> , the <i>Amalia C</i> , the <i>MSC Zebra</i> , the <i>Danae C</i> , the <i>Dimitris C</i> , the <i>Performance</i> , the <i>Europe</i> , the <i>Dimitra C</i> (ex <i>Priority</i>), the <i>Maersk Exeter</i> , the <i>Express Rome</i> , the <i>CMA CGM Rabelais</i> , the <i>Pusan C</i> (ex <i>CSCL Pusan</i>) and the <i>ANL Tongala</i> (ex <i>Deva</i>)
Citibank \$114 mil. Facility	\$ 114.0	The <i>CMA CGM Moliere</i> , the <i>CMA CGM Musset</i> , the <i>Hyundai Honour</i> and the <i>Hyundai Respect</i>
Citibank \$123.9 mil. Facility	\$ 123.9	The <i>Zim Rio Grande</i> , the <i>Zim Sao Paolo</i> and the <i>Zim Kingston</i> , the <i>Hyundai Honour</i> and the <i>Hyundai Respect</i>
Citibank \$120 mil. Facility (1)	\$ 120.0	The <i>Colombo</i> , the <i>YM Seattle</i> , the <i>YM Vancouver</i> , the <i>Singapore</i> and the <i>Express Athens</i>
Citibank Eurobank \$37.6 mil. Facility	\$ 37.6	The <i>MSC Ambition</i>
Club Facility \$206.2 mil.	\$ 206.4	The <i>Zim Dalian</i> , the <i>Express Brazil</i> , the <i>YM Maturity</i> , the <i>Express Black Sea</i> , the <i>CMA CGM Attila</i> , the <i>Hyundai Honour</i> and the <i>Hyundai Respect</i>

Edgar Filing: Danaos Corp - Form 424B3

Credit Suisse \$171.8 mil. Facility	\$	171.8	The <i>Zim Luanda</i> , the <i>CMA CGM Nerval</i> , the <i>YM Mandate</i> , the <i>Hyundai Honour</i> and the <i>Hyundai Respect</i>
Sinosure Cexim Citibank ABN Amro\$ \$203.4 mil. Facility		67.8	The <i>CMA CGM Tancredi</i> , the <i>CMA CGM Bianca</i> and the <i>CMA CGM Samson</i>

(1) These credit facilities are also secured by a second priority lien on the *CMA CGM Tancredi*, the *CMA CGM Bianca*, the *CMA CGM Samson* and the *MSC Ambition*.

New Credit Facilities

We entered into new credit facilities for an aggregate principal amount of approximately \$1.6 billion due December 31, 2023 through an amendment and restatement or replacement of the Company's previous credit facilities that had outstanding debt of approximately \$2.2 billion maturing on December 31, 2018. The new credit facilities provide for quarterly fixed and variable amortization payments, together representing approximately 85% of actual free cash flows from the relevant vessels securing such credit facilities (calculated on a generally consistent basis to the bank agreement that the Company entered into with its lenders in 2011), subject to certain adjustments. The new credit facilities have maturity dates of December 31, 2023 or, in some cases, June 30, 2024 as noted below. The interest rate payable under the new credit facilities is LIBOR+2.50% (subject to a 0% floor), with subordinated tranches of two credit facilities incurring additional PIK interest of 4.00%, compounded quarterly, payable in respect of approximately \$282 million principal amount thereunder, which tranches have maturity dates of June 30, 2024.

The new credit facilities contain financial covenants requiring us to maintain: (i) minimum collateral to loan value coverage on a charter-free basis increasing from 57.0% as of December 31, 2018 to 100% as of September 30, 2023 and thereafter, (ii) minimum collateral to loan value coverage on a charter-attached basis increasing from 69.5% as of December 31, 2018 to 100% as of September 30, 2023 and thereafter, (iii) minimum liquidity of \$30 million throughout the term of the new credit facilities, (iv) maximum consolidated net leverage ratio, declining from 7.50x as of December 31, 2018 to 5.50x as of September 30, 2023 and thereafter, (v) minimum interest coverage ratio of 2.50x throughout the term of the new credit facilities and (vi) minimum consolidated market value adjusted net worth increasing from negative \$510 million as of December 31, 2018 to \$60 million as of September 30, 2023 and thereafter.

The new credit facilities contain certain restrictive covenants and customary events of default, including those relating to cross-acceleration and cross-defaults to other indebtedness, non-compliance or repudiation of security documents, material adverse changes to our business, our Common Stock ceasing to be listed on the New York Stock Exchange (NYSE) (or another recognized stock exchange), foreclosure on a vessel in our fleet, a change in control of our Manager, a breach of the management agreement by our Manager for the vessels securing the respective credit facilities and a material breach of a charter by a charterer or cancellation of a charter (unless replaced with a similar charter acceptable to the lenders) for the vessels securing the respective new credit facilities.

A Change of Control will give rise to a mandatory prepayment in full of each new credit facility. A Change of Control for these purposes includes the occurrence of the following: (i) Dr. Coustas ceases to be both our Chief Executive Officer and our director, subject to certain exceptions, (ii) the existing members of the board of directors and the directors appointed following nomination by the existing board of directors collectively do not constitute a majority of the board of directors, (iii) Dr. Coustas and members of his family cease to collectively control more than 15% of the voting interest in our outstanding capital stock or to beneficially own at least 15% and one share of our outstanding capital stock, or (iv) any person or persons acting in concert (other than the Coustas family) (x) holds a greater portion of our outstanding capital stock than the Coustas family (other than as a direct result of the sale by the lenders of shares issued in the debt refinancing) or (y) controls us.

Each of the new credit facilities is secured by customary shipping industry collateral, including vessel mortgages, earnings accounts, our investments in ZIM and Hyundai Merchant Marine securities and stock pledges and benefits from corporate guarantees.

We will not be permitted to pay dividends under the new credit facilities, until (1) we receive in excess of \$50 million in net cash proceeds from offerings of Common Stock and (2) the payment in full of the first installment of amortization payable following the consummation of the debt refinancing under each new credit facility entered into in connection therewith (other than the Sinasure-CEXIM credit facility). After these conditions are satisfied, under the credit facilities, we would be permitted to pay dividends unless an event of default has occurred and is continuing or would occur as a result of the payment of such dividend and as long as the obligors under each new credit facility are in compliance with covenants thereunder (including our compliance with financial covenants).

Sinosure-Cexim credit facility and KEXIM-ABN AMRO credit facility

On August 10, 2018, the Company amended and restated its Sinosure-CEXIM credit facility, dated as of February 21, 2011, under which \$67.8 million was outstanding as of September 30, 2018, including to align its financial covenants with those contained in the new credit facilities and provide second lien collateral to lenders under certain of the new credit facilities.

The Company prepaid in full all \$17.5 million outstanding under the KEXIM ABN-AMRO credit facility, dated January 29, 2004, on July 20, 2018.

Qualitative and Quantitative Disclosures about Market Risk

Interest Rate Swaps

In the past, we entered into interest rate swap agreements converting floating interest rate exposure into fixed interest rates in order to hedge our exposure to fluctuations in prevailing market interest rates, as well as interest rate swap agreements converting the fixed rate we paid in connection with certain of our credit facilities into floating interest rates in order to economically hedge the fair value of the fixed rate credit facilities against fluctuations in prevailing market interest rates. All of these interest rate swap agreements have expired and we do not currently have any outstanding interest rate swap agreements. Refer to Note 10, *Financial Instruments*, to our unaudited condensed consolidated financial statements included in this report.

Foreign Currency Exchange Risk

We did not have any derivative instruments to hedge the foreign currency translation of assets or liabilities or foreign currency transactions during the nine months ended September 30, 2018 and 2017.

Off-Balance Sheet Arrangements

We do not have any transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

Capitalization and Indebtedness

The table below sets forth our consolidated capitalization as of September 30, 2018.

- on an actual basis; and
- on an as adjusted basis to reflect in the period from October 1, 2018 to November 15, 2018 debt repayments of \$27.1 million relating to our New Credit Facilities and \$3.4 million debt repayment relating to our Sinasure CEXIM-Citibank-ABN Amro credit facility.

	As of September 30, 2018	
	Actual	As adjusted
	(US Dollars in thousands)	
Debt:		
Total debt (1)	\$ 1,645,907	\$ 1,615,414
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 100,000,000 preferred shares authorized and none issued; actual and as adjusted		
Common stock, par value \$0.01 per share; 750,000,000 shares authorized; 213,324,455 shares issued and outstanding actual and as adjusted (2)	2,133	2,133
Additional paid-in capital	724,732	724,732
Accumulated other comprehensive loss	(107,852)	(107,852)
Retained earnings	262,832	262,832
Total stockholders' equity	881,845	881,845
Total capitalization	\$ 2,527,752	\$ 2,497,259

(1) Net of deferred finance costs of \$48.6 million outstanding as of September 30, 2018. All of our indebtedness is secured. See Note 9 Long-Term Debt, net to our unaudited condensed consolidated financial statements included elsewhere in this report.

(2) Does not include 15 million warrants issued in 2011 to purchase shares of common stock solely on a cash-less exercise basis, at an exercise price of \$7.00 per share, which expire on January 31, 2019. Includes 4,182,832 shares of restricted stock granted on September 14, 2018, of which 2,091,416 are scheduled to vest on December 31, 2019 and 2,091,416 are scheduled to vest on December 31, 2021, subject to satisfaction of the vesting terms.

Forward Looking Statements

Matters discussed in this report may constitute forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements reflect our current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The forward-looking statements in this release are based upon various assumptions. Although Danaos Corporation believes that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, Danaos Corporation cannot assure you that it will achieve or accomplish these expectations, beliefs or projections. Important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the effects of the refinancing transactions; Danaos' ability to achieve the expected benefits of the refinancing and comply with the terms of its new credit facilities and other agreements entered into in connection with the refinancing; the strength of world economies and currencies, general market conditions, including changes in charter hire rates and vessel values, charter counterparty performance, changes in demand that may affect attitudes of time charterers to scheduled and unscheduled drydocking, changes in our operating expenses, including bunker prices, dry-docking and insurance costs, ability to obtain financing and comply with covenants in our financing arrangements, actions taken by regulatory authorities, potential liability from pending or future litigation, domestic and international political conditions, potential disruption of shipping routes due to accidents and political events or acts by terrorists.

Edgar Filing: Danaos Corp - Form 424B3

Risks and uncertainties are further described in reports filed by us with the U.S. Securities and Exchange Commission.

INDEX TO FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017	F-2
Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)	F-3
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017 (unaudited)	F-4
Condensed Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2018 (unaudited) and the year ended December 31, 2017	F-5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (unaudited)	F-6
Notes to the Unaudited Condensed Consolidated Financial Statements	F-7

DANAOS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	Notes	September 30, 2018 (unaudited)	As of December 31, 2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	\$ 80,133	\$ 66,895
Restricted cash	3		2,812
Accounts receivable, net		8,818	6,502
Inventories		9,740	8,841
Prepaid expenses		1,441	1,234
Due from related parties		13,127	34,007
Other current assets		6,421	5,708
Total current assets		119,680	125,999
NON-CURRENT ASSETS			
Fixed assets at cost, net of accumulated depreciation of \$843,942 (2017:			
\$763,190)	4	2,717,302	2,795,971
Deferred charges, net	5	13,979	8,962
Investments in affiliates	6	6,910	5,998
Other non-current assets	7	63,476	49,466
Total non-current assets		2,801,667	2,860,397
Total assets		\$ 2,921,347	\$ 2,986,396
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Accounts payable		\$ 15,477	\$ 11,371
Accrued liabilities	8	12,584	15,226
Current portion of long-term debt, net	9	118,517	2,329,601
Accumulated accrued interest, current portion	9	35,815	
Unearned revenue		19,816	22,853
Other current liabilities	9	37,215	788
Total current liabilities		239,424	2,379,839
LONG-TERM LIABILITIES			
Long-term debt, net	9	1,527,390	
Accumulated accrued interest, net of current portion	9	210,827	
Unearned revenue, net of current portion		45,367	56,159
Other long-term liabilities	9	16,494	1,693
Total long-term liabilities		1,800,078	57,852
Total liabilities		2,039,502	2,437,691
Commitments and Contingencies	11		
STOCKHOLDERS EQUITY			
Preferred stock (par value \$0.01, 100,000,000 preferred shares authorized and not issued as of September 30, 2018 and December 31, 2017)	12		
Common stock (par value \$0.01, 750,000,000 common shares authorized as of September 30, 2018 and December 31, 2017. 213,324,455 issued and outstanding as of September 30, 2018 and 109,799,352 December 31, 2017)	12	2,133	1,098

Edgar Filing: Danaos Corp - Form 424B3

Additional paid-in capital		724,732		546,898
Accumulated other comprehensive loss	7, 10	(107,852)		(114,076)
Retained earnings		262,832		114,785
Total stockholders equity		881,845		548,705
Total liabilities and stockholders equity		\$ 2,921,347	\$	2,986,396

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

DANAOS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
OPERATING REVENUES		\$ 117,781	\$ 113,588	\$ 343,101	\$ 337,563
OPERATING EXPENSES					
Voyage expenses		(2,883)	(2,570)	(9,230)	(9,625)
Vessel operating expenses		(25,461)	(26,132)	(79,052)	(80,803)
Depreciation		(26,995)	(29,221)	(80,752)	(87,267)
Amortization of deferred drydocking and special survey costs	5	(2,636)	(1,634)	(6,888)	(5,037)
General and administrative expenses		(7,431)	(5,388)	(18,390)	(16,857)
Income From Operations		52,375	48,643	148,789	137,974
OTHER INCOME (EXPENSES):					
Interest income		1,505	1,386	4,298	4,201
Interest expense		(20,509)	(22,016)	(66,378)	(64,329)
Other finance expenses		(679)	(1,042)	(2,611)	(3,129)
Equity income on investments	6	728	278	912	633
Gain on debt extinguishment	9	116,365		116,365	
Other expenses, net	7, 9	(21,637)	(3,891)	(50,565)	(11,488)
Loss on derivatives	10	(931)	(931)	(2,763)	(2,763)
Total Other Income/(Expenses), net		74,842	(26,216)	(742)	(76,875)
Net Income		\$ 127,217	\$ 22,427	\$ 148,047	\$ 61,099
EARNINGS PER SHARE					
Basic earnings per share		\$ 0.77	\$ 0.20	\$ 1.15	\$ 0.56
Diluted earnings per share		\$ 0.77	\$ 0.20	\$ 1.15	\$ 0.56
Basic weighted average number of common shares (in thousands)		164,870	109,825	128,358	109,825
Diluted weighted average number of common shares (in thousands)	13	165,597	109,825	128,603	109,825

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

DANAOS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS) (unaudited)

(Expressed in thousands of United States Dollars)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Net income for the period		\$ 127,217	\$ 22,427	\$ 148,047	\$ 61,099
Other comprehensive income/(loss):					
Unrealized gain/(loss) on available for sale securities	7	952	(1,621)	3,461	(35,728)
Amortization of deferred realized losses on cash flow hedges	10	931	931	2,763	2,763
Total Other Comprehensive Income/(Loss)		1,883	(690)	6,224	(32,965)
Comprehensive Income		\$ 129,100	\$ 21,737	\$ 154,271	\$ 28,134

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

DANAOS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Expressed in thousands of United States Dollars)

	Common Stock Number of shares	Par value	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total
As of January 1, 2017	109,799	\$ 1,098	\$ 546,898	\$ (91,163)	\$ 30,880	\$ 487,713
Net Income					83,905	83,905
Net movement in other comprehensive income				(22,913)		(22,913)
As of December 31, 2017	109,799	\$ 1,098	\$ 546,898	\$ (114,076)	\$ 114,785	\$ 548,705
Net Income					148,047	148,047
Net movement in other comprehensive income				6,224		6,224
Paid-in capital			10,000			10,000
Issuance of common stock	99,342	993	167,719			168,712
Stock compensation	4,183	42	115			157
As of September 30, 2018 (unaudited)	213,324	\$ 2,133	\$ 724,732	\$ (107,852)	\$ 262,832	\$ 881,845

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

DANAOS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Expressed in thousands of United States Dollars)

	Nine months ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 148,047	\$ 61,099
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>		
Depreciation	80,752	87,267
Amortization of deferred drydocking and special survey costs	6,888	5,037
Amortization of finance costs	8,337	8,483
Exit fee accrued on debt	1,888	2,399
Debt discount amortization	1,207	
Gain on debt extinguishment	(116,365)	
PIK interest	414	
Stock based compensation	157	
Loss on sale of securities		2,357
Payments for drydocking and special survey costs deferred	(11,905)	(6,408)
Amortization of deferred realized losses on interest rate swaps	2,763	2,763
Equity income on investments	(912)	(633)
(Increase)/Decrease in		
Accounts receivable	(2,316)	(3,085)
Inventories	(899)	2,162
Prepaid expenses	(207)	636
Due from related parties	20,880	(144)
Other assets, current and non-current	(11,262)	(5,887)
Increase/(Decrease) in		
Accounts payable	2,387	(11)
Accrued liabilities	(3,995)	1,655
Unearned revenue, current and long-term	(13,829)	(15,058)
Other liabilities, current and long-term	(1,130)	(6,806)
Net Cash provided by Operating Activities	110,900	135,826
Cash Flows from Investing Activities		
Vessels additions	(2,083)	(3,696)
Net proceeds from sale of securities		6,236
Net Cash provided by/(used in) Investing Activities	(2,083)	2,540
Cash Flows from Financing Activities		
Proceeds from long-term debt	325,852	
Payments of long-term debt	(407,107)	(147,930)
Finance costs	(26,967)	
Paid-in capital	10,000	
Share issuance costs	(169)	
Net Cash used in Financing Activities	(98,391)	(147,930)
Net Increase/(Decrease) in cash, cash equivalents and restricted cash	10,426	(9,564)
Cash, cash equivalents and restricted cash at beginning of period	69,707	76,529
Cash, cash equivalents and restricted cash at end of period	\$ 80,133	\$ 66,965

Edgar Filing: Danaos Corp - Form 424B3

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

F-6

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Presentation and General Information

The accompanying condensed consolidated financial statements (unaudited) have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The reporting and functional currency of the Company is the United States Dollar.

Danaos Corporation (Danaos or Company), formerly Danaos Holdings Limited, was formed on December 7, 1998 under the laws of Liberia and is presently the sole owner of all outstanding shares of the companies listed below. Danaos Holdings Limited was redomiciled in the Marshall Islands on October 7, 2005. In connection with the redomiciliation, the Company changed its name to Danaos Corporation. On October 14, 2005, the Company filed and the Marshall Islands accepted Amended and Restated Articles of Incorporation. The authorized capital stock of Danaos Corporation is 750,000,000 shares of common stock with a par value of \$0.01 and 100,000,000 shares of preferred stock with a par value of \$0.01. Refer to Note 12, Stockholders Equity . The Company s principal business is the acquisition and operation of vessels. Danaos conducts its operations through the vessel owning companies whose principal activity is the ownership and operation of containerships that are under the exclusive management of a related party of the Company.

In the opinion of management, the accompanying condensed consolidated financial statements (unaudited) of Danaos and subsidiaries contain all adjustments necessary to present fairly, in all material respects, the Company s condensed consolidated financial position as of September 30, 2018, the condensed consolidated results of operations for the three and nine months ended September 30, 2018 and 2017 and the condensed consolidated cash flows for the three and nine months ended September 30, 2018 and 2017. All such adjustments are deemed to be of a normal, recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in Danaos Annual Report on Form 20-F for the year ended December 31, 2017. The results of operations for the three and nine months ended September 30, 2018, are not necessarily indicative of the results to be expected for the full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company s condensed consolidated financial statement have been prepared on a going concern basis and contemplate the realization of assets and satisfaction of liabilities in the normal course of business. On June 19, 2018, the Company reached a refinancing agreement with certain of its lenders holding debt maturing by December 31, 2018 through a debt reduction of approximately \$551 million, the resetting of financial and other covenants, modified interest rates and amortization profiles and an extension of existing debt maturities by approximately five years to December 31, 2023, or in some cases to June 30, 2024. On August 10, 2018, the Company consummated the refinancing agreement reached with certain of the Company s lenders on June 19, 2018, as further disclosed in the Note 9 Long-term debt, net , which alleviated substantial doubt about the Company s ability to continue as a going concern reported in the Note 3, Going Concern to the consolidated financial statements in the Annual Report on Form 20-F for the year ended December 31, 2017.

The accompanying condensed consolidated financial statements (unaudited) represent the consolidation of the accounts of the Company and its wholly owned subsidiaries. The subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Inter-company transaction balances and unrealized gains on transactions between the companies are eliminated. The Company also consolidates entities that are determined to be variable interest entities, of which the Company is the primary beneficiary, as defined in the authoritative guidance under U.S. GAAP. A variable interest entity is defined as a legal entity where either (a) equity interest holders as a group lack the characteristics of a controlling financial interest,

including decision making ability and an interest in the entity's residual risks and rewards, or (b) the equity holders have not provided sufficient equity investment to permit the entity to finance its activities without additional subordinated financial support, or (c) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. The condensed consolidated financial statements (unaudited) have been prepared to reflect the consolidation of the companies listed below. The historical balance sheets and results of operations of the companies listed below have been reflected in the condensed consolidated balance sheets and condensed consolidated statements of income, cash flows and stockholders' equity at and for each period since their respective incorporation dates. The consolidated companies are referred to as Danaos, or the Company.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2018, Danaos included the vessel owning companies (the Danaos Subsidiaries) listed below. All vessels are container vessels:

Company	Date of Incorporation	Vessel Name	Year Built	TEU(1)
MegacARRIER (No. 1) Corp.	September 10, 2007	Hyundai Honour	2012	13,100
MegacARRIER (No. 2) Corp.	September 10, 2007	Hyundai Respect	2012	13,100
MegacARRIER (No. 3) Corp.	September 10, 2007	Maersk Enping	2012	13,100
MegacARRIER (No. 4) Corp.	September 10, 2007	Maersk Exeter	2012	13,100
MegacARRIER (No. 5) Corp.	September 10, 2007	MSC Ambition	2012	13,100
CellContainer (No. 6) Corp.	October 31, 2007	Express Berlin	2011	10,100
CellContainer (No. 7) Corp.	October 31, 2007	Express Rome	2011	10,100
CellContainer (No. 8) Corp.	October 31, 2007	Express Athens	2011	10,100
Karlita Shipping Co. Ltd.	February 27, 2003	Pusan C (ex CSCL Pusan)	2006	9,580
Ramona Marine Co. Ltd.	February 27, 2003	Le Havre (ex CSCL Le Havre)	2006	9,580
TeucARRIER (No. 5) Corp.	September 17, 2007	CMA CGM Melisande	2012	8,530
TeucARRIER (No. 1) Corp.	January 31, 2007	CMA CGM Attila	2011	8,530
TeucARRIER (No. 2) Corp.	January 31, 2007	CMA CGM Tancredi	2011	8,530
TeucARRIER (No. 3) Corp.	January 31, 2007	CMA CGM Bianca	2011	8,530
TeucARRIER (No. 4) Corp.	January 31, 2007	CMA CGM Samson	2011	8,530
Oceanew Shipping Ltd.	January 14, 2002	Europe	2004	8,468
Oceanprize Navigation Ltd.	January 21, 2003	America (ex CSCL America)	2004	8,468
Boxcarrier (No. 2) Corp.	June 27, 2006	CMA CGM Musset	2010	6,500
Boxcarrier (No. 3) Corp.	June 27, 2006	CMA CGM Nerval	2010	6,500
Boxcarrier (No. 4) Corp.	June 27, 2006	CMA CGM Rabelais	2010	6,500
Boxcarrier (No. 5) Corp.	June 27, 2006	CMA CGM Racine	2010	6,500
Boxcarrier (No. 1) Corp.	June 27, 2006	CMA CGM Moliere	2009	6,500
Expresscarrier (No. 1) Corp.	March 5, 2007	YM Mandate	2010	6,500
Expresscarrier (No. 2) Corp.	March 5, 2007	YM Maturity	2010	6,500
Actaea Company Limited	October 14, 2014	Performance	2002	6,402
Asteria Shipping Company Limited	October 14, 2014	Dimitra C (ex Priority)	2002	6,402
Continent Marine Inc.	March 22, 2006	Zim Monaco	2009	4,253
Medsea Marine Inc.	May 8, 2006	Zim Dalian	2009	4,253
Blacksea Marine Inc.	May 8, 2006	Zim Luanda	2009	4,253
Bayview Shipping Inc.	March 22, 2006	Zim Rio Grande	2008	4,253
Channelview Marine Inc.	March 22, 2006	Zim Sao Paolo	2008	4,253
Balticsea Marine Inc.	March 22, 2006	Zim Kingston	2008	4,253
Seacarriers Services Inc.	June 28, 2005	YM Seattle	2007	4,253
Seacarriers Lines Inc.	June 28, 2005	YM Vancouver	2007	4,253
Containers Services Inc.	May 30, 2002	ANL Tongala (ex Deva)	2004	4,253
Containers Lines Inc.	May 30, 2002	Derby D	2004	4,253
Boulevard Shiptrade S.A	September 12, 2013	Dimitris C	2001	3,430
CellContainer (No. 4) Corp.	March 23, 2007	Express Spain	2011	3,400
CellContainer (No. 5) Corp.	March 23, 2007	Express Black Sea	2011	3,400
CellContainer (No. 1) Corp.	March 23, 2007	Express Argentina	2010	3,400
CellContainer (No. 2) Corp.	March 23, 2007	Express Brazil	2010	3,400
CellContainer (No. 3) Corp.	March 23, 2007	Express France	2010	3,400
Wellington Marine Inc.	January 27, 2005	Singapore	2004	3,314
Auckland Marine Inc.	January 27, 2005	Colombo	2004	3,314
Vilos Navigation Company Ltd.	May 30, 2013	MSC Zebra	2001	2,602
Trindade Maritime Company	April 10, 2013	Amalia C	1998	2,452
Sarond Shipping Inc.	January 18, 2013	Danae C	2001	2,524

Edgar Filing: Danaos Corp - Form 424B3

Speedcarrier (No. 7) Corp.	December 6, 2007	Highway	1998	2,200
Speedcarrier (No. 6) Corp.	December 6, 2007	Progress C (ex Hyundai Progress)	1998	2,200
Speedcarrier (No. 8) Corp.	December 6, 2007	Bridge	1998	2,200
Speedcarrier (No. 1) Corp.	June 28, 2007	Vladivostok	1997	2,200
Speedcarrier (No. 2) Corp.	June 28, 2007	Advance	1997	2,200
Speedcarrier (No. 3) Corp.	June 28, 2007	Stride	1997	2,200
Speedcarrier (No. 5) Corp.	June 28, 2007	Future	1997	2,200
Speedcarrier (No. 4) Corp.	June 28, 2007	Sprinter	1997	2,200

(1) Twenty-foot equivalent unit, the international standard measure for containers and containership capacity.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies, see Note 2 Significant Accounting Policies in the Company's consolidated financial statements included in the Annual Report on Form 20-F for the year ended December 31, 2017 filed with the Securities and Exchange Commission on March 7, 2018. During the nine months ended September 30, 2018, other than the following, there were no other significant changes made to the Company's significant accounting policies:

*Changes in Accounting Principles:**Statement of Cash Flows*

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). The guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. Additionally, in November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted these standards effective January 1, 2018. Prior periods were retrospectively adjusted to conform to the current period's presentation. The adoption of ASU 2016-15 did not have a material impact on the condensed consolidated statements of cash flows. Upon adoption of ASU 2016-18, the Company reclassified the restricted cash balance of \$2.8 million as of December 31, 2017 and December 31, 2016 to the cash, cash equivalents and restricted cash balances within the condensed consolidated statements of cash flows and recorded a decrease of \$2.8 million in net cash used in financing activities for the nine months ended September 30, 2017. Refer to Note 3 Cash, Cash Equivalents and Restricted Cash for further details.

Financial Instruments

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition the amendments in this Update eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The Company adopted this standard effective January 1, 2018. The Company's investment in ZIM equity securities does not have readily determinable fair value. As a result, the Company elected to record this equity investment at cost, less impairment, adjusted for subsequent observable price changes. The adoption of this standard did not have a material effect on the condensed consolidated financial statements and notes disclosures. As of September 30, 2018, the Company did not identify any observable prices for the same or similar securities that would indicate a change in the carrying value of the Company's equity.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 **Significant Accounting Policies (Continued)****Revenue Recognition**

In May 2014, the FASB issued Accounting Standards Update No. 2014-9 Revenue from Contracts with Customers (ASU 2014-09), which superseded the current revenue recognition guidance and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08), which clarifies the implementation guidance on principal versus agent considerations. In addition, in 2016, the FASB issued four amendments, which clarified the guidance on certain items such as reporting revenue as a principal versus agent, identifying performance obligations, accounting for intellectual property licenses, assessing collectability and presentation of sales taxes. The Company adopted this standard effective January 1, 2018 using modified retrospective approach. The adoption of this standard did not have any effect on the retained earnings or on the financial results for the nine months ended September 30, 2018 of the Company since all the Company's vessels generated revenues from time charter and bareboat charter agreements, which are governed by ASU 2016-02 Leases see below.

Recent Accounting Pronouncements:

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 will apply to both types of leases capital (or finance) leases and operating leases. According to the new Accounting Standard, lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. This guidance requires companies to identify lease and non-lease components of a lease agreement. Lease components relate to the right to use the leased asset and non-lease components relate to payments for goods or services that are transferred separately from the right to use the underlying asset. Total lease consideration is allocated to lease and non-lease components on a relative standalone basis. The recognition of revenues related to lease components will be governed by ASC 842 while revenue related to non-lease components will be subject to ASC 606. In March 2018, the FASB tentatively approved a proposed amendment to ASU 842, that would provide an entity the optional transition method to initially account for the impact of the adoption with a cumulative adjustment to retained earnings on the effective date of the ASU, January 1, 2019 rather than January 1, 2017, which would eliminate the need to restate amounts presented prior to January 1, 2019. In addition, lessors can elect, as a practical expedient, not to allocate the total consideration to lease and non-lease components based on their relative standalone selling prices. As adopted by the Accounting Standards Update No. 2018-11 in July 2018, this practical expedient will allow lessors to elect and account for the combined component based on its predominant characteristic. ASC 842 provides practical expedients that allow entities to not (i) reassess whether any expired or existing contracts are considered or contain leases; (ii) reassess the lease classification for any expired or existing leases; and (iii) reassess initial direct costs for any existing leases. In July 2018, the FASB issued Accounting Standards Update No. 2018-10, Codification Improvements to Topic 842, Leases, which further improves and clarifies ASU 2016-02. The Company plans to adopt the standard on January 1, 2019 and expects to elect the use of practical expedients. The Company has not completed its analysis of this ASU. Based on a preliminary assessment, the Company is expecting that the adoption will not have a material effect on its consolidated financial statements since the Company is primarily a lessor and the changes are fairly minor.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. The ASU 2016-13 is effective for public

Edgar Filing: Danaos Corp - Form 424B3

entities for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of the new standard on the Company's consolidated financial statements.

F-10

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash consisted of the following (in thousands):

	As of September 30, 2018	As of December 31, 2017	As of December 31, 2016
Cash and cash equivalents	\$ 80,133	\$ 66,895	\$ 73,717
Restricted cash		2,812	2,812
Total	\$ 80,133	\$ 69,707	\$ 76,529

The Company was required to maintain cash of \$2.8 million as of December 31, 2017 and December 31, 2016, in retention bank accounts as a collateral for the upcoming scheduled debt payments of its KEXIM-ABN Amro credit facility, which were recorded under current assets in the Company's Condensed Consolidated Balance Sheets.

4 Fixed assets, net

The residual value (estimated scrap value at the end of the vessels' useful lives) of the fleet was estimated at \$378.2 million as of September 30, 2018 and as of December 31, 2017. The Company has calculated the residual value of the vessels taking into consideration the 10 year average and the 5 year average of the scrap rates. The Company has applied uniformly the scrap value of \$300 per ton for all vessels. The Company believes that \$300 per ton is a reasonable estimate of future scrap prices, taking into consideration the cyclical nature of the nature of future demand for scrap steel. Although the Company believes that the assumptions used to determine the scrap rate are reasonable and appropriate, such assumptions are highly subjective, in part, because of the cyclical nature of future demand for scrap steel.

In connection with the Refinancing, the Company has undertaken to seek to sell two of its 13,100 TEU vessels, the *Hyundai Honour* and *Hyundai Respect*, before December 31, 2018. The net proceeds from sales of such vessels are to be applied pro rata to repay the credit facilities secured by mortgages on such vessels, which would further reduce the Company's outstanding debt.

5 Deferred Charges, net

Deferred charges, net consisted of the following (in thousands):

	Drydocking and Special Survey Costs	
As of January 1, 2017	\$	8,199
Additions		7,511
Amortization		(6,748)
As of December 31, 2017		8,962
Additions		11,905
Amortization		(6,888)
As of September 30, 2018	\$	13,979

The Company follows the deferral method of accounting for drydocking and special survey costs in accordance with accounting for planned major maintenance activities, whereby actual costs incurred are deferred and 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. Furthermore, when a vessel is drydocked for more than one reporting period, the respective costs are identified and recorded in the period in which they were incurred and not at the conclusion of the drydocking.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Investments in affiliates

In August 2015, an affiliated company Gemini Shipholdings Corporation (Gemini) was formed by the Company and Virage International Ltd. (Virage), a company controlled by the Company's largest shareholder. Gemini acquired a 100% interest in entities with capital leases for the *Suez Canal* and *Genoa* and that own the container vessels *Catherine C (ex NYK Lodestar)* and *NYK Leo*. Gemini financed these acquisitions with the assumption of capital lease obligations of \$35.4 million, \$19.0 million of borrowings under secured loan facilities and an aggregate of \$47.4 million from equity contributions from the Company and Virage, which subscribed in cash for 49% and 51%, respectively, of Gemini's issued and outstanding share capital. As of September 30, 2018, Gemini consolidated its wholly owned subsidiaries listed below:

Company	Vessel Name	Year Built	TEU	Date of vessel delivery
Averto Shipping S.A.	Suez Canal	2002	5,610	July 20, 2015
Sinoi Marine Ltd.	Genoa	2002	5,544	August 2, 2015
Kingsland International Shipping Limited	Catherine C (ex NYK Lodestar)	2001	6,422	September 21, 2015
Leo Shipping and Trading S.A.	NYK Leo	2002	6,422	February 4, 2016

The Company has determined that Gemini is a variable interest entity of which the Company is not the primary beneficiary, and as such, this affiliated company is accounted for under the equity method and recorded under Equity income on investments in the condensed consolidated statements of income. The Company does not guarantee the debt of Gemini and its subsidiaries and has the right to purchase all of the beneficial interest in Gemini that it does not own for fair market value at any time after December 31, 2018, or earlier if permitted under its credit facilities. The net assets of Gemini total \$14.1 million as of September 30, 2018. The Company's exposure is limited to its share of the net assets of Gemini proportionate to its 49% equity interest in Gemini.

A condensed summary of the financial information for equity accounted investments 49% owned by the Company shown on a 100% basis are as follows (in thousands):

	As of September 30, 2018	As of December 31, 2017
Current assets	\$ 9,199	\$ 10,014
Non-current assets	\$ 40,812	\$ 40,901
Current liabilities	\$ 5,874	\$ 6,131
Non-current liabilities	\$ 30,035	\$ 32,544
	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net operating revenues	\$ 14,052	\$ 13,009
Net income	\$ 1,862	\$ 1,292

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Other Non-current Assets

Other non-current assets consisted of the following (in thousands):

	As of September 30, 2018	As of December 31, 2017
Available for sale securities:		
ZIM notes, net	\$ 26,139	\$ 21,093
HMM notes, net	14,932	13,509
Equity participation ZIM		
Other assets	\$ 22,405	14,864
Total	\$ 63,476	\$ 49,466

Equity participation in ZIM and interest bearing unsecured ZIM notes maturing in 2023, which consist of \$8.8 million Series 1 Notes and \$41.1 million of Series 2 Notes, were obtained after the charter restructuring agreements with ZIM in July 2014. Interest bearing senior unsecured HMM notes consist of \$32.8 million Loan Notes 1 maturing in July 2024 and \$6.2 million Loan Notes 2 maturing in December 2022, which were obtained after the charter restructuring agreements with HMM in July 2016. As of December 31, 2016, the Company has recorded an impairment loss on its equity participation in ZIM amounting to \$28.7 million, thus reducing its book value to nil and \$0.7 million impairment loss on ZIM notes. See Note 8 Other Non-current Assets to the consolidated financial statements in the Annual Report on Form 20-F for the year ended December 31, 2017 for further details.

On March 28, 2017, the Company sold \$13.0 million principal amount of HMM Loan Notes 1 maturing in July 2024 carried at amortized costs of \$8.6 million for gross cash proceeds on sale of \$6.2 million, which were received in April 2017. The sale resulted in a loss of \$2.4 million, which was recognized in the Other income/(expenses), net in the accompanying condensed consolidated statement of income for the nine months ended September 30, 2017. The proceeds were used to repay related outstanding debt obligations in April 2017. The unrealized losses, which were recognized in other comprehensive loss, are analyzed as follows as of September 30, 2018 (in thousands):

Description of securities	Amortized cost basis	Fair value	Unrealized loss on available for sale securities
ZIM notes	\$ 44,082	\$ 26,139	\$ (17,943)
HMM notes	20,135	14,932	(5,203)
Total	\$ 64,217	\$ 41,071	\$ (23,146)

	Unrealized loss on available for sale securities
Beginning balance as of January 1, 2018	\$ (26,607)
Unrealized gain on available for sale securities	3,461
Ending balance as of September 30, 2018	\$ (23,146)

Edgar Filing: Danaos Corp - Form 424B3

Other assets mainly include non-current assets related to straight-lining of the Company's revenue amounting to \$19.9 million and \$10.8 million as of September 30, 2018 and December 31, 2017, respectively.

F-13

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 **Accrued Liabilities**

Accrued liabilities consisted of the following (in thousands):

	As of September 30, 2018	As of December 31, 2017
Accrued payroll	\$ 925	\$ 928
Accrued interest	6,215	9,953
Accrued expenses	5,444	4,345
Total	\$ 12,584	\$ 15,226

Accrued expenses mainly consisted of accruals related to the operation of the Company's fleet and other expenses as of September 30, 2018 and December 31, 2017.

9 **Long-Term Debt, net**

Company's long-term debt, net as of September 30, 2018 and December 31, 2017 consisted of the following (in thousands):

Credit Facility	Balance as of September 30, 2018	Balance as of December 31, 2017
The Royal Bank of Scotland \$475.5 mil. Facility	\$ 476,397	\$ 634,864
The Royal Bank of Scotland (January 2011 Facility)		24,316
HSH Nordbank AG - Aegean Baltic Bank - Piraeus Bank \$382.5 mil. Facility	383,253	622,851
HSH Nordbank AG - Aegean Baltic Bank - Piraeus Bank (January 2011 Facility)		17,205
Citibank \$114 mil. Facility	113,957	117,316
Credit Suisse \$171.8 mil. Facility	171,783	176,189
Citibank Eurobank \$37.6 mil. Facility	37,645	37,645
Club Facility \$206.2 mil.	206,412	220,689
Sinosure Cexim - Citibank - ABN Amro \$203.4 mil. Facility	67,800	81,360
Citibank \$123.9 mil. Facility	123,928	
Citibank \$120 mil. Facility	120,000	
Deutsche Bank		156,062
ABN Amro-Bank of America Merrill Lynch-Burlington Loan Management-National Bank of Greece		199,302
ABN Amro - Bank of America Merrill Lynch - Burlington Loan Management - National Bank of Greece (January 2011 Credit Facility)		8,771
The Export - Import Bank of Korea & ABN Amro		23,109
Fair value of debt	(28,043)	

Edgar Filing: Danaos Corp - Form 424B3

Comprehensive Financing Plan exit fees accrued		21,412		21,099
Total long-term debt	\$	1,694,544	\$	2,340,778
Less: Deferred finance costs, net		(48,637)		(11,177)
Less: Current portion		(118,517)	\$	(2,329,601)
Total long-term debt net of current portion and deferred finance cost	\$	1,527,390		

All loans discussed above are collateralized by first and second preferred mortgages over the vessels financed, general assignment of all hire freights, income and earnings, the assignment of their insurance policies, as well as any proceeds from the sale of mortgaged vessels and the corporate guarantee of Danaos Corporation.

As of September 30, 2018, there was no remaining borrowing availability under the Company's credit facilities.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Long-Term Debt, net (Continued)

The Refinancing and the New Credit Facilities

The Company entered into a debt refinancing agreement with certain of its lenders holding debt of \$2.2 billion maturing by December 31, 2018, for a debt refinancing (the Refinancing) which was consummated on August 10, 2018 (the Closing Date) that superseded, amended and supplemented the terms of each of the Company's then-existing credit facilities (other than the Sinasure-CEXIM credit facility which is not covered thereby). The Refinancing provided for, among other things, the issuance of 99,342,271 new shares of common stock to certain of the Company's lenders (which represented 47.5% of the Company's outstanding common stock after giving effect to such issuance and diluted existing shareholders ratably), a principal amount debt reduction of approximately \$551 million, revised amortization schedules, maturities, interest rates, financial covenants, events of defaults, guarantee and security packages and \$325.9 million of new debt financing from one of the Company's lenders - Citibank. The Company's largest stockholder, Danaos Investment Limited as Trustee of the 883 Trust (DIL), contributed \$10 million to the Company on the Closing Date, for which DIL did not receive any shares of common stock or other interests in the Company. The maturities of most of the new loan facilities covered by this debt refinancing were extended by five years to December 31, 2023 (or, in some cases, June 30, 2024).

In addition, the Company agreed to make reasonable efforts to source investment commitment for new shares (as defined) of not less than \$50 million of equity in aggregate no later than 18 months after the Closing Date (\$10 million of which is to be underwritten by DIL).

As part of the Refinancing the Company entered into new credit facilities for an aggregate principal amount of approximately \$1.6 billion due December 31, 2023 through an amendment and restatement or replacement of existing credit facilities. The following are the new term loan credit facilities (the New Credit Facilities):

- (i) a \$475.5 million credit facility provided by the Royal Bank of Scotland (the RBS Facility), which refinanced the prior Royal Bank of Scotland credit facilities
- (ii) a \$382.5 million credit facility provided by HSH Nordbank AG - Aegean Baltic Bank - Piraeus Bank (the HSH Facility), which refinanced the prior HSH Nordbank AG - Aegean Baltic Bank - Piraeus Bank credit facilities
- (iii) a \$114.0 million credit facility provided by Citibank (the Citibank \$114 mil. Facility), which refinanced the prior Citibank credit facility

- (iv) a \$171.8 million credit facility provided by Credit Suisse (the Credit Suisse \$171.8 mil. Facility), which refinanced the prior Credit Suisse credit facility
- (v) a \$37.6 million credit facility provided by Citibank - Eurobank (the Citibank - Eurobank \$37.6 mil. Facility) , which refinanced the prior Citibank Eurobank credit facility
- (vi) a \$206.2 million credit facility provided by Citibank - Credit Suisse - Sentina (the Club Facility \$206.2 mil.), which refinanced the prior EnTrustPermal - Credit Suisse - CitiGroup Club facility
- (vii) a \$120.0 million credit facility provided by Citibank (the Citibank \$120 mil. Facility), which refinanced the prior ABN Amro Bank of America Merrill Lynch Burlington Loan Management National Bank of Greece facilities
- (viii) a \$123.9 million credit facility provided by Citibank (the Citibank \$123 mil. Facility), which refinanced the prior Deutsche Bank facility

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Long-Term Debt, net (Continued)

Interest and Fees

The interest rate payable under the New Credit Facilities (other than the Sinosure-CEXIM credit facility) is LIBOR+2.50% (subject to a 0% floor), with subordinated tranches of two credit facilities incurring additional PIK interest of 4.00%, compounded quarterly, payable in respect of \$282 million principal related to the RBS Facility and HSH Facility, which tranches have maturity dates of June 30, 2024.

The Company was required to pay a cash amendment fee of \$70.1 million in the aggregate, out of which \$18.3 million was paid in cash before September 30, 2018 and the remaining portion will be paid in instalments. The unpaid amendment fee of \$36.5 million was accrued under Other current liabilities and of \$15.3 million under Other long-term liabilities in the consolidated balance sheet as of September 30, 2018. Of the cash amendment fee, \$18.1 million was deferred and will be amortized over the life of the respective credit facilities with the effective interest method and \$52.0 million was expensed to the income statement.

The Company was also required to issue 14.7 million shares of common stock as part of the amendments fees on the Closing Date, or \$25.0 million fair value in the aggregate. Of this amount, recognition of \$18.1 million was deferred and will be amortized over the life of the respective credit facilities with the effective interest method and \$6.9 million was expensed in the accompanying condensed consolidated statements of income. The fair value of the shares issued at the Closing Date are based on a level 1 Measurement of the share's price, which was \$1.70 as of August 10, 2018.

The Company incurred \$51.5 million and \$9.3 million of professional fees related to the refinancing discussions with its lenders reported under Other income/(expenses), net in the accompanying condensed consolidated statements of income for the nine months periods ended September 30, 2018 and 2017, respectively. Additionally, the Company deferred \$11.7 million of professional fees related to the extinguished Citibank facilities and will be amortized over the life of the respective credit facilities.

Covenants, Events of Defaults, Collaterals and Guarantees

The New Credit Facilities contain financial covenants requiring the Company to maintain:

- (i) minimum collateral to loan value coverage on a charter-free basis increasing from 57.0% as of December 31, 2018 to 100% as of September 30, 2023 and thereafter,

Edgar Filing: Danaos Corp - Form 424B3

- (ii) minimum collateral to loan value coverage on a charter-attached basis increasing from 69.5% as of December 31, 2018 to 100% as of September 30, 2023 and thereafter,
- (iii) minimum liquidity of \$30 million throughout the term of the new credit facilities,
- (iv) maximum consolidated net leverage ratio, declining from 7.50x as of December 31, 2018 to 5.50x as of September 30, 2023 and thereafter,
- (v) minimum interest coverage ratio of 2.50x throughout the term of the new credit facilities and
- (vi) minimum consolidated market value adjusted net worth increasing from negative \$510 million as of December 31, 2018 to \$60 million as of September 30, 2023 and thereafter.

The New Credit Facilities contain certain restrictive covenants and customary events of default, including those relating to cross-acceleration and cross-defaults to other indebtedness, non-compliance, or repudiation of security documents, material adverse changes to the Company's business, the Company's common stock ceasing to be listed on the NYSE (or another recognized stock exchange), foreclosure on a vessel in the Company's fleet, a change in control of the Manager, a breach of the management agreement by the Manager and a material breach of a charter by a charterer or cancellation of a charter (unless replaced with a similar charter acceptable to the lenders) for the vessels securing the respective new credit facilities. Each of the new credit facilities is secured by customary shipping industry collateral, including vessel mortgages, earnings accounts, assignment of their insurance policies, the Company's investments in ZIM and Hyundai Merchant Marine securities and stock pledges and benefits from corporate guarantees.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Long-Term Debt, net (Continued)

Exit Fee

As of September 30, 2018, the Company has an accrued Exit Fee of \$21.4 million relating to its debt facilities and is reported under Long-term debt, net in the consolidated Balance Sheet. The payment of the exit fees accrued under the long-term debt prior to the debt refinancing shall be postponed on the earlier of maturity, acceleration or prepayment or repayment in full of the amended facilities or the relevant facility refinancing. The exit fees will accrete in the consolidated statements of income of the Company over the life of the respective facilities covered by the Refinancing (excluding Sinosure-CEXIM credit facility) up to the agreed full exit fees payable amounting to \$24.0 million.

Payment of Dividends

The Company will not be permitted to pay dividends under the new credit facilities, until (1) it receives in excess of \$50 million in net cash proceeds from offerings of its common stock and (2) the payment in full of the first installment of amortization payable following the consummation of the Refinancing under each new credit facility entered into in connection therewith (other than the Sinosure-CEXIM credit facility). After these conditions are satisfied, the Company would be permitted to pay dividends under the terms of these credit facilities unless an event of default has occurred and is continuing or would occur as a result of the payment of such dividend and as long as the obligors under each new credit facility are in compliance with covenants thereunder (including the Company's compliance with financial covenants).

Sinosure-CEXIM credit facility and KEXIM-ABN AMRO credit facility

On the Closing Date the Company amended and restated the Sinosure-CEXIM credit facility, dated as of February 21, 2011, under which \$67.8 million was outstanding as of September 30, 2018, primarily to align its financial covenants with those contained in the new credit facilities and provide second lien collateral to lenders under certain of the New Credit Facilities.

On June 27, 2018, the Company gave notice to the lenders under the KEXIM ABN-AMRO credit facility and fully repaid \$17.5 million outstanding under this facility on July 20, 2018.

Principal Payments

Edgar Filing: Danaos Corp - Form 424B3

The New Credit Facilities provide for quarterly fixed and variable amortization payments, together representing approximately 85% of actual free cash flows from the relevant vessels securing such credit facilities (calculated on a generally consistent basis to the Company's 2011 Restructuring Agreement), subject to certain adjustments. The new credit facilities have maturity dates of December 31, 2023 (or in some cases as indicated below, June 30, 2024). After giving effect to the debt refinancing consummated on August 10, 2018, scheduled debt maturities of total long-term debt subsequent to September 30, 2018 are as follows (in thousands):

Payments due by period ended	Fixed principal repayments	Final payments due by June 30, 2024*	Total principal payments
September 30, 2019	\$ 118,517		\$ 118,517
September 30, 2020	115,086		115,086
September 30, 2021	120,326		120,326
September 30, 2022	99,891		99,891
September 30, 2023	81,360		81,360
Thereafter	17,792	\$ 1,148,203	1,165,995
Total long-term debt	\$ 552,972	\$ 1,148,203	\$ 1,701,175

* The final payments due by June 30, 2024, include the unamortized remaining principal debt balances under the new credit facilities, as such amount will be determinable following the fixed amortization. As mentioned above, the Company is also subject to variable principal amortization based on actual free cash flows, which are included under final payments due by June 30, 2024.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Long-Term Debt, net (Continued)

Accounting for the Restructuring Agreement

The Company performed an accounting analysis on a lender by lender basis to determine which accounting guidance applied to each of the amendments to our Existing Credit Facilities. The following guidance was used to perform the analysis:

(i) As set forth in ASC 470-60, *Accounting by Debtors and Creditors for Troubled Debt Restructurings* troubled debt restructuring (TDR) accounting is required when the debtor is experiencing financial difficulty and the creditor has granted a concession. A concession is granted when the effective borrowing rate on the restructured debt is less than the effective borrowing rate on the original debt. The application of TDR accounting requires a comparison of the recorded value of each debt instrument prior to restructuring to the sum of the undiscounted future cash flows to be received by a creditor under the newly restructured debt instrument. Interest expense in future periods is determined by the effective interest rate required to discount the newly restructured future cash flows to equal the recorded value of the debt instrument without regard to how the parties allocated these cash flows to principal and interest in the restructured agreement. In cases in which the recorded value of the debt instrument exceeds the sum of undiscounted future cash flows to be received under the restructured debt instrument, the recorded value is reduced to the sum of undiscounted future cash flows, and a gain is recorded. In this instance, no future interest expense will be recorded on the affected facilities, as the adjusted recorded value and the undiscounted future cash flows are equal and the effective interest rate is zero.

(ii) For lenders on which the Company has concluded that the above changes to the terms of long-term debt do not constitute a troubled debt restructuring as no concession has been granted, the Company applied the guidance in ASC 470-50, Modifications and Extinguishments. The accounting treatment is determined by whether (1) the lender (creditor) remains the same and (2) terms of the new debt and original debt are substantially different. The new debt and the old debt are considered substantially different pursuant to ASC 470-50 when the present value of the cash flows under the terms of the new debt instrument is at least 10% different from the present value of the remaining cash flows under the terms of the original instrument. If the original and new debt instruments are substantially different, the original debt is derecognized and the new debt should be initially recorded at fair value, with the difference recognized as an extinguishment gain or loss.

Based on the analysis, we concluded for the lenders that participated in both the Existing Credit Facilities and the New Credit Facilities, the following accounting:

Troubled Debt Restructuring

Prior to the finalization of the Refinancing, the Company concluded that it was experiencing financial difficulty and that certain of the lenders granted a concession (as part of the Refinancing). The Company was experiencing financial difficulty primarily as a result of the projected cash flows not being sufficient to service the balloon payment due as of December 31, 2018 without restructuring and the Company was not be able to obtain funding from sources other than existing creditors at an effective interest rate equal to the current market interest rate for similar debt. As a result, the following accounting has been applied at the Closing Date:

F-18

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Long-Term Debt, net (Continued)

Troubled Debt Restructuring (Continued)

(i) As of the Closing Date, the outstanding balance of HSH Facility was \$639.8 million. In exchange for reduction of principal of \$251.0 million, the lenders received a total of 49.4 million shares of common stock with a fair value of \$83.9 million, resulting in a net concession of \$167.1 million. Accumulated accrued interest of \$129.3 million was recognized using the Libor rate of 2.34% as of August 10, 2018. The TDR accounting guidance requires the Company to record the value of the new debt to its restructured undiscounted cash flows over the life of the loan, including cash flows associated with the remaining scheduled interest and principal payments. In cases in which the recorded value of the debt instrument exceeds the sum of undiscounted future cash flows to be received under the restructured debt instrument, the recorded value is reduced to the sum of undiscounted future cash flows, and a gain is recorded. For the HSH Facility, the total undiscounted future cash flows total \$518.6 million, which results in a gain of \$36.6 million. The amendment fees to be paid to HSH Facility lenders of \$9.5 million will be directly recorded in the income statement and presented in the net gain on debt extinguishment.

(ii) As of the Closing Date, the outstanding balance of RBS Facility was \$660.9 million. In exchange for reduction of principal of \$179.2 million, the lender received a total of 35.2 million shares of common stock with a fair value of \$59.9 million, resulting in a net concession of \$119.3 million and accumulated accrued interest of \$119.3 million as of August 10, 2018. The TDR accounting guidance requires the Company to record the value of the new debt to its restructured undiscounted cash flows over the life of the loan, including cash flows associated with the remaining scheduled interest and principal payments not to exceed the carrying amount of the original debt. For the RBS Facility, the undiscounted cash flows exceed the recorded value of the modified debt, and as such, the modified and new debt will be accreted up to its maturity value using the effective interest rate inherent in the restructured cash flows. The amendment fees to be paid to RBS of \$9.3 million will be deferred and recognized through the income statement using the effective interest method.

Following the issuance of the shares of common stock, HSH and RBS are considered related parties. The fair value of the shares issued at the Closing Date are based on a level 1 measurement of the share's price, which was \$1.70 as of August 10, 2018. In addition, the outstanding principal and related exit fee payable for the Deutsche Bank Facility, the EnTrustPermal portion of the Club Facility and the ABN AMRO - Bank of America Merrill Lynch - Burlington Loan Management - National Bank of Greece Facility (Other facilities) were extinguished with the proceeds from our new credit facilities with Citibank (the Citibank New Money) amounting to \$325.9 million and with corporate cash amounting to \$12.0 million.

The following table summarizes the impact of the application of TDR accounting and extinguishment of Citibank facilities and Other facilities (in thousands):

Edgar Filing: Danaos Corp - Form 424B3

	HSH facility	RBS facility	Citibank facilities extinguishment	Other facilities extinguishment	Total
Balance as of August 10, 2018 before refinancing	639,174	660,855	152,944	450,830	1,903,803
(-) Shares issued	(83,935)	(59,905)			(143,840)
(+) New money			325,851		325,851
(-) Cash payments				(337,851)	(337,851)
	555,239	600,950	478,795	112,979	1,747,963
(-) Concession granted	(167,121)	(119,275)		(108,810)	(395,206)
(+) Accumulated accrued interest	129,346	119,275			248,621
(-) Existing fees write-off	1,146		3,535	(4,169)	512
Balance as of August 10, 2018 after refinancing	518,610	600,950	482,330	0	1,601,890
Gross gain on debt extinguishment	36,630		(3,535)	112,979	146,074
(+) Fair value adjustment			29,251		29,251
(-) New loan amendment fees	(9,499)		(49,461)		(58,960)
Net gain on debt extinguishment	27,131		(23,745)	112,979	116,365

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Long-Term Debt, net (Continued)

Modification and Extinguishment Accounting

Based on the accounting analysis performed, the Company concluded that:

(i) As of the Closing Date, the outstanding balance for the Credit Suisse Facility, the Credit Suisse and Sentina portions of the New Club Facility and the Eurobank portion of the Citibank - Eurobank Facility was \$173.5 million, \$125.6 million and \$7.2 million, respectively. The present value of the cash flows Credit Suisse facilities and Sentina portion of the New Club Facility and Eurobank portion of the Citibank - Eurobank Facility, as amended by the debt refinancing, were not substantially different from the present value of the remaining cash flows under the terms of the original instruments prior to the debt refinancing, and, as such, accounted for the debt refinancing as a modification. Accordingly, no gain or loss was recorded and a new effective interest rate was established based on the carrying value of the long-term loan prior to the debt refinancing became effective and the revised cash flows pursuant to the debt refinancing, including the fair value of the shares issued to the lender as part of the amendment fees. Total amendment fees paid in cash and shares to Credit Suisse Facility, the New Club Facility and Eurobank portion of the Citibank - Eurobank Facility were \$15.1 million, \$10.9 million and \$0.1 million, respectively and are deferred over the life of the facilities and recognized through the new effective interest method.

(ii) The present value of the cash flows for all of the Existing Citibank facilities plus the Citibank - New Money Facility, was substantially different from the present value of the remaining cash flows under the terms of the original instrument prior to the debt refinancing, and, as such, accounted for the debt refinancing as an extinguishment. Accordingly, the Company derecognized the carrying value of the prior Citibank debt facilities and recorded the refinanced debt at fair value totaling \$448.2 million. Total new fees of \$49.5 million were recorded directly in the income statement under the gain on debt extinguishment. The fair value of the new Citibank facilities was determined by the Company through an independent valuation using an issue date, risk adjusted market interest rate of 7.15% per annum, similar to the market yield for unsecured high yield bonds to the shipping companies, and considered to be a Level 2 input in the ASC 820 fair value hierarchy.

10 Financial Instruments

The principal financial assets of the Company consist of cash and cash equivalents, trade receivables and other assets. The principal financial liabilities of the Company consist of long-term bank loans and accounts payable. The following is a summary of the Company's risk management

strategies and the effect of these strategies on the Company's condensed consolidated financial statements.

Interest Rate Risk: Interest rate risk arises on bank borrowings. The Company monitors the interest rate on borrowings closely to ensure that the borrowings are maintained at favorable rates.

Concentration of Credit Risk: Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its temporary cash investments, consisting mostly of deposits, with established financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company is exposed to credit risk in the event of non-performance by counterparties, however, the Company limits this exposure by diversifying among counterparties with high credit ratings. The Company depends upon a limited number of customers for a large part of its revenues. Credit risk with respect to trade accounts receivable is generally managed by the selection of customers among the major liner companies in the world and their dispersion across many geographic areas.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Financial Instruments (Continued)

Fair Value: The carrying amounts reflected in the accompanying condensed consolidated balance sheets of financial assets and liabilities (excluding long-term bank loans and certain other non-current assets) approximate their respective fair values due to the short maturity of these instruments. The fair values of long-term floating rate bank loans is estimated based on currently available debt with similar contract terms, interest rate and remaining maturities as well as taking into account its increased credit risk. The fair value of available for sale securities is estimated based on either observable market based inputs or unobservable inputs that are corroborated by market data. The Company is exposed to changes in fair value of available for sale securities as there is no hedging strategy.

a. Interest Rate Swap Hedges

The Company currently has no outstanding interest rate swaps agreements. However, in the past years, the Company entered into interest rate swap agreements with its lenders in order to manage its floating rate exposure. Certain variable-rate interests on specific borrowings were associated with vessels under construction and were capitalized as a cost of the specific vessels. In accordance with the accounting guidance on derivatives and hedging, the amounts related to realized gains or losses on cash flow hedges that have been entered into and qualified for hedge accounting, in order to hedge the variability of that interest, were recognized in accumulated other comprehensive loss and are reclassified into earnings over the depreciable life of the constructed asset, since that depreciable life coincides with the amortization period for the capitalized interest cost on the debt. An amount of \$2.8 million was reclassified into earnings for the nine months ended September 30, 2018 and September 30, 2017, respectively, representing its amortization over the depreciable life of the vessels. An amount of accumulated other comprehensive loss of \$84.7 million is unamortized as of September 30, 2018 and an amount of \$3.7 million is expected to be reclassified into earnings within the next 12 months.

b. Fair Value of Financial Instruments

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Level I: Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets that the Company has the ability to access. Valuation of these items does not entail a significant amount of judgment.

Level II: Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.

Edgar Filing: Danaos Corp - Form 424B3

Level III: Inputs that are unobservable. The Company did not use any Level 3 inputs as of September 30, 2018 and December 31, 2017.

The estimated fair values of the Company's financial instruments are as follows:

	September 30, 2018		As of December 31, 2017	
	Book Value	Fair Value	Book Value	Fair Value
	(in thousands of \$)			
Cash and cash equivalents	\$ 80,133	\$ 80,133	\$ 66,895	\$ 66,895
Restricted cash			\$ 2,812	\$ 2,812
Due from related parties	\$ 13,127	\$ 13,127	\$ 34,007	\$ 34,007
ZIM notes	\$ 26,139	\$ 26,139	\$ 21,093	\$ 21,093
HMM notes	\$ 14,932	\$ 14,932	\$ 13,509	\$ 13,509
Long-term debt, including current portion	\$ 1,694,544	\$ 1,694,544	\$ 2,340,778	\$ 2,325,209

F-21

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Financial Instruments (continued)

The estimated fair value of the financial instruments that are measured at fair value on a recurring basis, categorized based upon the fair value hierarchy, are as follows as of September 30, 2018:

	Total	Fair Value Measurements as of September 30, 2018		
		(Level I)	(Level II)	(Level III)
		(in thousands of \$)		
ZIM notes(1)	\$ 26,139	\$	\$ 26,139	\$
HMM notes(1)	\$ 14,932	\$	\$ 14,932	\$

The estimated fair value of the financial instruments that are not measured at fair value on a recurring basis, categorized based upon the fair value hierarchy, are as follows as of September 30, 2018:

	Total	Fair Value Measurements as of September 30, 2018		
		(Level I)	(Level II)	(Level III)
		(in thousands of \$)		
Long-term debt, including current portion(2)	\$ 1,694,544	\$	\$ 1,694,544	\$

The estimated fair value of the financial instruments that are measured at fair value on a recurring basis, categorized based upon the fair value hierarchy, are as follows as of December 31, 2017:

	Total	Fair Value Measurements as of December 31, 2017		
		(Level I)	(Level II)	(Level III)
		(in thousands of \$)		
ZIM notes(1)	\$ 21,093	\$	\$ 21,093	\$
HMM notes(1)	\$ 13,509	\$	\$ 13,509	\$

The estimated fair value of the financial instruments that are not measured at fair value on a recurring basis, categorized based upon the fair value hierarchy, are as follows as of December 31, 2017:

	Total	Fair Value Measurements as of December 31, 2017		
		(Level I)	(Level II)	(Level III)
		(in thousands of \$)		
Long-term debt, including current portion(2)	\$ 2,325,209	\$	\$ 2,325,209	\$

(1) The fair value is estimated based on either observable market based inputs or unobservable inputs that are corroborated by market data, including currently available information on the Company's counterparty, other contracts with similar terms, remaining maturities and interest rates.

(2) Long-term debt, including current portion is presented gross of deferred finance costs of \$48.6 million and \$11.2 million as of September 30, 2018 and December 31, 2017, respectively. The fair value of the Company's debt is estimated based on currently available debt with similar contract terms, interest rate and remaining maturities, as well as taking into account its increased credit risk.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Commitments and Contingencies

There are no material legal proceedings to which the Company is a party or to which any of its properties are the subject, or other contingencies that the Company is aware of, other than routine litigation incidental to the Company's business. Furthermore, the Company does not have any commitments outstanding.

12 Stockholders' Equity

Our largest stockholder DIL contributed \$10 million to the Company in connection with the consummation of the Company's debt refinancing on August 10, 2018. DIL did not receive any shares of common stock or other interests in the Company as a result of this contribution.

Additionally, on August 10, 2018, in connection with this debt refinancing, the Company issued 99,342,271 new shares of common stock to certain of the Company's lenders, which represented 47.5% of the outstanding common stock immediately after this issuance.

As of April 18, 2008, the Board of Directors and the Compensation Committee approved incentive compensation of Manager's employees with its shares from time to time, after specific for each such time, decision by the compensation committee and the Board of Directors in order to provide a means of compensation in the form of free shares to certain employees of the Manager of the Company's common stock. The plan was effective as of December 31, 2008. Pursuant to the terms of the plan, employees of the Manager may receive (from time to time) shares of the Company's common stock as additional compensation for their services offered during the preceding period. The stock will have no vesting period and the employee will own the stock immediately after grant. The total amount of stock to be granted to employees of the Manager will be at the Company's Board of Directors' discretion only and there will be no contractual obligation for any stock to be granted as part of the employees' compensation package in future periods. During the nine months ended September 30, 2018, the Company did not grant any shares under the plan. During the nine months ended September 30, 2018, no new shares were issued.

The Company has also established the Directors Share Payment Plan under its 2006 equity compensation plan. The purpose of the plan is to provide a means of payment of all or a portion of compensation payable to directors of the Company in the form of Company's Common Stock. The plan was effective as of April 18, 2008. Each member of the Board of Directors of the Company may participate in the plan. Pursuant to the terms of the plan, directors may elect to receive in Common Stock all or a portion of their compensation. Following December 31 of each year, the Company delivers to each Director the number of shares represented by the rights credited to their Share Payment Account during the preceding calendar year. During the nine months ended September 30, 2018 and September 30, 2017, none of the directors elected to receive their compensation in Company shares.

On September 14, 2018, the Company granted 4,182,832 shares of restricted stock to executive officers of the Company, 50% of which are scheduled to vest on December 31, 2019 and 50% of which are scheduled to vest on December 31, 2021, subject to satisfaction of the vesting terms, under its 2006 Equity Compensation Plan, as amended. These shares of restricted stock are issued and outstanding as of September 30, 2018.

DANAOS CORPORATION

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 **Earnings per Share**

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended	
	September 30, 2018	September 30, 2017
	(in thousands)	
<i>Numerator:</i>		
Net income	\$ 127,217	\$ 22,427
<i>Denominator (number of shares in thousands):</i>		
Basic weighted average common shares outstanding	164,870	109,825
Diluted weighted average common shares outstanding	165,597	109,825

	Nine months ended	
	September 30, 2018	September 30, 2017
	(in thousands)	
<i>Numerator:</i>		
Net income	\$ 148,047	\$ 61,099
<i>Denominator (number of shares in thousands):</i>		
Basic weighted average common shares outstanding	128,358	109,825
Diluted weighted average common shares outstanding	128,603	109,825

The Warrants issued and outstanding as of September 30, 2018 and 2017, were excluded from the diluted earnings per share for the three and nine months ended September 30, 2018 and 2017, because they were antidilutive.

Basic earnings per share amount related to the gain on debt extinguishment of \$116.4 million recorded on the Refinancing (see Note 9) are \$0.71 and \$0.91 and the diluted earnings per share are \$0.70 and \$0.90 for the three months and nine months ended September 30, 2018, respectively.

14 **Related Party Transactions**

Management fees to Danaos Shipping Company Limited (the Manager) amounted to \$12,530 thousand in the nine months ended September 30, 2018 (\$12,652 thousand in the nine months ended September 30, 2017) and are presented under General and administrative expenses in the condensed consolidated statements of income.

Edgar Filing: Danaos Corp - Form 424B3

Commissions to the Manager amounted to \$3,972 thousand in the nine months ended September 30, 2018 (\$3,976 thousand in the nine months ended September 30, 2017) and are presented under "Voyage expenses" in the condensed consolidated statements of income.

On August 10, 2018, the term of the Company's management agreement with the Manager was extended until December 31, 2024. The Manager agreed to apply all or some of the amount of DIL's unfulfilled obligations, if any, under the Backstop Agreement as a credit towards any fees payable by the Company to the Manager.