Capital Product Partners L.P.
Form 20-F
March 05, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from __________ to __________

OR

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

Date of event requiring this shell company report: __________

Commission file number: 1-33373

CAPITAL PRODUCT PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

Republic of the Marshall Islands

(Jurisdiction of incorporation or organization)

3 Iassonos Street, Piraeus, 18537 Greece

+30 210 458 4950

(Address and telephone number of principal executive offices and company contact person)

Gerasimos (Jerry) Kalogiratos, j.kalogiratos@capitalmaritime.com

(Name and Email of company contact person)

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

Title of each class	Name of each exchange on which registered
Common units representing limited partnership interests	Nasdaq Global Select Market

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

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

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

127,246,692 Common Units

2,439,989 General Partner Units

12,983,333 Class B Convertible Preferred Units

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

YES **NO**

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

YES **NO**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES **NO**

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

YES **NO**

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

Large accelerated filer **Accelerated filer** **Non-accelerated filer** **Emerging growth company**

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP **International Financial Reporting Standards as issued by the International Accounting Standards Board** **Other**

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

ITEM 17 **ITEM 18**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES **NO**

Table of Contents

CAPITAL PRODUCT PARTNERS L.P.

TABLE OF CONTENTS

Table of Contents

This annual report on Form 20-F (this Annual Report) should be read in conjunction with our audited consolidated financial statements and accompanying notes included herein. In this Annual Report, the Partnership, CPLP, we, us or our refer to Capital Product Partners L.P. and, unless the context otherwise requires, its consolidated subsidiaries; Capital Maritime or CMTC refer to Capital Maritime & Trading Corp., our sponsor; General Partner refers to Capital GP L.L.C., our general partner; and Capital Ship Management or the Manager refer to Capital Ship Management Corp., a subsidiary of Capital Maritime and our manager.

FORWARD LOOKING STATEMENTS

Our disclosure and analysis in this Annual Report concerning our business, operations, cash flows, and financial position, including, among other things, the likelihood of our success in developing and expanding our business, include forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements which are also forward-looking statements. Such statements include, in particular, statements about our plans, strategies, business prospects, changes and trends in our business, financial condition and the markets in which we operate, and involve risks and uncertainties. In some cases, you can identify the forward-looking statements by the use of words such as may, might, could, should, would, expect, plan, anticipate, likely, inter estimate, project, predict, propose, potential, continue, seek or the negative of these terms or other compar terminology. Although these statements are based upon assumptions we believe to be reasonable based upon available information, including projections of revenues, operating margins, earnings, cash flows, working capital and capital expenditures, they are subject to risks and uncertainties that are described more fully in this Annual Report in Item 3.D: Risk Factors below. These forward-looking statements represent our estimates and assumptions only as of the date of this Annual Report and are not intended to give any assurance as to future results. As a result, you are cautioned not to rely on any forward-looking statements. Forward-looking statements appear in a number of places in this Annual Report and include statements with respect to, among other things:

- expectations regarding our ability to make distributions on our common units and our Class B Convertible Preferred Units (the Class B Units,) which rank senior to our common units and receive distributions prior to any distributions on our common units;
- our ability to increase our cash available for distribution over time;
- global economic outlook and growth;
- shipping conditions and fundamentals, including the balance of supply and demand in the tanker, drybulk and container markets in which we operate, as well as trends and conditions in the newbuilding markets and scrapping of older vessels;
- increases or decreases in domestic or worldwide oil consumption;
- increases or decreases in seaborne transportation of containerized goods;

future supply of, and demand for, refined products and crude oil;

future refined product and crude oil prices and production;

our ability to operate in various new markets, including the tanker, drybulk and container carrier markets;

tanker, drybulk and container carrier industry trends, including charter rates and factors affecting the chartering of vessels;

our future financial condition or results of operations and our future revenues and expenses, including revenues from any profit sharing arrangements, and required levels of reserves;

future levels of operating surplus, reserves and levels of distributions, as well as our future cash distribution policy;

future charter hire rates and vessel values;

the carrying values of our vessels and the potential for any asset impairments;

anticipated future acquisitions of vessels from Capital Maritime and from third parties, including any of the five Samsung eco medium range product tankers in respect of which we have a right of first refusal;

anticipated future chartering arrangements with Capital Maritime and third parties;

our ability to secure employment for our vessels that come off their current charters;

our ability to leverage to our advantage Capital Maritime s relationships and reputation in the shipping industry;

our ability to compete successfully for future chartering and newbuilding opportunities;

our current and future business and growth strategies and other plans and objectives for future operations;

our ability to access debt, credit and equity markets;

changes in the availability and costs of funding due to conditions in the bank market, capital markets and other factors;

our ability to service, refinance or repay our debt under the current terms of our credit facilities and settle any hedging arrangements we may have;

the ability of our charterers to meet their obligations under the terms of our charter agreements, including the timely payment of the hire or freight rates under the agreements;

the financial condition, viability and sustainability of our charterers, including their ability to obtain liquidity and access the capital markets;

changes in interest rates and any interest rate hedging practices in which we may engage;

debt amortization payments and repayment of debt and settling of interest rate swaps we may make, if any;

planned capital expenditures and availability of capital resources to fund capital expenditures;

our ability to maintain long-term relationships with major refined product importers and exporters, major crude oil companies and major commodity traders, operators and liner companies;

the ability of our Manager to qualify for short- and long-term charter business with oil major charterers and oil traders and major commodity traders, drybulk operators and liner companies;

our ability to maximize the use of our vessels, including the redeployment or disposition of vessels no longer under long-term time charter;

our continued ability to enter into long-term, fixed-rate time charters with our charterers and to re-charter our vessels as their existing charters expire at attractive rates;

the changes to the regulatory requirements applicable to the shipping and oil transportation industry, including, without limitation, stricter requirements adopted by international organizations, such as the International Maritime Organization (also referred to as the IMO), a United Nations agency that issues international trade standards for shipping, and the European Union, or by individual countries or charterers and actions taken by regulatory authorities overseeing such areas as safety and environmental compliance;

the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards, including with new environmental regulations and standards being introduced, as well as with standard regulations imposed by our charterers applicable to our business;

the impact of heightened regulations and the actions of regulators and other government authorities, including anti-corruption laws and regulations, as well as sanctions and other governmental actions;

our anticipated general and administrative expenses and our costs and expenses under the management agreements and the administrative services agreement with our Manager, and for reimbursement for fees and costs of our General Partner;

increases in costs and expenses, including but not limited to crew wages, insurance, provisions, spares, port expenses, lubricating oil, bunkers, repairs, maintenance and general and administrative expenses;

the adequacy of our insurance arrangements and our ability to obtain insurance and required certifications;

Table of Contents

the impact on operating expenses of the floating fee structure under which most of our vessels are managed;

potential increases in costs and expenses under our management agreements following expiration and/or renewal of such agreements in connection with certain of our vessels;

the impact of heightened environmental and quality concerns of insurance underwriters and charterers;

the anticipated taxation of our partnership and distributions to our common and Class B unitholders;

estimated future maintenance and replacement capital expenditures;

expected demand in the shipping sectors in which we operate in general and the demand for our crude oil and product tankers, container and drybulk vessels in particular;

the expected lifespan and condition of our vessels;

the ability of our General Partner and Manager to employ and retain key employees;

our General Partner s and Manager s track records, and past and future performance, in safety, environmental and regulatory matters;

potential liability and costs due to environmental, safety and other incidents involving our vessels;

the effects of increasing emphasis on environmental and safety concerns by charterers, governments and others, as well as changes in maritime regulations and standards;

expected financial flexibility to pursue acquisitions and other expansion opportunities;

anticipated funds for liquidity needs and the sufficiency of cash flows;

the performance and expected cost savings of the vessels we have acquired, or may acquire in the future from CMTC and from third parties and any new technologies incorporated into such vessels, at least some of which may be untested; and future sales of our units in the public market.

These and other forward-looking statements are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and, therefore, involve a number of risks and uncertainties, including those risks discussed in Item 3.D: Risk Factors below. The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Unless required by law, we expressly disclaim any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the U.S. Securities and Exchange Commission (the SEC) that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Table of Contents

PART I

Item 1. Identity of Directors, Senior Management and Advisors.

Not Applicable.

Item 2. Offer Statistics and Expected Timetable.

Not Applicable.

Item 3. Key Information.

A. Selected Financial Data

We have derived the following selected historical financial data for the three years ended December 31, 2017, and as of December 31, 2017 and 2016, from our audited consolidated financial statements (the Financial Statements,) appearing elsewhere in this Annual Report. The historical financial data presented for the years ended December 31, 2014 and 2013 and as of December 31, 2015, 2014 and 2013 have been derived from audited financial statements not included in this Annual Report and are provided for comparison purposes only. Our historical results are not necessarily indicative of the results that may be expected in the future. Different factors affect our results of operations, including among others, the number of vessels in our fleet, prevailing charter rates, management and administrative services fees, as well as financing arrangements we enter into. Consequently, the below table should be read together with, and is qualified in its entirety by reference to, the Financial Statements and the accompanying notes included elsewhere in this Annual Report. The below table should also be read together with Item 5A: Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our Financial Statements are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP) as described in Note 2 (Significant Accounting Policies) to the Financial Statements included herein. All numbers are in thousands of U.S. Dollars, except numbers of units and earnings per unit.

	Year ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Income Statement Data:					
Revenues	$ 204,462	$ 205,594	$ 156,613	$ 119,907	$ 116,520
Revenues related party	44,653	36,026	63,731	72,870	54,974
Total revenues	249,115	241,620	220,344	192,777	171,494
Expenses:					
Voyage expenses (1)	15,165	9,920	6,479	5,907	5,776
Voyage expenses related party (1)		360	411	338	314
Vessel operating expenses (2)	74,516	66,637	58,625	48,714	38,284
Vessel operating expenses related party (2)	11,629	10,866	11,708	13,315	17,039
General and administrative expenses	6,234	6,253	6,608	6,316	9,477

Loss on sale of vessels to third parties					7,073
Vessel depreciation and amortization	73,993	71,897	62,707	57,476	52,208
Impairment of vessel	3,282				
Total operating expenses	184,819	165,933	146,538	132,066	130,171
Operating income	64,296	75,687	73,806	60,711	41,323
Gain from bargain purchase					42,256
Gain on sale of claim					31,356
Interest expense and finance costs	(26,605)	(24,302)	(20,143)	(19,225)	(15,991)
Gain on interest rate swap agreement					4
Other income	792	1,104	1,747	2,526	533

6

Table of Contents

	Year ended December 31, 2017	2016	2015	2014	2013
Partnership s net income	$ 38,483	$ 52,489	$ 55,410	$ 44,012	$ 99,481
Class B unit holders interest in our net income	11,101	11,101	11,334	14,042	18,805
General partner s interest in our net income	522	818	879	593	1,598
Common unit holders interest in our net income	26,860	40,570	43,197	29,377	79,078
Net income allocable to limited partner per:					
Common unit basic	0.22	0.34	0.38	0.31	1.04
Common unit diluted	0.22	0.34	0.38	0.31	1.01
Weighted average units outstanding basic					
Common units	123,845,345	119,803,329	115,030,879	93,353,168	75,645,207
Weighted average units outstanding diluted					
Common units	123,845,345	119,803,329	115,030,879	93,353,168	97,369,136
Balance Sheet Data (at end of the year):					
Fixed assets (3)(4)(7)(8)(10)(11)	$ 1,265,196	$ 1,367,731	$ 1,333,657	$ 1,186,711	$ 1,176,819
Total assets (3)(4)(7)(8)(10)(11)(12)(13)	1,466,216	1,598,605	1,555,875	1,489,853	1,397,721
Total long-term liabilities (3)(4)(7)(9)(10)(11)(13)	409,740	578,652	556,809	572,545	578,186
Total partners capital (3)(4)(5)(6)(8)(9)(11)(12)	933,405	927,757	937,820	872,561	781,426
Number of units	142,670,014	137,517,955	135,832,778	120,427,778	109,128,388
Common units	127,246,692	122,094,633	120,409,456	104,079,960	88,440,710
Class B units	12,983,333	12,983,333	12,983,333	14,223,737	18,922,221
General Partner units	2,439,989	2,439,989	2,439,989	2,124,081	1,765,457
Dividends declared per common unit	$ 0.32	$ 0.46	$ 0.94	$ 0.93	$ 0.93
Dividends declared per class B unit	$ 0.86	$ 0.86	$ 0.87	$ 0.86	$ 0.86
Cash Flow Data:					
Net cash provided by operating activities	126,974	155,086	134,209	125,277	129,576
Net cash used in investing activities	(2,038)	(91,782)	(209,937)	(30,327)	(335,346)
Net cash (used in) / provided by financing activities	(168,317)	(46,816)	1,719	5,277	226,191

(1) Voyage expenses primarily consist of commissions, port expenses, canal dues and bunkers.

(2) Vessel operating expenses consist of management fees payable to our Manager pursuant to the terms of our three separate management agreements and actual operating expenses such as crewing, repairs and maintenance, insurance, stores, spares, lubricants and other operating expenses incurred in respect of our vessels.

(3) In March 2013, we issued a total of 9,100,000 Class B Units to a group of investors, including Capital Maritime, and received net proceeds of $72.6 million, which, together with a $54.0 million drawdown under our former $350.0 million credit facility entered into in 2008 (as amended, the 2008 credit facility) and $3.4 million from available cash, were used to acquire from Capital Maritime the shares of two separate vessel-owning companies, each owning a 5,000 twenty foot equivalent (TEU) high specification container vessel, built in 2013, at a price of $65.0 million each.

(4) In August 2013, we completed an equity offering of 13,685,000 common units, which included the full exercise of the underwriters overallotment option of 1,785,000 common units, and received net proceeds of $119.8 million after deducting expenses related to the offering. The net proceeds, together with a $75.0 million drawdown under our former $225.0 million term loan facility entered into in 2013 (as amended, the 2013 credit facility) and $0.2 million from available cash, were used to acquire from Capital Maritime three vessel-owning companies, each owning a 5,000 TEU high specification container vessel built in 2013, at a price of $65.0 million each.

(5) In August 2013, our sponsor converted 349,700 common units into general partner units and delivered such units to our General Partner in order for it to maintain its then 2% interest in us. In 2015 and 2014, our sponsor converted 315,908 and 358,624 common units, respectively, into general partner units and delivered such units to our General Partner in order for it to maintain its then 2% interest in us. Currently our General Partner holds a 1.71% general partner interest in us.

(6) During 2013, certain holders of our Class B Units converted an aggregate of 5,733,333 Class B Units into common units in accordance with the terms of the partnership agreement. During 2015 and 2014, various holders of our Class B Units, including Capital Maritime, converted an aggregate of 1,240,404 and 4,698,484 Class B Units into common units, respectively, in accordance with the terms of the partnership agreement.

(7) In November 2013, we sold the M/T Agamemnon II (51,238 dwt IMO II/III chemical product tanker built in 2008, STX Shipbuilding & Offshore, South Korea) at a price of $33.5 million to unaffiliated third parties. In November 2013, we acquired an eco-type MR product tanker, the M/T Aristotelis (51,604 dwt IMO II/III chemical product tanker built in 2013, Hyundai Mipo Dockyard Ltd, South Korea). The acquisition price of $38.0 million was funded from the sale proceeds of the M/T Agamemnon II and available cash. The M/T Aristotelis replaced the M/T Agamemnon II as a security under our former $370.0 million credit facility entered into in 2007 (as amended, the 2007 credit facility).

(8) In September 2014, we completed an equity offering of 17,250,000 common units, which included the full exercise of the underwriters overallotment option of 2,250,000 common units, receiving net proceeds of $173.5 million after deducting expenses related to the offering. The net proceeds were used to repurchase from Capital Maritime 5,950,610 common units at an aggregate price of $60.0 million and to cancel such common units. Furthermore, we used the amount of $30.2 million of the net proceeds of the offering as an advance payment to Capital Maritime in connection with the acquisition of five new vessels acquired from Capital Maritime, our sponsor, comprising three newbuild Daewoo 9,160 TEU eco-flex containerships and two newbuild Samsung eco-medium range product tankers (the Dropdown Vessels), four of which were delivered between March and September 2015. The fifth Dropdown Vessel was delivered in February 2016. The total acquisition cost for these five vessels was $311.5 million. The remaining proceeds of the offering were used for general partnership purposes.

(9) In April 2015, we completed an equity offering of 14,555,000 common units, including 1,100,000 common units sold to Capital Maritime and 1,755,000 common units representing the overallotment option, at a net price of $9.53 per common unit, and received net proceeds before expenses of $133.3 million. The net proceeds were used to prepay the quarterly instalments scheduled for 2016 and the first quarter of 2017 under our former 2007 and 2008 credit facilities and our former $25.0 million credit facility entered into in 2011(the 2011 credit facility), and to pay related fees and expenses and for general partnership purposes.

(10) On March 31, June 10, June 30 and September 18, 2015, we acquired the shares of the companies owning four of the Dropdown Vessels, namely the M/T Active, the M/V Akadimos (renamed the CMA CGM Amazon), the M/T Amadeus and the M/V Adonis (renamed the CMA CGM Uruguay) for a total consideration of $230.0 million, which was funded by drawdowns under our former 2013 credit facility for a total of $115.0 million and from cash on hand.

(11) On February 26, 2016, we acquired from Capital Maritime the shares of the company owning the M/V Anaxagoras (renamed the CMA CGM Magdalena), the last of the five Dropdown Vessels. We funded the acquisition by drawing under our former 2013 credit facility and using available cash. On October 24, 2016, we acquired from Capital Maritime the shares of the company owning the M/T Amor, an eco-type MR product tanker, for a total consideration of $16.9 million consisting of $16.0 million in cash and the issuance of 283,696 new common units to Capital Maritime, reflecting the fair value of the vessel of $31.6 million and the fair value of the time charter attached to the vessel of $1.1 million, less the assumption of a $15.8 million term loan under a credit facility previously arranged by Capital Maritime with ING Bank N.V. (the 2015 credit facility).

(12) In September 2016, the Partnership entered into an equity distribution agreement with UBS Securities LLC (UBS) under which the Partnership may sell, from time to time through UBS, as its sales agent, new common

units having an aggregate offering amount of up to $50.0 million (the ATM offering). During the period between the launch of the ATM offering and December 31, 2016, we issued 1.4 million new common units in total translating into net proceeds of $4.5 million after payment of sales agent commission but before offering expenses. During the year ended December 31, 2017, we issued 5.2 million new common units in total translating into net proceeds of $17.8 million after payment of sales agent commission but before offering expenses.

(13) On September 6, 2017, we entered into a loan agreement for a new senior secured term loan facility (the 2017 credit facility) for an aggregate principal amount of up to $460.0 million. On October 2, 2017, we repaid $14.0 million outstanding under the 2011 credit facility through available cash. On October 4, 2017 (the Drawdown Date), we drew the full amount of $460.0 million under the 2017 credit facility and, together with available cash of $102.2 million, fully repaid total indebtedness of $562.2 million.

Table of Contents

Please read Note 2 (Significant Accounting Policies), Note 3 (Acquisitions), Note 5 (Fixed Assets), Note 7 (Long-Term Debt), and Note 12 (Partners Capital) to our Financial Statements included herein for additional information.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors

An investment in our securities involves a high degree of risk. Some of the following risks relate principally to the countries and the industry in which we operate and the nature of our business in general. Although many of our business risks are comparable to those a corporation engaged in a similar business would face, limited partner interests are inherently different from the capital stock of a corporation. If any of the following risks actually occurs, our business, financial condition or operating results could be materially adversely affected. In that case, we might not be able to pay distributions on our common units or Class B Units, the trading price of our common units could decline and you could lose all or part of your investment. The risks described below also include forward-looking statements and our actual results may differ substantially from those discussed in such forward-looking statements. For more information, please read Forward-Looking Statements above.

RISKS RELATING TO THE TANKER INDUSTRY

Changes to global economic conditions and oil and oil product demand, prices and supply could result in decreased demand for our vessels and services, materially affect our ability to re-charter our vessels at favorable rates and have a material adverse effect on our business, financial position, results of operations, cash flows and ability to make cash distributions and service or refinance our debt.

Global economic growth is a significant driver in the demand for oil and, as a result, the demand for shipping. The past several years were marked by major economic slowdowns, which have had a significant impact on the global economy and demand for oil. There is still significant uncertainty over long-term economic growth prospects.

Furthermore, there is a general global trend towards energy efficient technologies and alternative sources of energy. In the long term, oil demand may be reduced by an increased reliance on alternative energy sources or a drive for increased efficiency in the use of oil, as a result of environmental concerns over carbon emissions or high oil prices, which has the potential to significantly decrease demand for oil and shipping.

We expect emerging markets, which historically have had more volatile economies, to be a key driver in future oil demand and a slowdown in these economies, such as China or India, could severely affect global demand for oil and may result in protracted, reduced consumption of oil products and a decreased demand for our vessels and lower charter rates.

If global economic conditions deteriorate or oil prices increase and, as a result, demand for oil and oil products contracts or increases more slowly, we may not be able to operate our vessels profitably or employ our vessels at favorable charter rates as they come up for re-chartering. Furthermore, the market value of our vessels may decline as a result of such events, which may cause us to recognize losses upon disposition of the vessels or record impairments and affect our ability to comply with our loan covenants.

Table of Contents

In addition, reduced global supply of oil due to coordinated action, such as the production cuts recently agreed by OPEC members and other oil producing nations, or other circumstances may adversely affect demand for the transportation of crude oil and oil tankers.

A deterioration of the current economic conditions or changes in oil demand and supply and the product and crude tanker markets would have a material adverse effect on our business, financial position, results of operations, cash flows and ability to make cash distributions and service or refinance our debt.

Charter rates for tanker vessels are highly volatile and may decrease in the future, which may adversely affect our earnings and our ability to make cash distributions, as we may not be able to re-charter our vessels or we may not be able to re-charter them at competitive rates.

The shipping industry is cyclical. As a result, charter hire rates and vessel values have historically been volatile. We are particularly exposed to fluctuations in the product and crude tanker markets as the majority of our vessels are tankers. Therefore, as our charters expire, we may only be able to re-charter our tankers at reduced or unprofitable rates, or we may not be able to re-charter our tankers at all. We expect 20 of our charters to expire in the coming 12 months compared to 12 charter expirations in 2017. 18 of these charter expirations relate to tanker vessels compared to ten tanker charter expirations in 2017.

The demand for period charters may remain stagnant or decrease. Even if we secure employment for our tankers under period charters, our charterers may go bankrupt, fail to perform their obligations under the charter agreements, delay payments or suspend payments altogether, terminate the charter agreements prior to the agreed-upon expiration date or attempt to renegotiate the terms of the charters.

Depending on market conditions, we may be forced to deploy our tankers in the spot market, which is cyclical and highly volatile. In the past, there have been periods during which spot rates have declined below the operating cost of tankers. If we deploy our tankers in the spot markets, we may be unable to obtain profitable spot charters or minimize the time spent waiting for charters or traveling to pick up cargo. Furthermore, as charter rates for spot charters are fixed for a single voyage of up to several weeks, we may experience delays in realizing the benefits from increases in spot charter rates.

The factors affecting supply and demand for product and crude tankers are outside our control and the nature, timing, direction and degree of changes in industry conditions are difficult to predict with confidence. Some of the factors that may affect charter hire rates and the market value of tankers include the following:

- the supply for oil and oil products, which is influenced by, among other things, international economic activity, geographic changes in oil production, processing and consumption, oil price levels, inventory policies of the major oil and oil trading companies, competition from alternative sources of energy and strategic inventory policies of countries such as the United States, China and India;

- the demand for oil and oil products;

- decreases in the consumption of oil due to increases in its price relative to other energy sources, other factors making consumption of oil less attractive or energy conservation measures;

increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;

regional availability of refining capacity;

prevailing economic conditions in the market in which the tanker trades;

availability of credit to charterers and traders in order to finance expenses associated with the relevant trades;

regulatory change;

Table of Contents

increases in the supply of vessel capacity; and

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

If we have to re-charter our tankers when charter hire rates are low or are unable to re-charter our tankers, our business, financial condition, results of operations, cash flows and ability to make distributions and service or refinance our debt could be adversely affected.

The market values of tanker vessels are highly volatile and may decrease further in the future which may cause us to recognize losses if we sell our tankers or record impairments and affect our ability to comply with our loan covenants and refinance our debt.

The market value of tankers is influenced, among other factors, by the prevailing charter market, replacement costs, the residual value of the vessels, expectations with regard to asset prices, availability of tankers for sale, as well as the ability of buyers to access financing and capital. If we sell a vessel at a time when its market value has fallen, the sale price may be less than the vessel s carrying amount, resulting in a loss. In December 2017, we agreed to sell the M/T Aristotelis. In this connection, we recorded an impairment charge of $3.3 million representing the difference between the vessel s carrying amount and its selling price, net of estimated sale expenses. Please also see Note 5 to our financial statements included herein. In addition, we may be required to record an impairment charge as a result of a decrease in the future charter rates or market values of our vessels. A decline in the market value of our vessels could also lead to a default under our credit facilities, affect our ability to refinance our existing credit facilities and limit our ability to obtain additional financing and service or refinance our debt. If any of these circumstances were to happen, our business, financial condition, results of operation, cash flows and ability to make distributions may be materially and adversely affected.

An oversupply of tanker vessels or an expansion of the capacity of newly built tankers may lead to reductions in charter hire rates, vessel values and profitability.

The supply of tankers is affected by a number of factors, such as demand for energy resources and primarily oil and petroleum products, level of charter hire rates, asset and newbuilding prices, availability of financing, as well as overall economic growth in parts of the world economy, including Asia, and has been increasing as a result of the delivery of substantial newbuilding orders over the last few years. Newly built tankers were delivered in significant numbers starting at the beginning of 2006 through 2017. In addition, as of December 31, 2017, the newbuilding order book was estimated to equal approximately 11.7% of the existing world tanker fleet and may increase in proportion to the existing fleet. Furthermore, if newly built tankers have more capacity than the tankers being scrapped or lost, tanker capacity overall will expand. If the supply of tankers or their capacity increases over time but demand for tanker vessels does not grow correspondingly, charter rates and vessel values will materially decline. If that happens, as our charters expire, we may only be able to re-charter our vessels at reduced or unprofitable rates, or we may not be able to charter our vessels at all. A reduction in charter rates and the value of our vessels may have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or refinance our debt.

Over the last five years, a number of vessel owners have ordered and taken delivery of so-called eco-type vessel designs, which offer substantial bunker savings as compared to older designs. Increased demand for and supply of eco-type vessels could reduce demand for certain of our vessels that are not classified as such and expose us to lower vessel utilization and/or decreased charter rates.

We estimate that a significant proportion of newbuilding orders are based on new vessel designs, which purport to offer material bunker savings compared to older designs, such as a significant proportion of our tanker vessels. See Item 4.B: Business Overview Our Fleet. New vessel designs could result in a substantial reduction of bunker cost for charterers. As the supply of eco-type tankers expands, if charterers prefer those vessels over our tankers that are not classified as such, this may reduce demand for our non- eco-type tankers, impair our ability to re-charter such tankers at competitive rates or at all and have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or refinance our debt.

Table of Contents

RISKS RELATED TO THE DRYBULK INDUSTRY

We are exposed to various risks in the international drybulk shipping industry, which is cyclical and volatile.

Since our acquisition of the M/V Cape Agamemnon from Capital Maritime in June 2011, we have been subject to the various risks affecting the drybulk shipping industry, which is cyclical with attendant volatility in charter rates, vessel values and profitability, with wide disparities across different classes of drybulk carriers.

After reaching historical highs in mid-2008, charter hire rates for drybulk carriers, such as the M/V Cape Agamemnon, have declined significantly and reached historically low levels in 2016. Capesize charter rates remained below historical averages in 2017. The M/V Cape Agamemnon is currently deployed on a period time charter until June 2020. In the future, we may be forced to re-charter the M/V Cape Agamemnon pursuant to short-term time charters, and may be exposed to changes in the spot market and short-term charter rates for capesize drybulk carriers, all of which may affect our earnings and the value of the M/V Cape Agamemnon.

The factors affecting supply and demand for drybulk vessels are outside our control and the nature, timing, direction and degree of changes in industry conditions are difficult to predict with confidence. Some of the factors that may influence demand for drybulk carriers include the following:

- supply and demand for drybulk products;
- economic growth in China and other developing economies;
- changes in global production of products transported by drybulk vessels;
- seaborne and other transportation patterns, including the distances over which drybulk cargoes are transported and changes in such patterns and distances;
- the globalization of manufacturing;
- global and regional economic and political conditions;
- developments in international trade;
- environmental and other regulatory developments;
- currency exchange rates; and

weather.

Some of the factors that may influence the supply of vessel capacity for drybulk carriers include the following:

- the number of deliveries of newly built vessels, which among other factors depend upon the ability of shipyards to meet contracted delivery dates and the ability of purchasers to finance such new acquisitions;
- the scrapping rate of older vessels;
- the number of vessels that are in or out of service, including as a result of vessel casualties;
- changes in environmental and other regulations and standards that may limit the profitability, operations or useful lives of vessels; and
- port and canal congestion and closures.

Table of Contents

We currently anticipate that the future demand for the M/V Cape Agamemnon following completion of its charter and, in turn, drybulk charter rates, will be dependent, among other things, upon the rate of economic growth in the global economy, including the world s developing economies, such as China, India, Brazil and Russia, seasonal and regional changes in demand, changes in the capacity of the global drybulk vessel fleet and the sources and supply of drybulk cargo to be transported by sea. A decline in demand for commodities transported in drybulk vessels or an increase in supply of drybulk vessels could cause a significant decline in charter rates, which could materially adversely affect our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or repay our debt.

The market values of drybulk vessels have declined and may further decline, which may cause us to recognize a loss if we sell the Cape Agamemnon or record impairments and affect our ability to comply with our loan covenants and service or refinance our debt.

The market values of drybulk vessels have generally experienced high volatility. The market value of drybulk vessels may continue to fluctuate depending on a number of factors, including:

- prevailing level of charter rates;
- general economic and market conditions affecting the shipping industry;
- types, sizes and ages of vessels;
- supply of and demand for vessels;
- other modes of transportation;
- cost of newbuildings;
- governmental or other regulations;
- the need to upgrade vessels as a result of charterer requirements, technological advances in vessel design or equipment or otherwise; and
- competition from other shipping companies and other modes of transportation

If the market value of the Cape Agamemnon deteriorates significantly, we may be required to record an impairment charge in our financial statements. Furthermore, if the current charter expires or is terminated, we may be unable to re-charter the vessel at an acceptable rate and, rather than continuing to incur costs to maintain the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable price however could result in a loss. A decline in the market value of the Cape Agamemnon could also lead to a default under our credit facilities, limit our ability to obtain additional financing and service or refinance our debt. If any of these circumstances were to happen, our business, financial condition, results of operation, cash flows and ability to make distributions may be adversely affected.

The M/V Cape Agamemnon is currently chartered at rates that are at a substantial premium to the spot and period markets. The loss of this charter could result in a significant loss of expected future revenues and cash flows.

The M/V Cape Agamemnon is currently under a ten-year time charter to COSCO Bulk Carrier Co. Ltd. (COSCO) a member of the China Ocean Shipping (Group) Company (COSCO Group) and one of the largest drybulk charterers globally. The charter commenced in July 2010 and was amended in November 2011. The earliest expiry date under the charter is June 2020. Since the charter was amended in November 2011, the gross charter rate is a flat rate of $42,200 per day.

We currently maintain insurance to protect us against the loss of income that would result from COSCO s failure or refusal to pay hires under the time charter agreement. Under our revenue protection insurance, our insurer has agreed to pay us a maximum amount of $25,000 per day for each day of loss, defined as the difference between the hire contractually payable under the charter and the replacement hire earned or that could be earned by us during the policy period expiring on July 30, 2020. Replacement hires are defined as the greater of the actual hires earned during the policy period and the average hire rate that the M/V Cape Agamemnon is capable of earning, as determined by three independent shipbrokers. The revenue protection insurance is renewed annually. There is no guarantee that we will be able to renew and maintain this insurance.

Table of Contents

COSCO Group has faced financial difficulties. Its listed affiliate China COSCO Holdings announced a profit of Rmb 3.4bn (approximately $0.5bn) for the first six months of 2017, compared with a loss of Rmb 6.7bn in the same period last year. We could lose this charterer or the benefits of the charter if, among other things:

- the charterer is unable or unwilling to perform its obligations under the charter, including the payment of the agreed rates in a timely manner;
- the charterer faces financial difficulties forcing it to declare bankruptcy, to restructure its operations or to default under the charter;
- the charterer fails to make charter payments because of its financial inability, disagreements with us or otherwise;
- the charterer seeks to re-negotiate the terms of the charter agreement due to prevailing economic and market conditions or due to continued poor performance by the charterer;
- the charterer exercises certain rights to terminate the charter;
- the charterer terminates the charter because we fail to comply with the terms of the charter, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the charter;
- a prolonged force majeure event affecting the charterer, including war or political unrest, prevents us from performing services for that charterer; or
- the charterer terminates the charter because we fail to comply with the safety and regulatory criteria of the charterer or the rules and regulations of various maritime organizations and bodies.

In the event we lose the benefit of the charter with COSCO prior to its expiration date, we would have to re-charter the vessel at the then prevailing charter rates. If that were to happen and insurance cover were to be unavailable or insurance payout were to be insufficient to cover our loss for any reason, this could materially and adversely affect our business, financial condition, results of operations, cash flows and our ability to make distributions and service or refinance our debt.

A negative change in the economic conditions in Asia, especially in China, Japan or India, including as a result of slowdowns in the United States or Europe, could reduce drybulk trade and demand, which would affect charter rates and have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make cash distribution and service or refinance our debt.

A significant number of the port calls made by Capesize bulk carriers involve the loading or discharging of raw materials in ports in Asia, particularly China, Japan and India. In past years, China and India have had two of the world s fastest growing economies in terms of gross domestic product and have been the main force driving demand for drybulk vessels. If economic growth declines in China, Japan, India and other countries in Asia, we may face decreases in drybulk trade and demand. For example, the recent slowdown of the Chinese economy has adversely affected demand for capesize bulk carriers. Moreover, slowdowns in the United States or the economies of the European Union, as have occurred recently, may adversely affect economic growth in China, Japan, India and other Asian countries. A negative change in economic conditions in any Asian country, particularly China, Japan or India, could reduce demand for capesize bulk carriers and, as a result, charter rates and affect our ability to re-charter the M/V Cape Agamemnon at a profitable rate or at all and have a material adverse effect on our business, financial position, results of operations, cash flows and ability to make cash distribution and service or refinance our debt.

An oversupply of drybulk vessel capacity may lead to reductions in charter rates and profitability.

The number of drybulk vessels on order as of December 2017 was estimated by market sources to be approximately 9.3% of the then-existing global drybulk fleet in dwt terms, with deliveries expected mainly during the next 24 months, although available data with regard to cancellations of existing newbuild orders or delays in newbuild deliveries are not always accurate or may not be readily available.

An oversupply of drybulk vessel capacity will likely result in protracted weakness in drybulk charter hire rates. Upon the expiration of the current charter period in June 2020, if we cannot enter into a new period time charter for the M/V Cape Agamemnon on acceptable terms, we may have to secure charters in the spot market, where charter rates are more volatile and revenues are, therefore, less predictable, or we may not be able to charter the vessel at all.

The international drybulk shipping industry is highly competitive, and with only one drybulk vessel in our fleet, we may not be able to compete successfully for charters with established companies with greater resources. As a result, we may not be able to successfully operate the vessel.

We employ the M/V Cape Agamemnon in the highly competitive drybulk market, which is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of which have substantially larger fleets of drybulk vessels or greater resources than we currently have or will have in the future. Competition for the transportation of drybulk cargo by sea is intense and depends on price, charterer relationships, operating expertise, professional reputation and size, age, location and condition of the vessel. In this highly fragmented market, companies operating larger fleets, as well as competitors with greater resources, may be able to offer lower charter rates than ours, which could have a material adverse effect on our ability to charter out the M/V Cape Agamemnon and, accordingly, its profitability.

The operation of drybulk vessels has certain unique operational risks, and failure to adequately maintain the M/V Cape Agamemnon could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make distributions and service or refinance our debt.

With a drybulk vessel, the cargo itself and its interaction with the vessel may create operational risks. By their nature, drybulk cargoes are often heavy, dense and easily shifted, and they may react badly to water exposure. In addition, drybulk vessels are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach while at sea. Breaches of a drybulk vessel s hull may lead to the flooding of the vessel s holds. If a drybulk vessel suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel s bulkheads, leading to the loss of a vessel. If we or Capital Maritime, as manager, do not adequately maintain the M/V Cape Agamemnon, we may be unable to prevent these events. The occurrence of any of these events could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make distributions and service or refinance our debt.

RISKS RELATED TO THE CONTAINER CARRIER INDUSTRY

We are exposed to various risks in the ocean-going container shipping industry, which is cyclical and volatile in terms of charter rates and profitability.

Since December 2012, we have acquired ten container vessels from Capital Maritime and have become subject to the risks affecting the container shipping industry.

The ocean-going container shipping industry is both cyclical and volatile in terms of charter rates and profitability and demand for our vessels depends on a range of factors, including demand for the shipment of cargoes in containers. Containership charter rates peaked in 2005 but have declined sharply since then. Container charter rates remained at or close to historical lows in the beginning of 2017 and have since experienced modest improvement but remain overall below historical averages.

Since the second half of 2011, liner companies have experienced a substantial downturn in container shipping activity, resulting in depressed average freight rates, which has caused financial distress at a number of liner companies, including our charterers, and could further impact them. In a number of instances, charterers have not performed under, or have requested modifications of, existing time charters.

Table of Contents

Containership charter rates depend upon a range of factors, including changes in the supply and demand for ship capacity and changes in the supply and demand for major products transported by containerships. Demand for containerships and profitability of the container business have been affected negatively by a large order book of new containership vessels, including ultra large container vessels . Since the second half of 2015, a slowdown in demand in certain key container trade routes, including the Asia to Europe route, at a time of increased vessel supply has resulted in an increase of the idle container fleet. The percentage of the worldwide fleet remaining idle reached 7.1% at the end of 2016. Since then, the percentage of the idle container fleet has gradually reduced to 2.0% as of the end of 2017.

Furthermore, the decline in the containership market has adversely affected the value of container vessels, which follow the trends of freight rates and containership charter rates, and resulted in a less active secondhand market for the sale of vessels.

The factors affecting the supply and demand for products shipped in containers and for containerships are outside our control and the nature, timing, direction and degree of changes in industry conditions are difficult to predict with confidence. Some of the factors that influence demand for containerships include:

- supply and demand, including consumer demand, for products suitable for shipping in containers;
- changes in global production of products transported by containerships;
- seaborne and other transportation patterns, including the distances over which container cargoes are transported and changes in such patterns and distances;
- the globalization of manufacturing;
- developments in the market for exports of containerized goods from emerging markets, including China;
- global and regional economic and political conditions;
- developments in international trade;
- trends in the market for imports of raw materials to emerging markets, such as India and China;
- the relocation of regional and global manufacturing facilities from Asian and emerging markets to developed economies in Europe and the United States;

- environmental and other regulatory developments;
- currency exchange rates;
- weather; and
- cost of bunkers.

Some of the factors that influence the supply of containerships include the following:

- the number of newbuilding orders and deliveries;
- the extent of newbuilding vessel deferrals;
- the scrapping rate of containerships;
- newbuilding prices and containership owner access to capital to finance the construction of newbuildings;

Table of Contents

- charter rates and the price of steel and other raw materials;
- changes in environmental and other regulations and standards that may limit the profitability, operations or useful life of containerships;
- the number of containerships that are slow-steaming or extra slow-steaming to conserve fuel;
- the number of containerships that are off-charter;
- port and canal congestion and closures; and
- demand for fleet renewal.

If the charter market is depressed when time charters for our containerships expire, we may be forced to re-charter our containerships at reduced or even unprofitable rates, or we may not be able to re-charter them at all, which may reduce or eliminate our earnings or make our earnings volatile and materially and adversely affect our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or refinance our debt.

An oversupply of containership capacity may prolong or depress current charter rates and adversely affect our ability to re-charter our existing containerships at profitable rates or at all.

From 2005 through the first quarter of 2010, the size of the containership order-book was at historically high levels. Although the container order-book declined compared to previous years, the order-book still represented 13.4% of the existing fleet as at the end of 2017. Deliveries of vessels ordered will significantly increase the size of the container fleet over the next two to three years.

An oversupply of newbuilding vessels and/or re-chartered or idle containership capacity entering the market, combined with any further decline in the demand for containerships, may further depress charter rates and may decrease our ability to re-charter our containerships other than for reduced rates or unprofitable rates or to re-charter our containerships at all, which may materially and adversely affect our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or refinance our debt.

A number of vessel owners have ordered and taken delivery of so-called eco-type vessel designs, which offer substantial bunker savings, higher container intake as compared to older designs and comply with the latest regulatory and charterers requirements. Increased demand for and supply of eco-type vessels could reduce demand for our vessels that are not classified as such and expose us to lower vessel utilization and/or decreased charter rates.

The majority of new orders of container vessels are based on new vessel designs, which purport to offer material bunker savings compared to older designs and higher container intakes. Such savings could result in a substantial reduction of bunker cost for charterers on a per unit basis. In addition, older designs may require additional capital expenditure in order to comply with regulatory and charterers requirements, such as the installation of Alternative Maritime Power or other equipment and/or modifications. As the supply of eco-type vessels increases, if charterers prefer such vessels over our vessels that are not classified as such, this may reduce demand for our non- eco-type vessels, impair our ability to re-charter such vessels at competitive rates or to re-charter such vessels at all, and have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or refinance our debt. See Item 4.B: Business Overview Our Fleet for more information about the vessels in our fleet.

If our container carrier vessel charterers do not fulfill their obligations to us, or if they are unable to honor their obligations, our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or refinance our debt may be adversely affected.

Our ten container carrier vessels are currently under charters with Hyundai Merchant Marine Co. Ltd. (HMM), CMA CGM Group (CMA CGM) and Pacific International Lines (PTE) Ltd Singapore (PIL). Currently we have only short-term charters at market rates with PIL.

Table of Contents

Many liner companies, including our charterers, are highly leveraged. In recent years, a combination of factors, including, among other things, unavailability of credit, volatility in financial markets, overcapacity, competitive pressure, declines in world trade and depressed freight rates, have severely affected the financial condition of liner companies and their ability to make charter payments, which has resulted in a material increase in the credit and counterparty risks to which we are exposed and our ability to re-charter our vessels at competitive rates.

Furthermore, the surplus of containerships available at lower charter rates and lack of demand for our charterers liner services could negatively impact our charterers willingness to perform their obligations under our time charters that provide for charter rates above current market rates.

HMM, the charterer of five of our container vessels, completed a financial restructuring in July 2016. Our subsidiaries owning vessels under charter with HMM agreed a reduction of the charter rate payable under their respective charters by 20% to $23,480 per day (from a gross daily rate of $29,350) for a three and a half year period starting in July 2016 and ending in December 2019. The charter restructuring agreement entered into with HMM provides that at the end of the charter reduction period, the charter rate under the respective charter parties will be restored to the original gross daily rate of $29,350 until the expiry of each charter in 2024 and 2025. There can however be no assurance that the financial restructuring of HMM will prove sufficient to ensure the financial viability of HMM, which still has a high level of indebtedness, and continued charter payments to us.

CMA-CGM, the charterer of three of our container vessels, was under financial stress in 2016, in part following its acquisition of Neptune Orient Lines Limited (NOL) and reported a $427.4 million net loss for the twelve-month period ended December 31, 2016.

If one of our charterers defaults on our time charters for any reason, we may be unable to redeploy the vessel previously employed by such charterer on similarly favorable or on competitive terms or at all. Also, we will incur expenses to maintain and insure the vessel but will not receive any revenue if a vessel remains idle before being re-chartered. A variety of factors, including containership overcapacity and the expected increase in the world containership fleet over the next few years, may make it difficult for us to secure substitute employment, and any new charter arrangements may be at significantly lower rates.

A failure of our charterers to comply with the terms of their respective charters, and our inability to replace such charters at minimum charter rates and maintain minimum financial ratios may result in an event of default under our credit facilities. The loss of our charterers or a decline in payments under our time charters could have a material adverse effect on our business, financial condition, results of operations, cash flows and our ability to make cash distributions and service or refinance our debt.

Many of our container vessels are under time charters at rates that are at a substantial premium to the spot and period markets, and our charterers failure to perform under our time charters could result in a significant loss of expected future revenues and cash flows.

Our five container vessels that are chartered to HMM are each currently employed under 12-year time charters. Following HMM s financial restructuring that was completed in July 2016, the charter rate payable under the respective charter parties was reduced to $23,480 per day (from a gross daily rate of $29,350) from July 2016 to December 2019. Our container vessels that are chartered to CMA CGM are each employed under time charters for a minimum of five years, at a gross charter rate of $39,250 per day, all of which were entered into in December 2013.

Given that the rates we charge under these time charters are significantly higher than the current spot and period rates, failure to perform by any of these charterers could result in a significant loss of revenues, which may materially and adversely affect our business, financial condition, results of operation, cash flows and our ability to maintain cash distributions and service or refinance our debt. We could lose these charterers or the benefits of the charters if, among other things:

- the charterer is unable or unwilling to perform its obligations under the charters, including the payment of the agreed rates in a timely manner;

- the charterer continues to face financial difficulties forcing it to declare bankruptcy, further restructure its operations or default under the charters;

Table of Contents

- the charterer fails to make charter payments because of its financial inability or its inability to trade our and other vessels profitably or due to the occurrence of losses due to the weaker charter markets;

- the charterer fails to make charter payments due to distress, disagreements with us or otherwise;

- the charterer seeks to renegotiate the terms of the charter agreements due to prevailing economic and market conditions or due to its continued poor performance;

- the charterer exercises certain rights to terminate the charters;

- the charterer terminates the charters because we fail to comply with the terms of the charters, the vessels are lost or damaged beyond repair, there are serious deficiencies in the vessels or prolonged periods of off-hire, or we default under the charters;

- a prolonged force majeure event affecting the charterer, including war or political unrest, prevents us from performing services for that charterer; or

- the charterer terminates the charters because we fail to comply with the safety and regulatory criteria of the charterer or the rules and regulations of various maritime organizations and bodies.

In the event we lose the benefit of the charters with HMM or CMA CGM prior to their respective expiration date, we would have to re-charter the vessels at the then prevailing charter rates. In such event, we may not be able to obtain competitive or profitable rates for these vessels or we may not be able to re-charter these vessels at all and our business, financial condition, results of operation, cash flows and ability to make distribution and service or refinance our debt may be materially and adversely affected.

A decrease in the level of export of goods, in particular from Asia, or an increase in trade protectionism globally, including from the United States, could have a material adverse impact on our charterers business and, in turn, could cause a material adverse impact on our business, financial condition, results of operations, cash flows and ability to make cash distributions and service or refinance our debt.

Our operations expose us to the risk that increased trade protectionism from the United States or other nations adversely affect our business. Governments may turn to trade barriers to protect or revive their domestic industries in the face of foreign imports, thereby depressing the demand for shipping. Restrictions on imports, including in the form of tariffs, could have a major impact on global trade and demand for shipping. Trade protectionism in the markets that our charterers serve may cause an increase in the cost of exported goods, the length of time required to deliver goods and the risks associated with exporting goods and, as a result, a decline in the volume of exported goods and demand for shipping.

The new U.S. president was elected on a platform promoting trade protectionism. The results of the presidential election have thus created significant uncertainty about the future relationship between the United States and China and other exporting countries, including with respect to trade policies, treaties, government regulations and tariffs. On January 23, 2017, the U.S. President signed an executive order withdrawing the United States from the Trans-Pacific

Partnership, a global trade agreement intended to include the United States, Canada, Mexico, Peru and a number of Asian countries. Protectionist developments, or the perception they may occur, may have a material adverse effect on global economic conditions, and may significantly reduce global trade and, in particular, trade between the United States and other countries, including China.

Our containerships are deployed on routes involving containerized trade in and out of emerging markets, and our charterers container shipping and business revenue may be derived from the shipment of goods from Asia to various overseas export markets, including the United States and Europe. Increasing trade protectionism may cause an increase in (i) the cost of goods exported from regions globally, particularly the Asia-Pacific region, (ii) the length of time required to transport goods and (iii) the risks associated with exporting goods. Such increases may further reduce the quantity of goods to be shipped, shipping time schedules, voyage costs and other associated costs which may adversely affect the business of our charterers. Any reduction in or hindrance to the output of Asia-based exporters could have a material adverse effect on the growth rate of Asia s exports and on our charterers business, which may in turn affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us.

Table of Contents

Furthermore, the government of China has implemented economic policies aimed at increasing domestic consumption of Chinese-made goods and containing capital outflows. These policies may have the effect of reducing the supply of goods available for exports and the level of international trading and may, in turn, result in a decrease in demand for container shipping.

For example, starting in August 2014, China imposed a new tax for non-resident international transportation companies engaged in the provision of services in and out of China using their own or chartered or leased vessels, including any stevedore, warehousing and other services connected with the transportation. The new regulation broadens the range of international transportation companies that may become subject to Chinese corporate income tax on profits generated from international transportation services passing through Chinese ports. This tax or other similar regulations by China may result in an increase in the cost of imports to China, as well as a decrease in the quantity of goods to be shipped by our charterers to China. This could have an adverse impact on our charterers business, operating results and financial condition and could affect their willingness to renew or enter into their time charters with us.

In addition, reforms in China for a gradual shift to a market economy including with respect to the prices of certain commodities, are unprecedented or experimental and may be subject to revision, change or abolition and if these reforms are reversed or amended, the level of imports to and exports from China could be adversely affected.

Any new or increased trade barriers or restrictions on trade would have an adverse impact on our charterers business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. Such adverse developments could in turn have a material adverse effect on our business, financial condition, results of operations, cash flows and our ability to make cash distributions and service or refinance our debt.

Containership values have been volatile over the last five years. Containership values may decrease and over time may fluctuate substantially, which may cause us to recognize losses if we sell our container vessels or record impairments and affect our ability to comply with our loan covenants or refinance our debt.

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

- prevailing economic conditions in the markets in which containerships operate;
- reduced demand for containerships, including as a result of a substantial or extended decline in world trade;
- increases in the supply of containership capacity;
- prevailing charter rates and the cost of retrofitting or modifying existing ships to respond to technological advances in vessel design or equipment;
- changes in applicable environmental or other regulations or standards, or otherwise.

prevailing newbuilding prices for similar vessels;

prevailing demolition prices for similar vessels;

availability of capital for investment in containerships including ship finance and public equity; and

supply of containerships in the market for sale including mass disposals of containerships controlled by financing institutions

Table of Contents

In addition, fire sales of vessels by some of our competitors, other fleet-owners that may be in distress or commercial banks foreclosing on collateral from time to time could, among other consequences, drive down vessel values.

If the market values of our vessels deteriorate further, we may be required to record an impairment charge in our financial statements. Furthermore, if a charter expires or is terminated, we may be unable to re-charter the vessel at an acceptable rate and, rather than continue to incur costs to maintain the vessel, we may seek to dispose of it. Our inability to dispose of one or more of the containerships at a reasonable price however could result in a loss. A further decline in the market value of our vessels could also lead to a default under our credit facilities and limit our ability to obtain additional financing and service or refinance our debt. If any of these circumstances were to happen, our business, financial condition, results of operation, cash flows and ability to make distributions may be materially and adversely affected.

Our growth and our ability to re-charter our containerships depend on, among other things, our ability to expand relationships with existing charterers and develop relationships with new charterers, for which we will face substantial competition.

The process of obtaining new long-term time charters on containerships is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months.

Containership charters are awarded based upon a variety of factors related to the vessel owner, including, among other things:

- shipping industry relationships and reputation for charterer service and safety;
- container shipping experience and quality of vessel operations, including cost effectiveness;
- quality and experience of seafaring crew;
- the ability to finance containerships at competitive rates and the vessel owner s financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessel according to charterer s specifications;
- willingness to accept operational risks under the charter, such as allowing termination of the charter for force majeure events; and

competitiveness of the bid in terms of overall price.

Competition for providing containerships for chartering purposes comes from a number of experienced shipping companies, including direct competition from other independent charter owners and indirect competition from state-sponsored and other major entities with their own fleets. Some of our competitors have significantly greater financial resources than we do and can operate larger fleets and may be able to offer better charter rates. An increasing number of marine transportation companies have entered the containership sector, including many with strong reputations and extensive resources and experience in the marine transportation industry. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing charterers or to develop relationships with new charterers on a profitable basis, if at all, which could harm our business, financial condition, results of operations, cash flows and ability to make cash distributions and to service or refinance our debt.

If a more active short-term or spot containership market develops, we may have more difficulty entering into medium- to long-term, fixed-rate time charters and our existing charterers may begin to pressure us to reduce our charter rates.

Table of Contents

One of our principal strategies is to enter into medium- to long-term, fixed-rate time charters. As more containerships become available for the short-term or spot market, we may have difficulty entering into additional medium- to long-term, fixed-rate time charters for our vessels due to the increased supply of vessels and possibly lower rates in the spot market. As a result, our cash flows may be subject to instability in the long term. Currently, two of our container vessels are chartered for less than two years. A more active short-term or spot containership market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flows in periods when the market price for vessels is depressed or insufficient funds to cover our financing costs for related vessels. In addition, the development of an active short-term or spot containership market could affect rates under our existing time charters as our current charterers may begin to pressure us to reduce our rates.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

We may not be able to grow or to effectively manage our growth.

Our future growth will depend upon a number of factors, some of which we cannot control. These factors include, among other things, our ability to:

- capitalize on opportunities in the crude and product tanker, drybulk and container markets by fixing period charters for our vessels at attractive rates;
- obtain required financing for existing and new operations, including refinancing of indebtedness, and access to capital markets, including equity and debt capital markets;
- identify businesses engaged in managing, operating or owning vessels for acquisitions or joint ventures;
- identify vessels and/or shipping companies for acquisitions;
- integrate any acquired businesses or vessels successfully with existing operations;
- hire, train and retain qualified personnel to manage, maintain and operate our business and fleet;
- identify additional new markets;
- improve operating and financial systems and controls;
- complete accretive transactions in the future; and

maintain our commercial and technical management agreements with Capital Maritime or other competent managers.

Our ability to grow is in part dependent on our ability to expand our fleet through acquisitions of suitable vessels. We may not be able to acquire newly built or secondhand vessels on favorable terms, which could impede our growth and negatively impact our financial condition and ability to pay cash distributions. We may not be able to contract for newbuildings or locate suitable vessels or negotiate acceptable construction or purchase contracts with shipyards and owners, or obtain financing for such acquisitions on economically acceptable terms, or at all. See also Risks Related to Financing Activities *We rely on the master limited partnership (MLP) structure and its appeal to investors for accessing debt and equity markets to finance our growth and repay or refinance our debt.*

Failure to effectively identify, purchase, develop, employ and integrate any vessels or businesses could negatively affect our competitiveness, which in turn could adversely affect our business, financial condition, results of operations, cash flows and our ability to make cash distributions and service or refinance our debt.

The fees and expenses we pay to Capital Ship Management, a subsidiary of Capital Maritime, for services provided to us are substantial, fluctuate, cannot be easily predicted and may reduce our cash available for distribution to our unitholders.

Table of Contents

We have entered into three separate technical and commercial management agreements with Capital Ship Management, our Manager, for the management of our fleet. These include a fixed fee management agreement, a floating fee management agreement and, with respect to the vessels acquired as part of the merger with Crude Carriers, the Crude Carriers management agreement. Each vessel in our fleet is managed under the terms of one of these three agreements. Please read Item 4B: Business Overview Our Management Agreements for information on the main terms of our three management agreements.

Expenses incurred to manage our fleet depend upon a variety of factors, many of which are beyond our or our Manager s control. Some of these costs, primarily relating to crewing, insurance and enhanced security measures, have increased in the past and may continue to increase in the future. Rises in any of these costs, to the extent charged to us, will reduce our earnings, cash flows and the amount of cash available for distribution to our unitholders.

Furthermore, we expect that as the fixed fee management agreement expires for the two remaining vessels to which it currently applies or as we acquire new vessels, these vessels will be managed under floating fee management agreements on terms similar to those currently in place. The level of our operating costs is likely to be more volatile under floating fee arrangements than under fixed fee arrangements. In particular, any increase in the costs and expenses associated with the provision of our Manager s services, by reason, for example, of the condition and age of our vessels, costs of crews for our time chartered vessels and insurance, will be borne by us.

The payment of fees to Capital Ship Management and compensation for expenses and liabilities incurred on our behalf, as well as the costs associated with future drydockings and/or intermediate surveys on our vessels, which can be significant, may adversely affect our business, financial condition, results of operations, cash flows and our ability to make cash distributions and service or refinance our debt.

We cannot assure you that we will pay any distributions on our units.

Our board of directors determines our cash distribution policy and the level of our cash distributions. Generally, our board of directors seeks to maintain a balance between the level of reserves it takes to protect our financial position and liquidity against the desirability of maintaining distributions on our limited partnership interests. We intend to review our distributions from time to time in the light of a range of factors, including our ability to obtain required financing and access financial markets, the repayment or refinancing of our external debt, the level of our capital expenditures, our ability to pursue accretive transactions, our financial condition, results of operations, prospects and applicable provisions of Marshall Islands law.

Under the terms of our partnership agreement, we are prohibited from declaring and paying distributions on our common units until we declare and pay, or set aside for payment, full distributions on our Class B Units. As of December 31, 2017, there were 12,983,333 Class B Units issued and outstanding. The minimum quarterly distribution on our Class B Units is $0.21375 per unit, which is equal to $0.86 per unit per year, until May 22, 2022 and will thereafter increase to a rate that is 1.25 times the then applicable distribution rate on May 22, 2022, and continue to increase quarterly at a rate of 1.25 times the prior quarterly distribution rate, subject to certain adjustments and a limit of $0.33345 per Class B Unit, which is equal to $1.3338 per unit per year. Among other consequences, if we fail to pay the minimum Class B Unit distribution for six or more quarters, the holders of the Class B Units will have the right to appoint a director to our board of directors and, if such arrearages exist after March 1, 2018, to replace the directors appointed by our General Partner, in each case by the affirmative vote of the holders of a majority of the Class B Units.

We may not have sufficient cash available each quarter to pay a minimum quarterly distribution on our common units following the payment of fees and expenses, the establishment by our board of directors of cash reserves, and the declaration of the minimum quarterly distribution on our Class B Units. In April 2016, in the face of severely depressed trading prices for master limited partnerships, including us, a significant increase in our cost of capital and potential loss of revenue, our board of directors took the decision to protect our liquidity position by creating a capital reserve and setting distributions on our common units at a level that our board of directors believed to be sustainable and consistent with the proper conduct of our business. We have paid significantly less than the minimum quarterly distribution on our common units since the first quarter of 2016. The minimum quarterly distribution is a target set in our limited partnership agreement. There is no requirement that we make a distribution in this amount.

Table of Contents

Our distribution policy from time to time will depend on, among other things, shipping market developments and the charter rates we are able to negotiate when we re-charter our vessels, our cash earnings, financial condition and cash requirements, and could be affected by a variety of factors, including increased or unanticipated expenses, the loss of a vessel, required capital expenditures, reserves established by our board of directors, refinancing or repayment of indebtedness, additional borrowings, compliance with our loan covenants, our anticipated future cost of capital, access to financing and equity and debt capital markets, including for the purposes of refinancing or repaying existing indebtedness, and asset valuations. Our distribution policy may be changed at any time, and from time to time, by our board of directors.

Our ability to make cash distributions is also limited under Marshall Islands law. A Marshall Islands limited partnership cannot make a cash distribution to a partner to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the limited partnership (other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specified property of the limited partnership) exceed the fair value of its assets. For purposes of this test, the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds such liability.

The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which will be affected by non-cash items. As a result, we may not make cash distributions in certain periods even if we were to record a positive net income in those periods. Conversely, we may make cash distributions during periods when we record losses.

In the light of the factors described above and elsewhere in this annual report, there can be no assurance that we will pay any distributions on our units.

Our common units are equity securities and are subordinated to our existing and future indebtedness and our Class B Units.

Our common units are equity interests and do not constitute indebtedness. Our common units rank junior to all indebtedness and other non-equity claims on us with respect to the assets available to satisfy claims, including in a liquidation of the Partnership. Additionally, holders of our common units are subject to the prior distribution and liquidation rights of any holders of the Class B Units and any other preferred units we may issue in the future. Therefore, we are prohibited from making distributions on our common units under our partnership agreement until all accrued and unpaid distributions are paid on the Class B Units.

Our board of directors is authorized to issue additional classes or series of preferred units without the approval or consent of the holders of our common units. In addition, holders of the Class B Units have the right to convert all or a portion of their Class B Units at any time into common units. As of December 31, 2017, there were 12,983,333 Class B Units issued and outstanding.

Any reduction in the amount of distributions made on our common units could materially and adversely affect the market price of the common units.

Since 2011, our board of directors has elected not to deduct cash reserves for estimated replacement capital expenditures from our operating surplus. If this practice continues, our asset base and the income generating capacity of our fleet may be significantly affected.

Our partnership agreement provides that our board of directors shall deduct from operating surplus cash reserves that it determines are necessary to fund our future operating expenditures, including estimated maintenance capital expenditures. The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by our board of directors, provided that any change must be approved by our conflicts committee.

Replacement capital expenditures are made in order to maintain our asset base and the income generating capacity of our fleet. We have in the past incurred substantial replacement capital expenditures. Replacement capital expenditures may vary over time as a result of a range of factors, including changes in:

- the value of the vessels in our fleet;
- the cost of our labor and materials;

Table of Contents

the cost and replacement life of suitable replacement vessels;