TEEKAY SHIPPING CORP
Form 6-K
August 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2003

TEEKAY SHIPPING CORPORATION
(Exact name of Registrant as specified in its charter)

TK House
Bayside Executive Park
West Bay Street & Blake Road
P.O. Box AP-59212, Nassau, Bahamas
(Address of principal executive office)

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

Form 20-F __X__ Form 40- F _____

[Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):_____]

Yes _____ No __X__

[Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):_____]

Yes _____ No __X__

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.]

Yes _____ No __X__

[If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-_____]

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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ITEM 1 - FINANCIAL STATEMENTS

INDEPENDENT ACCOUNTANT S REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of
Teekay Shipping Corporation

We have reviewed the accompanying consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of June 30, 2003, the related consolidated statements of income for the three and six-month periods ended June 30, 2003 and 2002, and the consolidated statements of cash flows for the six-month periods ended June 30, 2003 and 2002. Our review also included Schedule A listed in Index Item 1. These consolidated financial statements and schedule are the responsibility of the Company s management.

We were furnished with the report of other accountants on their review of the interim information of Ugland Nordic Shipping AS, a wholly-owned subsidiary, for the three and six-month periods ended June 30, 2002 and whose total assets as of June 30, 2002 and whose net voyage revenues for the six-month period ended June 30, 2002 constituted 22 percent and 18 percent, respectively, of the consolidated totals.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the report of other accountants, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements and schedule referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Teekay Shipping Corporation and subsidiaries as of December 31, 2002, and the related consolidated statements of income, changes in stockholders equity and cash flows for the year then ended, not presented herein, and in our report dated February 13, 2003 (except for Note 15(b) which is as of February 19, 2003.), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet and related schedule as of December 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet and schedule from which they have been derived.

Vancouver, Canada,
July 25, 2003

/s/ ERNST & YOUNG LLP
Chartered Accountants

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(in thousands of U.S. dollars, except share and per share amounts)

	Three Months Ended June 30, 2003 $	Three Months Ended June 30, 2002 $	Six Months Ended June 30, 2003 $	Six Months Ended June 30, 2002 $
	(unaudited)		(unaudited)	
NET VOYAGE REVENUES				
Voyage revenues	462,271	186,935	744,503	375,565
Voyage expenses	109,187	57,127	178,521	109,598
Net voyage revenues	353,084	129,808	565,982	265,967
OPERATING EXPENSES				
Vessel operating expenses	55,530	42,663	98,176	83,050
Time-charter hire expense	93,483	13,496	106,394	26,210
Depreciation and amortization	49,775	36,763	88,905	72,841
General and administrative	21,909	14,327	36,636	28,494
	220,697	107,249	330,111	210,595
Income from vessel operations	132,387	22,559	235,871	55,372
OTHER ITEMS				
Interest expense	(21,700)	(14,478)	(36,086)	(29,179)
Interest income	1,287	1,001	2,133	1,793
Write-down of vessels *(note 11)*	(3,758)	--	(30,550)	--
Other loss *(note 8)*	(11,341)	(5,131)	(20,914)	(8,344)
	(35,512)	(18,608)	(85,417)	(35,730)
Net income	96,875	3,951	150,454	19,642
Earnings per common share				
- Basic	2.43	0.10	3.78	0.50
- Diluted	2.39	0.10	3.72	0.49
Weighted average number of common shares				
- Basic	39,825,796	39,631,949	39,783,334	39,593,419

	Three Months Ended June 30,		Six Months Ended June 30,	
- Diluted	40,522,720	40,348,900	40,455,731	40,278,281

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at June 30, 2003 $	As at December 31, 2002 $
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents *(note 5)*	293,199	284,625
Restricted cash	2,131	4,180
Accounts receivable	131,843	70,906
Prepaid expenses and other assets	50,694	27,847
Total current assets	477,867	387,558
Marketable securities	12,914	13,630
Vessels and equipment *(notes 5 and 11)*		
At cost, less accumulated depreciation of $997,900 (December 31, 2002 - $940,082)	2,401,468	1,928,488
Advances on newbuilding contracts *(note 7)*	182,176	138,169
Total vessels and equipment	2,583,644	2,066,657
Restricted cash *(note 5)*	6,520	4,605
Deposit for purchase of Navion ASA *(note 2)*	--	76,000
Net investment in direct financing leases *(note 2)*	47,596	--
Investment in joint ventures	28,298	56,354
Other assets	48,322	29,513
Intangible assets - net *(note 3)*	120,560	--
Goodwill *(note 3)*	130,291	89,189
	3,456,012	2,723,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Accounts payable	37,330	22,307
Accrued liabilities	108,365	83,643
Current portion of long-term debt *(note 5)*	152,803	83,605

	As at June 30, 2003 $	As at December 31, 2002 $
	(unaudited)	
Total current liabilities	298,498	189,555
Long-term debt *(note 5)*	1,502,558	1,047,217
Other long-term liabilities	83,671	44,512
Total liabilities	1,884,727	1,281,284
Minority interest	21,136	20,324
Stockholders' equity		
Capital stock *(note 6)*	472,452	470,988
Retained earnings	1,087,367	954,005
Accumulated other comprehensive loss	(9,670)	(3,095)
Total stockholders' equity	1,550,149	1,421,898
	3,456,012	2,723,506

Commitments and contingencies *(note 7)*

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Six Months Ended June 30, 2003 $	2002 $
	(unaudited)	
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	150,454	19,642
Non-cash items:		
Depreciation and amortization	88,905	72,841
(Gain) loss on disposition of assets	(222)	1,130
Loss on write-down of vessels and marketable securities	35,460	--
Equity income (net of dividends received: June 30, 2003 - $5,657; June 30, 2002 - $1,748)	3,261	(539)
Income tax expense	17,186	6,991
Other - net	(5,129)	796
Change in non-cash working capital items related to operating activities	(15,433)	11,148
Net cash flow from operating activities	274,482	112,009

	Six Months Ended June 30,	
FINANCING ACTIVITIES		
Net proceeds from long-term debt	1,496,499	19,260
Scheduled repayments of long-term debt	(37,203)	(25,897)
Prepayments of long-term debt	(945,000)	--
Decrease / (increase) in restricted cash	134	(3,290)
Proceeds from issuance of Common Stock	6,265	3,225
Cash dividends paid	(17,090)	(17,013)
Net cash flow from financing activities	503,605	(23,715)
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(115,657)	(80,373)
Expenditures for drydocking	(13,784)	(13,546)
Proceeds from disposition of vessels and equipment	42,615	--
Purchase of Navion ASA	(703,590)	--
Proceeds from disposition of available-for-sale securities	1,348	6,675
Proceeds from joint venture	25,500	--
Other	(5,945)	(1,885)
Net cash flow from investing activities	(769,513)	(89,129)
Increase (decrease) in cash and cash equivalents	8,574	(835)
Cash and cash equivalents, beginning of the period	284,625	174,950
Cash and cash equivalents, end of the period	293,199	174,115

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

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all tabular amounts stated in thousands of U.S. dollars, except share and per share data)
(Information as at June 30, 2003 and for the Three and Six-Month Periods
Ended June 30, 2003 and 2002 is unaudited)

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission. They include the accounts of Teekay Shipping Corporation (Teekay), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (the Company). Certain information and footnote disclosures required by generally accepted accounting principles for complete annual financial statements have been omitted and, therefore, it is suggested that these interim financial statements be read in conjunction with the Company s audited financial statements for the year ended December 31, 2002. In the opinion of management, these statements reflect all adjustments (consisting only of normal recurring accruals), necessary to present fairly, in all material respects, the Company s consolidated financial position, results of operations, and cash flows for the interim periods presented. The results of operations for the three and six-month periods ended June 30, 2003 are not necessarily indicative of those for a full fiscal year.

2. Acquisition of Navion ASA

In April 2003, Teekay completed its acquisition of 100% of the issued and outstanding shares of Navion ASA for approximately $774.2 million in cash, including transaction costs of approximately $7 million. The Company made a deposit of $76.0 million towards the purchase price on December 16, 2002. The remaining portion of the purchase price was paid on closing. The Company funded its acquisition of Navion by borrowing under a $500 million 364-day facility (subsequently replaced by a $550 million revolving credit facility), together with available cash and borrowings under other existing revolving credit facilities. Navion s results of operation have been consolidated with Teekay s results commencing April 1, 2003.

Navion, based in Stavanger, Norway, operates primarily in the shuttle tanker and the conventional crude oil and product tanker markets. Its modern shuttle tanker fleet, which as of June 30, 2003, consisted of eight owned and 12 chartered-in vessels (excluding four vessels chartered-in from the Company s shuttle tanker subsidiary Ugland Nordic Shipping AS (UNS)), provides logistical services to the Norwegian state-owned oil company, Statoil ASA, and other oil companies in the North Sea under fixed-rate, long-term contracts of affreightment. Navion s modern, chartered-in, conventional tanker fleet, which as of June 30, 2003, consisted of 12 crude oil tankers and 13 product tankers, operates primarily in the Atlantic region, providing services to Statoil and other oil companies. In addition, Navion owns two floating storage and off-take (FSO) vessels currently trading as conventional crude oil tankers in the Atlantic region, and one liquid petroleum gas (LPG) carrier on long-term charter to Statoil. Through Navion Chartering AS, an entity owned jointly with Statoil, Navion has a first right of refusal on Statoil s oil transportation requirements at the prevailing market rate until December 31, 2007. In addition to tanker operations, Navion also constructs, installs, operates and leases equipment that reduces volatile organic compound emissions during loading, transportation and storage of oil and oil products.

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed by the Company at the date of the Navion acquisition. The Company is in the process of finalizing certain elements of the purchase price allocation and, therefore, the allocation is subject to further refinement.

	As at April 1, 2003 (unaudited) $
ASSETS	
Current assets	64,457
Vessels and equipment	543,003
Net investment in direct financing leases	45,558
Other assets - long-term	3,835

	As at April 1, 2003 (unaudited) $
Intangible assets subject to amortization:	
Contracts of affreightment (15-year sum-of-years declining balance)	117,000
Goodwill (fixed-rate contract segment)	40,033
Total assets acquired	813,886
LIABILITIES	
Current liabilities	36,270
Other long-term liabilities	3,463
Total liabilities assumed	39,733
Net assets acquired (cash consideration)	774,153

The following table shows comparative summarized consolidated pro forma financial information for the Company for the six months ended June 30, 2003 and 2002, giving effect to the acquisition of 100% of the outstanding shares in Navion as if the acquisition had taken place on January 1 on each of the periods presented:

	Pro Forma Six Months Ended June 30, 2003 (unaudited) $	2002 (unaudited) $
Net voyage revenues	748,493	513,831
Net income	196,494	28,574
Net income per common share		
- basic	4.94	0.72
- diluted	4.86	0.71

3. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the six-month period ended June 30, 2003 for the Company s spot market segment and the fixed-rate contract segment (as described in Note 12), are as follows:

	Spot Market Segment $	Fixed-Rate Contract Segment $	Other $	Total $
Balance as of January 1, 2003	-	87,079	2,110	89,189
Goodwill acquired	-	40,033	1,069	41,102
Balance as of June 30, 2003	-	127,112	3,179	130,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (all tabular amounts stated in thousands of U.S. do 9

TEEKAY SHIPPING CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The goodwill allocated to the fixed-rate contract segment is tested for impairment in the second quarter of each year. Based on the test conducted in June 2003, the Company determined that goodwill was not impaired at such time.

The following table presents amortization details of intangible assets acquired by the Company:

	Gross Carrying Amount $	Accumulated Amortization $	Net Carrying Amount $
Contracts of affreightment ("COA")	117,000	3,774	113,226
Intellectual property	7,701	367	7,334
	124,701	4,141	120,560

Aggregate amortization expense:	
Three months ended June 30, 2003	4,049
Six months ended June 30, 2003	4,141

4. Cash Flows

Cash interest paid during the six-month period ended June 30, 2003 and 2002 approximated $33.4 million and $33.5 million, respectively.

5. Long-Term Debt

	June 30, 2003 $	December 31, 2002 $
Revolving Credit Facilities	550,000	210,000
Premium Equity Participating Security Units (7.25%) due May 18, 2006	143,750	--
First Preferred Ship Mortgage Notes (8.32%) due through 2008	167,229	167,229
Term Loans due through 2010	442,500	401,593
Senior Notes (8.875%) due July 15, 2011	351,882	352,000
	1,655,361	1,130,822
Less current portion	152,803	83,605
	1,502,558	1,047,217

As of June 30, 2003, the Company had three long-term Revolving Credit Facilities (the Revolvers) available, which, as at such date, provided for borrowings of up to $971.9 million, of which $421.9 million was undrawn. The amount available under the Revolvers reduces semi-annually by a combined $59.3 million, with final balloon reductions scheduled for one Revolver in 2006 and for the other two Revolvers in 2008. Two of the Revolvers are collateralized by first priority mortgages granted on 30 of the Company s vessels, together with other related collateral, and all the revolvers include a guarantee from Teekay for all amounts outstanding under the Revolvers.

The 7.25% Premium Equity Participating Security Units due May 18, 2006 (the Equity Units) are unsecured and subordinated to all of the Company s senior debt. The Equity Units are not guaranteed by any of the Company s subsidiaries and effectively rank behind all existing and future secured debt. Each Equity Unit includes (a) a forward contract that requires the holder to purchase for $25 a specified fraction of a share of the Company s Common Stock on February 16, 2006 and (b) a $25 principal amount, subordinated note due May 18, 2006. The forward contracts provide for contract adjustment payments of 1.25% annually and the notes bear interest at 6.0% annually. Upon settlement on February 16, 2006 of the 5.75 million forward contracts included in the Equity Units, the Company will issue between 3,267,150 and 3,991,075 shares of its Common Stock (depending on the average closing price of the Common Stock for the 20-trading day period ending on the third trading day prior to February 16, 2006).

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The 8.32% First Preferred Ship Mortgage Notes due February 1, 2008 (the 8.32% Notes) are collateralized by first preferred mortgages on seven of the Company s Aframax tankers, together with other related collateral, and are guaranteed by seven subsidiaries of Teekay that own the mortgaged vessels (the 8.32% Notes Guarantor Subsidiaries) to a maximum of 95% of the fair value of their net assets. As at June 30, 2003, the fair value of these net assets approximated $172.5 million. The 8.32% Notes are also subject to a sinking fund, which will retire $45.0 million principal amount of the 8.32% Notes on each February 1, commencing 2004.

Condensed financial information regarding Teekay, the 8.32% Notes Guarantor Subsidiaries, and non-guarantor subsidiaries of Teekay is set out in Schedule A of these consolidated financial statements.

The Company has several term loans outstanding, which, as at June 30, 2003, totaled $442.5 million. All term loans of the Company are collateralized by first preferred mortgages on the vessels to which the loans relate, together with other collateral. All term loans, other than UNS term loans totaling $359.7 million, are guaranteed by Teekay. One term loan required a retention deposit of $6.5 million as at June 30, 2003.

Pursuant to long-term debt agreements, the amount of Restricted Payments, as defined, that the Company can make, including dividends and purchases of its own capital stock, was limited as of June 30, 2003, to $504.1 million. Certain loan agreements require that a minimum level of free cash be maintained. As at June 30, 2