TEEKAY SHIPPING LTD.

Moderator: Kenneth Hvid
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10:00 am CT

Operator: Welcome to Teekay Corporation's second quarter 2011 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, pleased press star zero on your touchtone 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. Peter Evensen, Teekay's President and Chief Executive Officer. Please go ahead sir.

Kent Alekson: Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekay.com where you will find a copy of the second quarter 2011 earnings presentation.

Mr. Evensen and Mr. Lok will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward looking statements. Actually 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 second quarter 2011 earnings release and earnings presentation available on our Web site.

I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you Kent. Good morning everyone and thank you for joining us today for Teekay Corporations second quarter earnings call.

I'm joined this morning by our CFO, Vince Lok, and for the Q&A session, we also have our Group Controller, Brian Fortier.

Beginning on slide three of the presentation, I will briefly review some recent financial highlights for Teekay Corporation and our three daughter companies.

For the first quarter of 2011, or second quarter, excuse me, Teekay Corporation generated a consolidated 149 million of cash flow from (vessel) operations or CFEO, an increase of approximately 9 % from the first quarter. We reported a consolidated adjust net loss of 36.3 million or 51 cents per share in Q2 on a consolidated basis. Teekay's diversified business model continues to be an important source of differentiation and fixed rate cash flows. Especially in the current weak spot tanker market which is primarily responsible for our loss this quarter.

We continue to experience a high level of business development activity in our offshore business which paid off in June with the signing of important contracts in both our FPSO and shuttle tanker business. I'll talk further about these in a moment.

Together the projects are expected to add approximately 2.7 billion to our existing $12 billion portfolio of foreign fixed rate revenues and will increase our future fixed rate CFEO.

In July, we paid our usual second quarter dividend of 31.625 cents per share or $1.27 annualized which is supported by the growing amount of fixed rate cash flows generated by our direct owned assets and the stable dividend cash flows we receive from our general partner and limited partner investments in our two master limited partnerships. We also continued to return capital to shareholders so under our existing $200 million repurchase authorization.

Since our last earnings conference call on May 12th, we have repurchased 1.9 million shares for a total cost of $62 million which brings the total number of shares repurchased since the current program began in November 2010 to 4.4 million shares at a total cost of $144 million. Our three daughter companies continue to be the source of a growing portion of Teekay Parents cash flows.

In July, Teekay L&G partners declared a second quarter distribution of 63 cents per unit in line with the first quarter. And last month Teekay L&G also took delivery of the first of two multi gas carriers which commenced 15 year time charter to I.M. Skaugen and will provide incremental distributable cash flows starting in the third quarter. Teekay L&G has a healthy near term growth pipeline.

Early in the second quarter, the partnership completed 162 million follow on equity offering which will be used to finance the equity for the purchase of several new building vessels which are currently being warehoused at Teekay Parent. These include the Angola L&G carriers one more multi gas carrier and one LPG carrier that have been committed to be purchased from Teekay Parent upon their delivery in the next six months.

Teekay offshore declared a second quarter distribution of 50 cents per unit in line with the first quarter. In June, Teekay offshore awarded a new long term shuttle tanker contract in Brazil which will result in time charters for four shuttle tanker new buildings commencing upon their delivery in mid to late 2013. In July, Teekay offshore completed a $20 million private equity placement which was used to make the initial payment on this shuttle tanker order.

This is the first time TOO has directly ordered new building instead of asking Teekay Parent to warehouse them during the pre-delivery period. The positives of Teekay Tankers tactical management were seen this quarter as Teekay Tankers declared a second quarter dividend of 21 cents per share despite continued weakness in spot tanker rates. Recently Teekay tanker's flexed its tactical management capabilities again to expand its fleet with two opportunistic charter ins which combined charter outs of two owned vessels have locked in cash flows or approximately $3 thousand per day per vessel for the six and four month firm period of the charter ins.

Should the market strengthen Teekay Tankers has the option to extend these charter ins for up to 18 and 16 months respectively. Taking these charters into account Teekay Tankers now has approximately 60 % fixed rate coverage for the second half of 2011 enabling it to continue paying in an attractive dividend irrespective of the weak spot tanker market while retaining the ability to profit from any upside in spot tanker rates which usually occurs as part of a seasonal pattern sometime in the fourth quarter.

Turning to slide 4 of the presentation, I'll provide an update on each of Teekay's core business areas starting with our FPSO business. The world search for new sources of oil to satisfy growing global demand, coupled with brand crude oil prices well above $80 per barrel have led to high level of FPSO tender activity during the first half of 2011.

In total, ten new ESPO contracts have been awarded since the start of the year, comprising a mix of new vessel orders, conversions, and the re-deployment of existing units. We anticipate the high level of ESPO tender activity will continue during the second half of 2011, with a further five to eight new contract awards expected by the end of the year.

Looking further ahead, there are currently 123 visible offshore projects around the world, which potentially require an ESPO solution. Around half of which are located in Teekay's core, geographical regions of the North Sea and Brazil.

Of the 123 visible projects, we estimate that around 70% will proceed to development using ESPO, with the remaining projects either failing to materialize, or going ahead using a different development solution. This leaves around 85 ESPO projects which will have to be tendered over the next five years, or around 17 ESPO contract awards per year. Given the relatively small number of companies who are able to bid on these projects, we believe Teekay is well positioned to take advantage of opportunities that are, that will emerge in the ESPO sector over the coming years.

As I noted at the start of the call, our recent business activities have begun to yield results, including our recent award of a new, long term ESPO contract with a subsidiary of BG group to service the Canard Oil and Gas field in the Norwegian sector of the North Sea.

As we first announced in June, this contract will include a firm period of either six or 10 years with options to extend up to a total period of 20 years. The contract will be serviced by a $1 billion ESPO, to be constructed by Samsung heavy industry and expected to deliver in the first quarter of 2014. And BG has until the end of 2012 to determine which firm period option it prefers.

We are also engaged in ESPO business activities in Brazil. And are reviewing a number of new project opportunities with our new Brazilian Joint Venture Partner, Dourest. We believe the joint venture partner has the potential to accelerate our growth in Brazil offshore activities. As a part of the joint venture agreement, Dourest has taken a 50% interest in our Terra Sedona ESPO project, which is scheduled to begin operating under a fixed rate contract with Petra-pros by mid-2012.

Tendering activity in the ESPO space, remains high and we continue to bid selectively on additional new ESPO projects, as well as reviewing ESPO acquisition opportunities. However, our general perspective is we would rather focus on doing fewer projects well, than taking on too many projects.

Slide five provides a update, excuse me, and update on the current outlook in recent activities in our shuttle tanker business. We see a lot of growth opportunities for shuttle tankers based on the high levels of new offshore oil production which is due to come on line in the next few years.

In the North Sea, we anticipate a steady requirement for shuttle tankers going forward, as production from new oil fields and the use of enhanced oil recovery techniques at existing fields, off sets the decline from maturing oil fields. New discoveries continue to made in the North Sea, as shown by Scott Oils' recent amount, announcement of a $200 million to $400 million barrel oil find off Stabonger in one of the most heavily explored areas of the North Sea.

While recent discoveries further north in the Barren Sea, bode well for future developments which played at Teekay's in harsh weather environment.

In Brazil, we know that the requirement for new shuttle tankers will grow as new offshore oil production is brought online in the coming years particularly from the giant pre-salt oil fields in the Santos Basin. With ((inaudible)) already having covered much of its upcoming shuttle tanker requirement through recent tenders the majority of this demand is expected to come from international oil companies and we estimate that these companies will require up to ten additional units over the next few years.

As the offshore industry develops new opportunities are emerging that could result in the employment of older shuttle tankers in the offshore wind sector. Older shuttle tankers may also be candidates for conversion to floating storage units.

For Teekay shuttle tanker business there've been some notable events over the last three months. In July, Teekay parent took delivery of the Scott's Spirit the fourth and final new building shuttle tanker in the strengthened Explorer Class Series, which includes the Omnison Spirit, the Nanson Spirit and the Peary Spirit.

The first three vessels have been time-charted out to (stot) oil under the new master agreement we reached last fall and were subsequently sold to Teekay offshore partners. We are currently negotiating to employ the (Scott Spirit) in the North Sea.

In June as I briefly touched on earlier, Teekay offshore partners entered into a new shuttle tanker contract in Brazil with another subsidiary of (BG) which will be serviced by four additional new building shuttle tankers. These vessels which will also be constructed by (Sampson Heavy Industries) for a total cost of approximately $480 million are scheduled to deliver in mid to late 2013. Upon their delivery they will be time-charted out for an initial period of ten years. (BG) will also have certain time charter extension and vessel purchase options.

We've also been exploring business development opportunities in some of the emerging areas of the offshore industry where we may be able to leverage our maritime expertise in dynamic positioning and operations in harsh weather environments.

In June, we announced we had entered into an agreement with (A to Sea), a leading service provider for the offshore wind sector to jointly develop an innovative design for a vessel that can be employed in the installation and maintenance of offshore wind foundations. Although in the preliminary stages of design such vessels could ultimately lead to new areas of business and additional sources of fixed rate cash flows.

Turning to slide six. We provided an overview of some of the key developments in our gas business. Since our last earnings release in early May L&G shipping ((inaudible)) tanker rates have gained a further $10,000.00 per day and are now approaching the $100,000.00 per day mark. This is a result of higher demand for L&G in recent months particularly in the wake of the Fukushima nuclear crisis as well as lower fleet availability as the number of idle units has fallen on the back of the increased charter activity.

The long term fundamentals for L&G demand remain attractive and recent question marks over the long term viability of nuclear power in the wake of the Fukushima crisis have only heightened these expectations.

As a result, approximately thirty new L&G vessels without charters have been ordered since the start of the year in anticipation of future demand. We believe the future L&G demand will absorb this additional shipping capacity particularly from 2015 onwards when a significant amount of new liquefaction capacity is expected to come online in Australia.

Based on this outlook we've accelerated our business development activities as the L&G shipping space returns to a higher level of growth in the next few years.

With our strong operating skill set Teekay is well positioned to take advantage of the higher demand environment that's emerging in the L&G sector. The strengthening in the spot L&G shipping rates continues to be a catalyst for activity in our existing L&G business.

As I mentioned on our first quarter earnings call, during the second quarter we've successfully shared new short term employment for our two smaller L&G carriers, the Arctic Spirit and the Polar Spirit at attractive rates.

After being idle for the first four months of 2011, the Arctic Spirit began its charter at the end of the April as a L&G ((inaudible)) vessel in Argentina. And the Polar Spirit continues to move between Alaska and Japan. Both these vessels will on their current time charters until the fourth quarter at a minimum and the charter of the Arctic has two one-year extension options available at attractive rates to us.

Given the strengthening market and fundamental outlook for L&G as an alternative fuel we believe it's good to be a little long on L&G carriers at present. We also continue to see a high level of interest in floating reclassification or storage units or SRRUs and Teekay is actively pursuing a number of opportunities in this segment in addition to the more traditional L&G transportation projects.

Our business development team has been active during the second and third quarters and we expect to hear back on the status of many of our recent bids before the end of the year.

Finally turning to slide seven, we provided an updated outlook on our conventional tanker business. Spot tanker rates weakened during the second quarter due to a combination of adverse tanker fundamentals coupled with various negative seasonal factors, in particular over supplied vessels relative to demand as a result of high fleet growth in the first half of the year, continues to be a drag on spot tanker rates.

The high fleet supply growth to continue to affect spot tanker rates throughout the second half of the year. However, as we move toward the fourth quarter, we expect the normal positive winter seasonality pattern such as weather delays and higher oil demand, compared to the summer months will be emerge.

While we anticipate the spot tanker market to be stronger in the fourth quarter of 2011, we don't expect it to be a sustained spot market rally due to the negative fundamentals. However, looking further into the future, it remains our belief that a shrinking tanker order book and steady demand growth are setting the market up for a more sustainable tanker rate recovery starting sometime in the second half of 2012 and strengthening during 2013.

If you look at chart on the slide, the green bars represent tanker demand growth and the orange bars represent fleet growth while the vertical lines for the years 2011 to 2013 show the range of values which could arise depending on various up and down side factors.

From the situation in 2011 in which tanker fleet growth is expected to overweigh demand growth, we believe the market will become more balanced during the course of 2012 particularly in the second half of the year when tanker fleet growth is expected to slow.

The fundamentals for 2013 appear quite positive based on low tanker fleet growth as a result of the reduced level of the tanker ordering in the past few months. In fact, since the start of the year, just 3-1/2 million dead weight tons of new tanker orders have been placed, which is the lowest level of new orders on an annualized basis since 1985.

Of course there are many uncertainties to our outlook especially on the demand side which is highly dependent on the state of the global economy. Never the less we believe the fundamentals will start to move back into ship owner's favor over the next 12 to 18 months. Given the weak outcome for the spot tanker market in the near term, we continue to reduce our exposure to the weak spot tanker market through redelivery of time chartered in vessels and through the time chartered out vessels at rates exceeding the current spot market levels whenever these opportunities arise.

During the second quarter, three of Teekay Parents out of the money time chartered contracts expired and were subsequently redelivered. Looking ahead we expect to redeliver a further five vessels through the remainder of 2011. We also continue to pursue incremental conventional tanker fleet growth through our tanker focus company Teekay Tankers, which has been tactically managing its fleet to lock in fixed rate revenues during this period of spot tanker rate weakness.

The combination of time charter in and time charter out transaction, I discussed earlier on the call have locked in $6,000 per day of revenue for Teekay Tankers for essentially the rest of 2011. This further supports the dividend cash flows that Teekay Parent receives from its equity ownership in Teekay Tankers.

And with that let, me turn the call over to Vince to discuss the company's financial results for the quarter.

Vincent Lok: Thanks, Peter and good morning everyone. Starting with slide eight, I will review our consolidated results for the quarter. In order to represent the results on a comparative basis we have shown it in an adjusted Q2 income statement against an adjusted Q1 income statement.

Net revenues decreased by approximately 10 million primarily due to ((inaudible)) sales and redeliveries, a higher number of dry dock days in Q2 and repositioning costs associated with the delivery of the shuttle tanker Peary Spirit. These increases were partially offset by the new time chartered contract for the Arctic Spirit which commenced in late April.

As a reminder a portion of the revenue we earn on reporting Foinaven FPSO is dependent on various annual operational performance measures, oil product levels and the average oil price for the year.

As a result for accounting purposes this portion of the revenue is recognized only in the fourth quarter of each year. And based on the results for the first half of the year, there was approximately 20 million unrecognized revenue at the end of the second quarter which will be recognized in the fourth quarter of 2011 provided our operation performance for the year is similar to that in the first half of the year. This would amount to 40 million of incremental revenue in the fourth quarter on an annualized basis.

Vessel operating expenses increased by 11 million primarily due to seasonal maintenance activities for the FPSO fleet, higher crude costs as a result of wage scale increases, as well as the delivery of the shuttle tanker new buildings and two MR tankers that are being chartered in.

As usual we typically schedule more of our dry dockings and maintenance activities for our North Sea NPSO and shuttle tanker fleets during the spring and summer months. Time charter hire expense decreased by 10 million due primarily to the redelivery of vessels in Q1 and Q2 and an overall decrease in spot in chartering of shuttle tankers.

Depreciation and amortization was consistent with Q1 at about 105 million. G&A expenses were 51 million in line with our normalized run rate. Net interest expense decreased slightly primarily due to capitalized interest on our FPSO new building projects.

Equity income increased by 4 million as a result of the increase earnings from our (scalgen) Petro-bans ledgering joint venture, our XMart joint venture and the Rash Gas 3 joint venture. Income tax expense increased by $3 million as there was a one-time tax recovery on the sales at

Carafasphere FPSO in Q1, and higher taxes on the ESPO operating in Tee Kay Offshore. Non-controlling interest expense was consistent with prior quarter at about $31 million.

Looking at the bottom line, adjusted net loss per share was 51cents in the second quarter, compared to an adjusted net loss per share of 39 cents in the first quarter. Again, most of the net loss is attributed to this weak spot tanker rates, but also due to timing differences relating to repair and maintenance activity, and the recognition of the Point Haven FPSO revenues.

Now, turning to slide nine, we have provided some guidance on our consolidated financial results for the third quarter of 2011. Looking at net revenues for our fixed rates lead in Q3, they are expected to increase by a total of approximately $10 million, as a result of the June delivery of the new building multi-gas vessel, The Nora-Gas Unicom, the decrease in dry docking activity expected for our fixed rates lead in Q3, and the commencement of the Para-Sprit Time Shutter in August.

Debt revenues from our Spots lead are expected to decrease as a result of approximately 550 fewer revenue days due to the redelivery of in charter vessels and higher dry docking days scheduled in Q3 for our Spot Tanker Fleet.

So far in Q3, we have fixed approximately 45 % of our Q3 spot revenue days. That is an average 2QC rate of approximately $10,500 per day, for an ((inaudible)) which are lower that the Q2 averages as you can see.

As a rule of thumb, for each $1000 per day change in Spot Tanker 2QC rates it results in a $ 2.5 million change in our consolidated revenues per quarter. Overall, vessel operating expenses in Q3 are estimated to increase by about $8 to $10 million compared to Q2, primarily as a result of seasonal maintenance for our FPSO fleet. As well as higher repairs and maintenance coinciding with dry dockings and the impact of the new building deliveries in Q2 and Q3.

However, we do anticipate that vessel operating expenses will decrease significantly in Q4, from the Q3 levels, as a result of the completion of the FPSO seasonal maintenance work and less dry, dry docking activities scheduled for Q4.

Looking at Time Charter Hire expense, this is expected to decrease in Q3 by approximately $8 to $9 million reflecting our redelivery of in charter vessels in Q2 and Q3. Depreciation and dramatization is expected to increase by about $2 million due to recent, due to the recent redeliver, sorry, deliveries of new building deliveries of shuttle tankers as well as the scouting vessel.

We expect G&A to be in the range of $50 to $52 million roughly in line with Q2. Net interest expense is expected to remain consistent with Q2. Income tax recovery run rate is expected to be a recovery of about $ 1million, and non-controlling interest expense is expected to be $31 to $33 million in Q3, reflecting higher expected earnings in Tee Kay L&G progress as well as the Q3 private placement completed in Tee Kay offshore.

Turning to slide 10, we have provided Teekay Corporations Consolidated debt revenue by business segment. As you can see about 88 % of our consolidated second quarter net revenues came from our fixed rate business's which provides strong cash flow support for our dividend going forward. During periods of weak spot tanker rates, our diversified business model continues to be an important source of stability which we believe differentiates us from other tanker companies.

Also, as Peter Evensen mentioned earlier, the two new offshore projects we announced in June will provide an additional $2.7 billion to our existing portfolio of approximately $12 billion of (Forbes) fixed rate revenues.

Turning to slide 11, Teekay Parent and its daughter entities are financially well positioned with substantial liquidity and a strong balance sheet at each entity. As of June 30, 2011 Teekay Corporation had $1.9 billion of total liquidity on a consolidated basis with just under 1/2 of this of about $850 million at Teekay parent.

At the daughter entities, in addition to maintaining substantial liquidity we endeavor to match the appropriate level of leverage to the length and stability of the respective contract portfolios.

It is also important to note that approximately 450 million of the net debt on the Teekay parent balance sheet is related to warehouse new building installments on assets that have been committed to or will likely be sold to one of the daughter entities.

So the effect of these projects on Teekay parent's balance sheet is only temporary.

On slide 12, we have provided an update to our sum of the parts calculation which indicates Teekay's underlying value at approximately $43.00 per share. Our sum of the parts value has decreased from the $46.00 per share we reported in May primarily as a result of lower equity values from our daughter entity's ownership due to the recent decline in the general stock market partially offset by the lower share account.

This is also resulted in a widening of our sums of parts discount to approximately 50%. From 25% in early May which we believe is more reflection of the negative investor sentiment towards the weak spot tanker market which is overshadowing the strong market fundamentals we're (expensing) in our offshore and L&G business.

Accordingly, we believe the price levels that our shares are currently trading at represent strong compelling value.

Despite the recent market volatility, our focus will remain on narrowing the sum of the parts discount and throwing the sum of the parts value on an absolute basis. Through the combination of organic growth and a creed of acquisitions in our core business areas and through further repurchase of shares under our existing share repurchase authorization.

I will now turn the call back to Peter Evensen to conclude.

Peter Evensen: Thank you, Vincent Lok. To conclude, our business development initiative yielded important new contract wins in our FPSO and shuttle tanker businesses during the second quarter and we're encouraged by the strong pipeline of new project tender and asset acquisition opportunities. However, we're being very selective in targeting higher unlevered returns.

While we reported a net loss for the quarter to mainly to the persistent weak spot tanker market, Teekay Parent and the daughter companies remain financially well positioned. Our diversified business model and steps we are taking to further build upon fixed rate business and reduce our spot tanker market exposure have us on the right path to yield better results in the quarters ahead.

Operator, we are now ready to take questions.

Operator: Thank you; ladies and gentlemen, if you'd like to ask a question, press star one on your touchtone phone. To withdraw your question, press the pound sign. If you use a speakerphone, lift your handset before entering your request. Please standby for your first question.

Your first question comes from Justin Yagerman of Deutsche Bank, please go ahead.

Justin Yagerman: Good morning guys ((inaudible)). I wanted to dig in a bit you know you went into depth on a number of the L&G projects and opportunities that you're involved in as well as off shore and I think it would be helpful if you guys could give a sense of returns you know expected returns or projected returns on current projects, duration of average project and you know kind of an average capital employed when thinking about these projects and how we should think about the pace of them on a go forward basis.

Brian Fortier: Sure for competitive reasons I can't be totally transparent on it but on our offshore transactions we're targeting on the FPSO about 12 to 15 to 16 % returns. And that depends upon the how complex the conversion is if it’s a new building and generally the longer the contract the lower the IRR is which you would expect.

Male: Those are levered or unlevered returns?

Brian Fortier: Those are unlevered returns. And the way we like to look at it is unlevered because the interest rates will take care of itself and in our MLPs you need to have that stability of having unlevered.

Justin Yagerman: Yes.

Brian Fortier: On our L&Gs, on the fixed rate side of things, on the point-to-point transportation there I'm seeing returns of 9 to 10 % on a unlevered basis and on the FSR used we’re targeting 10 to 16 percent. Depending on the project. So some of the FSR uses are shorter dated, where people need them for a temporary reason but then we’re willing to take that residual rollover risk because we're confident in the growth of the market. And the same thing is true on the FPSO side.

That’s a risk we're comfortable taking that rollover risk.

Justin Yagerman: And shuttle tankers? I don’t think you mentioned that.

Brian Fortier: Shuttle tankers as I said we're sitting at about 10 to 12 percent.

Justin Yagerman: Ten to 12, okay. Great that's helpful thank you. And I guess my next question we saw Teekay Tankers take into Affirm Maxes and you guys chartered out two at the same time. You know given your view that 12 and 13 should be improving years, you know should we expect to see more of this conventional trading activity either at Parent or at Tankers?

Brian Fortier: I think you should expect to see less trading activity up at Teekay Parent. That's an activity which we've pretty much given over to Teekay Tankers and so I think it's good that Teekay Tankers started to get into the in charter side. It was a good Parent transaction but I think if we were more aggressive as we move into late 2012, 2013, if the opportunities present themselves then you'll find Teekay Tankers using that.

I think it's a good use of capital and Bruce Chan and his crew, are working pretty hard on those various activities. But when you look at the results for the second quarter I think our tanker guys did a really bang up job in terms of the Affirm Maxes they got really good rates when you compare it to the averages.

Justin Yagerman: I guess following along the same theme, you know if you guys aren't going to be doing tanker trading activity at Teekay Parent would you consider buying new builds for delivery in 13 or 14 as you look out to a potentially better supply/demand environment?

Brian Fortier: I think the most of the capital that we're employing up at Teekay Corporation is used for more longer term fixed rate projects. The tankers that we would be ordering up Teekay would have to have long term fixed rate contracts before we would consider them up at Teekay. Otherwise we have a subsidiary Teekay Tankers that's their job. And you will have seen in late last year we ordered a VLCC for 2013 delivery and that was Teekay Tankers that did that. And that was coupled with a five year charter.

So you should expect to see that growth in Teekay Tankers rather than in Teekay Parent.

Justin Yagerman: Okay, so I guess with Teekay offshore having done its first kind of solo deal and with Teekay Tankers now shouldering the responsibility for ordering tankers, you know for the future, I don't know at what point in time L&G gets there. I mean how should we be thinking about what projects make their way into Teekay Parent and what you guys are going to be wanting to warehouse on your own?

Brian Fortier: Well when we, our goal is to have the daughters be able to make investments directly so in fact all three daughters, excuse me, all three daughters have now made direct investments whereas when we started, they relied upon Teekay Parent in order to warehouse those. Obviously big projects like the (Kinar) FPSO you need the sponsor to help you out with.

But our goal is to have strong enough financial strength so that the daughters can make their own investments and that frees up Teekay Corporation to look at higher return projects like you saw with the wind farm, the initiative that we have and I think our innovation group has a lot of good ideas looking forward. And so as I look over Teekay I think there's a lot of skill sets that we can employ and that's what we're looking at working together with some of our customers as well as some of our strategic suppliers.

So you should expect higher return projects to be resident up at Teekay Corporation.

Justin Yagerman: Okay, great. That's really helpful. Thanks for the time guys. That's all I have.

Brian Fortier: Thank you.

Operator: Thank you. Your next question comes from Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hey good morning guys. How are you?

Brian Fortier: Fine.

Michael Webber: Hey, my first question is on the buybacks. You guys picked up that pace the last three months at 62 million, and obviously with the recent pricing action it's certainly advantageous to buy more down here. The current pace points to November completion, is that reasonable and I guess how aggressive do you guys plan to be in terms of buying back the rest of that stock?

Brian Fortier: Well Teekay has a track record of announcing share buybacks and completing them. And we look at it on incremental basis. So, we're systematically going through the 200 million and as Vince said in his remarks we see the current share prices being compelling value. Especially when you see it against some of the parts. So, we see it as an investment and in reference to what Justin was asking earlier, that we look at share buybacks as we would look at any other investment.

Right now it looks like a good investment since Teekay is selling at an extraordinary discount towards some of the parts.

Michael Webber: Right, right. And I guess in terms of pace and I guess from a modeling perspective, I mean kind of keeping your pace from the last three months you know kind of flat sequentially. Is that probably appropriate or reasonable?

Brian Fortier: We don't give guidance on exactly what the pace of it is.

Michael Webber: Okay, fair enough, fair enough. And I guess I don't know if you can comment on this either but I mean given where the stock is and if we do hover down here for a while, you guys do have a history of buying back shares. I mean are we in a situation where you guys would you know potentially look to another authorization if the stock does stay down here?

Brian Fortier: That's up to the Teekay board. But, we look at each authorization as when we look at what how much excess capital we have going forward. So we when we complete the existing 200 million then that's something the Teekay board can look at.

Michael Webber: Sure enough. Fair enough. I wanted to follow up on one of the questions on you FPSOs, you mentioned five data wars this year. Can you guys give some color in terms of how many of those tenders you guys are actually involved in right now and what stage those are in?

Brian Fortier: We're involved in several tenders for competitive reasons I don't want to be more specific than that. But we're restricting ourselves to the North Sea and Brazil and so that's what we're looking at and in addition, there's various acquisition opportunities of offshore units with existing contracts so that's something that also is in the mix for us.

Michael Webber: Fair enough, I guess in terms of size then I mean obviously the (Jore Bear) was pretty big consider you know relative to what you guys currently have. Are the tenders you guys are involved in now or what's in the market place, around that size or is it going to you know go throughout the entire spectrum?

Brian Fortier: That really is dependent on the field but in general our new buildings if we're going to have a new building FPSO you should see it in the range of $600 million to a billion and if it's a conversion it could be anywhere from $250 to $600 million.

I think what's also important is that we have teamed up for example, in Brazil with (Odibresch).

Michael Webber: Right.

Brian Fortier: So we think that's an important component. We've done the same thing on our (L&G) side so you should expect us to employ joint venture partners if the level of activity is such so that that in that way we share the risk.

Michael Webber: Right.

Brian Fortier: And also get some local talent.

Michael Webber: Yes, No that's helpful. Actually kind of, a similar question on the L&G side and maybe you can't break out I guess the number of tenders, and you mentioned you're going to be hearing back hopefully by the end of the year on some. Can you maybe give a breakdown in terms of you know I guess what you're going after (FSRU) versus kind of traditional point to point carriers?

Brian Fortier: Yes, we're going after several projects. We're actually looking at more (FSRU) projects than point to point. But we expect that as a lot of the liquefaction plants that we have see coming on in Australia and other areas come on, that we'll probably see more demand for point to point tenders. But again, this is demand that comes from the customers based on their long term projects. So as these projects get (FID) then they're going to want to lock down their transportation requirements.

Michael Webber: Fair enough, that makes sense and within the context I guess of the returns you feel that out a little earlier from point to point versus (FSRU) and I guess I'm curious is it, are you seeing any kind of creep in the spread between those returns as you're seeing you know some considerable strength in the point to point market. Are those return, is that gap getting a little bit narrower right now or is it still pretty you know pretty wide between (FSRU)'s and point to point?

Brian Fortier: I would say it's wide between the point to point and the (FSRU)'s. The (FSRU)'s there's a certain scarcity value built into it. You have to have, and it really depends upon the speed to market. Ultimately (FSRU)'s are going to move into the new building realm but given how tight shipyard capacity is you're, those projects you can't really get a new build so that pulls you down into the conversion market and, where you get paid a premium in order to deliver earlier. And that's really what's happening on the (L&G) side which is that there's such incremental near term demand for (L&G) that customers are willing to pay up in order to have a solution faster.

Michael Webber: All right, No, that makes sense. There's actually, there are a couple of higher profile point to point weeks that are kind of up for bid right now. Can you guys I guess comment and I'm sure it'll be generally but how closely you guys have looked at those and whether or not I guess specifically within the point to point market, are you looking at (on block) transactions or the more you know kind of single (one off) facets or kind of special situations on non-individual assets?

Peter Evensen: For competitive reasons I don't comment on potential acquisition opportunities.

Michael Webber: Fair enough, fair enough. That's all I had, I appreciate your time.

Peter Evensen: Thank you.

Operator: Thank you. Your next question comes from Gregory Lewis of Credit Suisse. Please go ahead.

Gregory Lewis: Yes, thank you and good morning.

Peter Evensen: Good morning.

Gregory Lewis: Peter, you mentioned that there were 10 FPSO contracts signed year to date. And there is five, I guess, first in looking at those 10, how many of those were actual new construction FPSOS' and how many were conversions, of tankers?

Peter Evensen: I would say it was about half and half.

Gregory Lewis: Half and half, and are those, are those conversions? Are those primarily, I mean should we be thinking more along the line of a medium size APROMAX,AFEX or are any of those VLCCS?

Peter Evensen: Yes, some of them are VLCCS and when we are, but when you get to some of the VLCCS in the pre-sale, the, if you are using a VLCC, that is just a very small part of the whole, topside so, point of fact it feels almost like a new building. So, but, I think you will find, based on the reservoirs, you are looking really at VLCC conversions in down in Brazil. And if you are looking at Asia, you are looking pretty much at APROMAX, or ((inaudible)) conversions.

Gregory Lewis: Okay, great so, I mean, then in other words, we think about up five to eight later this year, when we talk about the 120 plus visible projects, you know, if we think that maybe half of those, or 70 % of those get done, I mean, and we think half of those are potential conversions, I mean, it sounds to me like there is the opportunity for multiple tanker conversions especially given the back drop where we are at. Is that a fair statement?

Peter Evensen: Yes, I think it is, and the other thing is that a lot of the big VLCCS will be used as floating storage units, because in the really big fields in Brazil, you have to aggregate the oil before you can transport it.

Gregory Lewis: Okay, so, so in thinking about that, and just, you know, your in roads into Brazil at this point, are there, I mean, it sounds like there are FPSO tenders, you know, going on down there. Are there also tenders for FSOS at this point?

Peter Evensen: Yes, there are.

Gregory Lewis: I mean, you, I mean and there is a real slide, is that, is that a single digit number, is that, is it five, is it 10,is that something that you can talk about?

Peter Evensen: That is a single digit number, more in the mid-size I would say.

Gregory Lewis: Okay, great, and then, then.

Peter Evensen: I mean, when you see the amount of oil, I mean obviously we announced our shuttle tankers, and they are going to go to aggregate stations, because they, when you move oil even from a floating unit, to a floating unit that is a (cabitoge) trade and they need a shuttle tanker, but ultimately, you either have to ship it out in a shuttle tanker, or in begin waters, you can put it on to a conventional tanker. So when you see the amount, the doubling amount of oil down in Brazil, you see the amount that the oil companies have to come up with, they have to build their own distribution network, which is similar to what we saw in the North Sea. But of course it is happening faster and at a greater magnitude that what we saw in the North Sea.

Gregory Lewis: Okay, great. Just thinking, you know, just thinking about the two spot L&G Vessels, I mean clearly, it looks like we are in the midst of a potential bull market in L&G. I mean, in other words I realize the issues in Japan created, at that point, the man for L&G at least in the short term. You know, could we think that this is actually going to be a real shift in the industry, where this is now a long term bull market, or is just, you know, sort of a blip on the radar, how, I mean, how do you merge those two thoughts?

Brian Fortier: Well it seems to me that the Atlantic gas price is going to stay at a sustainable arbitrage to what you're seeing in the Pacific. And so we've what typifies the oil market is that it's a worldwide market whereas the gas market is a regionalized market. And so with the price of gas in Japan being $14 if you have the price of gas as $4 for example in the U.S. or $5 that sets up the opportunity to make a lot of money on that arbitrage.

And that's what's really happening which is all the excess gas is flowing out to the Pacific. And so, yes, it's a bigger issue in Japan but I think we have to think that the price of gas in the Pacific is going to stay higher for a longer period of time. And that's before you get to the issues in Europe that they get droughts and they have their own questions on how much dependency they want to have on Russian gas.

And so we're actually very optimistic about that. Our strategy isn't to order ships and then play them on the stock market. Our strategy is to have a view on chartering them. But clearly a lot of people have some into the market and they've wanted to lock up tonnage. And we're seeing new players come in specifically more oil traders and financial players are coming in and the need a logistics partner.

Gregory Lewis: Okay, great and just a follow up on that real quick, in thinking about you know the short, the L&G vessels that are on short term contracts, and how do you think about that as it fits into the MLP structure which has historically been you know vessels on long term contracts? I mean in other words should we think that while there will be spot vessels in NTGP they will be it will be you know a small portion of the fleet?

Brian Fortier: Well I want to emphasize that the Arctic Spirit and Polar Spirit, that’s a historical charter that we had. So those are all of our L7G vessels at TGP right now are chartered out long term. The Arctic Spirit and Polar Spirit were chartered in by Teekay so it's Teekay that's taking that risk not TGP. And so I wouldn't exclude the fact that TGP could get into the short term charter market. But primarily we're not going to be a spot player.

We're going to move into the short terms market and I think what we're seeing in the L&G market is the amount, is the time period of charters is reducing. So we probably won't see 20-25 year charters. We're going to see more like five, 10 and 15 year charters.

Gregory Lewis: Okay, great, and then just one last follow up question. It looked like in a broker report this week that it looked like Teekay actually scrapped one of its 19 year old Affirm Maxes. I guess first is that correct and could you just give a little bit of a thought process behind you know why that vessel was targeted for demolition?

Brian Fortier: We actually on sold it, but in all likelihood it'll either get short term employment or else it'll be scrapped. We're not scrapping ourselves. But that actually was a real calculation. We looked at what it would take to go through (fourth) special survey, and in our opinion the likelihood of being able to pay back the (fourth) special survey and trade it meant that – and the near term trading meant that it was better to scrap it. And I think a lot of other owners are going to come to that conclusion as well.

Gregory Lewis: Let's hope so. Okay guys, thanks for the time.

Brian Fortier: Thank you.

Operator: Thank you. Your next question comes from Urs Dur of Lazard Capital Markets. Please go ahead.

Urs Dur: Hi.

Brian Fortier: Hi Urs.

Urs Dur: How are you? On the FSR U business right now we've seen most of it on the conversion business and it looks like for you it'd be much more competitive on a new building basis. Is that – you don't have an assets you think that you can buy to convert. You think you're really going to go after it in a new building basis? Do I understand correctly?

Brian Fortier: No, we're after both.

Urs Dur: Okay, great.

Brian Fortier: But, we have access, we believe we have access to existing tonnage w can convert.

Urs Dur: Okay, now that's excellent. Can you give us – how many tenders are out there right now? How many possible deals are out there globally?

Brian Fortier: Again for competitive reasons I don't want to say. But if on specific deals but if you want to talk about general, we see about 10 FSR U projects we can identify.

Urs Dur: Okay, good, now we've heard actually a higher number but either way it's a nice margin business. Everything else's really been covered, except I was wondering can you give me a little bit of an idea of what you expect from the wind business? Is that going to be a really material thing that we have to model today or how do we want to look at that?

Brian Fortier: Well we're as I said, we're setting ourselves up in order to be able to play there. But the way Teekay operates is more on a build to suit. If we get a long term contract then you'll find us going into the wind market. But our general rule on these specialized vessels is that we first get the contract and then we'll build or convert a ship in order to meet that requirement. So that's why it's so important that you work very hard with the customers on the design of the unit.

I definitely believe that the wind farm market is going to be there and ships are required we're making sure we have the best technology going forward and right now I think our dynamic positioning in the high deck load capacity of our shuttle tankers is a real advantage over the way they're building wind farms offshore right now.

Urs Dur: Great so obviously you know very much this starting stages, you know we've just received some questions on that and I think it's you know it's a great interesting idea and this is probably way beyond anything you want to mention but, if you do go into wind, I mean you're looking at contracts is that something you would want to place in one of the existing dropdowns keep it in the parent, or start a new dropdown?

Do you think they would be substantial enough say years down the road for us a new and separate dropdown business?

Brian Fortier: I think it's too early to say where that would be resident.

Urs Dur: Right. Excellent that's what I thought. Thank you for your time.

Brian Fortier: Thank you.

Operator: Thank you. Your next question comes from Justine Fisher of Goldman Sachs, pleased go ahead.

Justine Fisher: Good morning.

Brian Fortier: Good morning.

Justine Fisher: I just have a question about the role of the parent company going forward. I know that you guys have been putting most of the assets at the daughter companies as they are fully financed and delivered. Does the fact that you're – that you did this one deal at Teekay offshore, does that mean that you're going to start doing more of your asset acquisitions at the daughter companies? And if so as the parent slowly reduces its in chartered fleet, does the parent become as asset-less company?

Brian Fortier: I think it actually sets up the potential for Teekay to go – corporation to go in a number of directions. But in general we're trying to get more excess capital in Teekay Corporation. So we watch our net debt level very much up at Teekay Corporation. So, the shuttle tankers were done directly whereas the FPSO was so big that you needed Teekay Corporation in order to warehouse it. So, but in general as I said earlier we want the daughter companies in order to build the or to be able to order the – and take the investment decision directly.

And it's helpful to us because the more the daughter companies grow then the value of the general partner goes up. And I think that's biggest catalyst for increasing the value at Teekay. Obviously we're buying back shares. That's a near term will raise the value per share but the greatest way we can increase the value of Teekay is to put good fixed rate growth into our MLPs.

Justine Fisher: And maybe I missed this number in the presentation, because I know I've done that in the last couple of calls is missed some of Vince's numbers, but how much of the debt at Teekay Parent is associated with the owned tankers at Teekay Parent? I see you broke the fleet out in the earnings release, and so how much debt is actually secured by those vessels versus debt that is currently warehouse facilities for vessels that will eventually be transferred to the daughters?

Brian Fortier: Well if you look at slide 11 out of the 700 million of net debt as a Parent, 450 million of that is related to warehouse new building installments. So the remaining 250 on (accrual) basis is really relating to the other existing assets on the water. So that's the existing FPSOs and the conventional tankers.

Justine Fisher: Okay, so I guess you could say it's a 267 that is actually encumbered by assets at Teekay Parent? And so if Teekay were eventually to become to transfer those assets to the daughter company you'd either have to just transfer that debt as well or repay all that debt?

Brian Fortier: Yes, and as you know we also have a large amount of undrawn revolvers as well. The 267 is just the drawn amount.

Justine Fisher: Okay, and then the last question I had was just I know it's been a crazy week in the markets and probably the shipping markets as well, but and so you know maybe there's not a lot of this inquiry going on at the moment but have you guys heard more inquiries for storage start up again in the market given where crude prices have gone? I mean I know you're not really storing on Affirm Maxes so you guys are more in the smaller, the smaller side of the market but given that you're involved in the entire world supply chain, are you guys seeing more inquiry for tankers being used as storage?

Brian Fortier: No, we aren't. But the market hasn't set itself up for a Contango yet either. But what we did see was when the strategic petroleum reserve announcement came, then we saw immediately for the Gulf of Mexico people were looking for options in order to use them, the tankers as storage. And so, that has provided and incremental boost down in the Gulf of Mexico. But the market has not moved to a Contango point where people wanted to store oil, unfortunately.

If it was then you would quickly see using up the supply of tankers and we would see higher rates.

Justine Fisher: Okay, thanks very much.

Brian Fortier: Thank you.

Operator: Thank you. Your next question comes from Sol Vitale of Stern Agee. Please go ahead.

Salvatore Vitale: Good morning gentlemen. Thank you for taking my question. Most of my questions have been answered. I just have a quick question, just looking at the L&G business, big picture it looks like the supply/demand dynamic is pretty favorable at this point. On the demand side.

Brian Fortier: The EIK came out with some numbers this week. It was a little lower reflecting the uncertainty but what we continue to see is that it isn't about the developed market. It isn't about the U.S. where the summer season driving season didn’t come in as much. It's about how much will China and India and the rest ((inaudible)) grow.

And I have to say that it isn't a question whether they'll grow. It’s a question of at what pace they will grow. And more and more they're starting to deregulate oil prices which will allow more oil to be consumed there.

So do I think car sales are going to continue to grow in India and China. Yes, I do.

Salvatore Vitale: Okay then the final question I have is just on the net asset value. You know given the current gaps between the current price and the net asset value, it’s close to 50%. Had there been periods in the past where it's exceeded that.

Brian Fortier: Yes. I think during the downturn that we had in '08 and '09, we ran a bigger discount but obviously that was a bigger dislocation. We didn't have Central Bank pumping liquidity around the world. But I think Teekay was in a different position at that time too.

We didn't feel we were in a strong enough financial position in order to have share buy backs so this time I think no matter what, where the world goes, I think Teekay has positioned itself in a much stronger position financially in order to take advantage of that. So obviously we've seen a lot of companies coming in and announcing buy backs. We already have a buy back.

So right now I feel Teekay is in a good enough position to take advantage of these market dislocations which is what Vince said in his prepared remarks.

Salvatore Vitale: Okay, then just, sorry the final question is just a housekeeping question. Are there any – has there been any material change to the debt maturity profile since the last conference call?

Brian Fortier: No there hasn't and we are making very good progress on financing our new offshore projects but no change, no substantial changes to our existing portfolio.

Salvatore Vitale: Okay. Thank you.

Operator: Thank you. Your next question comes from the line of (Adam Dawork) of Omega. Please go ahead.

(Adam Dawork): Good morning, guys. How are you?

Brian Fortier: Hi.

(Adam Dawork): The question is around the general partner's interest. Given how close we are to reaching the high splits in those general partner interest. What's your plan for incremental dropdowns or other ways to increase that GP cash flow?

And secondly, you know in this uncertain world, if we feel highly confident that we can reach those high splits in an identifiable sort of period of time, you know really shouldn't we be more aggressive now in buying stock in front of that higher GP cash flow and take advantage of both the higher Absolute value of those general partners and a high per share value to Teekay Parent? Thanks.

Brian Fortier: Yes. Hi. So first of all I think what we are showing is that we don't have good growth in both Teekay L&G partners and Teekay offshore partners. And as you point out we're right, very close to that infliction point where we get to the 50% splits on the GP and then the Teekay really does start to ramp up.

And so we're very enthusiastic about that. And so our capital has to go toward making sure that we continue to feed the growth into those partnerships because the greatest value creation is the GP split that will give us much greater value which we have in some of the parts that are about $440 million.

But we can also create value in the short term by buying back shares. And that something we saw last November which is why we announced the share buyback program and why we have been systematically buying back shares because while we increased the numerator we want to reduce the dominator. And so the short answer is we're doing both.

(Adam Dawork): Okay thanks.

Operator: Thank you. Ladies and gentlemen, is there are any additional questions, please press star one at this time. There are no further questions at this time. I'll turn the conference back to Mr. Evensen.

Peter Evensen: All right. Thank you very much for listening and we look forward to reporting to you on our third quarter numbers. Thank you.

Operator: Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line and have a great day.

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