TEEKAY TANKERS LTD.

Moderator: Bruce Chan
May 9, 2013
12:00 pm CT

Operator: Welcome to Teekay Tankers Limited First Quarter 2013 Earnings Results Conference Call. During the call all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question and answer session. At that time if you have a question, participants will be asked to press star one to register for a question. For assistance during the call, please press star zero on your touch-tone phone. As a reminder this call is being recorded.

Now for opening remarks and introductions, I would like to turn the call over to Mr. Bruce Chan - Teekay Tankers Limited Chief Executive Officer. Please go ahead sir.

(Ryan): Before Mr. Chan begins I would like to direct all participants to our website at www.teekaytankers.com where you'll find a copy of the first quarter 2013 earnings presentation. Mr. Chan will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward looking statements. Actual results may differ materially from results projected by those forward looking statements.

Additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements is contained in the first quarter 2013 earnings release and earnings presentation available on our website. I will now turn the call over to Mr. Chan to begin.

Bruce Chan: Thank you (Ryan). Good day everyone and thank you for joining us. With me here in Vancouver is Vince Lok, Teekay Tanker's Chief Financial Officer, Brian Fortier, Corporate Controller of Teekay Corporation and Peter Evensen, Teekay Corporation's Chief Executive Officer. During today's call I will be taking you through Teekay Tanker's first quarter earnings results presentation which can be found on our website.

Beginning with our recent highlights on slide three of the presentation, Teekay Tankers generated cash available for distribution of 10 cents per share in the first quarter down slightly from the 13 cents per share generated in the fourth quarter mainly due to the change in employment of certain vessels from fixed rates to lower spot rates upon expiring of their time charter out contracts.

We reported an adjusted net loss of 4 cents per share - an improvement from our adjusted net loss of 9 cents per share reported in the fourth quarter of 2012. Although the slot tanker market remains at challenging cyclically low levels, our spot fleet successfully out performed industry benchmarks during the quarter supported by Teekay Corporation's commercial pools mainly tourist tankers, Gemini and the Teekay Aframax RSA.

The beneficial relationship we enjoy with our sponsor has enabled us to utilize Teekay's extensive customer and chartering relationships to secure favorable spot rate employment for our vessels allowing us to outperform the market.

The company declared a dividend of 3 cents per share for the first quarter - Teekay Tankers 22nd consecutive quarterly dividend which will be paid out on May 28th to all shareholders of record on May 20th. This quarter marks the commencement of the fixed dividend policy change we announced last quarter.

Teekay Tanker's dividend is currently set at an annual dividend of 12 cents payable quarterly. We believe this dividend policy allows Teekay Tankers to retain operating cash flow in a recovering tanker market to fund attractive growth opportunities.

Given the challenging rate environment we continue to be focused on managing our fleet employment mix to insure we preserve cover from fixed rate charters to support and provide stability for our cash available for distribution and our dividend as we enter the seasonally weaker summer months.

In addition, by extending our time charter end of the Star Lady for another six months at a below market rate, we successfully gain short term spot exposure at a favorable spread while limiting the risk associated with a longer charter commitment. Finally as announced in April, Teekay Tankers entered into an agreement with STX Offshore and Ship Building of Korea to order four fuel efficient long range LR2 product tanker new buildings.

This order is a reflection of our positive view of the developing long haul product tanker market fundamentals. In addition because LR2's are essentially Aframax size tankers with epoxy coated tanks, they will have the flexibility to trade in both refined product or crude oil cargos. At an attractive fully built up cost of approximately 47 million per vessel, these new buildings will provide good value for Teekay Tankers as they deliver into an expected improving tanker market in late 2015 and into early 2016.

Turning to slide four we have provided an updated overview of Teekay Tankers' fleet employment mix and fixed rate coverage including our recent LR2 new building order. The current fleet consists of 31 owned vessels as well as two time chartered in Aframax and one 50% owned VLTC new building to be named the Hong Kong Spirit scheduled to be delivered in the second quarter onto a five year charter.

As I noted a moment ago, in the current weak spot tanker rate environment locking in fixed cover continues to be a focus as we expect the current spot market weakness and volatility to continue for at least the near term. Recently we successfully time chartered out the Aframax tanker - Adverse Spirit - for a three year period at a rate of $15,500 per day increasing our fixed cover percentage to 40% for the 12 month period from March 31st 2013.

Turning to slide five I want to take a moment to review Teekay Tankers' performance against the challenging first quarter market backdrop. Demand for crude oil tankers has been week through the early part of 2013 particularly for the larger vessel classes. A steady increase in non-opaque oil production primarily due to the ramp up in US shale oil production has lead to a reduction in Opaque crude supply. This is negative for large tankers as Opaque barrels are generally ton mile intensive.

In addition, heavy spring refinery maintenance schedule particularly in Asia has impacted demand for crude tankers in recent weeks though this will likely improve as refineries come back on line in the coming months. The Aframax sector which is less influenced by long haul oil trades and more by regional factors has also been weak since the start of the year. However at times seasonal factors have resulted in short lived rate spikes.

This was particularly evident in the Atlantic when some late season ice in Northern Europe and bad weather in the US Gulf region lead to an increase in rate volatility during March and April. Aside from these one off events, Aframax's rates remain under pressure from a relatively weak demand environment though an expected contraction in the Aframax's suite side should offer some relief during the second half of the year.

In the LR2 sector, rates fell during the early part of Q1 having reached three year highs of approximately $20,000 per day during December 2012. In recent weeks rates have steadily improved aided by high levels of NAPTA arbitrage movements from Europe to Asia to make up for a short fall in local supply. In fact NAPTA movements from the West into Asia have averaged around one million tons per month this year - more than 60% higher than the 2012 monthly average.

As noted in the table on the slide, Teekay Tankers outperformed industry benchmarks across all its major vessel classes during the first quarter. This highlights the benefits of our participation in the Teekay managed commercial tonnage pools including greater scale economies and fleet utilization that enables Teekay Tankers to earn relatively stronger rates even in a challenging rate environment.

Turning to slide six we have provided our medium term outlook for the tanker market. On the chart on the slide the dark blue bars show tanker demand growth while the light blue bars show tanker supply growth. The green area shows overall tanker fleet utilization which is simply total tanker supply divided by total tanker demand. As shown on the chart, tanker demand and supply growth at approximately 3.5% each are expected to offset each other during 2013 meaning little change and expected tanker fleet utilization this year.

However in 2014 the outlook is for an improvement in utilization based on reduced tanker supply growth and improved demand fundamentals. On the supply side the tanker order book has shrunk to a current level of just 54 million deadweight - the lowest level since 2001. Put another way, the tanker order book currently equates to just 11% of the size of the existing fleet - the lowest level since the second quarter of 1997.

For 2014 we expect the tanker fleet will grow by less than 3% -- the lowest rate of fleet growth since 2002. The majority of the growth will be in the VLTC and MR segments with mostly growth expected in the Suezmax, Aframax and LR2 segments. For Suezmax this marks the end of a long period of aggressive fleet expansion which should enable fleet utilization to recover as ton mile demand improves.

Looking at demand, most international forecasting agencies are expecting an improvement in the global economy during 2014 and therefore an improvement in oil demand although the overall health of the global economy remains an uncertain part of the equation. We have assumed that global oil demand will return to growth of between 1 and 1.5 million barrels per day in 2014 spurred by demand growth in the non-OECD and China in particular. This is expected to translate into tanker demand growth between 4 and 5% similar to or slightly better than demand growth seen in 2012.

When taken together we expect an improvement in tanker fleet utilization of around two percentage points during 2014 bringing with it improved spot market rates and an expected accelerated recovery through 2015 and beyond.

Moving to slide seven we have provided a summary of our recent LR2 new building order with STX Offshore and ship building. In April we announced our firm order for four fuel efficient LR2 product tanker new buildings at an attractive fully built up cost of approximately 47 million per vessel. These vessels will deliver in late 2015 through early 2016 which we believe is well timed to benefit from an improving rate environment for refined product shipping which I'll talk about more in a moment.

With fuel efficient design features including a hydrodynamic hull profile, new generation G type engine and propeller efficiencies, these vessels are expected to save between 20 and 30% or roughly $7000 per day in fuel consumption when laden compared to vessels in the existing global LR2 fleet and will be especially attractive to our customers. In addition with epoxy coated tanks we have the ability to trade these vessels clean or dirty which provides us with the greater flexibility in a recovering tanker market.

In addition to the four firm new buildings, the order with STX includes an attractive fixed price option stream which provides further upside potential in a recovering tanker market. These options allow us to order up to four additional LR2 product tankers at each six month interval over the next 18 months for a potential total of 12 additional vessels.

Importantly the option stream is non-contingent which means we still maintain the subsequent options in the event market conditions are not favorable to declaring the earlier options. This effectively preserves our optionality for as long as possible as we monitor market development into late 2014.

Lastly we have negotiated a favorable tail weighted payment profile with STX which will result in the majority of the purchase price being paid on delivery. This will limit the near term impact on Teekay Tankers' liquidity and provide sufficient time to arrange longer term financing.

Slide eight provides an overview of the outlook for the LR2 product tanker market and supports our view that the sector has some of the best fundamentals in the tanker space. The global refining industry is currently undergoing some significant changes which are expected to result in considerable changes to the way in which refined products are traded.

In the OECD refining capacity has been shrinking rapidly as old relatively unsophisticated refinery capacity has been unable to maintain competitiveness given high crude feed stock prices and increasing competition from cheaper refineries in the East. This is particularly evident in places like Europe which has seen 1.8 million barrels per day of refining capacity shot since 2009 and Australia which plans to close approximately 40% of its refining capacity by the end of 2014.

At the same time refining capacity in the Middle East and Asia is expanding rapidly to meet both domestic demand and the export market. As this occurs, the net result is that refined products will start to move longer haul on larger vessels creating significant demand for LR2 tankers which are the largest class of tanker currently carrying refined products.

On the supply side the LR2 sector has favorable fleet fundamentals with just 26 vessels on order out to 2015. When combined with the positive demand outlook, we expect LR2 fleet utilization to recover from the 2012 low of just under 80% towards 90% by 2015. As a reminder, 90% is considered to be full fleet utilization.

With this positive outlook, the option stream on our new LR2 order to provide significant upside should vessel values begin to rise over the next 18 months. In the table at the bottom of the slide we have provided an illustrative calculation of the intrinsic value that these new building options would provide on a per share basis for each one million increase in the market value of vessels above our fixed option price with STX.

As you can see, with up to 12 vessel options available, this option stream could provide significant upside in a rising new building price environment. Turning to slide nine I will take a moment to provide an update on our investment and two term loans.

In July 2010 we invested in two 57.5 million three year first priority mortgages secured by two 2010 built VLTC tankers. Since our initial investment these ship mortgage investments have generated approximately 30 million of income for Teekay Tankers. Unfortunately the borrower is currently facing financial difficulty and has defaulted on its interest payment obligations since January 2013.

However we estimate that the current value of our security interests in the two VLTC’s are still sufficient to cover all amounts currently owed by the borrower including our original principal amount and accrued interest to the expiree of the loan agreement in mid July 2013.

To protect our security interest in the vessels, we have agreed to taking over technical and commercial management of the two vessels. By taking control of chartering and having Teekay crews operate these vessels, we will be in a better position to work with the borrower to realize the full value of our investments.

Turning to slide ten - Teekay Tankers remains financially strong and well positioned for growth in the tanker market recovery with total current liquidity of approximately 294 million. We are more than capable of servicing the ship yard installment payments on our four LR2 new buildings without the need to issue additional equity. In addition, our move to a fixed dividend policy will allow us to retain additional cash from operations for future growth as the tanker market improves while still enabling us to pay a sustainable dividend based on our existing fleet size and employment mix.

Realizing the value of the term loans discussed on the previous slide will also add to Teekay Tankers' available liquidity. Teekay Tankers' covenant light debt facilities mean we have no financial covenant concerns like many of our shipping peers. And lastly our favorable debt amortization profile requires low principal repayments through 2016 enabling us to retain a greater portion of our operating cash flow for future growth.

Wrapping up on slide eleven, we provide a cash available for distribution outlook matrix for the second quarter of 2013 based on our expected fleet employment profile. Based on a weighted average of approximately 40% of spot revenue days booked for Suezmax and Aframax and 2/3 of spot revenue days booked for LR2's, our second quarter spot rates have averaged approximately 12,300 per day, 13,800 per day and 14,900 per day respectively.

We have continued to include our cash available for distribution matrix in the earnings presentation as we believe this measure continues to reflect Teekay Tankers' cash equity return even though the company has moved to a fixed dividend policy.

Even in a low spot rate environment, Teekay Tankers generates positive cash available for distribution allowing us to pay a fixed quarterly dividend from vessel earnings while retaining operating cash flow for future growth opportunities.

With that operator, we are now available to take questions.

Operator: Thank you. Ladies and gentlemen if you'd like to ask a question, please signal by pressing the star key followed by the digit one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. If you have signaled for a question prior to hearing these instructions on today's call, please repeat the process now by pressing star one again to insure your equipment has captured our signal. Please stand by while we assemble the queue.

And our first question comes from Justin Yagerman from Deutsche Bank. Please go ahead. Excuse me, please stand by. Justin Yagerman? Hello, please go ahead Ken Hoexter from - sorry - from Bank of America Merrill Lynch. Please go ahead.

(Wilson Chen): Hi, good morning guys. This is actually (Wilson Chen) sitting in for Ken.

Bruce Chan: Hey (Wilson).

(Wilson Chen): Good morning. I had a couple of questions to follow-up about the VLTC loan notes. I mean could you give us a little bit of color around who the borrower was and maybe indication for how long you'll be managing the two VLTC's? If I recall correctly the loan comes off in 2Q13. So how exactly does that process work if you're, you know, in the process of managing the ship? And anything along those lines would be great.

Bruce Chan: Sure. I mean the VLTC loans were made to a Taiwanese based company and who is in some financial difficulty. So we've been able to take over commercial and technical again allowing us to have full control making sure the assets are being maintained and that we can maximize the revenues during this period.

The cash break even number's pretty low. I mean we just got to cover OPEX and anything above that is going to go towards paying off us as the first priority mortgager. And so we will continue that through to the right time and then the best way forward is to realize on that security. And it'll just be a tradeoff of the market availability of being able to sell that ship versus the incremental cash flow that we can earn during the period. But we're not intending on trading those over the long-term. It's really to protect our interest and insure that we are able to recover all amounts owed to us.

Male: And there was the common view that Teekay could make more money trading the ships. So that's why it was agreed we should take over commercial and technical management.

(Wilson Chen): Got you. Could you remind me about the parent? Are there typically VLTC's that are managing as well because I know that in Tankers you've traditionally operated mostly in the Suez's and Aframax?

Bruce Chan: That's right. We haven't operated VLTC recently but we have owned and commercially managed spot VLTC's in the past and the customer base and the contacts are the same. So our desk is fully capable of finding employment for those vessels.

(Wilson Chen): Sure. And then if I can switch over to the LR2 side. Can I get a sense for how - at least have you had any initial open indications from counterparties looking to perhaps charter the vessels out even if it's, you know, three years out? I mean it sounds like the backdrop for the LR2's sector seems much more conducive to, you know, demand kind of exceeding supply over the next couple of years. And so have you had initial conversations around that and if not, when would you expect some of those to begin or would you have to actively market, you know, four vessels like this?

Bruce Chan: We are certainly been in discussion - especially after the announcement of the ships. From their perspective customers are looking to potentially charter. Otherwise you say three years out is a little bit out there for them to commit to some fixed cover but it is certainly interesting for them.

So we are in discussion although as shown on our various slides, our outlook is for improved utilization - as you say improved demand for those ships. And therefore it's a tradeoff of locking in rates today or using the next little while to see how that market develops and if it improves as we expect it to, to be in a position to take advantage of the spot rates more than locking in.

(Wilson Chen): Understood. And if I just - the last question on the options. I'm not as familiar with how some of the ship options work but are you able to monetize that in some way if you were to sell it or is it structured so that only you can, you know, have access to that price for the ships?

Bruce Chan: No, those are real asset options. I mean it's not as easy obviously as a financial option to sell on but there are ways in which you can monetize those.

(Wilson Chen): Great. That was all my questions. Thank you.

Bruce Chan: Thank you.

Operator: Thank you. And our next question comes in from Justin Yagerman from Deutsche Bank. Please go ahead Justin.

(Josh): Hey, it's (Josh) for Justin. I'm not sure what happened earlier.

Bruce Chan: No problem (Josh). Good morning. Good afternoon.

(Josh): Hi. I guess maybe starting with the VOCC's - is there any concern about maybe other creditors from this borrower who's clearly I guess reportedly not having many of their ships trade at all. Are there concerns about other people trying to arrest the ships?

Bruce Chan: Well first of all they are ring fence from - in a separate entity. So they're creditor protected from other people and that's from other aspects of that company.

Having said that, obviously each ship has its own trade creditors but given the ships have been having a tough time to trade, most trade creditors have been pretty conservative and extending a lot. So we're optimistic that there won't be too much of that.

And as we start trading them now ourselves, we will soon find out what, you know, kind of small amounts of trade creditors might be out there but that's not a very large number in terms of the overall situation. And again, the loans are 57 ½ million per ship. So there is buffer in there for that type of interim payments that need to be made.

(Josh): Got it. And then I guess sticking on those loans - sorry - there hasn't really been very much said on purchase activity for some of these modern VLTC's out there. So I guess can you talk about maybe how you come up with current values and I guess security? I think there's only been one ship - one new I guess five year old VLTC loan sold in the past couple of years.

Bruce Chan: Yes, you know, obviously in the liquidity and the sell and purchase market and tankers in general is never a perfect science. As you say there's been some recent - there's that one that you mentioned. There was a more recent one. I think it was a shipyard sold a new building for 74 million. So you can kind of triangulate around the few of them and take an estimate but clearly liquidity is not there to be as robust as in a financial asset but that's how we've estimated the value.

(Josh): Got it. And then I guess proceeds from the - I guess from any potential sale later this year from those ships would just be used to pay down your revolver.

Bruce Chan: That's right. That's right.

(Josh): I guess we'll be switching topics to the product anchor market. I guess we saw a couple spikes in the LR2 market and LR1 too going EG east I guess earlier. Can you talk about maybe kind of near term seasonality expectations? We've seen a big draw of crude going into Asia I guess in the past couple of weeks. Do you expect to see some more flows for maybe NAPTA and some of the LR2 targets?

Bruce Chan: Yes, I mean that's really what's driven the current strength in the market is that NAPTA going east and we're averaging much higher volumes than we have been last year. And so I think that's why you're seeing the rates being stronger so far this year and continuing to be pretty good with 2/3 of our LR2 days booked at close to $15,000 a day.

(Josh): Got it. Got it. Alright well I appreciate the time. I think I'll follow-up offline with a couple of others.

Bruce Chan: Thanks (Josh).

Operator: Thank you. And our next question comes in from John Chappell from Evercore Partners. Please go ahead.

John Chappell: Thanks. Good morning guys.

Bruce Chan: Good morning John.

John Chappell: Hey Bruce, I hate to be laver this term loan question or issue but I think we probably need just a little bit more clarity around it because I think it's clearly impacting the stock today.

So just first to be completely clear on the financial impact, you had the full interest income come in, in the first quarter - 2.9 million roughly - despite, you know, your comments that they defaulted since January 2013. So how is that working and is that still going to be in the second quarter numbers too? Are you kind of taking, you know, an assumption that something's going to happen with the vessels and, you know, it's going to be made up at some point?

Bruce Chan: Hi John, you're right. We did accrue the interest in the first quarter and that's because we are entitled to that interest under the term loans. And given that there's significant buffer still between our loan balance and accrued interest compared to the vessel values, we continue to accrue that. It's just really more of a timing issue as to when we'll collect that when we monetize the asset.

So for the second quarter given that there is probably still sufficient buffer - if there is we'll continue to accrue that interest in the second quarter.

John Chappell: Okay. And as you kind of prioritize over the next couple of months, you shifted to the technical and operational management but should we think that your goal is to ultimately kind of rid yourself to the residual risk? If we get to mid January and still have the issues with TMT, you're just going to try to liquidate these assets or would you try to hold onto them and, you know, maybe add to your leverage and an eventual recovery?

Bruce Chan: I think you mean mid July but...

John Chappell: Mid July.

Bruce Chan: Yes. You know, right now it has to break even because it's drawn on the revolver and the OPEX on those ships. It's, you know, 11, $12,000 a day. So if we're earning more than that, that's going to be closing the gap and essentially repaying us for amounts owed. And then it'll come down to a tradeoff of the employment prospects for the short term versus the ability to sell it. But we will be marketing those ships but we don't want to be put in a situation where you have to sell it in the next month or two.

So it will be a tradeoff of an orderly sale versus, you know, generating what we hope is still some positive cash flow in the interim.

John Chappell: Okay. So it's possible you could operate them for a while. And then if we look past July, how would that impact your financials? I mean first of all you've already taken technical and commercial management. So in the second quarter is that going to change the impact of these ships on your gap financials and then I guess if we assume you're going to keep them going forward we would just keep the debt and then add operating expenses in the same spot market employment.

Bruce Chan: That's essentially right. The only thing that - I mean there's upside and downside in terms of the estimate. I mean clearly if something were to dramatically change in vessel values or there's some unknown costs that were to appear, then the accounting calculations could change. But barring that, what you said is exactly what would happen.

John Chappell: Okay. And then just regarding your liquidity and how you think about it kind of relative to your ideal capital structure. I mean obviously you've done some things with dividend payout. Now you've made some orders. You still have the 2017 kind of big bullet payment. How much of that nearly $300 million of liquidity would you kind of consider available today whether it's for new builds or maybe potential second hand ships given, you know, kind of what you know about the four year roadmap on the capital structure?

Bruce Chan: Yes, I mean I think with the liquidity it's certainly nice to have and with the options where we want to be able to use that liquidity for us if we needed to monetize them but I think what the real value here in those options is not having to commit all in right now but still have the upside potential if the market improves. So that liquidity is there to be used if needed but then it's because we have that greater visibility in the future when those options are needed to be exercised whether they're actually in the money or not. And so the bet of using that liquidity is a little bit safer if those options are in the money.

John Chappell: Okay. And then just finally when you think about kind of the next stages, you know, for Teekay obviously retaining some cash - counter cyclically investing. Should we just think that the next step is going to be exercise of the options or are there other things you're looking for in your traditional midsized crude whether it's other new builds or, you know, potential on the water vessels that, you know, you kind of aspire to add to the fleet?

Bruce Chan: Yes, there's certain - I mean obviously the options creates huge amount of upside without creating a use of the liquidity now. But whether it's in charter opportunities as other owners are looking for a low fixed cover because they need the cash flow but then it provides us greater optionality to create earnings potential if the market improves.

I mean we'll certainly be looking at those types of opportunities but the new fuel efficient options without having to commit but still providing the upside is the preferred path that we're looking at.

John Chappell: Okay, I appreciate the help. Thanks Bruce.

Bruce Chan: Thanks John.

Operator: Thank you and our next question comes in from Michael Webber from Wells Fargo. Please go ahead.

Michael Webber: Hey, good afternoon guys. How are you?

Bruce Chan: Hey Mike, how are you?

Michael Webber: Hey, good. A couple of my questions have already been answered. Around the new builds and STX - they've been in the news a lot recently around looking to restructure. I know that was the case when you guys place the orders but maybe some color around, you know, I guess how secure those orders are and then specifically around those options, you know, any risk they could come back and change those to float. I mean if you're crowning on option value from a company that's restructuring, it seems like you need to have a pretty good basis to do that.

Bruce Chan: Yes, I mean I think there's been obviously a lot of press about STX and their situation in general and well it looks like they're liquidating or selling certain parts of their operation. I think that's positive because what they're really doing is focusing on their core Korean shipyard ship building activities supported by the domestic Korean banks.

And so that's why we were focused when we placed that order on doing it with the Korean part of their business. So as they strengthen their balance sheet by selling some of their noncore operations that that's all positive in terms of where they're focusing. And as we know, they do have a pretty good high class order book from names, you know, their customer list is pretty good. So we're confident that that's the area that they're going to focus on.

Michael Webber: Got you. So I mean as it stands today and I know things can evolve but, you know, their situation does not impact your decision to exercise those options?

Bruce Chan: No, no.

Michael Webber: Fair enough. Just kind of related to the options then to the mortgage of the TMT just - I mean is it correct to assume that - I mean your term priority is kind of getting past that from a liquidity perspective before you would look to exercise those options. I mean there does seem to be kind of a - it does kind of fall within that window that, you know, there's more residual wall before that first ((inaudible)). Is that the right way to think about it?

Bruce Chan: No. You know, there's enough feeling in our liquidity to be able to keep both, to be able to exercise options and then - I mean really we want to make sure that we're not in a position of having to fire say all those assets, right. I mean they're a good quality VLTC's, pretty modern. Now that we're trading them we know that they're going to be maintained and we've already had some success in finding customers to employ them on voyages.

So I think putting that all together - we want to make sure that we have the right time and the best way to realize on the security and not be forced into doing anything rash.

Michael Webber: Got you. Okay, that's all I got. Thanks for the time guys.

Bruce Chan: Thanks Mike.

Operator: Thank you and our next question comes in from Chris Combe from JP Morgan. Please go ahead.

(Anish Monte): Hey, good morning guys. It's actually (Anish Monte) on for Chris.

Bruce Chan: Good morning.

(Anish Monte): Hey, I just wanted to ask you one quick follow-up question about the VLTC's. I apologize for belavering it again but I just want to make sure that both the revenue and the OPEX associated with it will not be consolidated into your results going forward until actual vessel's assumed. Is that correct?

Bruce Chan: That's correct. It's only the interest income as part of the terms of the term loans that we recognize. So although we're doing commercial management and technical management, that's on behalf of the owner still.

(Anish Monte): Right, just an arrangement to cover the interest and principal going forward.

Bruce Chan: That's correct.

(Anish Monte): Okay, got it. And then just turning to kind of the spot market for the rest of the year - both the - on the crude segment for both Aframax and Suezmax. I kind of wanted to get a sense of, you know, what you guys think explains the Suezmax rates coming off of, you know, lows at the beginning of this year and kind of firming up a bit and whether or not you think this'll hold for the seasonally weak Q2 and Q3 periods.

Bruce Chan: Yes, I mean I think Suezmax is an area where has been hurt with the aggressive fleet supplies we've said earlier and that should be better in 2014. I think what people have overly focused on potentially is the fact that US imports are down and therefore they see the typical benchmark rate of being West Africa, US East Coast being the rate that has come down.

(Anish Monte): Right.

Bruce Chan: What is not being seen is the fact that ton mile demand for Suezmax is actually up because the cargos are going east and that's a longer voyage for Suezmax. And so while rates have been low because of the supply, ton mile demand and the longer term outlook for Suezmax in terms of ton mile demand is actually positive.

So we really do believe that when the supply ends and that doesn't end until the end of this year, there's still 25 Suezmax expected to deliver this year. But when that's through, the demand side should increase the utilization for that sector.

(Anish Monte): Got it. That makes sense. And then just turning to the options again, do you guys - have you guys ever flipped an order book option in the past and if so, you know, what kind of success was obtained there?

Bruce Chan: I don't know if we've - I'm just trying to go back in the memory bank. But there are ways - I know we have unsold ship building slots before. I don't know if it was an option or one that we already had or built on behalf of other people but there are certainly ways to enable that.

(Anish Monte): Right and if you - I mean I guess, you know, with the options already in your possession, have you had preliminary discussions with potential, you know, buyers or at least those in the market looking for a new build anyway?

Bruce Chan: We've had unsolicited offers or interests expressed potentially on whether we would be willing to sell them. So they are attractive prices and I wouldn't be surprised if people wouldn't be interested in exercising them if we didn't.

(Anish Monte): Okay. And can we expect in kind of the medium term the release of the specific prices in which, you know, they're set and the dates? I know you guys provided some, you know, preliminary dates for the first few but...

Bruce Chan: Oh well it's 47 - I mean it's the same price virtually except for the last ones are up to a million more so virtually the same price and they're on six month intervals anytime up to the, you know, they expire in six month intervals from the contract signing through to 18 months.

(Anish Monte): Got it, okay. So it's just - it's three equal batches of four.

Bruce Chan: Exactly.

(Anish Monte): Okay, great. Very helpful. That's it for me. Thank you so much guys.

Bruce Chan: Great. Thank you.

Operator: Thank you and there are no further questions at this time. Please continue.

Bruce Chan: Great. Thank you everyone. We'll speak to you next quarter.

Operator: Ladies and gentlemen, this does conclude your conference call for today. We thank you for your participation. You may now disconnect your lines and have a great day.

END