TEEKAY CORP
Form 6-K
December 19, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2011

Commission file number 1- 12874

TEEKAY CORPORATION

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building

69 Pitts Bay Road

Hamilton, HM 08 Bermuda

(Address of principal executive office)

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

Form 20-F x Form 40- F ¨

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

Yes ¨ No x

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

Yes ¨ No x

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TEEKAY CORPORATION AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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ITEM 1 FINANCIAL STATEMENTS

TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF LOSS

(in thousands of U.S. dollars, except share and per share amounts)

	September 30,	September 30,	September 30,	September 30,
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 $	2010 $	2011 $	2010 $
REVENUES	468,106	467,952	1,441,052	1,593,044
OPERATING EXPENSES				
Voyage expenses	39,595	53,719	136,610	192,636
Vessel operating expenses *(note 16)*	172,372	159,570	508,666	464,897
Time-charter hire expense	47,433	68,023	163,877	222,650
Depreciation and amortization	107,746	109,194	318,018	328,658
General and administrative *(notes 10 and 16)*	48,801	46,910	170,292	145,257
Loss on sale of vessels and equipment net of write-downs of vessels and equipment (*note 8*)	91,809	24,173	101,214	24,955
Goodwill impairment (*note 7*)	36,652		36,652	
Restructuring charges (*note 13*)	69	3,240	5,490	11,218
Total operating expenses	544,477	464,829	1,440,819	1,390,271
(Loss) income from vessel operations	(76,371)	3,123	233	202,773
OTHER ITEMS				
Interest expense	(33,649)	(34,852)	(99,959)	(100,930)
Interest income	2,394	3,466	7,316	9,949
Realized and unrealized loss on non-designated derivative instruments *(note 16)*	(219,570)	(133,241)	(298,453)	(440,313)
Equity loss from joint ventures (*note 8b*)	(40,624)	(16,010)	(40,282)	(40,503)
Foreign exchange gain (loss) (*notes 9 and 16*)	26,230	(28,717)	(1,267)	27,797
Loss on note repurchases *(note 9)*				(12,645)
Other income (*note 14*)	766	2,042	1,820	5,742
Net loss before income taxes	(340,824)	(204,189)	(430,592)	(348,130)
Income tax (expense) recovery *(note 17)*	(1,487)	(8,571)	(4,321)	3,882
Net loss	(342,311)	(212,760)	(434,913)	(344,248)
Less: Net loss (income) attributable to non-controlling interests	51,149	26,717	17,645	(8,945)
Net loss attributable to stockholders of Teekay Corporation	(291,162)	(186,043)	(417,268)	(353,193)
Per common share of Teekay Corporation *(note 18)*				
Basic loss attributable to stockholders of Teekay Corporation	(4.20)	(2.55)	(5.90)	(4.84)

Diluted loss attributable to stockholders of Teekay Corporation	(4.20)	(2.55)	(5.90)	(4.84)
Cash dividends declared	0.3163	0.3163	0.9488	0.9488
Weighted average number of common shares outstanding *(note 18)*				
Basic	69,375,036	72,982,870	70,743,085	72,911,689
Diluted	69,375,036	72,982,870	70,743,085	72,911,689

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share and per share amounts)

	September 30, As at September 30, 2011 $	September 30, As at December 31, 2010 $
ASSETS		
Current		
Cash and cash equivalents *(note 9)*	775,403	779,748
Restricted cash	88,397	86,559
Accounts receivable, including non-trade of $26,169 (2010 $35,960)	263,232	256,496
Net investment in direct financing leases *(note 5)*	24,461	26,791
Prepaid expenses	98,309	83,915
Current portion of derivative assets *(note 16)*	24,440	27,215
Other assets	2,815	2,616
Total current assets	1,277,057	1,263,340
Restricted cash non-current	492,987	489,712
Vessels and equipment *(notes 8 and 9)*		
At cost, less accumulated depreciation of $2,235,736 (2010 $1,997,411)	5,719,803	5,692,812
Vessels under capital leases, at cost, less accumulated amortization of $197,831 (2010 $172,113)	863,611	880,576
Advances on newbuilding contracts *(note 11a)*	347,393	197,987
Total vessels and equipment	6,930,807	6,771,375
Net investment in direct financing leases non-current *(note 5)*	442,413	460,725
Marketable securities	16,422	21,380
Loans to joint ventures and joint venture partners, bearing interest between 4.4% to 8.0%	34,809	32,750
Derivative assets *(note 16)*	138,969	55,983
Deferred income tax asset (*note 17*)	13,148	17,001
Investment in joint ventures *(notes 8b and 11b)*	202,186	207,633
Investment in term loans *(note 4)*	186,629	116,014
Other non-current assets	103,476	117,351
Intangible assets net	141,632	155,893
Goodwill (*note 7*)	166,540	203,191
Total assets	10,147,075	9,912,348
LIABILITIES AND EQUITY		
Current		
Accounts payable	53,117	46,240
Accrued liabilities	335,517	377,119
Current portion of derivative liabilities *(note 16)*	130,491	144,111
Current portion of long-term debt *(note 9)*	277,462	276,508
Current obligation under capital leases	168,694	267,382

Current portion of in-process revenue contracts	41,748	43,469
Loans from joint venture partners		59
Total current liabilities	1,007,029	1,154,888
Long-term debt, including amounts due to joint venture partners of $13,383 (2010 $13,282) (*note 9*)	4,783,933	4,155,556
Long-term obligation under capital leases	566,214	470,752
Derivative liabilities *(note 16)*	566,826	387,124
Asset retirement obligation	24,321	23,018
In-process revenue contracts	121,757	152,637
Other long-term liabilities	197,126	194,640
Total liabilities	7,267,206	6,538,615
Commitments and contingencies *(notes 5, 11 and 16)*		
Redeemable non-controlling interest *(note 11d)*	39,147	41,725
Equity		
Common stock and additional paid-in capital ($0.001 par value; 725,000,000 shares authorized; 68,900,842 shares outstanding (2010 72,012,843); 73,869,589 shares issued (2010 73,749,793)) *(note 10)*	660,870	672,684
Retained earnings	695,084	1,313,934
Non-controlling interest	1,500,793	1,353,561
Accumulated other comprehensive loss *(note 15)*	(16,025)	(8,171)
Total equity	2,840,722	3,332,008
Total liabilities and equity	10,147,075	9,912,348

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

	September 30, Nine Months Ended 2011 $	**September 30, September 30, 2010 $**
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net loss	(434,913)	(344,248)
Non-cash items:		
Depreciation and amortization	318,018	328,658
Amortization of in-process revenue contracts	(32,601)	(36,395)
(Gain) loss on sale of vessels and equipment	(5,192)	2,664
Write-down for impairment of goodwill	36,652	
Write-down of intangible assets		12,300
Write-down of investment in joint ventures	19,411	
Write-down of vessels and equipment	106,406	9,991
Loss on repurchase of notes		12,645
Equity loss, net of dividends received	24,311	40,503
Income tax expense (recovery)	4,321	(3,882)
Share-based compensation	14,968	11,816
Unrealized foreign exchange loss (gain)	1,283	(19,111)
Unrealized loss on derivative instruments	81,437	325,038
Other	47	10,955
Change in operating assets and liabilities	(48,422)	36,192
Expenditures for drydocking	(37,370)	(40,223)
Net operating cash flow	48,356	346,903
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt *(note 9)*	1,227,030	1,142,000
Debt issuance costs	(1,320)	(12,808)
Scheduled repayments of long-term debt	(180,840)	(143,361)
Prepayments of long-term debt	(430,860)	(954,133)
Repayments of capital lease obligations	(3,725)	(1,961)
Proceeds from loans from joint venture partner		1,182
Repayment of loans from joint venture partner	(59)	(1,250)
Increase in restricted cash	(5,306)	(75,246)
Net proceeds from issuance of Teekay LNG Partners L.P. units *(note 6)*	107,234	50,000
Net proceeds from issuance of Teekay Offshore Partners L.P. units (*note 6*)	19,877	221,492
Net proceeds from issuance of Teekay Tankers Ltd. shares (*note 6*)	158,326	103,036
Issuance of Common Stock upon exercise of stock options	5,492	2,627
Repurchase of Common Stock *(note 10)*	(118,036)	
Distribution from subsidiaries to non-controlling interests	(152,985)	(113,598)
Cash dividends paid	(70,124)	(69,615)
Net financing cash flow	554,704	148,365

INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(561,378)	(176,238)
Proceeds from sale of vessels and equipment	33,355	49,402
Investment in term loans *(note 4)*	(70,404)	(115,575)
Investment in joint ventures	(25,281)	(1,977)
(Advances) repayments to joint ventures and joint venture partners	(4,092)	1,510
Investment in direct financing lease assets		(4,199)
Direct financing lease payments received	20,642	20,965
Other investing activities	(247)	788
Net investing cash flow	(607,405)	(225,324)
(Decrease) increase in cash and cash equivalents	(4,345)	269,944
Cash and cash equivalents, beginning of the period	779,748	422,510
Cash and cash equivalents, end of the period	775,403	692,454

Supplemental cash flow information *(note 19).*

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

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. dollars)

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
			TOTAL EQUITY			
	Thousands of Shares of Common Stock Outstanding #	Stock and Additional Paid-in Capital $	Common Retained Earnings $	Accumulated Other Comprehensive Income (Loss) $	Non-controlling Interest $	Total $
Balance as at December 31, 2010	72,013	672,684	1,313,934	(8,171)	1,353,561	3,332,008
Net loss			(417,268)		(21,792)	(439,060)
Other comprehensive income (loss):						
Unrealized loss on marketable securities				(4,958)		(4,958)
Pension adjustments, net of taxes				192		192
Unrealized loss on qualifying cash flow hedging instruments *(note 16)*				910	574	1,484
Realized loss on qualifying cash flow hedging instruments *(note 16)*				(3,998)	(1,139)	(5,137)
Comprehensive income					(22,357)	(447,479)
Dividends declared			(70,127)		(152,985)	(223,112)
Reinvested dividends	1	7				7
Exercise of stock options	618	5,492				5,492
Repurchase of Common Stock (*note 10*)	(3,731)	(32,281)	(85,755)			(118,036)
Employee stock option compensation *(note 10)*		14,968				14,968
Dilution gains on public offerings of Teekay Tankers, Teekay LNG and Teekay Offshore *(note 6)*			49,143			49,143
Sale of 49% interest of OPCO to Teekay Offshore *(note 6)*			(94,843)		94,843	
Increase to non-controlling interest from share and unit issuances of subsidiaries and other					227,731	227,731
Balance as at September 30, 2011	68,901	660,870	695,084	(16,025)	1,500,793	2,840,722

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TEEKAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of U.S. dollars)

	September 30,	September 30,	September 30,	September 30,
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 $	2010 $	2011 $	2010 $
Net loss	(342,311)	(212,760)	(434,913)	(344,248)
Other comprehensive income (loss):				
Unrealized (loss) gain on marketable securities	(3,880)	3,341	(4,958)	(1,731)
Pension adjustments, net of taxes		349	192	761
Unrealized (loss) gain on qualifying cash flow hedging instruments	(6,610)	15,103	1,484	(4,839)
Realized (gain) loss on qualifying cash flow hedging instruments	(2,008)	1,480	(5,137)	3,377
Other comprehensive income (loss)	(12,498)	20,273	(8,419)	(2,432)
Comprehensive loss	(354,809)	(192,487)	(443,332)	(346,680)
Less: Comprehensive loss (income) attributable to non-controlling interests	53,021	24,021	18,210	(8,901)
Comprehensive loss attributable to stockholders of Teekay Corporation	(301,788)	(168,466)	(425,122)	(355,581)

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, except share data)

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (or *GAAP*). They include the accounts of Teekay Corporation (or *Teekay*), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly owned or controlled subsidiaries (collectively, the *Company*). Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2010, included in the Company s Annual Report on Form 20-F. In the opinion of management, these unaudited financial statements reflect all adjustments, of a normal recurring nature, necessary to present fairly, in all material respects, the Company s consolidated financial position, results of operations, cash flows and changes in total equity for the interim periods presented. The results of operations for the three and nine months ended September 30, 2011, are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Given the current credit markets, it is possible that the amounts recorded as derivative assets and liabilities could vary by material amounts.

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period, relating to the reclassification of revenues of $5.8 million and $21.4 million for the three and nine months ended September 30, 2010, respectively, from time-charter hire expense to revenues in the consolidated statements of income (loss) and the reclassification of accounts receivable of $11.6 million as at December 31, 2010 from prepaid expenses to accounts receivable and accounts payable in the consolidated balance sheets.

2. Adoption of New Accounting Policies

In January 2011, the Company adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 605, *Revenue Recognition,* that provides for a new methodology for establishing the fair value for a deliverable in a multiple-element arrangement. When vendor specific objective or third-party evidence for deliverables in a multiple-element arrangement cannot be determined, the Company will be required to develop a best estimate of the selling price of separate deliverables and to allocate the arrangement consideration using the relative selling price method. The adoption of this amendment did not have an impact on the Company s consolidated financial statements.

On September 30, 2011, the Company adopted an amendment to FASB ASC 350, *Intangibles Goodwill and Other*, that provides entities with the option of performing a qualitative assessment before performing the first step of the current two-step goodwill impairment test. If entities determine, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, then performing the two-step impairment test is not required. However, if an entity concludes otherwise, the existing two-step goodwill impairment test is performed. The adoption of this amendment did not have an impact on the Company s consolidated financial statements.

3. Segment Reporting

The following tables include results for the Company s four segments for the three and nine months ended September 30, 2011 and 2010.

Three Months ended September 30, 2011	September 30, Shuttle Tanker and	September 30, FPSO Segment	September 30, Liquefied Gas	September 30, Conventional Tanker	September 30, Total

	FSO Segment		Segment	Segment	
Revenues	156,058	104,892	69,642	137,514	468,106
Voyage expenses	26,771		36	12,788	39,595
Vessel operating expenses	49,540	61,479	11,803	49,550	172,372
Time-charter hire expense	18,694			28,739	47,433
Depreciation and amortization	33,147	23,845	15,594	35,160	107,746
General and administrative [(1)]	13,657	10,320	4,688	20,136	48,801
Loss (gain) on sale of vessels and equipment, net of write-downs of vessels and equipment	8,319	(5,600)		89,090	91,809
Goodwill impairment				36,652	36,652
Restructuring charges				69	69
Income (Loss) from vessel operations	5,930	14,848	37,521	(134,670)	(76,371)
Segment assets	1,825,823	1,360,615	3,001,577	2,742,713	8,930,728

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, except share data)

Three Months ended September 30, 2010	September 30, Shuttle Tanker and FSO Segment	September 30, FPSO Segment	September 30, Liquefied Gas Segment	September 30, Conventional Tanker Segment	September 30, Total
Revenues	146,745	86,966	62,131	172,110	467,952
Voyage expenses	23,525		(50)	30,244	53,719
Vessel operating expenses	43,588	54,176	10,982	50,824	159,570
Time charter hire expense	20,314			47,709	68,023
Depreciation and amortization	31,228	23,751	15,702	38,513	109,194
General and administrative [1]	12,322	7,071	4,841	22,676	46,910
Loss on sale of vessels and equipment, net of write-downs vessels and equipment	10,775			13,398	24,173
Restructuring charges	(46)		48	3,238	3,240
Income (Loss) from vessel operations	5,039	1,968	30,608	(34,492)	3,123
Segment assets	1,709,084	1,177,321	2,860,598	2,797,403	8,544,406

Nine Months ended September 30, 2011	September 30, Shuttle Tanker and FSO Segment	September 30, FPSO Segment	September 30, Liquefied Gas Segment	September 30, Conventional Tanker Segment	September 30, Total
Revenues	455,917	312,167	202,277	470,690	1,441,052
Voyage expenses	72,451		3,863	60,295	136,610
Vessel operating expenses	150,932	178,490	36,025	143,220	508,666
Time-charter hire expense	57,072			106,804	163,877
Depreciation and amortization	95,891	70,791	46,646	104,690	318,018
General and administrative [1]	44,945	38,537	15,426	71,384	170,292
Loss (gain) on sale of vessels and equipment, net of write-downs of vessels and equipment	8,490	(5,600)		98,324	101,214
Goodwill impairment				36,652	36,652
Restructuring charges	5,351			139	5,490
Income (Loss) from vessel operations	20,785	29,949	100,317	(150,818)	233

	September 30,	September 30,	September 30,	September 30,	September 30,

Nine Months ended September 30, 2010	Shuttle Tanker and FSO Segment	FPSO Segment	Liquefied Gas Segment	Conventional Tanker Segment	Total
Revenues [2]	470,196	343,187	185,462	594,199	1,593,044
Voyage expenses	88,589		45	104,002	192,636
Vessel operating expenses	128,403	152,574	35,582	148,338	464,897
Time charter hire expense	68,785			153,865	222,650
Depreciation and amortization	95,242	71,253	47,114	115,049	328,658
General and administrative [1]	38,612	20,418	15,170	71,057	145,257
Loss on sale of vessels and equipment, net of write-downs vessels and equipment	10,039			14,916	24,955
Restructuring charges	628		362	10,228	11,218
Income (Loss) from vessel operations	39,898	98,942	87,189	(23,256)	202,773

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. dollars, except share data)

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources).

(2) FPSO segment includes $59.2 million in non-recurring revenue for the nine months ended September 30, 2010, related to operations in previous years as a result of executing a contract amendment in March 2010.

A reconciliation of total segment assets to amounts presented in the accompanying consolidated balance sheets is as follows:

	September 30, September 30, 2011 $	September 30, December 31, 2010 $
Total assets of all segments	8,930,728	8,673,337
Cash	775,403	779,748
Accounts receivable and other assets	440,944	459,263
Consolidated total assets	10,147,075	9,912,348

4. Investment in Term Loans

In February 2011, Teekay loaned $70 million to an unrelated ship-owner of a 2011-built Very Large Crude Carrier (or *VLCC*). The loan bears interest at 9% per annum and is payable quarterly. The loan is repayable in full in February 2014. However, it may be repaid prior to maturity at the option of the borrower. The loan is collateralized by a first priority mortgage on a 2011-built VLCC, together with other related collateral.

5. Vessel Charters

In addition to the Company s minimum charter hire payments to be paid and received under the Head Leases and Subleases for the Tangguh LNG Carriers, which are described in Note 9 to the audited consolidated financial statements included in the Company s Annual Report on Form 20-F for the year ended December 31, 2010, the additional minimum estimated charter hire payments in the next five fiscal years, as at September 30, 2011, for the Company s vessels chartered-in and vessels chartered-out were as follows:

	September 30, Remainder of 2011	September 30, 2012	September 30, 2013	September 30, 2014	September 30, 2015
			(in millions of U.S. dollars)		
Charters-in operating leases	44.5	111.0	66.6	23.0	16.0
Charters-in capital leases[1]	135.4	79.2	96.8	52.1	24.0
	179.9	190.2	163.4	75.1	40.0

Charters-out operating leases[2]	296.0	1,010.4	813.8	864.9	869.8
Charters-out direct financing leases	17.2	62.4	49.5	48.1	47.1
	313.2	1,072.8	863.3	913.0	916.9

(1) As at September 30, 2011 and December 31, 2010, the Company had $564.8 million and $559.8 million, respectively, of restricted cash, which, including any interest earned on such amounts, is restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Company also maintains restricted cash deposits relating to certain term loans, which totaled $13.8 million and $12.3 million as at September 30, 2011 and December 31, 2010, respectively.

(2) The minimum scheduled future charter hire payments for vessels chartered out should not be construed to reflect total charter hire revenues for any of the periods. In addition, minimum scheduled future revenues have been reduced by estimated off-hire time for period maintenance. The amounts may vary given unscheduled future events such as the timing of vessel maintenance.

6. Financing Transactions

In February 2011, Teekay s subsidiary Teekay Tankers Ltd. (or *Teekay Tankers*) completed a public offering of 9.9 million shares of its Class A Common Stock (including 1.3 million shares issued upon the exercise of the underwriters overallotment option) at a price of $11.33 per share, for gross proceeds of approximately $112.1 million. As a result, Teekay s ownership of Teekay Tankers was reduced to 26.0%. Teekay maintains voting control of Teekay Tankers through its ownership of shares of Teekay Tankers Class A and Class B common stock and continues to consolidate this subsidiary. As a result of the offering, the Company recorded an increase to retained earnings of $5.7 million, which represents the Company s dilution gain from the issuance of shares in Teekay Tankers during the nine months ended September 30, 2011.

In March 2011, Teekay sold its remaining 49% interest in Teekay Offshore Operating L.P. (or *OPCO*) to Teekay s subsidiary Teekay Offshore Partners L.P. (or *Teekay Offshore*), for a total purchase price of $386.3 million comprised of $175 million in cash (less $15 million in distributions made by OPCO to Teekay between December 31, 2010 and the date of acquisition) and 7.6 million newly issued Teekay Offshore common units. The sale increased Teekay Offshore s ownership in OPCO from 51% to 100%. Teekay s ownership in Teekay Offshore increased to 36.9% (including the Company s 2% general partner interest). Consequently, the Company recognized a decrease to retained earnings and an increase in non-controlling interest of $94.8 million as the Company accounts for changes in its ownership interest in controlled subsidiaries as equity transactions.

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In April 2011, Teekay s subsidiary Teekay LNG completed a public offering of 4.3 million common units (including 0.6 million common units issued upon the partial exercise of the underwriters overallotment option) at a price of $38.88 per unit, for gross proceeds (including the general partner s proportionate capital contribution) of approximately $168.7 million. As a result, Teekay s ownership of Teekay LNG was reduced to 43.6% (including the Company s 2% general partner interest). Teekay maintains control of Teekay LNG by virtue of its control of the general partner and continues to consolidate the subsidiary. As a result of the offering, the Company recorded an increase to retained earnings of $38.6 million, which represents the Company s dilution gain from the issuance of units in Teekay LNG during the nine months ended September 30, 2011.

In July 2011, Teekay s subsidiary Teekay Offshore completed a private placement of 0.7 million common units at a price of $28.04 per unit to an institutional investor for gross proceeds (including the general partner s proportionate capital contribution) of approximately $20.4 million. As a result, Teekay s ownership of Teekay Offshore was reduced to 36.5% (including the Company s 2% general partner interest). Teekay maintains control of Teekay Offshore by virtue of its control of the general partner and continues to consolidate the subsidiary. As a result of the private placement, the Company recorded an increase to retained earnings of $5.0 million, which represents the Company s dilution gain from the issuance of units in Teekay Offshore during the nine months ended September 30, 2011.

7. Goodwill Impairment Charge

During the three months ended September 30, 2011, the Company concluded that sufficient indicators of impairment were present within its Suezmax tanker reporting unit, which is part of the Company s conventional tanker segment. Consequently, the Company performed an interim goodwill impairment analysis as at September 30, 2011 on this reporting unit. Based on the results of this analysis, the Company concluded that the carrying value of the reporting unit exceeded its fair value. As a result, a goodwill impairment charge of $36.7 million was recognized in the Company s consolidated statements of loss for the three and nine months ended September 30, 2011. The fair value of this reporting unit was determined using the present value of expected future cash flows discounted at a rate equivalent to a market participant s weighted-average cost of capital. The estimates and assumptions regarding expected future cash flows and the appropriate discount rates are in part based upon existing contracts, future tanker market rates, historical experience, financial forecasts and industry trends and conditions. The recognition of the goodwill impairment charge was driven by the continuing weak tanker market, which has largely been caused by an oversupply of vessels relative to demand.

8. Vessel Sales and Write-downs

a) Vessel Sales

In March 2011, the Company sold a 1988-built floating storage and offtake (or *FSO*) unit. The FSO unit was part of the Company s shuttle tanker and FSO segment. The Company realized a loss of $0.2 million from the sale of the FSO unit.

In August 2011, the Company sold a 1993-built Aframax tanker which was part of the Company s conventional tanker segment. The Company did not realize a gain or a loss from the sale of the vessel.

b) Write-downs

During the three and nine months ended September 30, 2011, the Company incurred write-downs on certain of the Company s conventional tankers of $89.0 million and $98.1 million, respectively. These vessels are part of the Company s conventional tanker segment and were written down to their estimated fair value. The recognition of these write-downs was driven by the continuing weak tanker market, which has largely

been caused by an oversupply of vessels relative to demand.

During the three and nine months ended September 30, 2011, the Company incurred a $19.4 million write-down of its investment in Petrotrans Holdings Ltd. (or *PTH*), a 50% joint venture which provides ship-to-ship lightering services. The Company s investment in PTH is part of the Company s conventional tanker segment and was written down to its estimated fair value. The recognition of this write-down was driven by the continuing weak tanker market.

During the three and nine months ended September 30, 2011, the Company incurred an $8.3 million write-down of an older shuttle tanker. This vessel is part of the Company s shuttle tanker and FSO segment and was written down to its estimated fair value, determined using the estimated scrap value of the vessel. The recognition of this write-down was driven by the older age of the vessel, the requirements of operating in the North Sea, and recent economic developments.

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9. Long-Term Debt

	September 30, September 30, 2011 $	September 30, December 31, 2010 $
Revolving Credit Facilities	2,180,422	1,697,237
Senior Notes (8.875%) due July 15, 2011		16,201
Senior Notes (8.5%) due January 15, 2020	446,757	446,559
Norwegian Kroner-denominated Bonds due November 2013	102,290	103,061
U.S. Dollar-denominated Term Loans due through 2021	1,954,831	1,782,423
Euro-denominated Term Loans due through 2023	363,712	373,301
U.S. Dollar-denominated Unsecured Demand Loans due to Joint Venture Partners	13,383	13,282
Total	5,061,395	4,432,064
Less current portion	277,462	276,508
Long-term portion	4,783,933	4,155,556

As of September 30, 2011, the Company had 14 long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for aggregate borrowings of up to $3.1 billion, of which $0.9 billion was undrawn. Interest payments are based on LIBOR plus margins; at September 30, 2011 and December 31, 2010, the margins ranged between 0.45% and 3.25%. At September 30, 2011 and December 31, 2010, the three-month LIBOR was 0.37% and 0.30%, respectively. The total amount available under the Revolvers reduces by $88.4 million (remainder of 2011), $349.6 million (2012), $749.6 million (2013), $791.8 million (2014), $226.4 million (2015) and $930.4 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 63 of the Company s vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts.

In January 2010, the Company completed a public offering of 8.5% senior unsecured notes due January 15, 2020 (or the *8.5% Notes*) with a principal amount of $450 million. The 8.5% Notes were sold at a price equal to 99.181% of par and the discount is accreted through the maturity date of the notes using the effective interest rate of 8.625% per year. The Company capitalized issuance costs of $9.4 million, which is recorded in other non-current assets in the consolidated balance sheet and is amortized to interest expense over the term of the 8.5% Notes. The 8.5% Notes rank equally in right of payment with all of Teekay s existing and future senior unsecured debt and senior to any future subordinated debt of Teekay. The 8.5% Notes are not guaranteed by any of Teekay s subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities of its subsidiaries. In 2010, the Company repurchased a principal amount of $160.5 million of the Company s 8.875% senior unsecured notes due July 15, 2011 (or the *8.875% Notes*) using a portion of the proceeds from the 8.5% Notes offering, and recognized a loss on repurchase of $12.6 million. During the nine months ended September 30, 2011, the balance of the remaining 8.875% Senior Notes were repaid upon maturity.

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the 8.5% Notes to be redeemed (excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date. In addition, at any time or from time to time prior to January 15, 2013, the Company may redeem up to 35% of the aggregate principal amount of the 8.5% Notes issued under the indenture with the net cash proceeds of one or more qualified equity offerings at a redemption price equal to 108.5% of the principal amount of the 8.5% Notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date, provided certain conditions are met. No such redemptions had been made as at September 30, 2011.

In November 2010, Teekay Offshore issued NOK 600 million of senior unsecured bonds that mature in November 2013 in the Norwegian bond market. Teekay Offshore capitalized issuance costs of $1.3 million, which is recorded in other non-current assets in the consolidated balance sheet and is amortized over the term of the senior unsecured bonds. The bonds are listed on the Oslo Stock Exchange. Interest payments on the senior unsecured bonds are based on NIBOR plus a margin of 4.75%. Teekay Offshore has entered into a cross currency swap arrangement to swap the interest payments from NIBOR into LIBOR and the principal from Norwegian Kroner to U.S. dollars. The LIBOR rate receivable from the interest rate swap is capped at 3.5% (see Note 16).

As of September 30, 2011, the Company had 15 U.S. Dollar-denominated term loans outstanding, which totaled $2.0 billion (December 31, 2010 $1.8 billion). Certain of the term loans with a total outstanding principal balance of $383.9 million as at September 30, 2011 (December 31, 2010 $417.4 million) bear interest at a weighted-average fixed rate of 5.3% (December 31, 2010 5.3%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At September 30, 2011 and December 31, 2010, the margins ranged between 0.3% and 3.25%. At September 30, 2011 and December 31, 2010, the three-month LIBOR was 0.37% and 0.30%, respectively. The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 14 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 31 (December 31, 2010 28) of the Company s vessels, together with certain other security. In addition, at September 30, 2011, all but $122.9 million (December 31, 2010 $122.5 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

The Company has two Euro-denominated term loans outstanding, which, as at September 30, 2011, totaled 271.7 million Euros ($363.7 million) (December 31, 2010 278.9 million Euros ($373.3 million)). The Company repays the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus a margin. At September 30, 2011 and December 31, 2010, the margins ranged between 0.6% and 0.66% and the one-month EURIBOR at September 30, 2011, was 1.36% (December 31, 2010 0.78%). The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023 and are collateralized by first-priority mortgages on two of the Company s vessels, together with certain other security, and are guaranteed by a subsidiary of Teekay.

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Both Euro-denominated term loans are revalued at the end of each period using the then prevailing Euro/U.S. Dollar exchange rate. Due in part to this revaluation which is unrealized, the Company recognized a foreign exchange gain of $26.2 million (2010 $28.7 million loss) and a foreign exchange loss of $1.3 million (2010 $27.8 million gain) during the three and nine months ended September 30, 2011, respectively.

The Company has two U.S. Dollar-denominated loans outstanding owing to two joint venture partners, which, as at September 30, 2011, totaled $13.4 million (2010 one loan totaling $13.8 million), including accrued interest. Interest payments on one of the loans, which is based on a fixed interest rate of 4.84%, commenced in February 2008. This loan is repayable on demand no earlier than February 27, 2027.

The weighted-average effective interest rate on the Company s long-term aggregate debt as at September 30, 2011 was 2.3% (December 31, 2010 2.3%). This rate does not include the effect of the Company s interest rate swap agreements (see Note 16).

Among other matters, the Company s long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and certain loan agreements require the maintenance of market value to loan ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at September 30, 2011 and December 31, 2010, this amount was $100.0 million. Certain of the loan agreements also require that the Company maintain an aggregate level of free liquidity and undrawn revolving credit lines with at least six months to maturity of at least 7.5% of total debt. As at September 30, 2011, this amount was $284.1 million (December 31, 2010 $236.5 million).

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to September 30, 2011, are $59.7 million (remainder of 2011), $344.3 million (2012), $820.9 million (2013), $972.5 million (2014), $304.4 million (2015) and $2.6 billion (thereafter).

As at September 30, 2011, the Company was in compliance with all covenants in the credit facilities and long-term debt.

10. Capital Stock

The authorized capital stock of Teekay at September 30, 2011 and December 31, 2010, was 25 million shares of Preferred Stock, with a par value of $1 per share, and 725 million shares of Common Stock, with a par value of $0.001 per share. As at September 30, 2011,Teekay had no shares of Preferred Stock issued. During the nine months ended September 30, 2011, the Company issued 0.6 million shares of Common Stock upon the exercise of stock options, and repurchased 3.7 million shares.

During 2008, Teekay announced that its Board of Directors had authorized the repurchase of up to $200 million of shares of its Common Stock in the open market. As at September 30, 2011, Teekay had repurchased approximately 5.0 million shares of Common Stock for $158.1 million pursuant to such authorization. As at September 30, 2011, the total remaining amount under the share repurchase authorization was $41.9 million.

During March 2011, the Company granted 91,431 stock options with an exercise price of $34.93 per share, 358,180 restricted stock units with a fair value of $12.5 million, 73,349 performance shares with a fair value of $3.7 million and 29,663 shares of restricted stock with a fair value of $1.0 million to certain of the Company s employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit and performance share is equal in value to one share of the Company s common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance shares vest three years from the grant date. Upon vesting, the value of the restricted stock units and performance shares are paid to each grantee in the form of shares. The number of performance share units that vest will range from zero to three times the original number granted, based on certain performance and market conditions.

The weighted-average grant-date fair value of stock options granted during March 2011 was $11.27 per option. The fair value of each stock option granted was estimated on the grant date using the Black-Scholes option pricing model. The following weighted-average assumptions

were used in computing the fair value of the stock options granted: expected volatility of 53.6%; expected life of four years; dividend yield of 3.8%; risk-free interest rate of 2.1%; and estimated forfeiture rate of 11%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

In March 2011, the Company incurred a one-time $11.0 million increase to the pension plan benefits of Bjorn Moller, who retired from his position as the Company s President and Chief Executive Officer on March 31, 2011. The additional pension benefit was in recognition of Mr. Moller s service to the Company. In addition, the Company recognized a compensation expense of approximately $4.7 million, which relates to the portion of Mr. Moller s outstanding stock-based compensation grants that had not yet vested on the date of his retirement. The total compensation expense related to Mr. Moller s retirement of $15.7 million was recorded in general and administrative expense in the consolidated statements of loss for the nine months ended September 30, 2011.

11. Commitments and Contingencies

a) Vessels Under Construction

As at September 30, 2011, the Company was committed to the construction of one liquefied petroleum gas (or *LPG*) carrier, four shuttle tankers, one floating, production, storage and offloading (or *FPSO*) unit and the conversion of an existing Aframax tanker to an FPSO unit for the Tiro and Sidon fields off Brazil for a total cost of approximately $1.8 billion, excluding capitalized interest and other miscellaneous construction costs. The LPG carrier delivered in October 2011. The four shuttle tankers are scheduled for delivery in 2013 and the two FPSO units are scheduled to be delivered between 2012 and 2014. As at September 30, 2011, payments made towards these commitments totaled $337.0

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million (excluding $10.1 million of capitalized interest and other miscellaneous construction costs), and long-term financing arrangements existed for $31.0 million of the unpaid cost of these vessels. As at September 30, 2011, the remaining payments required to be made under these newbuilding contracts were $227.7 million (remainder of 2011), $546.7million (2012), $599.9 million (2013), and $66.8 million (2014).

b) Joint Ventures

The Company has a 33% interest in a joint venture to charter four newbuilding 160,400-cubic meter liquefied natural gas (or *LNG*) carriers for a period of 20 years to the Angola LNG Project, which is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A. and ENI SpA. Final award of the charter was made in December 2007. The charters are at fixed rates, with inflation adjustments, commencing upon the vessel deliveries. The other members of the joint venture are Mitsui & Co., Ltd. and NYK Bulkship (Europe) Ltd., which hold 34% and 33% interests in the joint venture, respectively. In connection with this award, the joint venture entered into agreements with Samsung Heavy Industries Co. Ltd. to construct the four LNG carriers at a total cost of approximately $906.0 million (of which the Company s 33% portion is $299.0 million), excluding capitalized interest. In February 2011, the Company offered to sell to Teekay LNG its 33% ownership interest in these vessels and related charter contracts, in accordance with existing agreements. The transaction was approved in March 2011 by the Board of Directors of Teekay LNG s general partner and by its Conflicts Committee. In August and September 2011, two of the Angola LNG carriers delivered and commenced their 20-year, fixed-rate charter contracts. The third Angola LNG carrier delivered in October 2011 and the final Angola LNG carrier is scheduled to deliver in January 2012. As at September 30, 2011, payments made towards these commitments by the joint venture company totaled $181.2 million (of which the Company s 33% contribution was $59.8 million), excluding capitalized interest and other miscellaneous construction costs. As at September 30, 2011, the remaining payments required to be made under these contracts were $135.9 million (remainder of 2011) and $135.9 million (2012), of which the Company s share is 33% of these amounts. The Company has also provided certain guarantees in relation to the performance of the joint venture company. The fair value of the guarantees were a liability of $2.5 million as at September 30, 2011 (December 31, 2010 $1.8 million) and are included as part of other long-term liabilities in the Company s consolidated balance sheets.

In September 2010, Teekay Tankers entered into a joint venture arrangement (the *Joint Venture*) with Wah Kwong Maritime Transport Holdings Limited (or *Wah Kwong*) to have a VLCC newbuilding constructed, managed and chartered to third parties. Teekay Tankers has a 50% economic interest in the Joint Venture, which is jointly controlled by Teekay Tankers and Wah Kwong. The VLCC has an estimated purchase price of approximately $98 million (of which the Company s 50% portion is $49 million), excluding capitalized interest and other miscellaneous construction costs. The vessel is expected to be delivered during the second quarter of 2013. As at September 30, 2011, the remaining payments required to be made under this newbuilding contract, including Wah Kwong s 50% share, was nil in 2011, $39.2 million in 2012 and $39.2 million in 2013. As of September 30, 2011, the Joint Venture has received a firm commitment from a financial institution for a loan of approximately $68 million, which is subject to satisfactory completion of loan documentation. Teekay Tankers and Wah Kwong have each agreed to finance 50% of the costs to acquire the VLCC that are not financed with commercial bank financing. Teekay Tankers made its initial $9.8 million advance to the Joint Venture in October 2010. The advance is non-interest bearing, unsecured and the amount is recorded in loans to joint ventures and joint venture partners in the consolidated balance sheets. A third party has agreed to time-charter the vessel following its delivery for a term of five years at a fixed daily rate and an additional amount if the daily rate of any sub-charter earned by the third party exceeds a certain threshold.

c) Legal Proceedings and Claims

The Company may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. The Company believes that any adverse outcome of existing claims, individually or in the aggregate, would not have a material effect on its financial position, results of operations or cash flows, when taking into account its insurance coverage and indemnifications from charterers.

d) Redeemable Non-Controlling Interest

During 2010, an unrelated party contributed a shuttle tanker with a value of $35.0 million to a subsidiary of Teekay Offshore for a 33% equity interest in the subsidiary. The non-controlling interest owner of Teekay Offshore s 67% owned subsidiary holds a put option which, if exercised, would obligate Teekay Offshore to purchase the non-controlling interest owner s 33% share in the entity for cash in accordance with a defined formula. The redeemable non-controlling interest is subject to remeasurement if the formulaic redemption amount exceeds the carrying value. No remeasurement was required as at September 30, 2011.

e) Other

The Company enters into indemnification agreements with certain officers and directors. In addition, the Company enters into other indemnification agreements in the ordinary course of business. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company maintains what it believes is appropriate liability insurance that reduces its exposure and enables the Company to recover future amounts paid up to the maximum amount of the insurance coverage, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

12. Financial Instruments

a) Fair Value Measurements

For a description of how the Company estimates fair value, refer to Note 11 to the audited consolidated financial statements in the Company s Annual Report on Form 20-F for the year ended December 31, 2010. The estimated fair value of the Company s financial instruments and other non-financial assets and categorization using the fair value hierarchy for those financial instruments that are measured at fair value are as follows:

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	September 30,	September 30,	September 30,	September 30,	September 30,
		September 30, 2011		December 31, 2010	
	Fair Value Hierarchy Level [1]	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $
Recurring					
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	1,373,209	1,373,209	1,377,399	1,377,399
Investment in term loans and interest receivable (*note 4*)		189,543	191,028	117,825	120,837
Loans to joint ventures and joint venture					
Loans to joint ventures and joint venture partners		34,809	34,809	32,750	32,750
Loans from joint venture partners				(59)	(59)
Long-term debt		(5,061,395)	(4,748,101)	(4,432,064)	(4,192,646)
Derivative instruments *(note 16)*					
Interest rate swap agreements [2]	Level 2	(714,195)	(714,195)	(557,991)	(557,991)
Interest rate swap agreements [2]	Level 2	157,151	157,151	66,869	66,869
Cross currency swap agreement	Level 2	3,850	3,850	4,233	4,233
Foreign currency contracts	Level 2	197	197	11,375	11,375
Foinaven embedded derivative	Level 2	(3,603)	(3,603)	(3,500)	(3,500)
Non-recurring					
Vessels and equipment[3]	Level 2	27,073	27,073		
Vessels and equipment[4]	Level 3	79,501	79,501		
Investment in Joint Venture[5]	Level 3	10,000	10,000		

(1) The fair value hierarchy level is only applicable to each financial instrument on the consolidated balance sheets that are recorded at fair value on a recurring basis.

(2) The fair value of the Company s interest rate swap agreements at September 30, 2011 includes $22.7 million (December 31, 2010 $31.0 million) of net accrued interest which is recorded in accrued liabilities on the consolidated balance sheet.

(3) The fair value measurement used to determine the impairment of the vessels was calculated based upon the estimated scrap value of the respective vessels.

(4) The fair value measurement used to determine the impairment was based upon comparable sales market data adjusted for specific characteristics of the respective vessels.

(5) The fair value measurement used to determine the impairment of the investment in PTH was based upon the estimated liquidation values of the underlying net assets of the investment.

There are no other non-financial assets or non-financial liabilities carried at fair value as at September 30, 2011.

b) Financing Receivables

The following table contains a summary of the Company s financing receivables by type of borrower and the method by which the Company monitors the credit quality of its financing receivables on a quarterly basis.

	September 30,	September 30,	September 30,	September 30,
			September 30,	December 31,
Class of Financing Receivable	Credit Quality Indicator	Grade	2011 $	2010 $
Direct financing leases	Payment activity	Performing	466,874	487,516
Other loan receivables				
Investment in term loans and interest receivable	Collateral	Performing	189,543	117,825
Loans to joint ventures current and long-term	Other internal metrics	Performing	35,563	33,932
Long-term receivable included in other assets	Payment activity	Performing	691	410
			692,671	639,683

13. Restructuring Charges

During the three and nine months ended September 30, 2011, the Company incurred $0.1 million and $5.5 million of restructuring costs, respectively. The restructuring costs primarily relate to the sale of an FSO unit, *Karratha Spirit*, and the termination of the time-charter for the *Basker Spirit*. The Company committed to terminate the employment of certain seafarers of the two vessels. At September 30, 2011 and December 31, 2010, $nil and $0.1 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the consolidated balance sheets.

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14. Other Income

	September 30,	September 30,	September 30,	September 30,
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Volatile organic compound emission plant lease income	673	1,109	2,345	3,674
Miscellaneous income (loss)	93	933	(525)	2,068
Other income	766	2,042	1,820	5,742

15. Accumulated Other Comprehensive Loss

As at September 30, 2011 and December 31, 2010, the Company s accumulated other comprehensive loss consisted of the following components:

	September 30, September 30, 2011	September 30, December 31, 2010
	$	$
Unrealized (loss) gain on qualifying cash flow hedging instruments	(781)	2,307
Pension adjustments, net of tax recoveries	(17,359)	(17,551)
Unrealized gain on marketable securities	2,115	7,073
	(16,025)	(8,171)

16. Derivative Instruments and Hedging Activities

The Company uses derivatives to manage certain risks in accordance with its overall risk management policies.

Foreign Exchange Risk

The Company economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts. Certain of these foreign currency forward contracts are designated, for accounting purposes, as cash flow hedges of forecasted foreign currency expenditures.

As at September 30, 2011, the Company was committed to the following foreign currency forward contracts:

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Contract Amount in Foreign Currency (millions)	Average Forward Rate (1)	Fair Value / Carrying Amount of Asset (Liability)			Expected Maturity	
			Hedge	Non-hedge	2011	2012	2013
			(in millions of U.S. Dollars)			(in millions of U.S. Dollars)	
Norwegian Kroner	1,043.2	6.04	$ 1.8	$ 1.6	$ 33.2	$ 120.0	$ 19.6
Euro	45.3	0.74	$ 0.0	$ (0.7)	$ 28.3	$ 32.9	$ 0.0
Canadian Dollar	37.1	1.00	$ (1.3)	$ (0.5)	$ 8.3	$ 24.6	$ 4.1
British Pound	45.3	0.64	$ (0.1)	$ (0.6)	$ 16.9	$ 46.5	$ 7.8
			$ 0.4	$ (0.2)	$ 86.7	$ 224.0	$ 31.5

(1) Average contractual exchange rate represents the contracted amount of foreign currency one U.S. Dollar will buy.

The Company incurs interest expense on its Norwegian Kroner-denominated bonds. The Company entered into a cross currency swap agreement to economically hedge the foreign exchange risk on the principal and interest. As at September 30, 2011, the Company was committed to one cross currency swap with the notional amounts of NOK 600 million and $98.5 million, which exchanges a receipt of floating interest based on NIBOR plus a margin of 4.75% with a payment of floating interest based on LIBOR plus a margin of 5.04%. In addition, the cross currency swap locks in the transfer of principal to $98.5 million upon maturity in exchange for NOK 600 million. The fair values of the cross currency swap agreement as at September 30, 2011 and December 31, 2010 were $3.9 million and $4.2 million, respectively. The Company has not designated the cross currency swap as a cash flow hedge for accounting purposes.

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Interest Rate Risk

The Company enters into interest rate swap agreements which exchange a receipt of floating interest for a payment of fixed interest to reduce the Company s exposure to interest rate variability on its outstanding floating-rate debt. In addition, the Company holds interest rate swaps which exchange a payment of floating rate interest for a receipt of fixed interest in order to reduce the Company s exposure to the variability of interest income on its restricted cash deposits. The Company has not designated its interest rate swap agreements as cash flow hedges for accounting purposes.

As at September 30, 2011, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt, restricted cash deposits and EURIBOR-based debt, whereby certain of the Company s floating-rate debt and restricted cash deposits were swapped with fixed-rate obligations or fixed-rate deposits:

	September 30,	September 30,	September 30,	September 30,	September 30,
	Interest Rate Index	Principal Amount $	Fair Value / Carrying Amount of Asset / (Liability) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) [1]
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps [2]	LIBOR	426,622	(116,676)	25.3	4.9
U.S. Dollar-denominated interest rate swaps	LIBOR	3,461,312	(522,450)	8.4	3.9
U.S. Dollar-denominated interest rate swaps	LIBOR	100,000	(34,606)	20.0	5.5
LIBOR-Based Restricted Cash Deposit:					
U.S. Dollar-denominated interest rate swaps [2]	LIBOR	470,344	157,151	25.3	4.8
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps [3] [4]	EURIBOR	363,712	(40,463)	12.7	3.8
		4,821,990	(557,044)		

(1) Excludes the margins the Company pays on its variable-rate debt, which as of September 30, 2011 ranged from 0.30% to 3.25%.

(2) Principal amount reduces quarterly.

(3) Principal amount reduces monthly to 70.1 million Euros ($93.8 million) by the maturity dates of the swap agreements.

(4) Principal amount is the U.S. Dollar equivalent of 271.7 million Euros.

Spot Tanker Market Risk

In order to reduce variability in revenues from fluctuations in certain spot tanker market rates, from time to time the Company has entered into forward freight agreements (or *FFAs*). FFAs involve contracts to move a theoretical volume of freight at fixed-rates, thus attempting to reduce the Company s exposure to spot tanker market rates. There were no FFAs as at September 30, 2011 and December 31, 2010. The Company has not designated FFA contracts as cash flow hedges for accounting purposes. Net gains and losses from FFAs are recorded within realized and unrealized gain (loss) on non-designated derivative instruments in the consolidated statements of loss.

Commodity Price Risk

The Company enters into bunker fuel swap contracts relating to a portion of its bunker fuel expenditures. As at September 30, 2011 and December 31, 2010, the Company had no bunker fuel swap contract commitments. Net gains and losses from bunker fuel swap contracts are recorded within realized and unrealized gain (loss) on non-designated derivative instruments in the consolidated statements of income (loss).

Tabular Disclosure

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Company s consolidated balance sheets.

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	September 30, Current Portion of Derivative Assets	September 30, Derivative Assets	September 30, Accrued Liabilities	September 30, Current Portion of Derivative Liabilities	September 30, Derivative Liabilities
As at September 30, 2011:					
Derivatives designated as a cash flow hedge:					
Foreign currency contracts	(353)	353			
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	6,755	508		(4,856)	(2,210)
Interest rate swaps	16,206	136,329	(22,931)	(122,384)	(564,262)
Cross currency swap agreement	1,832	1,779	240		
Foinaven embedded derivative				(3,251)	(354)
	24,440	138,969	(22,691)	(130,491)	(566,826)
As at December 31, 2010:					
Derivatives designated as a cash flow hedge:					
Foreign currency contracts	3,437	1,546		(652)	
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	4,988	3,172		(1,050)	(66)
Interest rate swap agreements	16,759	45,524	(31,174)	(135,171)	(387,058)
Cross currency swap agreement	2,031	2,003	199		
Foinaven embedded derivative		3,738		(7,238)	
	27,215	55,983	(30,975)	(144,111)	(387,124)

For the periods indicated, the following table presents the effective portion of gains (losses) on foreign currency forward contracts designated and qualifying as cash flow hedges that were (1) recognized in other comprehensive (loss) income, (2) recorded in accumulated other comprehensive income (or *AOCI)* during the term of the hedging relationship and reclassified to earnings, and (3) recognized in the ineffective portion of gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

	September 30, Three Months Ended September 30, 2011	September 30,	September 30,	September 30,	September 30, Three Months Ended September 30, 2010	September 30,	September 30,
Balance Sheet (AOCI)	Statement of Income (Loss)			Balance Sheet (AOCI)	Statement of Income (Loss)		
Effective Portion	Effective Portion	Ineffective Portion		Effective Portion	Effective Portion	Ineffective Portion	
(6,610)	381	(168)	Vessel operating expenses	15,108	(262)	94	Vessel operating expenses
	1,627	(145)	General and administrative expenses		(1,218)	496	General and administrative expenses

(6,610)	2,008	(313)		15,108	(1,480)	590

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Nine Months Ended September 30, 2011				Nine Months Ended September 30, 2010		
Balance Sheet (AOCI)	Statement of Income (Loss)			Balance Sheet (AOCI)	Statement of Income (Loss)		
Effective Portion	Effective Portion	Ineffective Portion		Effective Portion	Effective Portion	Ineffective Portion	
1,484	964	(519)	Vessel operating expenses	(4,839)	(816)	(3,421)	Vessel operating expenses
	4,174	71	General and administrative expenses		(2,561)	(1,240)	General and administrative expenses
1,484	5,138	(448)		(4,839)	(3,377)	(4,661)	

Realized and unrealized (losses) gains from derivative instruments that are not designated for accounting purposes as cash flow hedges are recognized in earnings and reported in realized and unrealized (losses) gains on non-designated derivatives in the consolidated statements of income (loss). The effect of the (loss) gain on derivatives not designated as hedging instruments in the statements of income (loss) are as follows:

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	September 30, Three Months Ended September 30, 2011 $	September 30, 2010 $	September 30, Nine Months Ended September 30, 2011 $	September 30, 2010 $
Realized (losses) gains relating to:				
Interest rate swap agreements	(32,447)	(37,197)	(99,136)	(116.417)
Interest rate swap amendments and terminations	(34,426)		(127,098)	
Foreign currency forward contracts	4,212	(818)	9,095	(2,163)
Forward freight agreements and bunker fuel swap contracts	(6)	3,000	36	(1,356)
	(62,667)	(35,015)	(217,103)	(119,936)
Unrealized (losses) gains relating to:				
Interest rate swap agreements	(142,697)	(116,045)	(74,170)	(325,883)
Foreign currency forward contracts	(14,324)	17,837	(7,076)	5,784
Forward freight agreements and bunker fuel swap contracts		2,848		1,875
Foinaven embedded derivative	118	(2,866)	(104)	(2,153)
	(156,903)	(98,226)	(81,350)	(320,377)
Total realized and unrealized losses on non-designated derivative instruments	(219,570)	(133,241)	(298,453)	(440,313)

Realized and unrealized gains of the cross currency swap are recognized in earnings and reported in foreign currency exchange gain (loss) in the consolidated statements of loss. For the three and nine months ended September 30, 2011, unrealized losses of ($9.8) million and ($0.4) million, respectively, (2010 $nil for both periods), and realized gains of $0.8 million and $2.2 million, respectively, (2010 $nil for both periods) were recognized in earnings in relation to the cross currency swap.

In January and February 2011, the Company paid $92.7 million to the counterparties of five interest rate swap agreements, with notional amounts totaling $665.1 million, in consideration for amending the terms of such agreements to reduce the weighted average fixed interest rate from 5.1% to 2.5%. The amount paid was reflected in the Company s 2011 consolidated financial statements as at March 31, 2011 as a realized loss on non-designated derivative instruments and a reduction in the outstanding liability of the interest rate swaps, which are accounted for at fair value.

As at September 30, 2011, the Company s accumulated other comprehensive loss included $0.8 million of unrealized losses on foreign currency forward contracts designated as cash flow hedges. As at September 30, 2011, the Company estimated, based on then current foreign exchange rates, that it would reclassify approximately $5.0 million of net gains on foreign currency forward contracts from accumulated other comprehensive loss to earnings during the next 12 months.

The Company is exposed to credit loss to the extent the fair value represents an asset in the event of non-performance by the counterparties to the foreign currency forward contracts, and cross currency and interest rate swap agreements; however, the Company does not anticipate non-performance by any of the counterparties. In order to minimize counterparty risk, the Company only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor s or A3 or better by Moody s at the time of the transaction.

17. Income Tax Recovery (Expense)

The components of the provision for income tax (expense) recovery are as follows:

	September 30,	September 30,	September 30,	September 30,
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Current	(1,020)	(2,586)	(1,143)	(12,035)
Deferred	(467)	(5,985)	(3,178)	15,917
Income tax recovery (expense)	(1,487)	(8,571)	(4,321)	3,882

The following is a roll-forward of the Company s unrecognized tax benefits, recorded in other long-term liabilities, from January 1, 2011 to September 30, 2011:

	September 30,
Balance of unrecognized tax benefits as at January 1, 2011	$ 45,302
Increase for positions taken in prior years	252
Increase for positions related to the current period	2,214
Decrease related to statute of limitations	(6,182)
Balance of unrecognized tax benefits as at September 30, 2011	$ 41,586

The majority of the net increase for positions for the nine months ended September 30, 2011 relates to potential tax on freight income.

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