TEEKAY SHIPPING

Moderator: Emily Yee
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10:00 am CT

Operator: Welcome to Teekay Corporation second quarter 2012 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 1 to register for a question.

For assistance during the call, please press star 0 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. Peter Evensen, Teekay's president and chief executive officer. Please go ahead sir.

(Kent): Before Mr. Evensen begins, I would like to direct all participants to our Web site at www.teekay.com where you'll find a copy of the second quarter 2012 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. 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 second quarter 2012 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 Corporation's second quarter 2012 earnings call. I'm joined this morning by our CFO Vince Lok and for the Q&A session, we also have our chief strategy officer Kenneth Hvid.

During our call today, I'll be walking through the second quarter of 2012 earnings presentation which can be found on our Web site. Beginning on slide three of the presentation, I will briefly review some recent highlights for Teekay Corporation and our three publicly traded daughter companies.

For the second quarter of 2012, Teekay Corporation generated total consolidated cash flow from vessel operations or CFVO of 208.4 million, an increase of approximately 26 percent from the second quarter of 2011. As a reminder, last quarter, we changed the format of our operating results table to include our share of the CFVO generated from our equity accounted investments, given their increasing significance in addition to the CFVO generated by our fully consolidated businesses.

Teekay Corporation reported a consolidated adjusted net loss of 17 million, or 25 cents per share, for the second quarter of 2012, just under half of the consolidated adjusted net loss of 51 cents per share that we reported in the second quarter of 2011. The reduction in our adjusted net loss for the quarter reflects the contributions from the strategic acquisitions in new building deliveries over the past year in addition to the progress we've made on our profitability enhancement initiatives for our existing assets.

In late June, we completed the previously announced sale of 13 of our 17 conventional Teekay tankers, two Teekay tankers for 454.2 million. As a result of the transaction, which closed late in the second quarter, we will not see the full quarter effect until next quarter. With completion of this transaction, Teekay parents' exposure to the conventional tanker market will now be mostly indirect through our minority but controlling equity ownership in significantly larger Teekay tankers.

At our June investor day in New York, we announced we had offered to sell the Voyageur Spirit FPSO to Teekay Offshore Partners upon commencement of it's charter contract in the North Sea in the fourth quarter of 2012. This transaction is currently being reviewed by Teekay Offshore's conflicts committee.

This is another example of a dropdown transaction which supports the growth of our daughter companies and which also leads to enhanced net asset value to the Teekay Parent level as our MLP daughter companies grow their GP and LP cash flows. All three of our publicly traded daughter entities were busy this past quarter integrating acquisitions and negotiating charter contracts that will enhance the stability of their future cash flows.

In the next few weeks, we'll take over technical management of the final vessel of the six LNG carriers acquired by Teekay LNG in February 2012 through it's joint venture with ((inaudible)) Corporation and thereby complete the integration of this purchase. In June, Teekay LNG took advantage of the strong fundamentals in the LNG shipping market to secure a new forward start three year charter for the Magellan Spirit LNG carrier which will commence immediately after expiration of the current charter in September 2013 at a 20 percent increase from it's current charter rate.

For the quarter ended June 30, 2012, Teekay LNG declared a cash distribution of 67.5 cents per unit which based on Teekay Parent's current GP and LP ownership interest in Teekay LNG, results in $22.5 million of cash flow to Teekay Parent for the quarter. Moving onto Teekay Offshore, Talisman Energy, the charter of the Petrojarl Varg FPSO, declared their three year option to extend the firm period of this contract to June 30, 2016.

Talisman has two remaining three year options. For the second quarter, Teekay Offshore declared a cash distribution of 51.25 cents per unit which based on Teekay Parent's current GP and LP ownership interest results in $14.3 million of cash flow to Teekay Parent for the quarter. In addition to completing it's acquisition of 13 vessels from Teekay Parent in June, Teekay Tankers has been actively managing it's fleet employment profile and adding to it's fixed cover.

In the face of a softening global economic outlook, Teekay Tankers' ability to leverage Teekay Parent's charter ring relationships to secure favorable time charter out contracts has been an important competitive advantage. In the past couple of months, Teekay Tankers' has entered into additional time charter contracts which, when combined with the fixed rate charter contracts acquired on certain vessels from Teekay Parent have increased Teekay Tankers' fixed rate coverage from 29 percent to 47 percent for the 12 months commencing July 1, 2012.

For the second quarter, Teekay Tankers declared a dividend of 11.5 cents per share which results in $2.3 million of cash flows to Teekay Parent for the quarter. Turning now to slide four, in 2011, we announced approximately $3 billion of asset acquisitions and new building and conversion projects in our core businesses. As a result, one of our key areas of focus so far in 2012 is to efficiently execute on our existing development portfolio rather than to add more projects.

As you can see from the table at the bottom of this slide, we have a substantial number of projects that are currently in progress with roughly one project targeted for completion per quarter through to early 2014. The ability to deliver these projects on time and within manageable cost parameters is critical for achieving our targeted return thresholds.

On today's call, I'd like to provide a brief update on the project execution of our three largest current projects, which are shown in bold print on the table.

Turning to slide five, I will begin with the Voyageur Spirit FPSO upgrade project which Teekay assumed joint responsibility for in 2011 through our transaction with Sevan Marine. I'm pleased to report that the upgrade work on the Voyageur Spirit FPSO is now largely complete and sail away from the Nymo Shipyard in Arendal, Norway is expected to take place later this month with the unit scheduled to commence it's charter contract with E. ON in the North Sea during the fourth quarter of 2012, this past June, Teekay Parent offered to sell it's interest in the Voyageur Spirit FPSO to Teekay Offshore Partners at an offered price of $540 million.

The Teekay Offshore conflicts committee is currently reviewing this offer and we're optimistic that the sale of the Voyageur to Teekay Offshore can be completed around the time of production startup.

Turning to slide six, we're also nearing completion of the Cidade de Itajai FPSO conversion project. Upon completion, this converted FPSO unit will operate for Petrobas on the ((inaudible)) and ((inaudible)) fields in the compost space in offshore Brazil. As a result of our strong relationship with the Jurong shipyard in Singapore, we were able to secure an option on a partially converted Aframax hull from the yard which we used to successfully bid on this field development.

Work commenced in October 2010 following contract signing and in February this year, we diversified our interest through the sale of a 50 percent interest in the $380 million project to our Brazilian joint venture partner Odebrecht. As you can see from this series of photos at the bottom of the slide, this unit has come a long way since the end of 2010 with conversion work on the FPSO unit nearing completion, a naming ceremony for the vessel was held at the end of July and the unit is currently scheduled to sail away from the shipyard in the next two weeks.

Following it's ocean transit and field insulation, the Cidade de Itajai FPSO is expected to begin operating under it's contract with Petrobas later in the fourth quarter this year.

Turning to slide seven, I'll provide an update on our largest project to date, the Knarr FPSO new building. Steel cutting on this $1 billion FPSO commenced in October 2011 at the Samsung heavy industry shipyard in Korea and construction on it's massive turret, which is being developed by Framo Engineering, began a couple of months later. Following keel laying in May 2012, assembly of the Knarr FPSO hull has been progressing on schedule.

The photos at the bottom of the slide were taken during a management team site visit in June and you can see that both the hull and the turret are quickly taking shape. Although the hull is expected to be completed in September, the lion's share of the complexity and time requirement of an FPSO construction project is a topside processing equipment.

For the Knarr FPSO, topsides integration and mechanical completion is expected to be in December 2013 at which time the FPSO unit is scheduled to sail for the North Sea. Following installation on the Knarr field and first oil late in the first quarter of 2014, the Knarr FPSO will commence it's contract with BG.

The projects I've summarized over the past few slides are among the more complex projects that Teekay is working on at the moment. Our ability to efficiently execute on these and other projects simultaneously illustrate the depth and capability of our growing project development competency.

I'll now turn the call over to Vince to discuss the company's financial results for the quarter.

Vince Lok: Thanks Peter and good morning everyone. Starting with slide eight, I will review our consolidated results for the quarter. In order to present the results on a comparative basis, as we do each quarter, we have shown an adjusted income statement for the current quarter against an adjusted income statement for the previous quarter.

Later on, I will also provide our outlook for the remainder of the year. As expected, net revenues decreased by 14 million, mainly due to lower average realized TCU rates for our conventional tanker fleet in Q2 compared to Q1, more schedule dry dockings in Q2 and the impact of vessel redeliveries.

Vessel operating expenses increased by 6 million due to increased repairs and maintenance work on our FPSO fleet, partially offset by lower costs in our conventional, gas and shuttle fleets. Time charter hire expense decreased by 12 million due to the redeliveries of in charter vessels in both Q2 and Q1 and less spot in-chartering in our shuttle fleet.

Depreciation and amortization was 115 million consistent with the prior quarter. G&A expenses decreased to 50 million in Q2. For the first half of 2012, we are in line with our normalized run rate and we expect further savings during the second half of the year as a result of our restructuring activities.

Net interest expense was in line with the prior quarter. Equity income increased by 6 million due to the full quarter impact of the Maersk LNG acquisition completed at the end of February including a charter rate increase in April for one of the vessels within the joint venture.

Non-controlling interest expense decreased to 35 million as a result of lower adjusted earnings in Teekay Offshore and Teekay Tankers, partially offset by higher adjusted earnings in Teekay LNG. Looking at the bottom line, adjusted net loss per share was 25 cents in the second quarter, which is an improvement from the previous quarter’s adjusted net loss of 30 cents. This is despite the lower spot tanker rates and heavier dry docking activity in Q2.

Turning to slide nine, we have provided some guidance on our consolidated financial results for the third quarter of 2012 as well as some general guidance on Q4. Net revenues from our fixed fleet in Q3 are expected to decrease compared to Q2, mainly due to summer maintenance relating to our FPSO fleet and the expiration of time-charter out contracts in our conventional tanker fleet. This is partially offset by fewer dry docking days in our gas fleet and increased project revenues in our shuttle tanker fleet.

Net revenues from our spot fleet are expected to decrease primarily due to a reduction in average TCU rates and a reduction in revenue days. Spot revenue days are expected to decrease by a net 230 days in Q3 due to redeliveries of in-charter vessels and scheduled dry dockings, partially offset by vessels coming off time-charter out contracts.

So far in Q3, we have fixed approximately 40 percent of our spot Aframaxes and Suezmaxes revenue days at average TCE rates of $11,500 per day and $14,000 per day respectively. However spot TCE rates are currently below these average currently. As a rough rule of thumb, for each $1,000 per day change in spot tanker TCE rates, it results in a $2 million change in the consolidated revenues per quarter.

Looking ahead to the fourth quarter, we expect that revenues for our fixed rate fleet to increase due to the completion of seasonal maintenance in the FPSO fleet and incremental revenue that will be recognized on the Foinaven FPSO contract. This revenue is tied to certain annual measures and is typically recognized in the fourth quarter of each year. In addition, the Voyageur Spirit FPSO is scheduled to complete it’s upgrade and commence it’s charter contract during Q4.

Overall, vessel operating expenses in Q3 are estimated to increase by approximately 12 to 15 million compared to Q2 due to life extension work on the Foinaven FPSO and seasonal maintenance in our FPSO and shuttle tanker fleets. In addition, we expect higher repairs and maintenance costs in our conventional fleet due to a heavier dry dock schedule in Q3 as I mentioned earlier.

However, for the fourth quarter, we expect vessel operating expenses to decrease from Q3 levels following the completion of the heavier maintenance period in Q3, partially offset by the expected delivery of the Voyageur FPSO.

Time-charter hire expense is expected to decrease further in Q3 by approximately 4 to 5 million reflecting our redeliveries of in-charter vessels during Q2 and in Q3. There are no scheduled redeliveries during the fourth quarter. Depreciation and amortization in Q3 is expected to remain consistent in Q2. For the fourth quarter, depreciation is expected to increase with the delivery of the Voyageur FPSO unit.

We expect G&A to be in the range of 49 to 51 million for Q3 and as discussed earlier, we anticipate G&A will trend lower in Q4 as a result of the previously announced restructuring activities. Net interest expense for Q3 and Q4 is expected to remain relatively consistent with Q2. Equity income is also expected to be consistent with Q2. Income tax expense run rate is expected to be approximately 2 million in Q3 as well as in Q4.

Non-controlling interest expense is expected to be approximately 28 to 30 million in Q3 reflecting lower adjusted earnings in Teekay Offshore and Teekay Tankers, partially offset by higher adjusted earnings projected in Teekay LNG. So in summary, the third quarter results are expected to be weaker than Q2, mainly due to seasonal factors. However, the fourth quarter results are expected to be stronger for the reasons mentioned earlier.

Turning to slide ten, as with our project development portfolio, we are also executing on Teekay's financial objectives. We continue to benefit from our access to both the debt and equity capital markets which allows us to finance acquisitions and new projects, while also enabling deleveraging at Teekay Parent to dropdown transactions.

In May, Teekay LNG Partners completed it's first Norwegian bond offering issuing 700 million Norwegian kroner or approximately $125 million U.S. of bonds for general partnership purposes including future acquisitions. Just last month, Teekay Offshore Partners completed another equity private placement raising proceeds of 45 million that would be used to fund future installment payments on the four new building shuttle tankers.

We've also been making significant progress with our commercial lenders in arranging new debt financing for our projects. We recently completed a new 300 million construction loan facility for the Knarr FPSO and we are already working on a longer term post-delivery debt facility for this asset.

We are currently working with our lender on the Voyageur Spirit debt facility to have it upsized by 100 million, increasing the total size of this facility to 330 million. We have also received significant interest from lenders to finance Teekay Offshore's four shuttle tanker newbuildings that will operate under charter contracts with BG in Brazil when they deliver next year.

With the sale of assets to the Teekay daughter entities and third parties, we have been making notable progress towards our objective of deleveraging Teekay Parent's balance sheet. During the second quarter, Teekay Parent's net debt reduced by approximately 260 million, largely due to the transfer of debt to Teekay Tankers as part of the sale of 13 ((inaudible)) tankers, partially offset by installment payments made on several of the projects Teekay Parent is currently warehousing for eventual dropdown.

With the sale of the Voyageur Spirit FPSO to Teekay Offshore Partners, Teekay Parent's net debt will reduce even further which would create greater financial flexibility. With that, I'll turn the call back to Peter to conclude.

Peter Evensen: Thank you Vince. Turning to slide 11, as we presented at our recent investor day in New York, Teekay's overarching objective is to grow our net asset value per share. While I won't walk through our latest sum of the parts calculation, which can be found in the appendix to this earnings presentation, we remain focused in our initiatives to enhance our underlying asset value, both on an absolute and per share basis by being an effective asset manager, project developer and operational leader.

As an asset manager, we continue to drop down assets to our daughter companies which are set up to be asset owners. Accordingly, we recently offered to sell the Voyageur Spirit to Teekay Offshore which when completed will delever the Teekay Parent balance sheet further and enhance our GP and LP cash flows. We're also actively reviewing new project tenders and asset acquisition opportunities in each of our core businesses to insure continued cash flow growth beyond our recent acquisitions and project investments.

As a project developer, we're focused on executing on our strong project portfolio and insuring our projects are delivered on schedule and able to achieve targeted return hurdles, and as Vince mentioned, this also involves efficiently executing on project financing objectives. Finally, as an operational leader, we've been focused on the integration of the recently acquired Maersk LNG carriers in addition to our ongoing efforts to enhance the profitability of our existing assets.

Thank you and operator, we're now ready to take questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, press star 1 on your touch-tone phone. To withdraw your question, press the pound sign. If you use a speakerphone, lift your handset before entering your request. We'll pause for a moment to assemble the queue.

The first question comes from Justin Yagerman of Deutsche Bank. Please go ahead.

(Josh): Hi, good morning, it's (Josh) on for Justin.

Peter Evensen: Good morning.

(Josh): I guess just starting off in the ONG sector, congratulations on the Magellan charter, but can you maybe talk about some of the opportunities you're seeing out there, I guess the types of tenders you're seeing, is this more for conventional LNG or is this for ((inaudible)). If you can provide any sort of guidance on where you're seeing yields and on these projects and for competition.

Peter Evensen: Sure, so if, they're really sort of two different markets. What we're seeing is that there's a lot of tendering activity coming out and you really have to look at where the market is. The market, up until 2015, we think is dominated by what's happening in Japan with what we call the ((inaudible)) effect, which is caused charter rates to be higher, but if you look in the longer term charter market right now, you can see a big backwardation in rates.

We saw for example that Japan, it isn't as hot in Japan this summer as it was last summer and so you have gas being priced at below $14 whereas it was up at about $18 and that's caused less gas to move out to Asia and so you've seen charter rates, I guess I would say the boil has come off, so we've seen short term charter rates come down, but on the long-term charter rates, we've seen them be under $100,000.

What we're really focused on in our new building tendering activity is when a lot of liquefaction plants come on in a post-2015 timeframe. That's where we're seeing most of the tendering activities so the newbuildings that we're talking with yards about are for projects that come on post-2015, 2016 and that's when I think things will really get exciting in the LNG shipping space because there'll be a lot of new projects coming on.

We of course have to adjust for project delays or expected deep delays, but we're quite excited about post-2015, 2016 and that's also been reflected in the FSRU market. We bid on several projects but we haven't won any and I think that has to do more with our return hurdles, but I've been pleased about that because what's happened is that the market is changed. It was dominated by conversion projects whereby people were converting existing ships that were anywhere from 125,000 to 145,000 cubic. Now what we're seeing is people on FSRUs at 160 all the way up to as high as 300,000 cubic.

So these are more purpose built FSRUs and that makes sense because the size of LNGs has moved up to 155 to 173,000. So when people come in with a full load of LNG, they want to be able to efficiently discharge it into the FSRU rather than have to wait, excuse me, rather than have to spend more time because the size of the FSRU wasn't big enough.

So that's why we're concentrating more on the new building market both as it relates to LNG conventional carriers as well as FSRUs.

(Josh): Got it, maybe I guess switching topics over to the, I guess to the tanker side. You guys presented your new tanker design at the investor day. Can you provide any more thoughts on orders or order timing?

Peter Evensen: Sure, we're talking with yards as well as customers. I think with, a lot of people are talking about what they're calling ecofriendly designs and, but let's talk about what it really is, which is that you save a lot on bunker consumption and because as much as 75 cents of every dollar that we get goes towards bunkers, if we can save 15 to 25 percent on our bunker consumption under various load capabilities, that's a lot of money, but we're testing it out. We're talking with a number of shipyards. We're talking with customers and that's how we're developing that project which we would hope sometime later this year we might be able to see some orders for.

(Josh): Interesting. I guess on the, maybe the secondhand resale market, there was some press out recently that Teekay was in talks with another owner to, is there any, I guess, intent on purchasing VLCCs or VLCC resales?

Peter Evensen: We look at a lot, but we don't buy that much and so that's as much as I'll say.

(Josh): All right, fair enough. I guess one more before I turn it over, are there any, is there any sort of update on potentials for the Foinaven dropdown?

Peter Evensen: No they're not. We're continuing to work with the charter of that unit, BP, on getting permission to drop it down.

(Josh): Okay great, appreciate the time.

Peter Evensen: Thank you.

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

Michael Webber: Hey good morning guys, how are you?

Peter Evensen: Good, thanks, how are you?

Michael Webber: Good, good, I wanted to jump in and talk about the Voyageur. I think, and correct me if I'm wrong, but that $540 million valuation is new, it looks like a pretty, a relatively healthy ((inaudible)). I think you guys bought it at 5.9 and this looks like about 7.2 times EBITDA. Can you talk a little bit about how you kind of A, came to that valuation and then I guess what factored into that, that ramp in multiples there. You've got some competitors that are valuating FSRUs at nine times so it doesn't look like it's egregious by any stretch, just it's a little bit elevated from where you purchased it. Just a little bit of color around how you guys got to that 540.

Peter Evensen: Well, we did as any seller would do. We looked at what we thought the net asset value was compared to what it would be on a, to any buyer and that's really valuing up the contract and so we will sell it for more than we bought it for, but that's because Teekay added a lot of value in the upgrading of it as well as the financing of it.

Then Teekay Offshore, which will have it's call tomorrow, will provide more color on how they look upon the transaction and I think it's more interesting to see how Teekay Offshore looks at the transaction, but you're right, that's the first time we've put out the number 540 million.

Michael Webber: Right, right, that makes sense. Within that 540, I know you guys mentioned in the release Peter that you guys were, the Voyageur was getting close to sailing now. Are those upgrades coming in on budget? Is there any sort of bleed through there or are they on budget?

Peter Evensen: No, they're on budget.

Michael Webber: Okay.

Peter Evensen: A little under budget.

Michael Webber: Okay, that's helpful, and then in terms of delivering in Q4, do you have any more specific timing on that? Is it going to be at the earlier end of the quarter?

Peter Evensen: No, we're waiting for E. ON to tell us when the field development is going to be ready to accept the unit.

Michael Webber: All right, that's helpful. Peter, I just wanted to stick with the offshore stuff for a second and you mentioned in I guess the release within the commentary what read kind of like a desire to kind of clear out your current pipeline before kind of taking on anymore construction risks, but that can be read kind of a couple of different ways.

Was that statement specifically ((inaudible)) about not starting any new construction before you deliver your current project, is that just a reflection of the timing in terms of if you were to do something new on the FPSO side, you wouldn't start building it until after the Knarr or was that more of a reflection of you guys wanting to kind of preserve some liquidity and kind of address some other issues as you kind of go through the next year or two in terms of buybacks and dividends and things like that.

Peter Evensen: Well it's a combination of things. First of all, you have to look at what your human resources are capable of. I think the first thing we looked at is I said let's make sure we efficiently execute on our projects and Peter ((inaudible)) who heads up our FPSO unit, he got handed a lot last year with both the ((inaudible)) transaction and you have to integrate and then we had the ((inaudible)) which we have to bring back on station, so what we said was let's not look at any more near term opportunities, let's look at some longer term opportunities.

What's very important in any sort of project mentality is to see what's the timing of projects and how it fits into your human resources. It isn't really a question of financing resources. We didn't want to stretch our people and so we're really looking at projects that have a startup from 2015 to 2016 and we're also looking at concentrating on the rollover of some of our existing projects.

Michael Webber: Sure, all right, that's helpful and makes sense. You kind of touched on this a bit in the deck, but with regards to the Anglo-eastern tie-ups and then the cost savings there, you guys are expecting to see some incremental benefit in the fourth quarter. Is that still kind of the pace you guys are looking at in terms of the guidance, I think you guys are talking to 10 and 20 million in terms of annual cost savings once that's up and running. Has there been any change to that since the investor day?

Male: Yes the guidance we gave at investor day Mike was annual savings of about 10 million.

Michael Webber: Yes.

Male: So fourth quarter we're expecting about two, two and a half for the quarter, so that hasn't changed.

Michael Webber: Okay, great, that's helpful and also you mentioned you guys are taking over technical management of the Maersk LNGS, that's pretty soon. Should we expect any sort of kind of lumpy cost impact there in terms of the actual changeover there or is that going to be relatively smooth?

Peter Evensen: That'll be smooth. First of all, we're paying Maersk LNG, we're paying them since the acquisition. We've actually already taken over five of six vessels and so that, you won't see that in the financials.

Male: Yes, actually the joint venture is, that's where the costs are and the joint venture is paying Teekay for those services.

Michael Webber: Got you, okay, that's helpful. One more and I'll turn it over, it looks like the charter termination with TOO, with an add back I think about 14 million, how should we think about that going forward. There are obviously some other charters there between Teekay and TOO with some vessels essentially being sold, should we expect a couple more of those as we move through the next couple of quarters or just how should we think about those, to those kind of charters?

Peter Evensen: I think we're looking at, obviously we're losing money so what you're talking about is the owned assets up at, or down at Teekay Offshore which are chartered to Teekay Parent.

Michael Webber: Yes.

Peter Evensen: So those are at higher rates of, as we said, about $27,000 and we have one expiring at the end of the year, the ((inaudible)) Spirit and if TOO chooses to sell it earlier then you'll get a termination, but it really comes off of Teekay Offshore Partners deciding what they're going to do with that vessel. Are they going to continue to trade it? Do they want to sell it or do they want to try to make it into a floating storage unit?

Michael Webber: Got you, okay, that's helpful, thank you guys for the time.

Peter Evensen: Thank you.

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

Mr. Lewis, please go ahead.

Male: I'm sure Greg will get back in the queue.

Operator: Okay great, so the next question comes from Brandon Oglenski of Barclays. Please go ahead.

Brandon Oglenski: Hey good morning everyone.

Male: Hi.

Brandon Oglenski: With the recent decline that we've seen in the tanker market, does that in any way back you off of where you thought you'd be run rate profitable at the parent level next year?

Male: No it doesn't. we, the tanker market for Teekay Consolidated is probably about 15 percent and so it's far more important that we deliver in on our projects that we have in the offshore and LNG toward getting back to profitability than whether the tanker market moves up and down. It's been said $1,000 moves it up $2 million on a quarter, but when we're putting in these big assets that generate good cash flow, that's far more important.

Brandon Oglenski: Well, thinking about that with the projects that you have coming online later this year and potentially early next year, are there going to be any acceptance periods where you might be running higher costs than anticipated, and maybe less revenue as the projects are delivered to the customers?

Male: I'm not sure I understand that. We generally capitalize the cost until it comes online with the customer.

Brandon Oglenski: Okay, so there's not early period costs that could be ramped higher than anticipated?

Male: No.

Male: No.

Brandon Oglenski: Okay and then looking forward and I think the question has been asked another way, but where's going to be the priority at the parent level? I know you've said on the offshore side you want to wait until you get some of these projects on the water, but is it going to be more on the tanker side that you're looking at or should we be thinking more on the gas side which I think you've alluded to, looking longer term, where's going to be the next projects that Teekay Parent is looking for, as you deliver it?

Male: Well, Teekay is developing projects for all four companies that we're looking at, and at investor day, we gave, what we said was that we don't see Teekay Parent owning gas assets, offshore assets, tanker assets, but it will definitely develop assets for that. So we're looking at a few new things, but they have to have higher hurdle rates.

For example, we talked about wind farm installation vessels, but for me, it all starts with getting good contracts for that. So we're not going to be in the I would say speculative tanker market going forward. We can make more money developing projects both for Teekay Parent as well as for it's daughters.

Brandon Oglenski: Thank you.

Male: Thank you.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star 1 at this time.

The next question comes from ((inaudible)) of Morgan Stanley. Please go ahead.

Male: Yes thank you and good morning. I would like to ask you about your valuation right now. I see you're estimated about $44 to $45. The stock is clearly trading at the very steep discount to the, your intrinsic value. Are there any plans of continuing your share buyback program or paying more dividend ((inaudible)) that you're going to keep using your balance sheet in order to finance future growth?

Male: Hi ((inaudible)). So as we said, our focus isn't on the net asset, on growing that $44 or the net asset value per share. As you see, the biggest thing we can do is to generate higher LP and limited partner and general partner cash flows from our MLPs going forward. We are in a deleveraging mode and at that point that we switch back, then I think you'll see Teekay look more aggressively on what it'll do with it's surplus capital.

But at this point, we don't have surplus capital going forward. When we do, then we'll start to look at what's the most efficient way to employ that, whether that's new projects or returning it to our shareholders.

Male: May I ask about the banking situation we've seen in other sectors, mainly ((inaudible)) banks trying to approach stronger owners to take control of assets that they are ((inaudible)). Have you seen any of these opportunities where you can take control of assets without investing any capital?

Male: We have seen those opportunities and so those are what I guess you could call stressed or distressed opportunities. We have seen them, but we haven't actually, the first thing we look at isn't whether we can do a good financial transaction, it's our outlook for the market. I have to say and Bruce will talk about it more in about an hour, our outlook for the tanker market has been that it'll be weaker until late 2013, 2014 so there really hasn't been any reason to take over assets and you haven't seen the asset valuations improve.

So from our point of view, we've looked at opportunistic in-charters, but we really haven't seen anything. Where we did act of course was the ((inaudible)) transaction where you had a company that unfortunately had too much leverage, but it was intrinsically a very good company. It had good people and we thought that would be the right kind of deal that we could do, so we acted very quickly there.

So as I said earlier, we look at a lot and people come to us, but we aren't buying very much at this point given our market outlook.

Male: And my last question is in regards to your LNG operations. You have one of the largest fleet in the world, but we haven't seen you in any of the ((inaudible)) bidding processes. Is this an expertise that you're planning to develop or could we see you in the future tendering for any of the FSRU contracts?

Male: Well first of all, we have been tendering for FSRU projects. What we haven't done is win them and so we've probably I guess you could say been more cautious but we think that's the right way to go. We have one FSRU that we jointly own with Exmar so I would say we have the expertise in house, but as I said earlier, I think that actually has been a benefit because a lot of these early stage FSRUs were smaller, 125, 145,000 so you have to look at how the market is changing and the market has changed toward new building FSRUs so you may very well find that we go ahead and order some FSRUs but our general, as part of what we see is the market opportunity, but in general, we've been quite successful at Teekay LNG without having to take excessive risk.

FSRUs, there isn't, it isn't commoditized market and we've been really pleased at how the technology has been coming along, so we think the technology has gotten to a matured state. So when we look at the FSRUs, you have to decide are you going to have a dedicated ((inaudible)) type of FSRU or are you going to have one that trades. If you don't, if you can save by not putting an engine room in or a certain kind of engine, you can save easily $50 million on the CAPEX.

So we're concerned about the long-term value when we order a unit.

Male: Shall we assume that the, if you decide to place an order for an LNG carrier or an FSRU, that will have a ((inaudible)) or you going to go ahead sending a speculative order at the beginning until you find an attractive contract.

Male: Well we don't consider it speculative. As I said earlier, we see a wall of projects and opportunities coming in late 2015 into 2016 projects. You can take your pick from Australia to the U.S. and so if we were to order, it would be with the idea that we would get a charter later on for it because we can see that those unit are going to be needed.

But again, we see that the LNG market is preferring more ((inaudible)), 160 to 170,000. We're seeing lower boil-offs of 0.1 rather than the 0.15 and so I think if we ordered now, we would order a better spec at a lower price than some of the people who have already ordered.

Male: Okay, thank you very much for your time.

Male: Thank you.

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

Michael Webber: Hey guys, I just wanted to hop in with a follow-up question. Peter, at the investor day, wind farm installation assets kind of went from kind of an opaque side project to something that seemed like you guys are going to be allocating capital towards over the, I guess near to immediate term. If memory serves me, you guys quoted a year, basically you guys could be deploying capital there within the year.

Any new developments there and then just maybe a little bit of commentary around how that process works and whether or not you guys are working with more than just the one partner you guys had about a year and a half ago.

Male: Sure, I'm not sure we committed to employing it. What I was quite careful about saying is you need to have a customer.

Michael Webber: Sure.

Male: We're a little different from other shipping companies that just order with this idea that they'll go get a customer. When you have more specialized units, you have to have a base load capacity in terms of a customer willing to give you a charter for a certain amount. That goes for the FSRUs as well as for wind farm installation vessels.

So we have the ships but we've been working on perfecting the design and working with customers to make sure that what we order works for one customer as well as for follow-on projects. So as soon as we can put all those things together then we have a project that we'll announce. If we can't put those things together, then we move on.

Michael Webber: Got you, okay, fair enough, thanks guys.

Male: Thank you.

Operator: Thank you. The next question is from Greg Lewis of Credit Suisse. Please go ahead.

Mr. Lewis, is your line on mute?

Greg Lewis: Yes hi, thank you, good morning, sorry for falling off the call earlier. I just had a quick question on the Foinaven. I guess we're seven months into the year, do you sort of have any guidance or how should we think about the performance of that through the first seven months in terms of potentially what that payout in the fourth quarter could be? Is it sort of in line with the performance of last year, year to date? Is it behind? Is it above? If you could just provide any color in terms of the performance of that FPSO and maybe sort of to give us maybe some insights into what that potential payout in the fourth quarter could be.

Vince Lok: Yes, the, of course the performance is based on the production as well as the average Brent oil price, as well as a few other operational measures. So it will of course vary depending on what those drivers are over the, for the rest of the year. We do have, in the third quarter I think I mentioned in my remarks that we have a planned shutdown for life extension work on the Foinaven in the third quarter so that would reduce the average production for the year. I think based on where Brent oil prices are currently, the average oil price for the year might be a little bit lower than 2011 so that could lower that amount.

So I think last year's fourth quarter, we had the fourth quarter additional payment with about 35 million or so. So I would expect the 2012 amount would be a little bit lower than that, sort of in the range of 25 to 30 I would say.

Greg Lewis: Okay perfect Vince, hey guys, thanks for the time.

Male: Thank you Greg.

Operator: Thank you. There are no further questions at this time. I'll turn the call back to Mr. Evensen.

Peter Evensen: All right, thank you very much and we look forward to reporting to you next quarter. 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.

END