TEEKAY CORPORATION

Moderator: Kent Alekson
August 12, 2010
10:00 am CT

Operator: Welcome to Teekay Corporation's Second Quarter 2010 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 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. Bjorn Moller, Teekay's President and Chief Executive Officer. Please go ahead, sir.

Kent Alekson: Before Mr. Moller 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 earnings presentation. Mr. Moller 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 earnings release and earnings presentation available on our Web site.

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

Bjorn Moller: Thanks, Kent and good morning everyone. Thank you for joining us on this morning's earnings call.

As usual, I am joined today by our CFO, Vince Lok. For the Q&A session, we also have Teekay Corporation's Chief Strategy Officer, Peter Evensen, who is also the CEO of Teekay LNG and Teekay Offshore, and we also have our Corporate Controller, Brian Fortier.

If you care to turn to slide 3 of the presentation, I will briefly review some of the corporation's second-quarter highlights.

We generated a strong $195 million of cash flow from vessel operations, or CFVO, in the quarter, virtually unchanged from the first quarter, but significantly, a 50% increase over the same quarter last year. The spot tanker market generally held up from the first quarter, and we were able to realize average spot rates in Q2 of $18,200 and $30,900 per day for our Aframax and Suezmax tankers, respectively. Nevertheless, we reported an adjusted net loss of $26.1 million, or 36 cents per share, which was caused primarily by lower revenues due to a heavy drydocking schedule, and an increase in net interest expense, mainly due to the full-quarter impact of the $450 million of bonds we issued in January. In his presentation, Vince will provide more detail.

Please note that our adjusted result excludes the benefit of the second and final catch-up payment of $29 million, or 40 cents per share, related to our amended Foinaven FPSO contract. We are enjoying significant positive momentum in our offshore business, and I'll address some of the significant developments in our FPSO and shuttle fleets in a few moments.

Finally, we continued to build Teekay's financial strength and flexibility during the quarter, as, at June 30, Teekay's total consolidated liquidity, including prearranged financing for our remaining new building program, stood at $2.8 million – $2.8 billion, $1.8 billion of which was at Teekay Parent. We reduced net debt at the parent-company level to $555 million, bringing its net debt to capitalization to 21%.

Turning to slide 4 of the presentation, I'm pleased to be able to show that our daughter-company model is thriving. Over the last 12 months, the share price of each of our daughters has increased considerably, on average rising by more than 50%, and resulting in an increase in the value of Teekay Parent's equity ownership by nearly $1 billion, or over $13 per Teekay share.

Briefly reviewing the highlights in each daughter, Teekay LNG Partners, or TGP, has seen a strong unit-price appreciation, which has reduced its yield to approximately 7%, which compares favorably to other midstream MLPs. In July, TGP completed a direct equity placement to a large institutional shareholder, raising approximately $51 million of proceeds intended to finance future fleet growth.

The Angola LNG project is progressing on schedule, and the project reached another important milestone in July, with the keel laying of the first of the four LNG carriers. Teekay Parent's 1/3 interest in this project is expected to be offered to TGP, in accordance with the omnibus agreement. During the second quarter, TGP announced a 5.3% increase in its quarterly distribution.

Teekay Offshore Partners, or TOO, has significant opportunities for accretive fleet growth, which is reflected in its unit price increasing by more than 60% over the past year. TOO posted another strong financial performance in the second quarter, generating $28 million of distributable cash flow. The partnership's core offshore markets in the North Sea and Brazil are seeing significant project activity for FPSOs and shuttle tankers.

You may also be interested to know that, during the second quarter, TOO chartered one of its specialized tankers from the North Sea to the U.S. Gulf of Mexico as a backup vessel to provide storage services in the Macondo oil recovery efforts. TOO increased its quarterly distribution by 5.6% in Q2, reflecting its recent accretive acquisitions.

Teekay Tankers, or TNK, our conventional tanker daughter company, has also shown a good share price performance. Teekay Tankers has had an active second quarter and third quarter, to-date. A few weeks ago, TNK utilized some of its undrawn, low-cost revolver capacity to invest $115 million in a 3-year, first-priority mortgage loan secured by two new building VLCCs. The investment is expected to provide an annual yield of 10%, and illustrates the innovative ways our daughters are increasing returns to shareholders.

In April, TNK completed a follow-on equity offering, raising proceeds of $103 million, which was used to acquire three conventional tankers from Teekay Parent. Together, these transactions were over 30% accretive to TNK's cash dividend per share, and TNK declared a dividend of 34 cents per share, which represents an annualized yield of approximately 10%.

Turning to slide 5, you can see in the graph that our strong daughter performance has had a favorable impact on Teekay's share price. Teekay Corporation's share price has outperformed that of the pure-play tanker companies, supported by the underlying increase in the value of our daughters, and this suggests that Teekay's share price is linked less to spot tanker rates and more to our growing fixed-rate cash flow.

As I mentioned earlier, we are enjoying positive momentum in our offshore business, and this is reflected in the significant progress being made in our FPSO and shuttle tanker businesses. Turning first to the FPSO business on slide 6, during the second quarter we received the second and final catch-up payment of $29 million under the amended Foinaven FPSO contract. We extended the Siri FPSO contract on the Aruana field in Brazil for 7-1/2 years, and as a result, starting in mid-November 2010, we expect the average annual cash flow from this FPSO to increase by over 20%, compared to its annualized cash flow in 2010 to-date.

Teekay was also recently selected as the preferred bidder for a new project in Brazil, the Tiro Sidon FPSO project, and we are currently in negotiations with Petrobras to finalize this contract. A key success factor in Teekay's bid was our preferential access to a partly converted ship hull, which enabled us to table a competitive bid and still achieve our target hurdle rates. The expected start-up date is first half 2012.

In addition, we continue to bid selectively on further FPSO projects that fit Teekay's main niche, mainly sophisticated solutions in Brazil and the North Sea. And we are seeing signs of an upward trend in project returns in these areas due to strong customer demand.

Looking at the shuttle tanker business on slide 7, in Q2 shuttle rate increases and higher fleet utilization resulted in a 55% year-over-year increase in the shuttle tanker CFVO, from $32 million in Q2 last year to $49 million in Q2 this year. We are maintaining the OPEX reductions that we received – we achieved in prior periods, largely as a result of lower crewing costs.

During the quarter, we increased our shuttle presence in Brazil with new fixed-rate contracts for two additional vessels, bringing our total Brazilian shuttle fleet to 13 vessels. And we are currently negotiating the employment of our sophisticated Amundsen Class shuttle new buildings in the North Sea. We hope to report further progress in the coming months as these vessels begin to deliver into the fleet.

Turning to slide 8, this high level of new offshore business we are seeing at Teekay is part of a larger uptrend in activity in the offshore market, which is gaining momentum following a period of inactivity in 2009, when a combination of the global financial crisis and lower oil prices led to relatively few new contract awards. Fourteen new floating production unit contracts have been awarded since the start of the year. And even if we subtract the eight FPSOs, which Petrobras has ordered for the Tupi field, the industry is still about the long-term average of five contract awards per quarter.

The recent oil spill in the U.S. Gulf may potentially lead to more stringent regulations with regards to offshore exploratory drilling in the longer term, but it is not expected to have a major impact on the demand for FPSO and shuttle tanker projects over the next several years, since the U.S. Gulf is not a major FPSO shuttle region, and since many field development projects are already well beyond the exploration drilling stage. In fact, as shown on the chart on the bottom left of the slide, there are around 160 FPSO projects currently being studied worldwide, with many of these in the North Sea and Brazil. For comparison, 2 years ago, the number of visible FPSO projects worldwide was only half this total.

The global deepwater rig count is set to rise, setting the stage for more deepwater projects, many of which will also require a shuttle tanker solution. Looking more closely at Teekay's core markets in the North Sea and Brazilian FPSO markets on slide 9, these markets, together, account for around 45% of all visible FPSO projects in the next few years.

The North Sea is a mature area for oil production, yet it remains an active FPSO market due to its harsh weather and its proliferation of marginal oil fields, typically developed by smaller independent field operators who prefer these solutions.

Brazil, the world's busiest offshore frontier, has seen orders for 11 FPSOs to-date, and with Petrobras' most recent investment plan containing a capital budget of $118 billion, there will be many more projects in the years ahead, with a further 41 projects already in the tendering or planning phase. Petrobras recently announced another mega-discovery with a 4.5 billion barrel Franco field.

Turning to slide 10, we provide an update on our conventional tanker business. After holding up quite well in Q2, spot tanker rates in Q3 are off to a weak start. Based on 50% of days booked for Q3, our spot Aframax bookings have averaged $13,500 a day, and our spot Suezmax bookings, $19,000 per day. Interestingly, time-charter rates and vessel values have remained firm, indicating that the third-quarter rate drop is viewed by the market to be part of normal seasonality.

We have made further progress in managing our exposure to the volatile spot market. In the first half of 2010, we redelivered three in-chartered vessels, which had an average daily cost of approximately $29,000 per vessel. In Q3, we expect to deliver another three expensive in-charters.

In addition, we have added to our fixed-rate cover with a 5-year out-charter of an MR product tanker to Caltex Australia. We have sold a 1995-built Teekay Tankers owned Aframax for proceeds of $17 million. And we added another nine vessels to the Teekay-managed Gemini Suezmax pool, which brings the total number of vessels in the pool to 48.

Turning to slide 11, we highlight the improving tanker demand fundamentals. Global oil demand continues to grow in tandem with the economic recovery, led by China. In fact, yesterday, the IEA raised its 2010 demand forecast to a new all time high level.

Crude oil imports into China in the first half of the year increased by 30% over the same period last year, with Chinese tonne-mile demand that's growing even faster, as China continues to source its crude from further afield in the Atlantic basin. Angola remains the number 1 supplier of crude oil to China, and imports from South America have also increased substantially, year-over-year.

U.S. oil demand staged a recovery, up 2% year-over-year in the first half. And while there remains some question about the strength of the global economic recovery, looking ahead to the winter, the forecast on the chart on the top left highlights the firm outlook with winter demand at its highest level in 3 years. In the short term, though, floating storage of oil, shown in the bottom chart, has declined due to the erosion of the contango oil price play, as well as the unwinding of the Iranian storage program. With storage vessels returning to spot trading, we have seen a one-time increase in tonnage supply, which has hurt tanker rates in the short term.

With that, I will hand it over to Vince to discuss the company's financial results.

Vincent Lok: Thanks, Bjorn and good morning everyone. Turning to slide 12, I will review our consolidated operating results for the quarter.

In order to present the results on a comparative basis, we have shown an adjusted Q2 income statement against an adjusted Q1 income statement, which excludes the items listed in appendix A of our earnings release and reallocates realized gains and losses from derivatives to the respective income statement line items. I will provide our outlook for the second half of 2010 a little bit later on.

Net revenues decreased by $13 million, primarily due to the slight – the slightly lower average spot tanker rates compared to Q1 and an increase in scheduled drydock days in Q2. In the second quarter, we had 403 drydock days, compared to only 71 in the first quarter. In general, we try to complete the majority of our drydockings and FPSO maintenance during the seasonally lower – slower second and third quarters of the year, which enables us to have as many revenue operating days as possible during the seasonally stronger winter months.

Note that the Q2 adjusted revenues exclude the $29 million catch-up payment relating to the Foinaven contract amendment, which has been included in appendix A as a non-recurring item.

Vessel operating expenses decreased by $2 million, mainly due to timing differences. Time-charter hire expense decreased from the previous quarter by about $3 million, mainly due to the redelivery of two in-chartered conventional tankers during Q2. Depreciation and amortization is in line with the prior quarter, given that there were no significant changes to our own fleet during the second quarter.

G&A expenses were $50 million and were in line with our expectations. Our normalized G&A in the first half of 2010 is running at about $4 million below the first half of 2009, so we've been successful in maintaining the G&A cost savings we've achieved last year. Net interest expense increased over the prior quarter by $3.6 million, mainly due to the full-quarter impact of the $450 million bond offering completed in January.

Income tax recovery decreased by $3.1 million, due to the increased deferred tax expenses on accounting income in our taxable Norwegian entities in Q2 compared to Q1. Non-controlling interest expense increased by $1.8 million compared to the prior quarter, due to higher earnings in Teekay LNG and Teekay Tankers, as a result of recent drop-down transactions and the full-quarter impact of the (marks) equity offering in Teekay Offshore.

Looking at the bottom line, adjusted net loss per share was 36 cents in the second quarter, compared to an adjusted net loss of 5 cents per share in the first quarter, with the majority of this difference coming from increased drydocking activity, lower income tax recovery, and higher interest expenses.

Turning to slide 13, we have provided some guidance on the expected impact of our financial results from the significant changes happening in our third and fourth quarters. Due primarily to seasonal maintenance, net revenues in Q3 are expected to decrease in both our shuttle tanker and FPSO fleets by approximately $6 million to $8 million each, compared to Q2. This decrease is due to lower shuttle tanker utilization as a result of seasonal maintenance in the North Sea fields, and planned shutdowns on four out of the five FPSO units for a portion of the quarter for annual maintenance.

We are also expecting lower revenues from our spot tanker fleet in Q3, based on what we have averaged so far in the quarter, which partially reflects seasonal factors. And as I've mentioned, we are – we have also a very heavy drydock schedule in Q3, similar to Q2. For your reference, we have provided our detailed drydock schedule for 2010 in the appendix to this presentation.

Net revenues, however, are expected to increase in Q4, as our shuttle tanker and FPSO fleets resume back into full service after completing their drydocks and maintenance work, and the North Sea fields return to full production in the winter months.

As a reminder, a large portion of the incremental cash flow relating to the Foinaven FPSO contract amendment is recognized in the fourth quarter of each year, since it is based on various annual operational performance measures, oil production levels, and average oil price for the year. As a result, based on the performance of the unit and the average oil price during the first half of the year, we roughly estimate that an additional $18 million will be recognized from this unit in Q4.

Other expected revenue increases in Q4 include the new Siri FPSO contract extension commencing in mid-November; the expected completion of the amendments to certain shuttle tanker contracts; the deployment of the new shuttle tanker new building delivered in the third quarter; and the potential winter market rallies for spot tankers, as Bjorn discussed earlier.

Looking at vessel operating expenses, they are expected to increase by $15 million to $20 million in Q3, in conjunction with the scheduled drydockings and FPSO shutdowns, which coincide with the maintenance period of the North Sea fields. However, OPEX is expected to return back to more normal levels in Q4, after the completion of the North Sea maintenance programs in Q3. Time-charter hire expense is expected to decrease in Q3 by approximately $10 million as a result of the redelivery of three in-charter vessels and fewer spot in-charters in the shuttle tanker fleet as well. We expect a further reduction in Q4 of approximately $3 million, reflecting the full-quarter effect of the Q3 redeliveries.

Net interest expense is expected to reduce by approximately $2 million, primarily as a result of the net interest income from Teekay Tankers' $115 million investment in the VLCC-secured loans. Income tax recovery run rate is expected to be approximately $2 million a quarter, down from $4 million previously, as we anticipate higher accounting income in the taxable Norwegian entities.

Non-controlling interest is expected to reduce by approximately 26 – to reduce to approximately $26 million to $28 million in Q3, as a result of lower expected earnings in Teekay Offshore in that quarter. However, we anticipate non-controlling expense to rise back to the $30 million level by Q4, subject, of course, to any additional dropdowns and/or equity offerings that may occur during the second half of the year.

In addition to what is shown in – on this slide, depreciation and amortization is expected to increase slightly with the delivery of two shuttle new buildings during the second half of 2010, and the amortization of drydocking expenditures that will be incurred in Q2 and Q3. We expect that G&A run rate will remain consistent at about $50 million per quarter.

So in summary, the third-quarter results are expected to be lower, mainly due to a much heavier than normal maintenance schedule for our offshore fleet. However, as you can see, Q4 is expected to be significantly stronger for the reasons outlined above.

Turning now to slide 14, we have updated the slide that we provided last quarter which summarizes the composition of Teekay Parent's net debt, its liquidity and remaining new building commitments. As of June 30, Teekay Parent's debts included $463 million of unsecured bonds, most of which is the $450 million 10-year bond we issued earlier this year. The remaining debt is primarily amortizing term loans.

As of June 30, Teekay Parent's net debt stands at only $555 million, resulting in a net debt to capitalization ratio of only 21%. Our net debt balance has declined by almost $150 million when compared to the end of the first quarter net debt balance of $703 million. This decrease is primarily due to vessel dropdowns to our daughter companies, partially offset slightly by new building installments.

Based on the repayment of our revolvers following the April sale of three vessels to Teekay Tankers, all of Teekay Parent's companies' revolvers are now undrawn. Together with our June 30, 2010 cash balance of approximately $460 million, current liquidity is approximately $1.3 billion. Including our prearranged new building financing of $589 million, Teekay Parent total liquidity now stands at over $1.8 billion. In addition to this, another $1 billion of liquidity resides in our three publicly-listed daughter companies.

At the bottom of this slide, we have updated the breakdown of Teekay Parent's remaining newbuild commitments. These assets are ultimately destined to be dropped down to Teekay Offshore, in the case of the newbuild shuttle tankers, and Teekay LNG, in the case of the Angola LNG vessels. And as a result, these CAPEX payments won't remain on Teekay Parent's balance sheet for very long.

Over the past 2 years, we have significantly strengthened our balance sheet and bolstered our liquidity position. Although this is resulting in higher carrying costs in the near term, we believe that having this financial strength and flexibility is a competitive advantage for Teekay, and we are confident that we will be able to deploy this capital profitably.

I will now over – turn the call back to Bjorn to conclude.

Bjorn Moller: Thank you, Vince.

And so turning to slide 15 of the presentation, it's a graph that we are very proud of. Our portfolio of fixed-rate cash flows continue to grow, with our 2010 CFVO expected to reach a new high of $660 million. This figure is an approximation, as it is based on the first half of 2010 annualized, and in order to reflect only recurring cash flows, we've backed out the $59 million of Foinaven catch-up payments that we recognized during the first half of the year. Our fixed-rate business provides considerable cash flow stability, and as Vince said, provides Teekay with a competitive advantage, especially during periods of tanker market volatility.

And to recap the presentation on slide 16, as we've stated this morning, there is more fixed-rate CFVO growth to come, which is not yet reflected in our year-to-date figures. Commencing in Q4, we have the improved cash flows under the Siri FPSO contract extension. Subject to performance for the remainder of 2010, in Q4 we expect to receive a payment under the annual revenue true-up in Foinaven.

Over the next few quarters, we will see the full benefit of recent profitability improvements in our shuttle tanker fleet due to higher contract renewals. We also project that additional CFVO as a result of contracts currently in negotiation, including the new building shuttle tankers and the Tiro Sidon FPSO project. And finally, Teekay Tankers' first-priority mortgage loans will add additional returns.

So over the past 24 months, we've transformed Teekay Parent's balance sheet, and today Teekay's operating from a strong and flexible financial platform. As we approach becoming net debt free at Teekay Parent, our main focus areas are enhancing the profitability of our existing asset portfolio; taking a disciplined approach to new investments, by which I mean setting higher unlevered IRR hurdle rates; and lastly, at Teekay Parent, comparing the investment of capital into new projects versus returning it to our shareholders.

Before we open the call out to questions, I'd like to turn your attention to slide 17, which provides some preliminary details on our 2010 Investor Day, to be held on Wednesday, October 20, at the Waldorf-Astoria in New York.

At this event, we will provide detailed presentations on the Teekay group of companies, covering the financial position and market outlook for each of Teekay Corporation, Teekay LNG Partners, Teekay Offshore Partners and Teekay Tankers. The event will be webcast live for all interested current or prospective investors. While this is still a couple of months off, we encourage everyone to mark their calendars, and we look forward to presenting and meeting with investors.

Operator, I am now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, press star 1 on your touchtone phone. To withdraw your question, press then pound sign. If you use a speakerphone, lift your handset before entering your request. Please stand by for your first question.

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

Justin Yagerman: Hey, good morning, gentlemen. How are you?

Bjorn Moller: Hello, Justin.

Justin Yagerman: I wanted to get a sense of where your guys head is at, I mean, when I – when I look at the transactions that you guys have made in this first half of the year, there's been a lot of shifting assets around, but you've had some of your public competition out there actively buying tonnage. And I was curious what you guys think you're seeing differently, or if you're planning on you know deploying some of the liquidity that you have into assets as this could be you know an interesting long-term entry point, given where the market is right now.

Bjorn Moller: Yes. It's certainly a topic of ongoing discussion at Teekay management meetings every week. We, I think, have been on record as saying we expected this to be a volatile year, even when rates were pretty strong in the second quarter. And so that's proven itself out.

We do expect a better winter market, but I still think we are looking at some choppiness. We had a rally in new building prices and second-hand values a few months ago, which I would characterize as driven by IPO purchasing, and there was a little bit of a bubble there. And I think we might see new vessel prices move sideways or even down slightly in the next few months.

So, what we are trying to do is look for investments where we think we have a good chance of earning above our cost of capital. And I think those projects are typically now in the offshore sector, where we can see fixed-rate long-term rate – long-term investments at attractive returns, and I think there's a lot of investors that would like us to return capital before we plow a lot of money into speculative spot business. So, we are monitoring it, and we will be opportunistic, but we will be disciplined.

Justin Yagerman: Well, that's definitely fair. When I think about the one transaction that you did make outside of the family of companies, in the crude space, you went into the debt side of things. You know right now, is – I guess, is that a statement that debt is more attractive than equity? And you know is there more debt out there, I guess, that you could purchase, a la what you did at Teekay Tankers?

Bjorn Moller: Peter, why don't you take that?

Peter Evensen: OK. Well, Justin, I think that that was a relative – that was a unique investment. There are probably some more out there, but we anticipated the volatility and the weakness that we saw in the third quarter. We thought that the spot rates in June were a little bit overdone, and things returned back to normal. As you heard Bjorn say, we think things will improve a little bit in the fourth quarter, but with our focus on profitability at Teekay Corporation, we think that our investors are better served if we take out some of that volatility going forward.

So, we're trying to allocate our capital up at Teekay toward more fixed-rate projects that'll give much less volatile cash flow, which we think will result in a higher share price. But down at Teekay Tankers, we are actively looking, and so we did complete two transactions of purchasing vessels, as well as purchasing the debt. But so far, I think it's proven itself better on the VL side in order to purchase the debt. But you will see Teekay Tankers continue to grow in the future, both from third party, as well as from, hopefully, being able to take some assets from the parent.

Justin Yagerman: Fair enough. One more, if I can, before I turn it over. Just you know you kind of answered this in your previous remarks, but you know we've seen a little bit of a move off the bottom here when it comes to VL rates. Admittedly, off of a very low bottom. Do you think this uptick in demand do you think this is an uptick in demand or is this more capacity-driven and then you know when you look at kind of the dashboard over the next 6 months or so you know what are you guys seeing in the market right now that gives you the conviction in your views?

Bjorn Moller: Well, the – two things, I would say. Firstly, I mean, fleet growth is sort of targeted around 5% on a net fleet growth this year. If we kind of project deliveries, the slippage they expect you know granulize the scrapping figure year-to-date, which I think is reasonable, so – and then you have IEA upgrading oil demand and you're seeing you know basically the best winter market, or the strongest demand for tankers in over 3 years.

I think we're going to see clearly some activity, and it's going to drive people's psychology and fundamentals, as well, off the bottom. Whether we'll get a real spike, that's a little bit about how winter weather and dislocation of tonnage. You know might get the return of storage business later over the winter as well. So, that definitely hurt in the near term, all this unwinding of storage. Last year we – or at the peak, we had 5% of world fleet doing storage, now we have 2%. So that is another 3% of net fleet supply. So, I think it will be – it'll be choppy, but I do think we'll get a winter market.

Justin Yagerman: Got it. Thanks for your time.

Bjorn Moller: Thanks.

Operator: Thank you. Your next question comes from Jon Chappell of JP Morgan. Please go ahead.

Jonathan Chappell: Thank you. Good morning, guys. My first question's for Peter. I noticed in the TOO press release that the date that Teekay needs to drop the Foinaven, or needs to offer the Foinaven to Teekay Offshore, was moved back to July 2010 from July 2010. I just want to know what the thought process was behind that. Is there kind of an interest to drop down maybe the shuttle tankers or some other FPSO projects first? Concerns about financing? Why the pushback by 2 years?

Peter Evensen: Hi, Jon. That's a great question. We reached agreement at TOO with Teekay Corporation to amend that option, because the Foinaven has a new contract, but as part of the new contract, it's going to go through some life extension work. So, it's going to have a greater variability of cash flow as – which will give it some downtime. And so we thought it better to maybe take over the – or have the – have the ability to take over the unit later, rather than earlier, when the variability of the cash flow goes out and there's a …

Jonathan Chappell: Got it.

Peter Evensen: … wealth of other assets that we can acquire, so it isn't like we're missing out on a – on an opportunity.

Jonathan Chappell: Right. OK. Makes sense.

Bjorn, I want to ask the same question I asked 3 months ago regarding your liquidity. You dropped the net debt, again, pretty significantly. You talked about, I think, asset prices are going to come down, should probably stay on the sidelines there, you even mentioned that investors probably want to see return of cash flow. Your dividends at the daughters have all gone up. Now, you've been successful with equity issuances at the daughters and your dropdowns.

The only thing from the story that hasn't kind of played out from you know 2006, 2007, when you started talking about it, was this ramped up dividend to Teekay shareholders or share buybacks. And you know you didn't put your sum of the parts in there, but I imagine you're trading below that as well. How close are we to pulling trigger – or how close are you to pulling the trigger on you know share buybacks or increased dividends to the Teekay Parent shareholders?

Bjorn Moller: Well, we are certainly closer than we were 3 months ago. But I would say, obviously, it's a matter we're discussing with the board. We are due to meet our board next month. And it's typically been on the agenda for the fall meeting, where we look at asset allocation.

So, I would say, we think the case is building, but against that, you have to weigh the fact that we are certainly seeing low to mid teens unlevered IRRs on offshore projects, which is a positive development. And ideally, we'd like to grow our business profitability; that's our first priority. But if we can't grow it sufficiently profitability, then we will return capital. And I think the – my expectation, subject to our board's agreement, is that we'll do some of each.

Jonathan Chappell: OK. And then, finally, just kind of a bigger picture tanker industry question. There's been a lot of talk lately about the Bosporus Straits and trying to build pipelines to bypass that because of environmental concerns. You know I know it's still in the very early stages, but as a major operator of mid-size tonnage that frequently transits the Bosporus, have you given any thought to what impact that may have on your business going forward?

Bjorn Moller: Well, there's nothing in the near term that we know of. I realize there are a number that kind of de-bottlenecking projects going on around the world. There's China is talking about doing one that gets around the Straits of Malacca via Thailand is it, or Malaysia. And the BGC pipeline is another area where you hear headlines or discussion about intended plans, but nothing in the near term. I wouldn't say it's high on our radar screen right now, Jon.

Jonathan Chappell: OK. That's fair. Thanks, Bjorn. Thanks, Peter.

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

Gregory Lewis: Thank you and good morning. Bjorn, could you provide us with some more color on the FPSO project with Petrobras in terms of you know the size of this asset, maybe in terms of costs and you know potential IRRs that you're thinking about. It sounds like you mentioned that it might be somewhere in the mid teens.

Bjorn Moller: I can't give you a lot of detail, due to confidentiality. We are still negotiating the contract with Petrobras. We were the preferred bidder after the send-around. But we still have some work to do. But I'd say the guidance was probably low to mid teens.

Gregory Lewis: OK. Is this going to be a joint venture, or is it just going to be solely Teekay?

Bjorn Moller: Well, that's also something we are keeping an open mind on. And we have a number of our FPSO projects we're looking at where the potential for partnerships exists, and there is some merit in doing maybe twice as many projects with half the investment in each as part of a risk spreading as a – as a smoothing of volatility in you know contracts ending and getting redeployed and so on. So, we're exploring the opportunity on several projects to do joint ventures, as opposed to 100% owned. But we have …

Gregory Lewis: OK. Sure.

Bjorn Moller: … but we have the financial capability to do the projects we're looking at on 100%-owned basis.

Gregory Lewis: OK. And then, just you know given the you know the size of that field where the asset's going to be, can you sort of give guidance on the potential size of this FPSO? Or is that …

Bjorn Moller: This is – this is going to be an Aframax size FPSO. And I think that production will be in the 25,000 to 35,000 barrels a day. It's about a 9-year contract we're negotiating.

Gregory Lewis: OK. Great and then, just you mentioned the heavy maintenance schedule for the offshore shuttle tankers in Q3, relative to – could you give some guidance on what Q3 is going to look like in terms of versus what it looked like in Q2? Because I kind of think that it's my understanding is that you know both quarters have significant amount of downtime in terms of the shuttle fleet.

Vincent Lok: Yes. In Q3, actually, the more significant downtime is related to the FPSO fleet, where we have four planned shutdowns on the units. So, it's heavier-than-usual type of schedule. So, most of the increased OPEX that you see here on slide 13 is relating to the FPSO fleet, as opposed to shuttle tankers.

Gregory Lewis: Yes. OK, great. And then, just lastly, Bjorn, you mentioned on the call that it looks like you know the fleet's going to grow, net fleet growth of around 5%. And I you know when you look – when you sort of match up new building deliveries versus fleet removals and/or scrappings, net's one thing, but given the fact that older vessels tend to be underutilized, do you think the numbers actually may be a couple percentage points higher?

Bjorn Moller: I think there's probably some element of that, that utilization will be higher for new tonnage. So, that's – it's around the margin, but you know it's probably true, what you're saying. So, I would say – but on the other hand tonne-miles are developing in a positive direction, so every barrel, on average, seems to be traveling further now. And I think that's a subtlety that's difficult to pick up. So, I would say that probably offsets it.

Gregory Lewis: OK, perfect. OK, guys. Thanks for the time.

Bjorn Moller: Thanks.

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

Urs Dur: Good morning, guys.

Bjorn Moller: Hello, Urs.

Urs Dur: Hi. Jon Chappell asked my question on the – on the dividend and buybacks, and that's nice color, and I thank you for that. I guess – and everything else has been asked about conventional tankers.

Just a little bit of an angle on offshore. You mentioned that Gulf of Mexico is not a big FPSO area. But do you see increased regulation – while U.S. regulations are lower than many other locations in the world, do you see increased regulations impacting your competition negatively, globally, in any way? We do know that you have very modern assets, so I was wondering if you could talk about possible increased regulation going forward.

Bjorn Moller: You're talking about in the conventional fleet or on offshore?

Urs Dur: No, no. Excuse me, on the – on the offshore fleet.

Bjorn Moller: I believe that each different government will continue to regulate its own business domestically. I question whether there will be an international convention that will be applied by governments to the offshore industries. I think what – if there are increased regulations, I think it plays to the strength of Teekay Petrojarl, which has focused on the toughest regulatory environment in the world, which is the U.K. and Norwegian continental shelves and Brazil, actually, 10 years ago was a very different story; today is one of the highest regulation and scrutiny areas. So, that's why we are focusing in those areas, because there's a higher barrier to entry, a higher barrier to success.

Urs Dur: Great. No, that's very good. You also mentioned, just taking a look again at slide 13, on the conventional tanker side you know potential winter rally in spot tanker market. You may have done some color on that, and maybe I didn't get all the notes. But could you go over, again, the drivers? I know we're seeing better EIA numbers, you noted. Can you see the drivers there, and are there particular ship types, including your own, but are there particular ship types that you think, on the conventional side, will have a very strong fourth quarter and first quarter?

Bjorn Moller: I think all of the crude oil carriers are going to move in concert. We believe that just the combination of the winter weather and the increased, I mean, we see more and more OPEC oil coming on the market, which, of course, is very accretive to tonne-miles. I believe we're going to get some sort of broad-based improvement across all crude sectors.

The (proto) market is much more arbitrage-driven. I would say that's difficult to predict, based on fundamentals. So, we are – we're cautiously optimistic for a good winter market, but I don't think it'll be too different; VL, Suez, Afra, will all do better.

Urs Dur: OK. Time-charter hire expense, you gave us some guidance. Can you – some ideas, I guess, is a better way to term it, on, again, on slide 13. I would expect that the rates are weak now. Is there any taking advantage of chartering and tonnage over the next 3 to 6 months? I mean, are we going to see a higher run rate for next year, but obviously, that being accretive to the bottom line? What's your expectation for time-charter hire expense for next year?

Bjorn Moller: Well, I mean, in terms …

Urs Dur: If any.

Bjorn Moller: … Vince can talk to the numbers as they – as they look now, but in terms of our planned activity, we have been on the sidelines in terms of …

Urs Dur: Yes.

Bjorn Moller: … chartering. So, I guess it'll be a matter of whether a window opens, and if we go through that window, then that will be a variable that is hard to predict.

Urs Dur: OK. Very helpful. Thank you for your time, sir.

Bjorn Moller: Thank you, Urs.

Operator: Thank you. Your next question comes from Todd Lee of Athena Asset Management. Please go ahead.

Todd Lee: Thanks for taking the call. I've got two questions. The first one regards to the large discount that Teekay trades to its NAV, and I was wondering you know what are the steps that you guys are willing to take you know over the short term to kind of to reduce that discount or value – in the valuation gap?

Peter Evensen: Well, we're actually taking a lot of steps. The first thing is that we weren't happy with the return on invested capital of our existing assets, which had dropped down.

Todd Lee: Right.

Peter Evensen: A lot of that was because we had in-chartered ships at too high a rate, and we were losing money on our trading position. So, we cut our trading position radically over the last 18 months, and that's started to hemorrhage out what we had in losses there. Then, we worked on to the operating side in terms of cutting costs. And then, as you heard Bjorn talk about, today we're in sort of the late innings in terms of re-contracting some of our fixed-rate projects, but some of the good news is still to come.

So, the first thing we're doing is to raise the inherent profitability of the – of the company and so some of that is taking us some time in order to do that. The second thing was we bolstered our financial strength. That actually came at some cost to the invested capital, because we raised up, as you heard Vince say, $450 million, which we haven't put to work yet. But as Bjorn said, he's confident that he'll find mostly offshore projects that'll give us money in the low to mid teens on an unlevered IRR basis.

So, that'll give us a positive spread, and as we grow, that'll raise the whole return on invested capital. Then …

Todd Lee: I'm not sure where you think your NAV is today, but according to my calculations, the NA – you're trading at you know at least a 50% discount to your net asset value. Do – I don't see how you could find projects that could get you that kind of return.

Peter Evensen: Yes. So, let me – let me just finish. And so as we've started to show in our appendix statements, we're starting to generate real free cash flow now, whereas, by cutting – and we actually cut down on the amount of investments that we had. In previous years, we were investing up to a billion dollars, so we radically cut down the amount of investments, which is starting to generate up free cash flow. And so now we're starting to look at, which was the first question, the – how we can return capital.

In the past, in '04, '05, '06, you watched Teekay buy back 25% of its outstanding shares. So, it's been a process, and we're – and we're now moving into the point where we're generating real free cash flow. And as Bjorn said, we can both invest on a selective basis, but not at the same level that we had done going forward, and look at returning capital to the shareholders.

So, I think the biggest way, as an asset manager, for us to enhance the value per share, and which really comes to a stock price, is if we looked at it, as Bjorn said, that if you could move to a positive financial position, you could buy back stock, which will enhance the value per share. And that'll help close …

Todd Lee: Absolutely. The stock purchase would definitely do that. Have you considered distributing the daughter-company shares to the shareholders so that you know you could kind of reduce the complexity of the valuation process?

Peter Evensen: That's something that we could look at, or we – but right now we see that the daughter companies have a – have a real value, and they're continuing to grow, as you saw in one of the slides. So, we think the best is yet to come for the daughter companies.

Todd Lee: Well, absolutely. But it, I mean, it doesn't really matter if it's – if you guys are controlling the shares or if the shareholders are, or your current Teekay shareholders are controlling the shares, right?

Peter Evensen: Yes, but what you have seen is that the distributions that we get up from Teekay Offshore and from Teekay LNG are a little bit more than what we pay out as the Teekay dividend. So, as you heard Bjorn say, we're actively looking at how we can return capital to shareholders. And that's either …

Todd Lee: OK.

Peter Evensen: … in increasing the dividend or in putting back …

Todd Lee: Buying back shares.

Peter Evensen: … or in share buybacks. But the one point that we have made is that there isn't been – there hasn't been a huge point in buying, say, conventional vessels up at Teekay, because that hasn't resulted in an increase in value per share.

Todd Lee: Right. My second question is regarding the poison pill, and I was wondering why you guys decided, or you felt the need to install the poison pill? And the second part of the question is how does that really enhance shareholder value?

Bjorn Moller: That's simply a matter of, I think, good housekeeping. I think we have a very large, supportive, long-term shareholder, so it's really a formality. We believe that we are very focused on maximizing shareholder value, and as Peter outlined, that's foremost on our mind. And so I would not put any particular focus on the – on the pill. It simply was renewing the pill that expired.

Todd Lee: OK. Thank you.

Bjorn Moller: Thank you.

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

Salvatore Vitale: Good morning, gentlemen. Thank you for taking my question. I'm not sure whether you addressed this earlier, but you know there's plenty of detail in the presentation. But did you talk about what your spot exposure is in the – in the – in the fourth quarter? I only ask because you know you sounded in your remark, you sounded pretty confident about the return in the tanker market in the fourth quarter and into 1Q. So, I was just wondering if you provided any details on that.

Vincent Lok: Yes, we do provide a breakdown of our fleet in the earnings release, so you can see which vessels are trading in the spot fleet. So for example, in the – currently at the Teekay Parent level, we have nine owned vessels and 13 in-charter vessels. So, all the details are listed in the earnings release.

Salvatore Vitale: OK. But you didn't provide a percentage of days on spot as opposed to fixed, correct?

Vincent Lok: We do have all the details listed in the appendix to the earnings presentation.

Salvatore Vitale: OK. Very good. I'll take a look at that. And then, just, if I could just go back to some of the remarks about maintenance in the third quarter on the FPSO side. Was there some of that that occurred in the third quarter – in the second quarter, as well? And was there any other you know was there any other revenue impact on the – on the FPSO side?

Vincent Lok: In the second quarter we did not have nearly as much, no. The OpEx for the FPSO fleet in the second quarter was up about $3 million over the first quarter, whereas the third quarter there's a significant ramp-up, as I mentioned, because of the planned shutdowns. So, I guess, normally we would try to smooth it out between the second and third quarter, but just so happens this year that it's all lumped into the third quarter. So, it's really a timing difference.

Salvatore Vitale: OK. And – but on the revenue side, on the FPSO revenue side for the second quarter, is there an amount that you can you know articulate as to what the impact might have been? Or is it …

Vincent Lok: We actually had a fairly strong second quarter for the FPSO fleet.

Salvatore Vitale: OK.

Vincent Lok: So it was – it was more or less similar to what we had in the first quarter. So, the dip you see really, of the $6 million to $8 million, is in the third quarter.

Salvatore Vitale: OK. Very good and then just on the FPSO side, is there any – do you have any sense for when you know there will be some repricing that occurs in the other two FPSOs at the Parent level, besides the Siri and the Foinaven?

Bjorn Moller: We are – we are in discussion about that. I think it probably will be a matter of 24 months.

Salvatore Vitale: Twenty-four months. OK. Thank you very much.

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

There are no further questions at this time.

Bjorn Moller: OK. Well, thank you very much for spending your summer day listening to us this morning. And I hope you can join us at our Investor Day in October. In the meantime, we look forward to reporting back to you next quarter. Have a great day. Bye-bye.

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

END